

Agricultural Labor Practices (ALP) Program

PROGRESS REPORT | SEPTEMBER 2012



PHILIP MORRIS INTERNATIONAL

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Executive Summary

In May 2011, PMI launched a comprehensive Agricultural Labor Practices (ALP) Program to progressively eliminate child labor and other labor abuses on all farms from which PMI sources tobacco.

This first progress report describes the achievements we have made to date and the wide range of ongoing initiatives under the ALP Program.

Our Agricultural Labor Practices (ALP) Code establishes the principles and standards we expect to be met in seven focus areas:

- Child labor
- Income and work hours
- Fair treatment
- Forced labor
- Safe work environment
- Freedom of association
- Compliance with the law

The implementation of the ALP Code is compulsory for more than 500,000 farmers in over 30 countries who have contractual arrangements directly with PMI affiliates or with third-party leaf suppliers who buy tobacco for PMI. Our preferred approach is to work with farmers so that they can improve their practices. However, if there is no clear commitment to take corrective actions or if there is a persistent lack of improvement, we (or our supplier) will terminate our relationship with the farmer.

Where we or our suppliers contract directly with farmers, trained agricultural technicians (field technicians) regularly visit the farms, providing advice and support on agronomic and labor practices. A key focus of our work to date has been on training staff at PMI affiliates and suppliers to provide the basic knowledge on human rights and labor practices, the ALP Code's measurable standards, and the necessary skills to implement the ALP Code. In close collaboration with Verité, our strategic global partner, we developed a tailored, comprehensive and practical training program – the first of its kind for tobacco growing.

We have trained over 2,900 field technicians and approximately 300 of them have been qualified as trainers. These same field technicians have subsequently reached out to over 335,000 farmers in 28 countries to provide information about the requirements of our ALP Code. We expect to reach over 500,000 contracted farmers by year-end.

With the support of Verité we are also developing a multi-layered internal and external monitoring system to assess the principles and standards established under our Code. These assessments will allow us to identify priorities, challenges and opportunities presented by the Code and the associated labor and human rights issues. Field technicians are collecting information – a Farm Profile – about each farm to provide a clearer view of the potential ALP issues and risk areas. Field technicians will be collecting Farm Profiles for over 500,000 farms worldwide.

We have committed to make public, on our website, a summary of all independent external monitoring of our ALP Program. Verité is taking the lead in advising us on how to ensure that our external monitoring meets recognized standards of labor rights monitoring. We have been working to develop the tools that will be used by Control Union, the independent third-party that will conduct the external monitoring. Control Union audit teams will review the internal processes and documentation produced by each affiliate or supplier for managing the ALP Program, and will assess a representative random sample of farms in the market, interviewing farmers and workers and verifying that the labor conditions on the farms meet the measurable standards in our ALP Code. Verité is implementing a comprehensive training program for Control Union to build its capacity to conduct audits in over 50 organizations, spread over 30 countries and in more than 20 languages. Control Union plans to start external monitoring in the latter part of this year, and we expect to publish the first report under this new system in the first half of 2013. Once the system is fully operational we expect that Control Union will conduct approximately six audits every year.

Sustainable impact in child labor and other labor abuses requires the concerted efforts of multiple stakeholders. Governments have a particularly important role to play, and we are continuing to work with governmental and non-governmental stakeholders in improving labor practices on tobacco farms and enhancing the livelihoods of tobacco growing communities. There are many concrete examples of the type of support individual stakeholders can provide. A multi-party approach will be most impactful where many, if not all, relevant stakeholders come together to work towards a common goal. In Malawi, Kazakhstan and North Carolina, for instance, we are involved in different forms of broader multi-stakeholder initiatives in relation to child labor prevention and working conditions in tobacco.

Through our Charitable Contributions program and through the Eliminating Child Labor in Tobacco Foundation (ECLT) we are funding many community-based initiatives ranging from providing smallholder farmers the basic skills to develop their business and improve their income, to providing access to basic sanitation and water, to improving the quality and accessibility of education for children. These initiatives complement and support our efforts under the ALP Program as they address some of the root causes of the labor practices problems identified in tobacco growing.

Over the next twelve months, we will be completing the initial rollout of the ALP Code and the communication to farmers, and starting the implementation of the external monitoring system. We know, of course, that the overall objective of eliminating child labor, labor abuse and achieving safe and fair conditions on hundreds of thousands of tobacco farms will take time and resources, not just for PMI but for all actors in the supply chain. Significant participation from many stakeholders, in particular governments, will be required.

With the involvement of all relevant stakeholders, we expect to see real impacts in all areas of the world where we source tobacco and hope these improvements can extend well beyond our supply chain. We are committed to proceed with the ALP Program in a transparent manner, sharing results and outcomes.

“PMI has put in place a foundation for a program that has the potential to deliver substantial benefit to hundreds of thousands of workers and the farmers that employ them around the world. In the past two years it is clear to Verité that the company has made this a priority, beyond what most other companies are making, and that they are examining all aspects of their business as they relate to agricultural labor practices.”

DAN VIEDERMAN - VERITÉ

1

Introduction

In 2010 Philip Morris International, Inc. (PMI) undertook a review of its Good Agricultural Practices (GAP) Program and initiated a process to strengthen its policies and procedures for tobacco sourcing. In May 2011, PMI announced the Agricultural Labor Practices (ALP) Program¹.

The ALP Program has several key components:

- An Agricultural Labor Practices Code², which establishes clear principles and standards that PMI expects to be met on all farms where tobacco is purchased for our products. Its implementation is compulsory for all farmers who have contractual arrangements directly with PMI affiliates or with third-party leaf suppliers who buy tobacco for PMI.
- Training programs for our tobacco crop professionals, our suppliers, farmers and workers on the Code's principles and standards and the various issues related to agricultural labor practices.
- A multi-layered internal and external monitoring system that starts with the systematic collection of information on the labor practices of individual contracted farms and includes assessments of how we are doing on a country-by-country basis by independent third parties, which will be made public on our website.
- Involvement of governmental and non-governmental stakeholders in improving labor practices on tobacco farms and enhancing the livelihoods of tobacco growing communities.

In developing the program we have drawn on the experience and gathered the input from various stakeholders including, in particular, the Interfaith Center on Corporate Responsibility³. ALP is part of our broader GAP Program⁴, and the key to its success is building and continuously improving the knowledge and the skills of the thousands of men and women employed by our affiliates and suppliers who already interact with tobacco farmers day in and day out. They must have knowledge about labor practices standards and the underlying issues, skills to communicate to farmers and win their commitment, and skills to spot problems where they exist. They must be able to work effectively with farmers and others to achieve tangible improvements at the individual farm level. We believe that the existing relationships of the field staff with contracted farmers provide a good basis to achieve this.

This first progress report aims to describe and provide context for the wide range of ongoing initiatives under the ALP Program.

¹ http://www.pmi.com/eng/media_center/company_statements/Pages/verite.aspx

² The complete ALP Code is provided in appendix 1 of this report.

³ The Interfaith Center on Corporate Responsibility (ICCR) is a "coalition of active shareowners who view the management of their investments as a catalyst to promote justice and sustainability in the world." For many years, the ICCR has maintained a constructive dialogue with PMI, helping us refine and strengthen our programs related to labor issues.

⁴ Under GAP, our affiliates and suppliers have been working with farmers to improve agronomy practices with due regard for the environment, the well being of farmers and their families, and to tackle child labor. Through the ALP Program we are introducing a more structured and comprehensive set of social and labor rights standards which will become an integral part of the way we run our tobacco sourcing business. We aim to help farmers meet these standards through a partnership and continuous improvement approach.

1.1 Objective

PMI is committed to progressively eliminate child labor and other labor abuses where they are found and to achieve safe and fair working conditions on all farms from which PMI sources tobacco.

With the ALP Program, PMI aims to promote fair and safe labor practices on all farms that grow the tobacco we buy. However, it is important to understand that the degree to which there is a direct connection between a PMI affiliate or the supplier and the farmer determines the impact a program like ALP can have on the labor practices on the farm. Other important factors are the nature of the farms – commercial vs. family farms – and the level of entrepreneurial and agronomy skills of the farmers. Furthermore, adverse societal and economic issues can have huge impacts on labor practices, which can significantly add to the scope of the burdens and diminish the positive outcomes of the ALP Program.

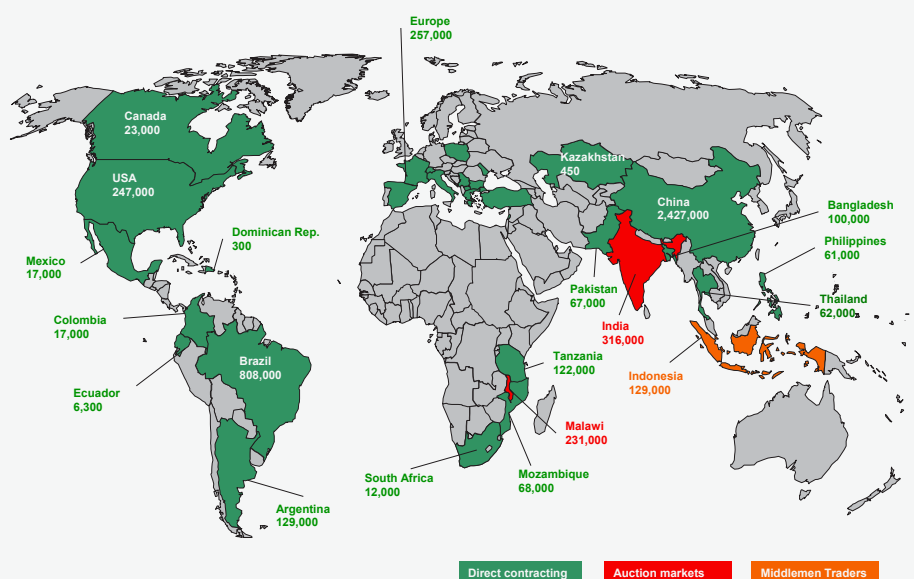
1.2 PMI's tobacco supply chain

In 2011 PMI purchased around 440,000 tons of tobacco grown by more than 500,000 contracted farmers in over 30 countries. The vast majority of the tobacco purchased by PMI is grown by small-scale family farms ranging in size from half a hectare to just a few hectares. PMI purchases around a third of its tobacco through its affiliates, who in turn have direct contracts with farmers. The rest is purchased through independent leaf suppliers, principally the two largest international companies (Universal Leaf Tobacco Company, Inc. and Alliance One International, Inc. and their affiliates).

More than 70% of PMI's total tobacco purchases come from 10 countries:

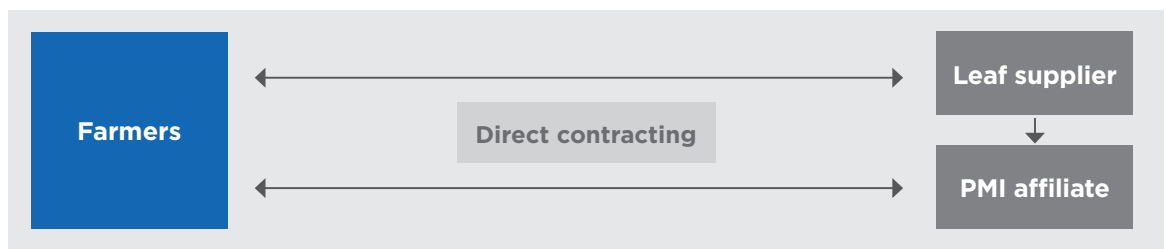
BRAZIL
TURKEY
USA
MALAWI
INDONESIA
CHINA
ARGENTINA
PHILIPPINES
MOZAMBIQUE
TANZANIA

COUNTRIES WHERE PMI PURCHASES TOBACCO TOTAL TOBACCO PRODUCTION OF THE COUNTRY (TONS)

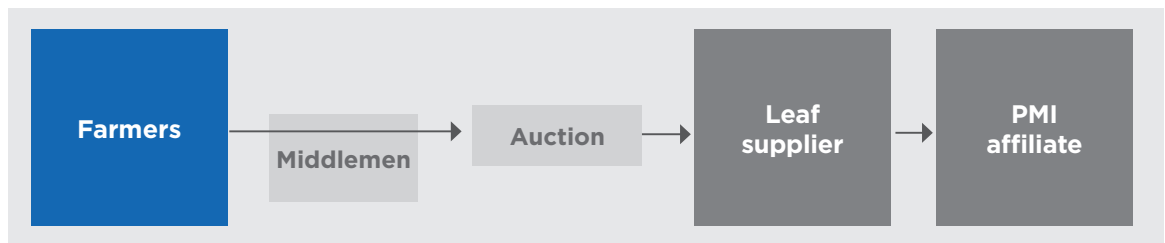


While varied across the globe, three basic systems for the sale and purchase of tobacco exist:

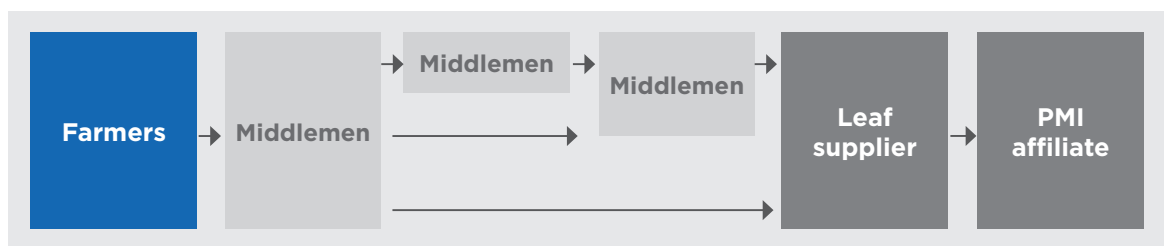
Contract farming - We purchase the vast majority of our tobacco (80%) through a direct contract system of purchase. In 29 countries, our affiliates or suppliers contract directly with farmers at the beginning of the season. The contract ensures the farmer has a buyer for its production and defines the volumes the buyer commits to purchase. In turn the farmer commits to sell the tobacco to our affiliate or supplier and to follow the GAP Program, including our ALP Code. These contracts are backed up with technical assistance: trained agricultural technicians regularly visit the farms, providing advice and support on agronomic and labor practices.



Auction - Approximately 10% of the tobacco we purchase comes to us through auction systems. For PMI, the only countries where our affiliates or suppliers buy tobacco with an auction system are Malawi and India. Auction systems make it difficult, if not impossible, to establish direct relationships with the farmers. Many farmers may not even sell at the auction but sell to middlemen who in turn consolidate purchases for resale at auction.



Middlemen traders - Around 10% of the tobacco we purchase is sourced through this type of market, where tobacco is grown by individual small-scale farmers and then sold through a series of small-scale middlemen who consolidate purchases in the countryside. This is the dominant system in Indonesia but can also be found on a much smaller scale in a few other countries (such as Thailand or the Philippines).



1.3 Role of field technicians

PMI's Leaf department (responsible for leaf tobacco purchases worldwide) is divided into 5 regions: US and Canada, Latin America, Africa, Asia, Europe and Oriental⁵. In places where our affiliates or suppliers have a contractual relationship with the farmers, field technicians, usually trained agronomists, visit the farms on a regular basis to provide technical support. Over time, field technicians often build strong relationships with farmers and gain special insights into each farm and how it is run. They are in a unique position to communicate the requirements of our ALP Code, support the farmers with implementation and monitoring progress. The technicians in turn are supported by the local management of PMI or suppliers' organizations.

PMI set up a dedicated cross-functional team to oversee and support the ongoing work of the field technicians. The training and support, which is described below, ensures that the field technicians understand fully the social and labor standards, can communicate these standards and their importance to the farmers and gain their commitment, can spot issues and identify both challenges and possible solutions and work with the farmers on concrete improvements. With that support, we consider the field technicians to be the most important drivers of positive change in the process of implementing the ALP Program: they work and live in the communities that are affected, they speak the language of the farmers, they have access to the farms on a regular basis and can build and strengthen the constructive relationships with farmers that are necessary to make continuous improvements. That is why the key focus of our work is on training the field technicians and ensuring the appropriate organizational support for their work.

How does the ALP Program strengthen the work being done already under GAP on child labor, green tobacco sickness (GTS) and safe use of crop protection agents?

The ALP Program introduces a more detailed set of standards for each area and brings greater clarity about the goals and expectations.

We are training over 3,000 field technicians, not just on the above mentioned topics, but also on the whole range of labor practices that are relevant for improving the overall conditions on the farms.

We are collecting information from over half a million farms and will be able to assess progress on a farm-by-farm basis.

We are introducing external monitoring for each country where we are buying tobacco so we can have a third-party perspective about what is going on.

We will be reaching out to stakeholders on a systematic basis to seek assistance and to address the underlying causes of the issues identified.

We believe this is a more robust, transparent and participatory approach that focuses our support and efforts on each farm through the work of field technicians and the teams that support them.

⁵ The "Europe and Oriental" region includes the following countries: Spain, Italy, France, Poland, Switzerland, Bulgaria, Greece, Serbia, Macedonia, Turkey, Lebanon, and Kazakhstan and its name derives as much from the type of tobacco as the geographic area covered.

1.4 Our strategic partnership with Verité

In 2011 PMI announced a strategic global partnership with Verité to improve the conditions for workers on farms in countries where tobacco is purchased for PMI products⁶. Verité has played a critical role, providing experience, advice and hands-on support from conception, to implementation, to monitoring of the ALP Program. We are confident that Verité's independent input will continue to help us make groundbreaking advances in the development of fair labor standards for agricultural crops and achieve continuous improvements in labor conditions and monitoring in the field of agricultural crops in general and in tobacco growing in particular.



Verité is a US-based international not-for-profit organization, whose mission is to ensure people worldwide work under safe,

fair, and legal conditions. In the last 15 years, Verité has become a global leader in supply chain social responsibility. Verité's assessment, consulting, training and research programs leverage the power of multinationals to deliver positive change for vulnerable factory and farm workers in every sector. The organization's partnerships with Fortune 500 companies, suppliers, global NGOs, trade unions and governments aim at measurable change in working conditions: elimination of child labor and forced labor; safe working conditions; improved livelihood for workers; and equality and non-discrimination.

Verité was one of the premier non-profits conducting action-oriented research on CSR, producing landmark studies on topics such as trafficking and forced labor, excessive overtime, labor

conditions in commodity supply chains, and gender equity.

Verité has won numerous awards for their performance and impact, including:

- The **2011 Social Entrepreneur of the Year** in the US by the Geneva-based Schwab Foundation for Social Entrepreneurship.
- Recognition at the **Clinton Global Initiative** in 2010 for the work on forced labor and trafficking.
- The 2007 **Skoll Award for Social Entrepreneurship**.
- The 2005 **Social Capitalist** awards by Fast Company magazine and the Monitor Group.

Verité has regional offices in China, Southeast Asia, India, and Bangladesh, Europe and Latin America and long-term collaborative relationships with numerous independent partners around the world. Verité programs range from short-term solutions for urgent conflicts at factories, to multi-year, industry-wide partnerships. www.verite.org

⁶ http://www.pmi.com/eng/media_center/company_statements/Pages/verite.aspx

2

Implementation approach and results to date

PMI's guiding principle for the ALP Program is continuous improvement. We are working with suppliers and farmers to achieve measurable, tangible improvements in the working conditions for farm labor. When the practices on a farm are not in line with the ALP Code, PMI's response has been and will be case-specific, and depends on a variety of factors, including the nature and severity of the problem.

Our preferred approach is to work with both farmers and suppliers to address problems and to provide support so that they can improve their practices. However, if there is no clear commitment to corrective actions, or if there is a persistent lack of action and improvement, PMI will terminate our relationship with the farmer (or request our suppliers do so).

2.1 Training

In close collaboration with Verité, we developed a tailored, comprehensive and practical training program – the first of its kind for tobacco growing – that takes into account both the specificities of tobacco growing and the requirements of our ALP Code. To make sure that the training program would be effective where it most matters, i.e., with the field technicians and their interactions with farmers, we consulted and involved our local staff, in particular from the agronomy department, throughout the development process.

We conducted pilots in Ecuador and Argentina to test the training materials and validate the overall program approach. During these two pilots we trained field technicians in each country who then were responsible for communicating the ALP Code to the farmers for which they are responsible. Subsequently, teams from Verité and PMI returned to both countries to interview field technicians, farmers and workers and learn about their experiences in order to adapt the training content before the global rollout of the training program.

In order to be able to reach all the contracted farmers in our supply base we are generally using a “train-the-trainer” approach. In countries with a limited number of field technicians, PMI staff will train them directly.



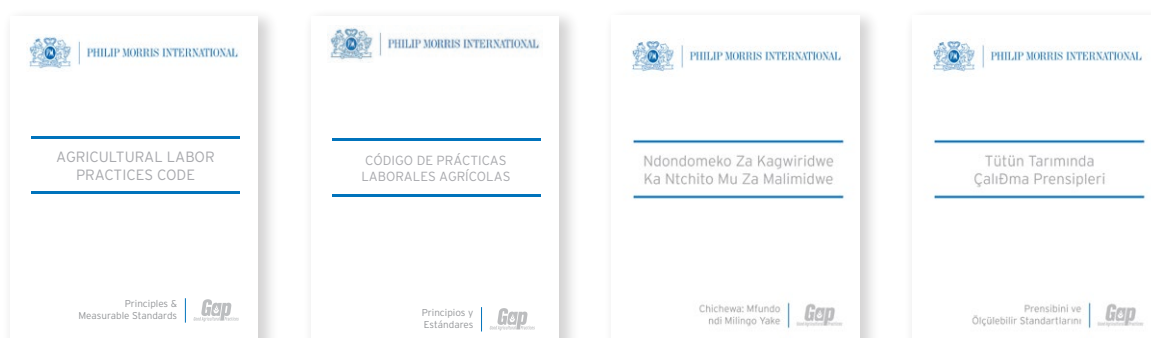
Classroom training for field technicians, Mozambique

During the first “train-the-trainer” session a joint group of PMI and Verité professionals trained the regional coordinators from PMI’s Agronomy and Corporate Affairs teams (20 people in total), who are responsible for overseeing the ALP Program implementation in each country where we purchase tobacco. A similar training was given to the two largest global leaf suppliers (Universal Leaf Tobacco Company, Inc. and Alliance One International, Inc.) who brought together their own respective global agronomy team leaders for this training (over 50 people in total).



Field technician role play, Philippines.

Subsequently, the training materials were translated into 22 languages⁷, enriched with country-specific practical cases and the regional ALP teams (at PMI and suppliers) started the training rollout in the countries of their respective region⁸. Communication and outreach to farmers usually started after all the technicians had been trained.



⁷ English, Spanish, Portuguese, German, Greek, Italian, Polish, Bulgarian, Albanian, Serbian, Turkish, Arabic, Macedonian, Swahili, Chichewa, Chitumbuka, Makhuvu, Afrikaans, Tagalog, Thai, Bahasa and Urdu.

⁸ U.S. and Canada, Latin America, Africa, Asia, Europe and Oriental.

The initial training for field technicians typically consisted of a two-day classroom exercise followed by field practice. The training was divided in five sessions where field technicians learned about:

- The company’s objective and the expectations placed on them;
- The meaning of the ALP Code principles and measurable standards;
- Ways to communicate ALP topics to farmers;
- How to keep track of progress and build a Farm Profile, and
- Spotting problems when they are visiting the farmers they support.

For each section there were presentations, interactive exercises and role-plays to simulate real-life scenarios. In countries with a very large number of technicians to be trained, we trained a mixed team of agronomy supervisors or managers and corporate affairs professionals who in turn were in charge of cascading the training through their local organization. These train-the-trainer sessions also consisted of a two-day classroom exercise identical to the field technicians’ training and one additional day where the participants practice how to deliver the training to others. In these instances the regional team accompanied and provided support to each local trainer in their initial training sessions with field technicians.

Training is not a one-off process and the managers of the local organizations have the objective to continuously build the knowledge and skills of field technicians. This is done in multiple ways, including discussions during staff meetings as well as refresher trainings, but also with regular checks to assess field technicians’ knowledge and understanding of the various topics under the scope of the ALP Code and identify areas for improvement.

The overall goal of the first wave of training was to provide all staff at PMI affiliates and suppliers who are in contact with farmers with the basic knowledge on human rights and labor practices, the ALP Code’s measurable standards, and to build the necessary skills to implement the ALP Code on the farms they support. Subsequent to the training, field technicians started to communicate and explain the ALP Code requirements to all farmers, discuss how these standards relate to the way they run their farms, and to win farmers’ commitment and support for their implementation. Subsequently, field technicians will begin to systematically monitor progress and farmers’ efforts to meet these standards, and work with farmers to solve problems where they are found.

As of July 2012, we had trained over 2900 field technicians and approximately 300 of them had been qualified as trainers.

Field Technician Training			
	Total Field Techs	Trained	Training Sessions
Latin America & US	799	729	46
Africa	1,100	1,100	33
Asia	825	714	33
Europe & Oriental	476	409	25
TOTAL	3200	2952	137

2.2 First wave of communication to farmers

To begin the outreach to farmers, local organizations (affiliates/suppliers) have generally chosen to start by inviting groups of farmers for meetings in their local communities' gathering sites to explain the objectives of the program, introduce the basic concepts of the ALP Code and PMI's approach for its implementation. Subsequently the trained field technicians have followed up with visits to each individual farmer to explain the ALP Code elements in detail and discuss specific aspects of its implementation. As of July 31, 2012, we had reached over 336,935 farmers worldwide and we expect to reach all contracted farmers (over 500,000) by year-end.

Again, communication about the ALP Code requirements will not be a one-off, but become increasingly embedded in the ongoing business relationship between the affiliate/supplier and the farmer.

Farmer Communication		
	Total Farms	Initial Outreach
Latin America & US	107,427	65,017
Africa	227,406	188,246
Asia	89,815	16,354
Europe & Oriental	95,353	67,318
TOTAL	520,004	336,935



Communicating the ALP Code to Farmers - Case study

Mozambique is one of the world's largest producers of burley tobacco. However, after 30 years of war the country's low literacy levels and educational

infrastructure are still a reflection of these tough times. Farmers in tobacco growing areas are mostly illiterate. In this context, communicating any message along the supply chain can be a challenging exercise. In line with the oral traditions of the rural communities in Mozambique's tobacco growing areas, our supplier in this country found a creative way for communicating the ALP Code. Drama groups visit the tobacco growing communities singing and dancing the ALP Code to deliver the key messages of the Code's principles and standards, and reinforce the message of the field technicians. This creative and effective form of communication reflects our suppliers' commitment to the program.

2.3 Initial feedback from farmers and field technicians

The training covers all ALP Code principles and standards, including: child labor prevention, fair treatment, compensation, safe working conditions and freedom of association. Most trainees reported an immediate impact from the training on their visits and interactions with farmers. Many have spoken of ‘seeing the farm differently’ and being able to relate the learnings from the training with practices and outcomes of the farms they support.

While child labor prevention was already a remit of their work on the farm under GAP, understanding the full breadth and depth of the labor issues under the ALP Code (i.e., all seven principles and 32 measurable standards) and taking an active role in promoting good labor practices in discussions with farmers represents a significantly different and often new role for many field technicians. The initial feedback received from field technicians has been very encouraging. Not surprisingly, when exposed for the first time to the ALP Code, field technicians ask a lot of questions and express some concerns regarding their expanded role. Many wonder to what extent they are supposed to “interfere” in things that are often culturally perceived as family matters, or fall outside the remit they have had in the past. However, these natural concerns are being addressed as technicians go through the training and develop a better understanding of the scope of the program and the strong commitment of the company to back them in this work.



Communicating the ALP Code to Farmers - Case study

Turkey is the world’s largest producer of oriental tobacco. The main leaf suppliers in this country agreed to jointly train field technicians and farmers as part of an industry-wide initiative to disseminate the ALP Code to the whole farm base. This approach is ensuring high consistency and quality of the message delivered to the farmers.

Indeed, many field technicians perceive and describe the ALP Program as “a logical umbrella” for their work and understand that the quality of the crop cannot be disconnected from the conditions in which the crop is grown. Importantly, they see their expanded role to “empower people to prevent problems” as a way to protect the farmer and his trade with the company for the long term. Thus far, we have found that once concepts are understood by the technicians themselves, their communication skills are readily adaptable to these social and labor concepts and they are managing to translate them into their own language and apply to real-life situations.

Initial feedback from farmers has been generally positive. Many appreciate that PMI is looking beyond the issue of child labor and taking a more focused interest in how they manage their farm and are beginning to understand the importance of working towards meeting the ALP standards. Also, in some countries, the introduction of labor standards is not entirely new, as some farmers who grow other crops such as coffee, cocoa or bananas, have heard about or seen similar initiatives. However, many farmers, particularly in developing countries, feel that they cannot meet all the standards without help and support from suppliers and PMI affiliates, mostly because of the casual nature of labor relations in smallholder family farms and their overall difficulties to manage the farm as a structured business enterprise. This reinforces the importance of field technicians working collaboratively with the farmers but also the link between improving labor practices and supporting farmers to achieve better business outcomes.

3 Assessment and external monitoring

At the core of the ALP Program are requirements that the farmer not tolerate child labor, forced labor or any other form of labor abuse or discrimination, pay their workers fairly, provide a safe working environment, allow their workers to freely associate and to comply with the law.

While respectful of the farmer’s role as head of an independent enterprise which bears the responsibility for the relationship with its workers, our and our suppliers’ field technicians are expected to support the farmer in making continuous improvements and systematically assess the labor conditions of all the farms they support.

The information collected by the field staff about individual farms will form the basis for regular assessments by our affiliates and suppliers. Those assessments will also show performance vis-à-vis the ALP Code at the affiliate, supplier and country level and will allow us to identify priorities, challenges and opportunities, as well as the need for involvement of third party stakeholders, including government. We will also introduce monitoring by a third-party to verify the results and integrity of the internal assessment processes, and bring an external perspective on the farm labor practices. We have committed to make the results of these assessments publicly available in our website.

DATE OF INCIDENT	TIME OF INCIDENT	CLUB	FARMER NAME
Thursday, March 22, 2012	10:08 AM	Mchenga	_____
Wednesday, February 01, 2012	3:52 PM	Tayambanso	_____
Wednesday, February 01, 2012	4:01 PM	Tayambanso	_____
Wednesday, February 01, 2012	4:46 PM	Tayambanso	_____

Collecting information from farms – Case study

In Malawi one of our suppliers is implementing a hand-held tracking system, with GPS and network connection that allows field technicians to collect farm-level information in electronic format and upload it to a database. This system will enable the field and management teams of this supplier to process and track data from farms in a comprehensive and effective manner.

In addition, we believe that grievance mechanisms can be a very good tool not just to give workers a voice, but also to allow us to learn more about our supply chain.



Case study – Kazakhstan

The Local Communities Foundation (LCF) is an NGO that monitors the treatment of Kyrgyz migrant workers on Kazakhstan's tobacco farms. With the support of Philip Morris, Kazakhstan LCF began their work in 2010 focusing on providing legal advice to labor migrants. Their work has since evolved well beyond advice and support connected with the Kyrgyz migrants' legal status to now provide a full-fledged grievance mechanism for these migrant workers. LCF conducts regular farm visits with a team of qualified professionals and manages a

hotline which has become widely used. During 2011 LCF recruited volunteer Kyrgyz migrants to support their outreach efforts. Each volunteer was trained, provided with a mobile phone and assigned to monitor a cluster of villages. This peer approach was highly appreciated by the migrant community and enabled the LCF to gain a deeper understanding of the migrant labor issues on tobacco farms.

PMI's work with LCF has been acknowledged by ILO, UNICEF and most recently in the "Trafficking in persons report" issued by the US State Department.

3.1 Internal assessment process

The internal assessment process starts with the field technicians. In this first year the field technicians are building a Farm Profile⁹ for each of the contracted farms. The Farm Profile is a tool developed by PMI with Verité to track the socio-economic status of the farms, systematically gather detailed information about, among other things, the type of labor employed, farming activities that minors may be involved in, and hiring practices. This will give each affiliate or supplier access to precise and actionable baseline data, allowing a more sophisticated analysis of potential issues for identifying relevant risks and setting priorities. Implementing the same tool and the same metrics across all of our tobacco growing markets also ensures consistency and comparability for how situations on the farms, including labor issues, are being assessed.

The data collected through the Farm Profiles, combined with existing internal as well as publicly available information related to agricultural labor practices, will form the basis for the systematic monitoring of individual farmers' performance vis-à-vis the 32 measurable standards of the ALP Code.

3.2 External monitoring system

Last year we published Verité's report "Farm Level Assessment of Adherence to PMI GAP Standards in Kazakhstan"¹⁰. This was the first comprehensive third-party assessment of labor practices commissioned by PMI and published on our website. The impact of our action in Kazakhstan was recognized by the ILO which acknowledged that "the use of child labor in Almaty oblast was rapidly decreased due to the active involvement of tobacco purchasing company Philip Morris Kazakhstan in the elimination of child labor"¹¹.

We envision third party monitoring of labor practices to become a standard practice fully integrated in our business processes (i.e., integrated with the wider assessment of the other elements of GAP) in all the markets where we purchase tobacco. To that end we have retained the services of Control Union (CU) to act as our third party auditor of the entire GAP Program including ALP, both because of CU's global presence as well as its expertise in agricultural audits.



Control Union is an independent inspection and certification body focused on sustainable and organic production methods worldwide. Inspections and certifications are based on the scope,

standards, regulations and rules of private certification programs and cover the entire chain to the final consumer.

Control Union is part of the Control Union World Group (CUWG) which employs over 2500 employees and is based in 60 countries.

www.controlunion.com

⁹ A sample of the Farm Profile currently in use is provided in appendix 2 of this report.

¹⁰ http://www.pmi.com/eng/media_center/company_statements/documents/farm_level_assessment_of_adherence_to_pmi_gap_standards_in_kazakhstan%20-%20may_2011.pdf

¹¹ http://www.ilo.org/public/english/region/eurpro/moscow/info/publ/ipec/kaz_newsletter_en.pdf

Verité has been working with us to develop the external monitoring tools that will be used by Control Union and is taking the lead in advising us on how to ensure that the external monitoring meets recognized standards of labor rights monitoring. In each assessment the audit teams will review the internal processes and documentation produced by the affiliate or supplier for managing the ALP Program and will conduct field work visiting a representative random sample of the farms, interviewing farmers and workers and verifying the labor conditions on the farms against the measurable standards in our ALP Code. There will be a joint review process involving Verité with respect to the findings, agreed follow-up procedures (remediation, further investigation, short and long-term action plans), quality control, and external communication. As noted above we will post a summary of the audit findings on our website.

Verité trained the first group of Control Union auditors for Latin America in two different locations (Ecuador and Argentina) and will use the results and lessons from these training exercises to further refine the auditors' training program and the audit tools.

TRAINING OF CONTROL UNION AUDITORS

Auditors selection (Interviews, CV)

One week classroom training on social compliance auditing:

- Context of the social audit and its application to ALP Code
- The social audit: key processes and activities
- Basic principles for the collection of information in social audits
- An overview of management systems
- Case study presentation and preparation for the audit
- Opening meeting and collection of information at the affiliate-supplier level

- Visit to the farms and collection of information from producers and workers
- Data collection through document review
- Analysis of the results of the field visits
- Conducting the closing meeting
- Integration of learning

One week of field practice with experienced Verité auditor

Online training (background preparation and continued learning)

- Introduction to the ALP Program
- Introduction to the ALP Code
- The Third Party Monitoring Program
- The ALP Code Principles and Measurable Standards

Verité will train different groups of auditors to build Control Union's capacity for conducting audits in over 50 organizations, spread over 30 countries and in more than 20 languages.

Control Union plans to start external monitoring in the latter part of this year, and we expect to publish the first report under this new system in the first half of 2013. Once the system is fully operational we expect that Control Union will conduct six audits every year (of the whole country or of a single supplier/affiliate operation – depending on the size of the crop).

4 Working with governments and other stakeholders

Most areas around the world face tremendous health, social and economic challenges and it is acknowledged that long term solutions for systemic issues such as child labor “lies in sustained economic growth leading to social progress, in particular poverty alleviation and universal education”¹².

The supply chain actors (tobacco companies, leaf suppliers, farmers, workers) must, of course, play a key role in any effort to improve labor practices in tobacco growing.

However, social and economic development cannot be brought about overnight and “no one company, government or community can solve critical challenges alone”¹³; rather, sustainable impact requires the concerted efforts of multiple stakeholders.

Governments have the duties defined under the relevant international conventions and, most recently, in the “UN ‘Protect, respect and remedy’ Framework for Business and Human Rights”¹⁴. Indeed, government authorities (local, regional, national) have a particularly important role to play:

- Governments determine and have the power to improve the legal and regulatory framework;
- Governments are responsible for enforcing labor laws and regulations, including international labor rights conventions;
- Governments can provide funding for projects and community initiatives;
- Governments can promote the wider objectives of rural development;
- Governments can initiate and sponsor cross sector initiatives.

Other stakeholders that can also play an important role include business groups, unions, universities, growers associations, labor and human rights NGOs, rural development NGOs, poverty alleviation NGOs, and the media.

For example, in the US information materials for workers on green tobacco sickness were prepared with the support of specialists from Wake Forest University. In Colombia, the NGO “Manuel Mejia”¹⁵ implemented a six-month training course for hundreds of farmers to improve their managerial skills. The initiative was sponsored by the industry and conducted in partnership with a government agency and the National Tobacco Growers Association. In Ecuador, the NGO “Mariana de Jesus” is helping farmers to improve housing conditions for temporary migrant workers with support from the local PMI affiliate.

These examples merely illustrate the concrete support individual stakeholders can provide to our efforts in implementing ALP and improving labor conditions on tobacco farms. However, a multi-party approach will be most impactful where many, if not all, relevant stakeholders manage to come together on the basis of a common platform, tailored to the local circumstances and needs, a shared understanding of the issues, agreed objectives and ultimately, an agreed action plan with clear accountabilities. Importantly, such multi-stakeholder initiatives must include representatives of those who are most affected (in our case, farmers and workers in tobacco growing).

¹² ILO, C182 Worst Forms of Child Labor Convention, 1999

¹³ ICCR’s “Social Sustainability Resource Guide”, p.71. Available at: <http://www.iccr.org/publications/2011SSRG.pdf>

¹⁴ <http://198.170.85.29/Ruggie-protect-respect-remedy-framework.pdf>

¹⁵ <http://www.fmm.edu.co/noticias-y-eventos/noticia/articulo/fedetabaco-y-la-fundacion-manuel-mejia-firman-convenio-para-la-formacion-de-tabacaleros/>

Below, we outline briefly three examples from Malawi, Kazakhstan and North Carolina to illustrate the different forms multi-stakeholder initiatives can take in relation to child labor prevention and working conditions in tobacco.

Malawi

In September 2012, the Eliminating Child Labor in Tobacco (ECLT) Foundation provided support to the Malawi government in convening a national multi-stakeholder conference on child labor in agriculture¹⁶. ILO, together with the Malawi government and social partners, led the preparation of this cross-sectoral conference that was attended by over 300 people representing various government ministries, employers associations, unions, tobacco farms associations and tobacco leaf buyers, the tea and the sugar sector, local community leaders, NGOs and international organizations (FAO, UNICEF, UN Development Fund, US Embassy). The President of Malawi opened the conference and the various stakeholders, including the government, agreed on a set of key actions to eliminate child labor in agriculture, which included significant changes in the regulatory framework in Malawi.



Eliminating Child Labor in Tobacco Foundation (ECLT)

The ECLT Foundation is a partnership between trade unions, tobacco growers, and tobacco companies, with the International Labor Organization (ILO) serving as an advisor to the ECLT Board. PMI has been a member and financial contributor to the ECLT since 2002.

ECLT promotes various initiatives to reduce child labor in tobacco growing communities which include child labor awareness programs for community leaders, providing safe drinking water, improving food security, financing poverty alleviation programs, and building new schools. ECLT's programs and initiatives are an important element of our strategy, particularly in those countries where we are not able to establish a direct connection and relationship with each and every farm.

Kazakhstan

Another example comes from Kazakhstan where our affiliate has continued to reach out to a wide range of third parties to help build a broad base of support to fight labor abuses. The Second National Roundtable on Labor Conditions of Workers Engaged in Agriculture in Kazakhstan (Oct. 2011), the ongoing discussions to change the regulatory framework and enable school access of migrant children, as well as the establishment of a local community center in the Malybai village are good examples of the positive results of such engagements. The National Roundtable was co-hosted by the Kazakhstan Labor and Social Protection Ministry and the Union of Manufacturers & Exporters of Kazakhstan, one of the leading local trade associations. Participants included the Deputy Minister for Education, representatives from the Ministry of Agriculture, senior representatives from the General Prosecution Office, the head of the National Committee on Children's Rights, representatives from both the US and the Kyrgyz Embassy, representatives from USAID, ILO, IOM, UNICEF, and the Soros Foundation, representatives from local NGOs such as LCF, the NGO Karlygash, the Children's Fund of Kazakhstan, government officials from the Almaty region, including the Department of Education, the Department for Labor and Social Protection, and the Department for Children's' Rights. Discussions ranged across a

¹⁶ www.malawichildlaborconference.com

variety of topics, including the necessity for simplification of processes to assist migrant workers, ways to eliminate child labor in tobacco supply chains, the need for broader funding of child labor prevention programs, and the alignment of Kazakh farms with Kazakhstan legislation to ensure fair treatment of workers. This event was also covered widely in national media.

The US Department of Labor's 2012 report on "Goods Produced by Child Labor or Forced Labor" reported on "the efforts that Philip Morris International and Philip Morris Kazakhstan (PMK) have made in working with the government of Kazakhstan and international organizations such as Verité, Inc. and the ILO to eliminate the use of child labor and forced labor on tobacco farms"¹⁷. The Department of Labor's Report described PMK's Agricultural Labor Practices program, including "regular inspections to monitor farm-level compliance [with ALP]," "working with local partners to identify appropriate local solutions," multi-level stakeholder process[es] to resolve violations of ALP," and "eliminat[ing] barriers that have kept migrant children out of school."

North Carolina

In September 2011, Oxfam America and the Farm Labor Organizing Committee (FLOC) released a report on the impacts of tobacco growing on human rights in North Carolina¹⁸. We had taken part in this study by providing researchers the information available to us and discussing our policies and practices, including the areas where we believed improvement was necessary and how these were going to be addressed through the ALP Program. Well before the release of the report we had already begun engaging with farm worker representatives, grower associations, other manufacturing companies, NGOs and government authorities with a view to establishing a structured and meaningful dialogue to address some of the issues identified in the report. For instance, to ensure that there is a grievance mechanism available for workers to raise their concerns. In April 2012, a diverse group of stakeholders met in Raleigh, North Carolina and agreed to establish such a dialogue on a range of topics for improving working conditions on tobacco farms and, more broadly, in the agricultural sector as the issues identified are common to other crops. A steering committee was set up to coordinate and plan follow-up meetings and we are hopeful that this initiative will ultimately lead to concrete progress on the ground.

In conclusion, we will work with individual stakeholders, including governments, to address specific needs. As outlined above and as our experience shows, there are many things stakeholders can do to support our ALP objectives, and we won't wait for a broader multi-stakeholder initiative to materialize to collaborate with individual third parties where that makes sense. At the same time, of course, we will continue to be guided by our ambition to bring together multi-stakeholder collaborations that will have an impact for the long term.

¹⁷ <http://www.dol.gov/ilab/programs/ocft/2012TVPRRA.pdf> - p.7

¹⁸ Report available at: <http://www.oxfamamerica.org/publications/a-state-of-fear-human-rights-abuses-in-north-carolinas-tobacco-industry>

5 Community initiatives

PMI purchases tobacco in many countries where, historically, child labor and poor labor practices are a reality, particularly in agriculture. Through its Charitable Contributions program¹⁹ and through ECLT²⁰, PMI is funding various community-based initiatives. These range from providing smallholder farmers the basic skills to develop their business and improve their income, to providing access to basic sanitation and water, to improving the quality and accessibility of education for children. These initiatives complement and support our ALP Program as they address the root causes of the labor practices problems such as poverty.

The projects we fund are diverse, taking into account the needs of the different communities where we purchase tobacco. We support community initiatives and work with NGOs and local organizations in many countries. In doing so, we pursue the ALP Program objectives tackling both the drivers and consequences of poor labor practices.

For example, in Africa PMI is funding Total Land Care (TLC), an NGO associated with Washington State University, to alleviate poverty and reduce child labor in Malawi, Mozambique, and Tanzania. TLC's programs currently reach nearly 4,000 villages and more than 460,000 people. Projects include supplying clean water, planting nearly 30 million trees, installing stoves, and constructing 100 schools over five years.



In Asia, particularly in Indonesia, we face many specific challenges inherent in the scale, dispersed production areas and the way the supply chain works. In Indonesia tobacco is mostly sourced through a system of small scale buyers and the leaf suppliers operating in this country

only contract directly with a very small percentage (~1%) of tobacco farmers.

In this country, focusing our efforts through our contributions program is a first step for PMI but we are also actively working on alternative strategies to underpin and promote the ALP Program objectives.

One good example of the work we are doing is Sampoerna's (PMI's affiliate) community program to increase farmers' productivity and rice yields while reducing damage to the environment. Since 2007, Sampoerna's program has trained more than 1,800 farmers and covered almost 850 hectares of paddy fields. The expansion of this program in 2012 is benefiting an additional 800 farmers and 2,400 farm workers.

¹⁹ http://www.pmi.com/eng/about_us/charitable_giving/pages/charitable_giving.aspx

²⁰ <http://www.eclt.org/projects-and-progress>

Detailed information on our initiatives is available on PMI's website²¹. Below is a summary of the areas of focus and amounts of funding in 2011.

Region	Areas of focus	Amount (USD)	# of people benefited
Asia	Access to water; school rehabilitation; child labor prevention; promotion of micro-enterprises; vocational training; farming productivity and food sustainability; access to healthcare.	1,245,165	267,173
Europe and Oriental	Counseling for migrant workers and farm owners; child labor prevention; promotion of rural entrepreneurship.	677,296	1,890
Africa	Forest preservation; school infrastructure; child labor prevention; access to water and sanitation; fuel efficient stoves; generation of alternative income.	2,549,983	794,197
US and Latin America	Vocational training and generation of alternative income; school infrastructure and basic supplies; child labor prevention; day-care for children in tobacco growing communities.	1,233,507	68,707



Child labor prevention efforts in Argentina

The Porvenir program and other initiatives in Misiones are good examples of the types of programs PMI supports to fight

child labor around the world. In 2004 PMI spearheaded the creation of Porvenir which aims to: 1) give children of low-income rural workers and farmers the tools to enable them to stay in school and broaden their future prospects; 2) train school teachers and staff to identify children who are subject or vulnerable to child labor; 3) generate alternative income opportunities for low-income rural workers or smallholder tobacco farmers whose children are at risk; and 4) raise awareness of child labor and its consequences among tobacco producers, parents, teachers and the community. Porvenir has received support from local NGOs, government, the ILO, as well as funding from other tobacco companies.

²¹ http://www.pmi.com/eng/about_us/charitable_giving/pages/charitable_giving.asp

6 Emerging trends and challenges

As discussed above, there are certain inherent challenges to implementing a program like ALP: for instance, the scale and complexity, with hundreds of thousands of farmers, thousands of staff and dozens of different organizations spread around the world with many different languages, cultures and socio-economic realities. We also know that sustainable progress will depend to a certain extent on the ability of multiple stakeholders, including governments, to address systemic underlying issues such as poverty and lack of education.

As we have progressed through the initial stages of ALP implementation, additional trends and challenges have become more evident and these will need to be addressed in order to secure continuous improvement in the labor practices on tobacco farms.

In rural areas around the world children are often expected to help out on the family farm. “Participation in some agricultural activities is not always child labor. Age-appropriate tasks that are of lower risk and do not interfere with a child’s schooling and leisure time can be a normal part of growing up in a rural environment”²². A major challenge we face in all countries where we source tobacco is that on a small family farm the boundaries between child labor and child work are not always clear or, at a minimum, are not always easily understood by farmers, or even external observers and commentators. This is true for most crops, not just tobacco.



Changing agronomy practices to advance ALP objectives: a case-study from Argentina.

Tobacco is a labor intensive crop and therefore the costs of labor are an important factor in the income of small family farms. One of the best ways to help farmers is by supporting efforts to reduce labor needs.

For instance, in 2011, one of our local teams found a solution to streamline the process of tobacco bundling both on the farm and at the processing facility. Tobacco bundling (tying up bundles of dried leaves after the grading process) in Misiones (Argentina) was a traditional and very time consuming practice. Moreover, farmers reported that bundling was one of the most common tasks where minors could get involved. The local team determined that this step in the preparation of tobacco could be eliminated altogether with certain adjustments in the processing plant, and they are now in the process of implementing these adjustments. We estimate this will result in a reduction of up to 80 man-hours per hectare which means less labor cost for the farmer and a lower risk of children getting involved in tobacco work.

²² <http://www.ilo.org/ipec/areas/Agriculture/lang--en/index.htm>

Another challenge we face in most places where we or our suppliers are buying tobacco is the informal nature of the labor arrangements on a small family farm. Often, labor contracts are only verbal, workers come on the farm on an “as needed” basis, payment is agreed by the task, there are no records of payments or hours worked, and payment is sometimes based not on money or cash payment at all, but is an exchange of labor within the community or includes an in-kind component. Also, the literacy levels of many farmers and workers, particularly in developing countries, are very low, keeping labor arrangements informal and making information on rights, best practices, contracts and paperwork generally inaccessible. Finally, the fact that governments often do not enforce the existing labor laws further facilitates the existence of informal arrangements.

These are not challenges that can be addressed overnight or solely by our actions but require a continuous effort from various stakeholders to introduce, step-by-step, better practices that, while respecting the local tradition and realities, are aligned with international labor standards and improve farmers’ ability to run their farming businesses more successfully.

One important observation which has been consistent in the different geographical locations where we purchase tobacco is that in a smallholder farming environment, the most productive and sophisticated farms are usually also the ones with better labor practices. Growing tobacco requires skilled labor and an experienced farmer typically knows that skilled workers take time to train and are an important asset for ensuring a good outcome for his or her crop. By contrast, the farms where labor practices problems are identified are more often than not also the ones where more effort is needed to make the farm more productive and better organized. This means that an important focus of our work will continue to be supporting farmers to become more sophisticated and productive small businesses, which goes hand in hand with the wider efforts to enhance the livelihood of the communities and the promotion of rural development.

6.1 Implementing ALP where there is no direct link to farmers: Malawi

In a few countries, both we and our suppliers have a very limited ability to establish direct contractual relations with the farmer. In these countries, it is difficult and often impossible to support the farmers directly, communicate effectively with them about our expectations under the ALP Program and obtain precise information about the practices on the farms.

Particularly in Malawi, where most of the tobacco is bought through a government mandated auction system, the way the market is structured is central to the issues identified in this country. In Malawi, tobacco is the only cash crop available for most smallholder farmers. When pricing at the auction floor is good for a couple of years in a row, many families that do not have any other alternatives are tempted to try their luck in tobacco, ultimately creating a situation of oversupply in the market and a subsequent drop in prices. These “boom and bust” cycles undermine the livelihoods of farmers and the sustainability of the crop in the long term. They contrast with most other countries from which we buy where advance purchase contracts, inputs and technical assistance contribute directly to more predictability and stability of cash income to farmers.



Contracted grower



Non-contracted grower

Another feature of a market like Malawi is the proliferation of middlemen who add little or no value but reduce the farmers' share of the sale proceeds. These middlemen typically do not farm tobacco, buying it from farmers below expected auction floor prices and often employing children for sorting and grading the tobacco leaves.

PMI's leaf purchases in Malawi are entirely conducted through leaf suppliers who in turn have to procure the bulk of the tobacco through the auction system. PMI does not have Malawi-based personnel and much of our effort is carried out in close coordination with or by our suppliers. In the absence of direct contracts, PMI has been pursuing a three-pronged approach for dealing with child labor and other labor practices issues in Malawi:

- Engage with the government to implement a supply chain system where leaf suppliers or tobacco manufacturers can establish direct contractual relationships that allow for ongoing support of farmers by field technicians;
- Support multi-party efforts to improve the regulatory framework and define concrete actions and accountabilities to implement the national action plan on child labor;
- Continue to support community level initiatives to tackle the root causes of child labor.

Many stakeholders in Malawi have supported this approach, and the government recently announced that 80% of the tobacco crop will be moving from the auction system into direct contracts in the next season. Further, during the National Conference on Child Labor in Agriculture held in September 2012, the government committed to important reforms including the revision of the long awaited "Tenancy Bill" which will regulate the relationship between landlords and tenant farmers.

These are encouraging and positive developments. They will enable our suppliers to comprehensively and directly implement the ALP Program in Malawi, and deliver on the commitments agreed upon by the sector at the recent National Conference²³. While many challenges remain, we believe that the combined efforts of all key stakeholders can enable a positive transformation in this market for sustainable, long term prevention of child labor benefiting farmers, workers and their families.

²³ <http://www.eclt.org/news/malawi-conference/outcome>

7 What we want to achieve over the coming 12 months

Over the next twelve months, we will be completing the initial rollout of the ALP Code and the communication to farmers, starting the implementation of the external monitoring system, and assessing the impact of the program. We will get the field technicians and their support organizations at the affiliate and supplier level ready to start systematically monitoring and addressing labor practices on all contracted farms, and increasingly embed this practice in the normal day-to-day business. This is no small task. It entails building the knowledge, skills and organizational capacity to spot issues, collect and record information with respect to all 32 ALP measurable standards, identify both the challenges and possible solutions, and work collaboratively with farmers and others on concrete improvements.

Specifically this means that by the end of 2012 we aim to:

- Complete the initial training for over 3200 staff at 12 affiliates and around 40 suppliers involved in the first wave of communication to farmers.
- Complete the first wave of communication of the ALP Code to all farmers who have contracts with our affiliates or suppliers. This means reaching out to well over half a million farmers in 30 countries.
- Collect the Farm Profiles for each contracted farm.

As we complete the first phase of the program we will conduct reviews in each affiliate and supplier to assess whether the training is achieving the intended objectives, verify the quality of the message being delivered, and how the organizations are ensuring that they have the capacity to address problems that will be identified.

We will begin the second training phase in order to:

- Continue to build the field technicians' skills to monitor issues.
- Introduce the tools for them to do this on a systematic basis.
- Develop the field technicians' and local organizations' capacity to tackle farm practices that represent problems vis-à-vis the Code and address more complex systemic problems.

We expect that by the summer of 2013, field technicians and local organizations in the majority of our tobacco growing countries will have been trained and the tools and processes for systematic monitoring and addressing issues introduced.

During 2013 we expect that our affiliates or suppliers (or both, when both are present) introduce or, at a minimum, pilot a grievance mechanism for workers in all markets where we are buying.

By mid-2013, the external monitoring system will be fully operational, as demonstrated by the publication on our website of a third party assessment of the farm labor practices in a country where we source tobacco.

- To that end, Verité and Control Union will do further on-the-ground testing of the monitoring tools and processes they have been developing; the learnings from this testing, together with the experience from the training exercise, will inform the finalization of the system.
- The first actual assessment is expected to begin in Q4 2012.
- In parallel, Verité professionals will be training additional auditors from Control Union to prepare and build capacity for external assessments in every region.

8

Concluding remarks

PMI's ALP Program is now well underway. All parts of our global organization have now set to work on this: being trained; discussing safe work, fair labor conditions and child labor with farmers; identifying and learning about the practices on farms that need to improve; and developing direct responses to situations which need prompt action because they represent imminent or actual danger to farmers, their families and workers.

We know, of course, that the overall objective of eliminating child labor, labor abuses and achieving safe and fair conditions on hundreds of thousands of tobacco farms will take time and resources, not just for PMI but for all actors in the supply chain and require significant support from many stakeholders including, in particular, governments.

We have been encouraged by the interest and support from the wider tobacco industry. We have openly shared our ideas, our Code and our approach to training. One of our global suppliers has decided to roll out the program to all countries in which they operate, involving far more than the countries and numbers of farmers who supply just PMI, and the other global supplier is considering the same move. This means that our ALP Program stands to catalyze a far wider effort in tobacco growing and in time, with the involvement of all relevant stakeholders, we hope its benefits will extend well beyond our supply chain.

We are committed to proceed with the ALP Program in a transparent manner, sharing results and outcomes.

Appendix 1



PHILIP MORRIS INTERNATIONAL

AGRICULTURAL LABOR PRACTICES CODE

Principles &
Measurable Standards



Introduction

Philip Morris International, Inc. (PMI) is committed to progressively eliminate child labor and other labor abuses where they are found and to achieve safe and fair working conditions on all farms from which PMI sources tobacco.

This Agricultural Labor Practices Code supports this objective by defining the labor practices, principles and standards PMI expects to be met on all tobacco farms with which PMI or PMI's suppliers have contracts to grow tobacco for PMI¹. This Code is based on the labor standards of the International Labor Organization (ILO) Declaration on Fundamental Principles and Rights at Work and other relevant ILO conventions. The principles and standards of this Code must be interpreted and implemented in line with these ILO conventions.

PMI recognizes that labor abuse can often have underlying systemic causes that this Code on its own cannot address. Long term solutions to address these systemic issues will require the serious and lasting commitment from all actors in the supply chain as well as government and other stakeholders. PMI is committed to engage with all such actors.

Farmers and suppliers are expected to apply this Code in a diligent and transparent manner, and to work with PMI on continuously improving agricultural labor practices. In all actions concerning children, the best interests of the child shall be the primary consideration.

¹For the purposes of this Code, "PMI" means Philip Morris International, Inc. or any of its direct or indirect subsidiaries, and "supplier" where used, means a company that has a contract with PMI to supply tobacco but is not a farmer.

CHILD LABOR

› **There shall be no child labor.**

Measurable Standards

- There is no employment or recruitment of child labor. The minimum age for admission to work is not less than the age for the completion of compulsory schooling and, in any case, is not less than 15 years or the minimum age provided by the country's laws, whichever affords greater protection.²
- No person below 18 is involved in any type of hazardous work.
- In the case of family farms, a child may only help on his or her family's farm provided that the work is light work and the child is between 13 and 15³ years or above the minimum age for light work as defined by the country's laws, whichever affords greater protection.

² As an exception, pursuant to ILO Convention 138, developing countries may under certain circumstances specify a minimum age of 14 years.

³ The same ILO convention 138 allows developing countries to substitute "between the ages 12 and 14 in place of "between the ages 13 and 15".

INCOME AND WORK HOURS

› Income earned during a pay period or growing season shall always be enough to meet workers' basic needs and shall be of a sufficient level to enable the generation of discretionary income. Workers shall not work excessive or illegal work hours.

Measurable Standards

- Wages of all workers (including for temporary, piece rate, seasonal, and migrant workers) meet, at a minimum, national legal standards or agricultural benchmark standards.
- Wages of all workers are paid regularly, at a minimum, in accordance with the country's laws.
- Work hours are in compliance with the country's laws. Excluding overtime, work hours do not exceed, on a regular basis, 48 hours per week.
- Overtime work hours are voluntary.
- Overtime wages are paid at a premium as required by the country's laws or by any applicable collective agreement.
- All workers are provided with the benefits, holidays, and leave to which they are entitled by the country's laws.

FAIR TREATMENT

➤ Farmers shall ensure fair treatment of workers. There shall be no harassment, discrimination, physical or mental punishment, or any other forms of abuse.

Measurable Standards

- There is no physical abuse, threat of physical abuse, or physical contact with the intent to injure or intimidate.
- There is no sexual abuse or harassment.
- There is no verbal abuse or harassment.
- There is no discrimination on the basis of race, color, caste, gender, religion, political affiliation, union membership, status as a worker representative, ethnicity, pregnancy, social origin, disability, sexual orientation, citizenship, or nationality.
- Workers have access to a fair, transparent and anonymous grievance mechanism.

FORCED LABOR

› All farm labor must be voluntary. There shall be no forced labor.

Measurable Standards

- Workers do not work under bond, debt or threat and must receive wages directly from the employer.
- Workers are free to leave their employment at any time with reasonable notice.
- Workers are not required to make financial deposits with employers.
- Wages or income from crops and work done are not withheld beyond the legal and agreed payment conditions.
- Farmers do not retain the original identity documents of any worker.
- The farmer does not employ prison or compulsory labor.

SAFE WORK ENVIRONMENT

› Farmers shall provide a safe work environment to prevent accidents and injury and to minimize health risks. Accommodation, where provided, shall be clean, safe and meet the basic needs of the workers.

Measurable Standards

- The farmer provides a safe and sanitary working environment, and takes all reasonable measures to prevent accidents, injury and exposure to health risks.
- No worker is permitted to top or harvest tobacco, or to load barns unless they have been trained on avoidance of green tobacco sickness.
- No worker is permitted to use, handle or apply crop protection agents (CPA) or other hazardous substances such as fertilizers, without having first received adequate training and without using the required personal protection equipment. Persons under the age of 18, pregnant women, and nursing mothers must not handle or apply CPA.
- Workers do not enter a field where CPA have been applied unless and until it is safe to do so.
- Workers have access to clean drinking and washing water close to where they work and live.
- Accommodation, where provided, is clean, safe, meets the basic needs of workers, and conforms to the country's laws.

FREEDOM OF ASSOCIATION

➤ Farmers shall recognize and respect workers' rights to freedom of association and to bargain collectively.

Measurable Standards

- The farmer does not interfere with workers' right to freedom of association.
- Workers are free to join or form organizations and unions of their own choosing and to bargain collectively.
- Worker representatives are not discriminated against and have access to carry out their representative functions in the workplace.

COMPLIANCE WITH THE LAW

› Farmers shall comply with all laws of their country relating to employment.

Measurable Standards

- All workers are informed of their legal rights and the conditions of their employment when they start to work.
- Farmers and workers have entered into written employment contracts when required by a country's laws and workers receive a copy of the contract.
- Terms and conditions of employment contracts do not contravene the country's laws.

Compliance & Enforcement

PMI's guiding principle is continuous improvement: to work with suppliers and farmers to achieve, over time, measurable, tangible improvements in the working conditions for farm labor. In the case of noncompliance with this Code, PMI's response will be case-specific, and will depend on a variety of factors, including the nature and severity of the violation.

Our preferred approach to enforcing compliance with this Code will be to work with both farmers and suppliers to address any issues identified and to improve their practices. However, if there is no clear commitment to corrective actions, or if there is a persistent lack of action and improvement, PMI will terminate the contract. PMI also reserves the right to terminate contracts immediately in cases of severe violations of this Code.

An important component of PMI's Agricultural Labor Practices program is external third-party assessments to monitor the progress PMI, its suppliers and farmers make in improving labor conditions and compliance with this Code. We will publish reports of the third-party assessments on our internet site, www.pmi.com.

Gap
Good Agricultural Practices



PHILIP MORRIS INTERNATIONAL

Appendix 2

FARM PROFILE (1)

General Information		Farmer Information	
Technician		Name	
Country		Age	
Crop Year		Farmer Id	
Affiliate/ Supplier		Address	
Form Completed (dd/mm/yy)		Contract Signed (dd/mm/yy)	

Farm Description	Owned	Leased	Communal	Sharecropping
Total Area (ha)				

Commercial Crops on the Farm					Food Grown for Household Consumption	
Tobacco Production	Hectares	Tons	Other Cash Crops	kg	Cultivated	kg
FC (Flue-cured)			Corn		Corn	
BU (Burley)			Rice		Rice	
OR (Oriental)			Grains		Grains	
SC (Sun-cured)			Cotton		Fruits	
DC (Dark-cured)			Potatoes		Potatoes	
Other			Forestry		Vegetables	
Other Suppliers			Fruits		Other	
			Other		Other	
			Other		Other	

Animals Grown for Household Consumption:

Choose One: Yes or No

ALP Communication and Training to Farmer

Mark (X) the topics discussed with farmer

Date of Visit (dd/mm/yy)	/ /		/ /		/ /		/ /		/ /		/ /		/ /	
Type of Visit	Ind.	Grp	Ind.	Grp	Ind.	Grp	Ind.	Grp	Ind.	Grp	Ind.	Grp	Ind.	Grp
All the Principles														
Child Labor														
Income and Work Hours														
Fair Treatment														
Forced Labor														
Safe Work Environment														
Freedom of Association														
Compliance with the Law														

Additional Comments:

FARM PROFILE (2)

Farmer Name	Farmer ID
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People on the Farm

		Overall			Working	School Attendance		Accommodation	
		Age			Adults 18+	Age		Live on the Farm	Live Outside the Farm
		Adults 18+	0-14	15-17		14 and Under	15-17		
Family Members	Total								
Local Labor - Full-time *									
Local Labor - Temporary **									
Migrant Labor - Full-time *									
Migrant Labor - Temporary **									
Migrant Labor - Origin									
Migrant Labor - Language Spoken									

*Full-time - more than one month at a time
 **Temporary - less than one month at a time

Living Conditions

Mark Y (yes) or N (no) or N/A (non-applicable)

	Charge for Housing	Drinking Water	Washing Water	Cooking Area	Working Toilets	Electric Power
Farmer	N/A					
Workers						

Farm Tasks

Mark (X) in the corresponding box

	Age: 14 and Under		Age: 15 to 17			
	Family	Other	Family	Local Permanent	Local Temp.	Migrant
Seedbed Management						
Land Preparation						
Transplant						
Cultivation						
Fertilization						
CPA Preparation						
CPA Spraying						
Weeding						
Topping						
Harvesting						
Loading /Unloading Barn						
Grading /Baling						
Domestic Tasks						
Farm Gardening						
Other						

FARM PROFILE (2) continued

Farmer Name _____

Farmer ID _____

Employment Conditions

	Contract		Salary Type							
	Written	Verbal	Piece	Hour	Day	Week	Month	End of Season	Food	Other***
Local Labor - Full-time *										
Local Labor - Temporary **										
Migrant Labor - Full-time *										
Migrant Labor - Temporary **										

*Full-time - more than one month at a time

**Temporary - less than one month at a time

*** If other salary type, explain: _____

Possible Problems that may Affect ALP Implementation on this Farm:

Additional Comments:

Farmer Signature: _____

By signing this Farm Profile sheet, I consent to the use of personal data collected in this form as set out below:

1). Your data will be used to assess labor practices on farms from which a PMI company or their supplier sources tobacco. 2). Your personal data will be used by PMI companies and/or their suppliers. The PMI companies are controllers within the meaning of data protection laws. They include: Philip Morris International Management S.A., Avenue de Rhodanie 50, 1007 Lausanne, Switzerland; and the PMI company that collected your data (or that engaged a supplier to do so). 3). The PMI companies engage suppliers to support them in considering the data and the technical processing of the data. 4). PMI companies may transfer the data between themselves and suppliers in all the countries in which they, or their suppliers, do business. PMI companies are based in a number of countries including, for example, the USA and Hong Kong. 5). Your personal data will be treated in compliance with the data protection laws of the country(-ies) of the relevant controller. We implement appropriate technical and organizational measures to protect the data and keep it secure, and we comply with data retention requirements.