

ALP

AGRICULTURAL LABOR PRACTICES



PHILIP MORRIS INTERNATIONAL

PROGRESS REPORT 2013



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FOREWORD



Labor abuse is a serious and lasting problem in many agricultural communities around the world. Our¹ objective is to eliminate child labor and other employment abuses from all farms where we source tobacco. We have implemented an operating culture and code that allows us to address this complex matter in a determined, systematic and effective manner.

We are mindful that certain behaviors are deeply engrained in the economic, sociopolitical and cultural fabric of many tobacco-growing countries, and that we cannot be successful alone. As a company, we combine our own hard work and perseverance with strong engagement with governments and local communities. We also partner with non-profit organizations specialized in this field and the internationally renowned expert, Verité². We all know this is a long-term journey but are pleased with the results already achieved.

This report describes in greater detail our Agricultural Labor Practice (ALP) program³, our progress to date and our plans going forward.

In 2012, the first full year of the ALP program⁴, we established a strong foundation by adapting our internal systems and processes, enforcing the ALP Code⁵, and training all employees concerned worldwide. We also engaged with our tobacco leaf suppliers and ran pilot programs.

In 2013, we proceeded with an evaluation of the individual conditions prevailing in the more than 490,000 farms from where we source tobacco, located in more than 30 countries⁶. We communicated the Code and program to all of these farmers and committed appropriate resources to establish the infrastructure that supports the farmers in meeting the standards set by the Code.

Subsequently, we contracted Control Union Certifications to commence third-party monitoring and evaluation of progress and effectiveness of our ALP program. We look forward to their findings and recommendations that will provide invaluable feedback for the continuous improvement of this complex undertaking.

Further to our supply chain efforts we have refocused our charitable contributions activities to directly support the agricultural communities concerned.

Although we are at the beginning, third parties already recognize our tangible actions and progress. To cite an example, we were very encouraged that in November 2013 the US Department of Labor decided to remove Kazakhstan origin tobacco from the "List of Goods Produced by Child Labor or Forced Labor." The related report acknowledges PMI's progress over the last three years in dealing with these serious issues in the Kazakh tobacco-growing areas.

I would like to express my gratitude to our employees, suppliers, members of the specialized field force who assist farmers on a daily basis (field technicians), and non-profit organization partners for their relentless work and support. In particular, Verité deserves our heartfelt recognition. Without their expert advice, unflinching dedication and shared conviction that child labor and other labor abuses should be eradicated, we would not have achieved the progress this report describes.

Our road to final success will be arduous, but I am fully confident in our collective determination to achieve our goals.

André Calantzopoulos
Chief Executive Officer
Philip Morris International





In 2010, Verité entered into a strategic consultative partnership with Philip Morris International (PMI), assisting the company to improve conditions for workers on tobacco farms that supply tobacco for PMI products around the world. Achieving this objective would require qualified human resources, financial investment, and public reporting. From Verité's perspective, this year's Progress Report demonstrates that these commitments have been kept and, as a result, PMI is on track to achieve its objectives: to progressively eliminate child labor, and to achieve safe and fair working conditions on direct contract tobacco farms.

Several notable aspects stand out. PMI has built on the success of communicating the Agricultural Labor Practices Code to almost half a million smallholder farmers, and has now developed a comprehensive picture of who lives and works on each farm. Third-party monitoring has been fully implemented in three markets, leading to the development of market action plans to address issues identified. Additionally, extensive training has been conducted on a considerable scale, with quality assessment follow up on hundreds of thousands of employees, suppliers and growers, including substantial input from these constituencies.

Moreover, the company has committed all of its affiliates and suppliers to act promptly to address the worst cases of child labor, abuse and hazard, where people are in danger—so called “prompt action” situations—a strategy that will bring about progressive and rapid change to create better conditions on farms that supply to PMI.

We are encouraged by PMI's willingness to openly and actively engage with stakeholders and share information about the program. This reflects our shared understanding that a company which faces challenges within its supply chain cannot address such challenges without collaborating with others.

PMI understands that meaningful change in complicated systems like global supply chains takes time. Yet, they are willing to measure impacts and demonstrate public accountability for working conditions on farms, not simply measure inputs. Our joint focus on impact is demonstrated in the removal of Kazakhstan tobacco from the U.S. Department of Labor's annual list of goods produced with child or forced labor. Such a change could not have been accomplished without consistent investment.

Verité and PMI understand that work has commenced on the elimination of worst forms of child labor and labor abuses, but that much more work is needed. In 2014 and onward, Verité will continue to serve as an advisor and strategic consultant, trainer, critic, and a facilitator of dialogue with and between PMI and others. The presence of clearly stated program objectives, against which the company communicates publicly, ensures that we will continue to remain accountable to one another and to external stakeholders, whose support and continued involvement are vital.

Dan Viederman
Chief Executive Officer
Verité



Verité is a U.S.-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.



EXECUTIVE SUMMARY

Philip Morris International's Agricultural Labor Practices (ALP) program aims to progressively eliminate child labor and other labor abuses found on all farms where we source tobacco. The program provides the tools to support implementation of the ALP Code which is built on seven basic principles:

- Addressing Child Labor
- Fair Income and Work Hours
- Fair Treatment of Workers
- Providing a Safe Work Environment
- Addressing Forced Labor
- Freedom of Association
- Compliance with the Law

All farmers who have contractual arrangements with PMI, our affiliates, or with third-party leaf suppliers from whom we source tobacco, must work in a way that meets the ALP Code standards.

KEY ALP PROGRAM COMPONENTS

THE ALP CODE	The ALP Code sets out seven principles and 32 measurable standards ⁵ to be met on all farms from which we source tobacco
CAPACITY BUILDING AND SUPPORT IN COUNTRIES	Provide training programs on ALP and issues related to agricultural labor practices for tobacco crop professionals, suppliers, farmers and workers
CONTINUOUS IMPROVEMENT	Create and implement improvement plans for each farm to address the root causes and change practices that do not meet ALP requirements
MONITORING AND ASSESSMENT	Establish internal and external monitoring and assessment systems, including: individual farm progress assessments, third-party and worker inputs (via independent assessments and support services)
STAKEHOLDER ENGAGEMENT	Directly engage with stakeholders and relevant third parties to help us improve labor practices on tobacco farms and enhance the livelihoods of people in tobacco-growing communities

ALP: ITS DAILY APPLICATION

This second Progress Report provides an insight into PMI's efforts to implement ALP during the 2013 tobacco-growing season. ALP is now woven into our daily work in every country where we purchase tobacco. The program is at the stage of bringing practical and meaningful support to both farmers and workers. This includes introducing labor-saving harvesting techniques that deliver higher crop yields and increase farm revenues, local community support for farmers and their families through schools, health and safety training, summer camps for children, and much more. We have also witnessed welcome change to regulations and rules governing labor practices,

with some governments taking steps to address child labor issues in several countries including Kazakhstan, Malawi and Tanzania.

These positive developments are important, but more work is needed if we are to see success in other countries. The ALP program has enabled PMI, our suppliers and partners to identify the many challenges at farm level. We have started to design and pursue a range of approaches to address them, including working one-on-one with farmers, multi-stakeholder and industry initiatives, as well as government and third-party engagements and

projects with specialized NGOs. The specific focus of our efforts include reducing farm safety risks, overcoming technical difficulties related to crop rotation, ensuring fair working hours, and building a better overall understanding of age-appropriate tasks for children on farms.

Moving forward, ALP will remain at the core of improving not just the way we do business, but the sustainability of our business for the long-term. It reflects our commitment to continuous improvement on all farms where we or our suppliers source tobacco. In light of the positive developments experienced to date, we believe the opportunities for farmers have never been greater to grow quality tobacco and develop sustainable businesses to support their families for generations to come.

ALP PROGRAM IMPLEMENTATION

Below is a brief summary of key aspects of the ALP program implementation in 2013.

DIRECT CONTRACTS

Direct contracts with farmers mean our suppliers or PMI has a direct contractual relationship with a farmer. Direct contracts give PMI greater visibility into labor practices on farms, which is important in understanding, and vital to addressing labor issues and problematic practices. PMI's tobacco-growing supply chain moved a step closer toward this model in 2013, as the share of tobacco sourced from small-scale farmers rose from 80 percent to 87 percent. In Indonesia, tobacco purchases through middlemen were reduced from 10 percent to eight percent. In Malawi, where tobacco has been traditionally sold through an auction system, our suppliers established approximately 60,000 new direct contracts. As a result, pilot projects promoting harvesting and curing techniques in the Philippines, Indonesia, Pakistan as well as Malawi helped some of these farmers meet ALP standards more effectively by reducing costs and minimizing the need for farmers' families, particularly children, to be involved in tobacco production.

TRAINING AND COMMUNICATION

Training our teams, suppliers, field technicians and farmers is the cornerstone of the ALP program. Since 2011, almost half a million farmers in our supply chain have been trained on the ALP Code. Today, all 3,700 field technicians are more knowledgeable on ALP topics, and they have a better understanding of the challenges created by practices such as hiring and paying workers through crew leaders (rather than directly). They have been taught to build accurate Farm Profiles, understand and detect problems and risks, and determine how to better support farmers and improve conditions.

2013 focused on refresher training for field technicians and an increase in their number, both directly and through partnerships with NGOs, suppliers and other PMI employees. For example, in Ecuador social workers from local NGO, "Desarrollo y Autogestion" (DyA), now work alongside field technicians to support ALP implementation. In Malawi alone, more than 100 new technicians have been added to our suppliers' teams. PMI's Environment, Health and Safety team is also contributing to field technicians' work helping farmers conduct farm safety assessments and understand the gaps.

Another important element in this year's progress is bringing our global resources together to meet the specific challenges involved in implementation: interdisciplinary ALP country teams now exist in all 32 countries where we source tobacco. These teams include a variety of skills and expertise from within PMI or our suppliers. They work together to plan the approach, address the most serious situations, ensure consistency in the implementation of the program, and identify and address gaps in expertise. We have seen the development and promotion of locally-tailored ALP toolboxes, which include a combination of printed information, specialist training materials, referrals (to other projects and support services) and access to equipment that field technicians can offer farmers to help identify or solve the problems on their farms.

MANAGING “PROMPT ACTION” ISSUES AND SUPPORT SERVICES FOR WORKERS AND FARMERS

From the outset PMI prepared all affiliates and suppliers to manage situations where farmers, their families or workers are at risk and immediate action to address the situation is required (otherwise known as “prompt action” issues). A prerequisite for effectively addressing these challenges is to know they exist in the first place. For this reason, the record number of “prompt action” issues reported in 2013 is evidence that we’ve taken a step in the right direction. The greatest number of these reports related to child labor, followed by “unsafe working environment”. The volume reflects a growing understanding of, and willingness to report on, the existence of “prompt action” issues by field technicians, which only improves our ability to take necessary steps to help resolve problems.

To resolve or prevent conflicts, we are in the process of establishing third-party managed “support services” for workers to voice concerns and complaints related to working conditions on farms where we source tobacco. In 2013 we launched pilot programs in Mexico, Brazil and the Republic of Macedonia, and that not only workers, but also farmers, need this channel. Therefore, we have expanded the program to include a support element for both farmers and workers.

TRACKING PROGRESS

In 2013, we established, together with our suppliers, a global baseline of farm-related data and completed Farm Profiles for more than 490,000 farms with which PMI or our suppliers have a contractual relationship. Most of the data was initially collected manually, but moving forward, a more efficient electronic data collection method will be used to track changes on each farm. This is an essential step in fully implementing the ALP program, since we cannot measure or tailor the program without understanding conditions on the ground today, and year-over-year. This year, external assessments were completed in Brazil, Mexico and Italy for the first time and these reports will contribute to the transparency

of ALP program implementation. In conducting these assessments Control Union Certifications (CU) visited farms, reviewed documents and interviewed farmers, workers, field technicians and the supplier or affiliate management. Publication of the CU assessments in each of these countries is expected in the first half of 2014.

INTEGRATED APPROACH

ALP is part of PMI’s Good Agricultural Practices (GAP)³ program, which encourages sustainable tobacco growing and is integrated into our tobacco supply chain. On small, family-owned farms the size of the land available (typically 0.5-2 hectares), coupled with financial limitations of farmers and their communities, make fully implementing GAP difficult. PMI, our affiliates and suppliers increasingly understand that the root causes of many poor labor and environmental practices are intertwined with and, in many instances created by, antiquated farming practices, lack of access to credit, and inadequate social services and infrastructure. As a result, our efforts to help farmers improve the profitability, safety and sustainability of their farms through the GAP program, are also improving labor conditions. We also focus an increasing portion of PMI’s Contributions funding to support NGOs to expand infrastructure, services and education in tobacco-growing communities.

LOOKING AHEAD

The labor practices on every farm in every country from which PMI sources tobacco are being assessed, and continuous improvement plans developed with farmers. When a reported problem is widespread, PMI and the ALP country teams are committed to identifying broader solutions to address the root causes, recognizing some challenges may lie beyond the ability of individual small farmers to solve. We will continue to work with NGOs and governments that recognize that the progressive elimination of child labor and labor abuses in tobacco growing requires time, resources, transparency, and most of all, a real commitment from us all.

1 | PMI'S TOBACCO SUPPLY CHAIN

Tobacco farmers are at the heart of PMI's business. They produce the primary input needed to make our high quality tobacco products, and their well-being is integral to our long-term sustainability. For this reason, we have established the ALP program to improve working and living conditions in all the countries where we source tobacco.

While variations exist across the globe, the three basic systems for the sale and purchase of tobacco include (i) contract farming (direct contracts), (ii) auction, and (iii) middlemen traders (more detail on each of these systems is provided on the next page). In 2013, PMI sourced almost a third of our tobacco directly from farmers and the remainder through independent leaf suppliers who largely work through direct contracts with farmers. Direct contracts provide greater economic stability to farmers, enable farmers and buyers to work together

to improve the sustainability of the crop, and support the implementation of the ALP program. Auctions and purchases through middlemen traders make it virtually impossible for PMI affiliates and suppliers to establish direct relationships with farmers, creating a barrier to supporting farmers and to assuring the implementation of the ALP Code on these farms.

Across the globe, PMI's and our suppliers' direct contracts with farmers increased from 80 percent to 87 percent in 2013. Over that same time period, the volume of tobacco purchases made via auction decreased from 10 percent to five percent in Malawi, and similarly, decreased purchases via middlemen traders from approximately 10 percent to eight percent in Indonesia (see page 13). This shift in our tobacco supply chain is expected to continue, and will help to support the long-term implementation of ALP globally.

**PMI and our suppliers
bought tobacco from more than 490,000 farmers
in 2013. The majority of tobacco is grown on
small-scale family farms (2 hectares or less).**



THREE TYPES OF TOBACCO SALE AND PURCHASE SYSTEMS

1. CONTRACT FARMING: Contract farming provides greater economic stability for farmers. By agreeing to contract with PMI (via one of our affiliates) or suppliers directly at the beginning of the growing season, the farmer has a secure buyer for a volume of his crop, which takes into account the cost of production. In return, the farmer commits to sell the tobacco and follow the GAP program, including our ALP Code. In most countries, these contracts are backed up with technical assistance: trained agricultural field technicians who regularly visit farms and provide advice and support to improve agronomic and labor practices.



2. AUCTION SYSTEMS: Auction systems make it difficult, if not impossible, to establish direct relationships with farmers. Farmers are often not present, instead selling to middlemen who in turn consolidate and resell the tobacco at the auction. Affiliates or suppliers have traditionally been able to buy tobacco exclusively through public auction in Malawi and India (flue-cured only), although a mixed system is now emerging in Malawi.



3. MIDDLEMEN TRADERS: Tobacco grown by small-scale farmers is often sold through a series of middlemen who consolidate and bulk up their purchases in the countryside. This is the dominant system in Indonesia, but can also be found on a much smaller scale in countries such as Thailand, the Philippines and India. The identities of the farmers who grow the tobacco are usually not known to the ultimate buyer.



Our proactive efforts to foster closer links with farmers is changing the structure of our supply chain and giving us a better understanding of how we can support tobacco farmers in their daily work to deliver safe, fair working environments consistent with the ALP Code and its measurable standards. As a result, this helps bring socio-economic benefits to the farmer and their community, and improvements to the long-term sustainability of our business.



INDONESIA

DIRECT CONTRACTING, DIRECT IMPACT

One of PMI's suppliers recently extended the direct contracting system into the regions of Paiton and Jember and, as a result, has been able to introduce the ALP program with farmers. Previously, these tobacco farmers sold their crop to middlemen who did not provide any technical assistance or training to help farmers improve their businesses. While many farmers were aware of the symptoms of Green Tobacco Sickness (GTS), having experienced them in the past, they did not understand the cause or how to prevent the sickness until they were trained.

After the implementation of the ALP program in these two regions, farmers who were interviewed consistently cited the positive impact that ALP training has had on their lives. Following the initial training session, and with guidance from our suppliers' field technicians, these farmers now understand how to protect themselves and 'not get sick' during the harvest process by following appropriate safety procedures.



2 | ALP IMPLEMENTATION AND RESULTS

Implementation of PMI's ALP program is the responsibility of our affiliates and suppliers. They oversee the training of those who help to communicate the Code and support farmers in the daily application of the program. Throughout 2013, PMI expected every affiliate and supplier to:

✓	Ensure management personnel and field technicians understand the ALP Code
✓	Assign staff and devise processes to manage the program
✓	Ensure the requirements and expectations of the ALP Code are communicated to all farmers
✓	Compile basic socio-economic profiles for every farm
✓	Gain an understanding of the potential risk areas on each farm and be ready to identify and address situations requiring immediate action

2.1 ALP Training

TRAINING FIELD TECHNICIANS

Field technicians are an invaluable point of contact between the farmer and the supplier or PMI affiliate in a country. They provide agronomic support to the farmer on a day-to-day basis, and therefore training field technicians is a critical element in achieving a consistent implementation of the ALP program.

In 2013, **we trained 100% of our more than 3,700 affiliates' and suppliers' field technicians**, including around 450 new field technicians who joined agronomy operations across our supply chain in the past 12 months.

ALP PROGRAM FIELD TECHNICIAN TRAINING GENERAL PRINCIPLES:

- **Be pragmatic:** Situations are not always clear-cut
- **Establish clear priorities:** Priority must always be to address potentially dangerous conditions and practices affecting vulnerable workers
- **Be positive:** Help farmers improve
- **Be inclusive:** Involve farmers and workers in addressing issues
- **Focus on continuous improvement:** Conditions and practices are changed step-by-step
- **Measure progress:** Document the actions taken and how problems are being solved

Building the necessary skills at the field technician level and effectively communicating the ALP Code to farmers is an ongoing process. To accomplish this, ALP training is integrated into our day-to-day business. We have, together with our suppliers, initiated regular checks on the understanding field technicians and farmers have of the Code and how they are interpreting it in practice.

One-on-one interviews with field technicians and farmers are one way we test the level of ALP knowledge within our supply chain. Throughout 2013, both of these groups demonstrated varied degrees of understanding of the ALP Code. After an initial classroom training for field technicians, regular discussions with local PMI and supplier management teams proved essential to help clarify questions about ALP program implementation, share implementation experiences, and offer support to fine-tune the approaches to be taken with farmers.

We have also found that further training reinforces field technicians' understanding of some of the less familiar areas of the Code's principles and how these can be applied in practice. For example, additional training is part of improving field technician

understanding of complex situations where third-party contracting⁷, end-of-harvest payments, or share-cropping arrangements⁸ are in place. This is particularly important because of the risks associated with these practices and the fact that they can lead to *de facto* forced labor situations.

TRAINING ALP MANAGEMENT AND ALP REGIONAL COORDINATORS

Training new staff on ALP takes time and is ongoing. Internal rotation of regional coordinators or manager-level positions in affiliates' and suppliers' ALP country teams is quite common in most companies, and PMI is no exception. However, internal rotation presents considerable challenges to the global implementation of the ALP program. This is because consistency is key, and the learning curve is steep in every country because every local situation is different. However, in the mid-to long-term, internal rotation of PMI and supplier staff can contribute to the success of ALP by helping to improve awareness across the supply chain, increase knowledge-transfer, and share best practice.

TRAINING AND COMMUNICATION ⁹ IN 2013		
Total Field Technicians Trained	Farmer Training Sessions	Total Farmer Outreach
3,714 (100%)	2,288	484,840 (98%)



2.2 ALP Communication

Approximately 43,000 farmers newly contracted by us or our suppliers received initial training in 2013, meeting our goals for the first wave of communication with all contracted farmers, with the exception of Lebanon¹⁰.

Field technicians must strike the right balance when communicating with farmers given the time constraints imposed by the number of farms they support and the availability and openness of farmers to the program. Feedback from field technicians confirms that when communicating with farmers about the ALP Code, if perceived as threatening, farmers are less likely to give the complete picture of what is happening on the farm and are less willing to change their practices. At the same time, if expectations and goals are not clearly set, experience shows improvements are unlikely to occur, making finding the right balance a key success factor. Often this comes down to the emphasis of the communication with farmers.

For example: field technicians' feedback suggests that communication efforts with family farmers about the issue of child labor should focus more on why working with tobacco can be harmful to children, while still emphasizing the requirements imposed by local law and the ALP Code. We have also heard field technicians' conclusions that involving farmers' wives may be critical to promoting changes in child labor practices.

Illustrated materials (see page 17), charts, and tables are tools to help field technicians explain to farmers what work is inappropriate for children in a given country and to educate them about age-appropriate tasks for children (determined primarily by age, state of physical development, etc.) on the farm. In addition to farmers' understanding why a certain practice is incorrect, the field technician has the opportunity to suggest practical solutions, tailored to fit their local environment, to help farmers eliminate child labor abuses on their farms.

As a result of our communication with farmers in the course of 2013, we learned that discussing child labor and other ALP Code topics often leads to tackling deeper issues related to how the farm is run. By understanding the challenges facing farmers we can work to find solutions that enable farmers to become more efficient and, in turn, lessen the pressure on child labor demands.



A PMI field technician discusses the ALP Code with a farmer in Santa Cruz do Sul, Brazil.



Poster campaign against child labor developed as part of a sector-wide initiative (Brazil).



In Malawi, the Ministry of Labor and partners of the CLEAR project¹¹ developed illustrations of the official list of hazardous work for children, which our suppliers found very useful at the farm level. Partners included: Save the Children, Total Land Care, YONECO, CRECCOM and the ELCT Foundation.

2.3 Implementation Reviews: Key Findings

An implementation review helps us and our suppliers verify the status of rollout of the ALP program in each country. These reviews involve checking that farmers and field workers are receiving the right information, collecting the right data for each farm and using the information to strengthen local ALP teams' efforts to address specific challenges. Reviews are done via country visits from PMI Operations

Center staff who oversee the implementation of the ALP program globally.

As planned, most affiliates and suppliers received ALP program implementation review visits in 2013¹² and the key findings are outlined in this report.



“ALP is an aid to me and a tool that is helping local farmers.”

Grace Mlenga, ALP field technician in Malawi

IMPLEMENTATION REVIEWS: KEY FINDINGS 2013

STRONG COMMITMENT	Affiliates and suppliers, especially field technicians, invested significant time in supporting ALP implementation
GREATER KNOWLEDGE	Field technicians demonstrated more knowledge and comfort discussing labor issues in feedback interviews than in 2011-2012
ALP INTEGRATED INTO DAY-TO-DAY WORK	Discussing and monitoring certain aspects of the ALP Code are planned around the optimal time in the season, e.g., accommodation before workers arrive for the peak season, assessment of working hours and Green Tobacco Sickness (GTS) during labor-intensive harvest periods, and child labor during school holidays
CONTINUOUS LEARNING	Several affiliates and suppliers checked field technicians' understanding of the ALP Code, using both formal testing and competitions, games and quizzes. Interactive exercises helped identify gaps in understanding and strategies to remedy them
MORE TIME FOR ALP COUNTRY TEAMS	Implementing ALP meant more time was needed on farms and in supporting field technicians. This prompted a re-examination of ALP team resources, including the best field technician/farmer ratio ¹³ , and team skills to evaluate if further training was needed. We learned that there is no 'one-size-fits all' approach possible, but countries like Brazil are building a way to work this out to avoid field technicians becoming overloaded
EXPANSION	As buying became more direct in Malawi, the Philippines and Indonesia, therefore cutting out middlemen and auctions, the number of ALP staff expanded
ALP SPECIALIZATION	In Mozambique and Tanzania, suppliers added more than 90 new field technicians to their teams, both to cope with the workload and improve the existing skill set. In Malawi, more than 100 new ALP technicians were hired and trained by our suppliers during the last tobacco-growing season as direct contracting grew

2.4 Tapping into Expertise and Sharing Best Practice

The distinctiveness and complexity of the issues identified in implementation reviews required input from different areas in our company (Operations, Law, Corporate Affairs, etc.), as well as external experts and stakeholders. For example, although their remit is usually confined to PMI facilities, PMI's and our suppliers' Environment, Health and Safety

(EHS) Department advised field technicians on safety monitoring and helped farmers conduct farm safety assessments. Cross-country collaboration has also evolved into a structured, worldwide approach in which ALP teams introduce EHS to the farming environment, and in turn, EHS staff survey perceived risk and develop recommendations and training materials for field technicians.



Involvement of EHS professionals helps farmers and field technicians understand farm safety practices.

These pictures were taken by field technicians during farm assessments in the Philippines.

Together with EHS involvement, ALP actions to support and address safety issues on farms include:

✓	Providing Personal Protective Equipment (PPE) for farmers and field workers
✓	Offering lockable storage equipment for hazardous materials
✓	Financial and logistical support for farmers to attend specialized training (e.g., by third parties such as governmental institutions)
✓	Assistance in extending existing credit lines for urgent repairs or implementation of safety measures
✓	Distribution of first-aid kits and training for farmers by the Red Cross
✓	Establishing medical facilities at farmers' gatherings and disseminating information on Green Tobacco Sickness (GTS) for all farmers and their families
✓	Working with chemical manufacturers and distributors to collect used crop protection agent (CPA) packaging and reduce the risk of household re-use
✓	Expanding existing recycling programs

2.5 Feedback from Farmers

The feedback we get on ALP implementation from farmers is one of the most important inputs into improving the program moving forward. Interactions with farmers indicate they are pleased that PMI is taking an interest in their farms and that we want to support them to be successful. However, as anticipated, feedback from farmers also revealed that understanding of certain parts of the ALP Code and its real world application is difficult. For example, despite training on these topics farmers continue to ask a wide range of questions about what is wrong with their farming and labor traditions such as: setting rates for a piece of work¹⁴, using crew leaders, reliance on family labor and customs involving community labor exchange¹⁵, and the dangers of crop

protection agent (CPA) and equipment.

We have also found that farmers are looking for solutions and to gain insights into best practices to help them meet ALP requirements, and over time, many ideas and approaches have emerged to support farmers (see examples below). While group meetings were effective in introducing the ALP program, discussions during individual visits to farms were generally regarded as the only way to improve farmers' understanding of the Code's principles and application to the way they run their own farm. Visits have also made it possible to see real changes in farmer attitudes and practices as a result of the ALP training and communication from field technicians (see page 21).

FINDING SOLUTIONS: TRIAL AND ERROR

In Colombia, the ALP team developed a simple record book for farmers to keep track of workers' hours and tasks while at the same time providing a duplicate copy for the worker. This helped to avoid the possibility of workers being underpaid for their work or of working more hours than is safe.

Nombre del Productor:		Cosecha:			
Cédula de Ciudadanía:		Fecha de Inicio:			
Nombre del Trabajador		Fecha de Terminación:			
Cédula de Ciudadanía:		Afilación al Sistema de Seguridad Social:		SI	NO
				<input type="checkbox"/>	<input type="checkbox"/>
Finca:					
Actividades	Jornada de Trabajo	No. de Horas Trabajadas	Días Trabajados	Valor de Pago Acordado	Realizó la Actividad
Fertilización	Diurna	<input type="checkbox"/>			SI
	Nocturna	<input type="checkbox"/>			NO
Aporque	Diurna	<input type="checkbox"/>			SI
	Nocturna	<input type="checkbox"/>			NO
Recolección (hoja a hoja)	Diurna	<input type="checkbox"/>			SI
	Nocturna	<input type="checkbox"/>			NO
Hachado	Diurna	<input type="checkbox"/>			SI
					NO

KASUNDUAN SA PAGTATRABAHO SA TABAKOHAN

Ako si _____ na kasalukuyang naninirahan sa _____
(pangalan ng magkasaka) (barangay, bayan)

ay sumasang-ayon na magbayad kay _____ taong gulang, sa halagang _____
(pangalan ng trabahador) (edad)

PHIP _____ kada-oras/araw/lingo, buwan, o matapos maipagbili ang tabako bilang kabayaran s trabahong _____
(sweldo)

mula _____ hanggang _____
(uri ng trabaho sa tabakohan) (tagal ng pagtatrabaho)

_____ _____
(pangalan at lagda ng magkasaka) (pangalan at lagda ng trabahador)

_____ _____
(saksi) (petsa ng paglagda)

In the Philippines, forms were developed to help farmers formalize their relationships with their workers. However, this effort was only partially successful: many workers interpreted this as a lack of confidence that they would honor their traditional verbal arrangements. We continue to look for a more trusted, tailored solution.

TURKEY



LESS INTERNAL MIGRATION

In the Adiyaman region (South Eastern Turkey), one group of farmers was particularly receptive to the ALP Code principles. In the past, many tobacco farmers left their families and migrated to the Northern plantations to collect nuts or harvest apricots outside their own tobacco harvest period. Their experience as workers helped them appreciate the importance of being treated fairly. The introduction of Oriental tobacco farming in the Adiyaman region has provided these farmers with the economic opportunity to remain on their land and with their families year-round. In their new roles as full-time farmers, they appreciate the importance of having fair, safe labor practices on their farm, as set out in the ALP Code.

REDUCED CHILD LABOR INCIDENCE

In 2013, our analysis of Farm Profile data indicated a potential risk of child labor on family farms in the Turkish regions of Hatay and Adiyaman. Subsequent visits by field technicians revealed that farmers' children were working on a significant number of farms, prompting serious discussions with farmers about the need to remedy this situation. For example, when children were found using sharp needles to string tobacco, field technicians explained the hazards involved to the farm owner, and asked whether or not the children could help on tasks more suited to their age. While more work is needed in this area, follow up visits revealed real changes in work practices as the **incidence of children found stringing tobacco fell from 19% to 8%.**

2.6 Changing Techniques: Impact on ALP

We have seen that reducing the need for, and reliance on, family labor, mitigating exposure to health and safety risks, and tackling labor shortages, means real progress can be made to reduce labor issues on farms. For example, a change in harvesting and curing techniques improves efficiency and therefore a farmer's ability to comply with the ALP Code requirements. In 2013, we saw many affiliates and suppliers ready to rethink their own operational practices as part of helping farmers to meet the expectations of the ALP program.

For instance, PMI's affiliate in Colombia (Coltabaco) made a significant investment in tobacco-growing areas, addressing challenges to improve the sustainability of the crop. One of the initiatives in the Coastal and Santander areas supported traditional dark-fired tobacco farmers—who typically sell their tobacco to middlemen and who have no contractual relationship with the final buyer—to switch to producing Burley tobacco, which PMI then buys directly from the farmer. Coltabaco's field technicians

trained farmers on the ALP Code and introduced a substantial change in the tobacco-curing method, moving from the traditional leaf stringing¹⁶ and hanging to a stalk-cutting system, and to curing barns made from renewable resources (for example, Guadua, a local tree similar to bamboo).

To date, pilot projects involving more than 1,500 farmers demonstrate that the conversion to a stalk cut system results in a reduction in labor (approximately 280 hours/man/ha or 35 days of wages per hectare), which provides for more than \$440 USD in savings per crop for each farmer.

The pilot projects show that farmers are willing to move away from traditional ways of curing tobacco in their own homes. Further, the pilots create conditions for farmers to adopt better overall practices with regard to Green Tobacco Sickness (GTS) and crop protection agent (CPA) protection, as they become more aware of the risks and are given know-how and access to means for leaving behind traditional practices.

**“We used to keep the tobacco in the house,
and I did not pay attention to
protective measures when I was using CPA ...
Now I understand how foolish that was!**

**This has been a really good year! The changes we introduced
saved a lot of work and I am
confident about the future ...**

**Since I got married I had one idea in mind:
give a proper education to my children ...
With Coltabaco's (PMI's affiliate in Colombia)
support, my plans are coming together!”**

Colombian Tobacco Farmer

PHILIPPINES

NEW AGRICULTURAL PRACTICES TO MITIGATE RISKS AND INCREASE PRODUCTIVITY

A 48-year-old farmer from San Emilio, a province of Ilocos Sur in the Philippines, has been planting tobacco for almost 30 years. She and her husband work hard on their family-owned hectare of land to make sure their three children can continue their studies in college. They are third-generation tobacco growers.

"I grew up seeing almost every family member and everybody in our community busy tending tobacco farms during the months of October to April. Tobacco is a labor-intensive crop. Every season, my husband and I would hire an additional eight people to help us in harvesting and sticking tobacco leaves. The whole family is involved; sometimes even children of our relatives would help out with tobacco sticking."

Farms where this problem was identified received additional visits and training as part of the ALP program. However, as the story above illustrates, something more than training and monitoring is necessary to address this key driver of child labor. In countries facing this challenge, ALP teams began to replace the "sticking" or "stringing" of tobacco leaves with a much less labor-intensive process using a simple device called "clip sticks" (see illustrations below).

STRINGING, STICKING: HAZARDOUS, LABOR-INTENSIVE WORK

- Local ALP country teams identified tobacco "stringing" or "sticking" as a tobacco-related activity children often get involved in
- Tobacco "stringing" or "sticking" is the process of threading fresh green tobacco leaves onto a string or a stick before being cured
- The needle or sharp stick used in the process makes it an inappropriate task for young children

By using "clip sticks," this Philippine farmer needed to hire only four people rather than eight. The immediate result had a powerful impact, as she explains: *"The money savings I earned from using "clip sticks" were used to buy more food for my family and for the school tuition fees of my children."*

Our teams estimate that ultimately, "clip sticks" could reduce labor needs during the harvest period by up to 80%, saving the farmer money and significantly reducing the risk of child labor. In the Philippines, Indonesia, Pakistan, and Malawi, several pilots are underway. If these are successful, our goal is to have all farmers in these countries use "clip sticks" in the future.



2.7 Improving our Ability to Address ALP Problems Systematically

Initially, a global training program was developed to achieve consistency in the implementation of the ALP Code across different countries. In 2013, a new type of training was introduced to strengthen ALP country teams' abilities to address country-specific issues, establish a common understanding of the most serious situations they face and to monitor progress in addressing these in a systematic manner. This new training approach included:

- Tailored workshops and mentoring for members of ALP country teams
- Preparation and consultation to develop and discuss the best potential approaches to problems
- Sharing best practices
- Understanding when and how to involve other stakeholders in supporting vulnerable workers

While the new training program focuses on delivering a more solutions-driven approach to implementing the ALP program, we also know that no pre-defined list of solutions exists. To acknowledge this, we have developed guidance on how to develop a “toolbox” for field technicians (rather than a “one size fits all” set of tools). This guidance has been shared worldwide, including with our suppliers, and contains a range of locally developed options to address various issues, depending on factors such as the nature and the severity of the problem, and the willingness and ability of the farmer to change. All suppliers and affiliates plan to have their full “toolbox” ready by the end of 2014.

MONITORING AND ADDRESSING ISSUES: WORKSHOP APPROACH

- Full day session on monitoring, introducing tools and using role plays
- Discussion of the risks and problems identified by affiliates and suppliers
- Review of plans to address issues
- Training plans for field technicians
- Integrated plan for rolling out ALP
- Roles and responsibilities
- Areas for stakeholder engagement

FIELD TECHNICIAN TOOLBOX

Options To Tackle Specific Issues	Support Materials
Existing Programs	Training Modules
Incentives (Crop Inputs, etc.)	Remedial Action



2.8 Expert Support to Tackle Issues

In 2013, PMI continued to reach out to third-party experts for their support in addressing ALP issues – most notably, in tackling issues related to child labor.

For example, following the publication of the 2012 U.S. Department of State’s “Trafficking in Persons (TIP) Report,” which cited child trafficking in tobacco-growing areas in Mozambique, together with Verité and our suppliers, we met with the U.S. Embassy to better understand the problem. During this meeting, we learned that the TIP Report’s findings were associated with orphaned children present on tobacco farms. In response, our suppliers’ ALP teams visited each farm in the country to gather preliminary information and identify farms where orphans might be found. Verité also developed a monitoring tool to track orphan children and coached our colleagues in South Africa to carry out farm-by-farm assessments in Mozambique. These assessments showed no evidence of orphans identified on the farms having been trafficked, however the situation continues to be closely monitored.

Another example is in Ecuador where our local affiliate, Tanasa, joined efforts with “Desarrollo y

Autogestión” (DyA), an NGO specialized in tackling child labor, to develop a “monitor-and-referral” system. In practice, this means that DyA’s social workers support Tanasa’s efforts in communicating the ALP program with farmers, parents, and teachers and visit farms on a regular basis, providing direct support to field technicians when they have questions. They also follow up with farmers or workers’ families when child labor situations are identified. In response, the local ALP team and social workers meet once a month to exchange findings and follow up on each case identified.

These experiences demonstrate the absolute necessity of collaborating with specialists to provide support to field technicians when they are dealing with complex child labor issues. This is especially true when a child’s situation and vulnerability is driven by a family’s poor socio-economic conditions, and is exacerbated when there is little to no social assistance or even presence from governmental institutions for needy families. For these reasons, we and our suppliers are currently working to identify NGO partners and increasing our charitable contributions initiatives and support services in countries where we identify systemic problems that lead to child labor and other labor issues.



ECUADOR

EXPERTS WORK ALONGSIDE FIELD TECHNICIANS TO TACKLE CHILD LABOR

In Ecuador, Tanasa joined an initiative of the Ministry of Labor to tackle child labor (“La Red de Empresas”). All field technicians and members of the ALP country team completed an online certification on fighting child labor, developed by UNICEF.



In addition, to mitigate child labor risk and provide alternative activities for farmers' children, local NGO, “Desarrollo y Autogestion” (DyA), launched a comprehensive extracurricular activities program with sports activities, clubs tailored to specific interests (see illustration above) and hobbies, which currently reaches nearly 80 percent of tobacco farms and over 2,000 children. In November 2013, representatives from the Ministry of Labor and UNICEF visited tobacco-growing areas where this initiative took place and, as a result, Tanasa's work is now shared as a best practice within the “La Red de Empresas” network.

3 ASSESSMENT AND MONITORING

3.1 A Baseline To Measure Against

As with any program, assessment and monitoring are essential to measure success and make improvements to content, processes and practices, and the ALP program is no different. A considerable element of this program is to track progress and challenges, learn what has been effective in different countries, and apply these learnings moving forward. To accomplish this, we focused our efforts in 2013 on developing a baseline level of data from which to measure progress.

3.1.1 Developing Farm Profiles

The Farm Profile¹⁷ is a tool developed by PMI, along with the help of our partner, Verité, to gain an accurate understanding of the socio-economic status of the farms from which we source tobacco. These profiles enable us to systematically gather detailed information about the farms we contract with, including the type of labor employed, farming activities that minors may be involved in, and hiring practices. Farm Profiles provide us with a solid base from which to work with affiliates and suppliers to identify risks as well as improve and tailor their ALP program plans for the future.

In 2013, we and our suppliers collected Farm Profiles on more than 490,000 farms, which required field technicians to visit each and every farm to collect the information. At first, most of these profiles were collected on paper before being entered into a database. To improve the process, electronic data-gathering is being introduced. While reviewing the data, we discovered misunderstandings among

field technicians about the type of information to record, potential biases in the information reported by farmers (particularly regarding children's activities on the farm), and duplications or mistakes in reporting. Some of these mistakes were made in the process of manual data entry, but others were factual errors (e.g., some information provided by farmers was based on estimates for the year ahead instead of providing current figures).

Despite these challenges, **more than 95% of Farm Profiles were collected by early 2013** with the remainder collected throughout the rest of the year and used as a source of information for identifying risk areas and analyzing the root causes of problems faced on some farms.

Most of our affiliates and suppliers adapted the original Farm Profile template to include elements relevant to their reality. For example, in the U.S., given concerns about undocumented migrant workers, our team included questions to probe whether hired workers were brought on the farm through the U.S. government farm worker H-2A Visa program, through a crew leader (registered or unregistered), or hired directly. The ALP country team followed up on the information collected, visiting all farms that had hired workers through crew leaders (which are more likely to hire minors), and provided information to farmers on how to prevent situations where undocumented workers might be abused.

Local ALP teams will continue to use Farm Profile data to define their focus areas for future improvement and to update and revisit problem areas in the coming tobacco-growing season.

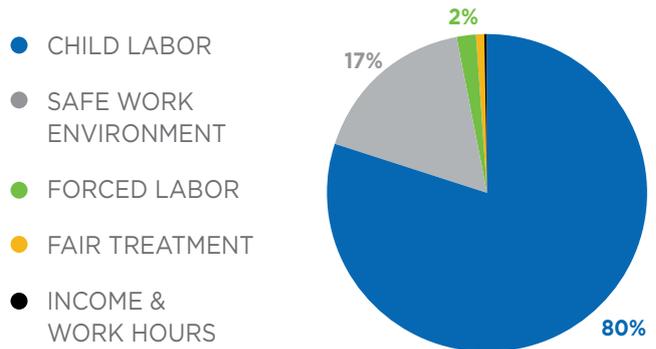
3.1.2 Reporting “Prompt Action” Situations

Local ALP teams have an important role to play in creating an environment where problems can be reported and to respond to individual situations that require “prompt action.”

In 2013, we observed a growing trend in the number of “prompt actions” reported. We view this trend as a reflection of success of our training of the local teams to identify and report on these issues. In 2013 we focused efforts on clarifying field technicians’ understanding of questionable situations, handling situations that required “prompt action,” providing guidance on steps to take if such a situation arose, and helping field technicians appropriately document the issues identified.

PROMPT ACTION: A situation in which workers’ physical or mental well-being might be at risk; children or a vulnerable group – pregnant women, the elderly – are in danger; or workers might not be free to leave their job.

“PROMPT ACTIONS” IDENTIFIED IN AFRICA (DIRECT CONTRACT FARMERS)



TO ASSESS “PROMPT ACTION ISSUES,” ALP COUNTRY TEAMS:

- **Provide guidance** on what is hazardous work under local laws as well as within traditional and accepted practices in their respective country or region
- **Commend field technicians** for reporting problems
- **Conduct unannounced visits** to farms
- **Provide positive examples** of PMI’s commitment to help farmers address and improve specific issues

3.1.3 Farm Monitoring and Self-Assessment

In 2014, in addition to updating Farm Profiles annually, field technicians will systematically monitor each practice covered in the ALP Code on each farm. Over the course of a season, each field technician will aim to know what is happening on each farm in accordance with each ALP principle. To achieve this,

field technicians are talking to farmers and workers, observing how work is accomplished, and checking records. This information will be compiled as a yearly ALP program implementation self-assessment for each of our affiliates and suppliers. Tracking ALP action plan implementation is now part of annual internal assessments and ongoing ALP program reviews with PMI affiliates and suppliers.

INSIDE A FARM MONITORING VISIT

UNDERSTAND THE SITUATION

- 1 Talk to the farmer and workers
- 2 Walk the farm
- 3 Look for supporting documents

AGREE ON ACTIONS WITH THE FARMER

- 1 Document
- 2 Report
- 3 Follow up

3.2 External Monitoring System

The ALP program has an external monitoring component developed in conjunction with Verité. It involves periodic external reviews, with the publication of a final report to achieve program transparency.

To achieve this, PMI worked with Verité to commission Control Union (CU) certifications to develop and conduct the external third-party monitoring element of ALP¹⁸. Currently, these third-party assessments are solely focused on ALP implementation and are specifically aimed at reporting each affiliate's and supplier's progress against ALP objectives. In the future, these third-party assessments will be integrated into the wider routine assessment of PMI's GAP, which also encompasses environmental and crop standards, so that external monitoring of labor practices becomes fully integrated into our day-to-day business operations.



3.2.1 External Assessments

In 2013, CU completed the first external assessments of the ALP program. The three assessments took place at PMI's affiliates in Brazil (January-February), Mexico (March-April), and Italy (July-August).

These affiliates were selected because together they represent the diversity within our supply chain. Philip Morris Brazil is home to a large number of contracted farmers and diverse farm types; Mexico and Italy have fewer contracted farmers but grow a range of tobacco varieties, vary in farm size, and employ both migrant and local workers on their tobacco farms.

At the time of external assessment, all three affiliates were about to complete their first tobacco season under the ALP program and were in the process of implementing its first phase of activities.



3.2.2 Scope and Methodology

The scope of these first external assessments was to verify the affiliates' progress in meeting the objectives defined for the first phase of the ALP program.

The assessments also looked at the current status of labor practices on farms compared to the ALP Code. Finally, priority areas for the next phase of ALP implementation are identified in these reports.

These assessments were conducted using interviews with senior management, staff and farmers involved in program implementation, coupled with verification of all relevant documentation, including Farm Profiles and contracts. The interviews were designed to assess general awareness of the ALP program, knowledge of the ALP Code, effectiveness of internal training and communication, and efficacy of processes for handling and reporting "prompt action" situations and incidents.

In each country, CU visited a statistically significant number of farms, randomly selected to represent the total number of farms in the different tobacco-growing regions. As part of this process, CU collected information on each farm's practices in relation to the ALP Code through individual interviews with farmers and workers, verification of documentation, and site visits of tobacco fields, storage rooms, work stations, and workers' housing.

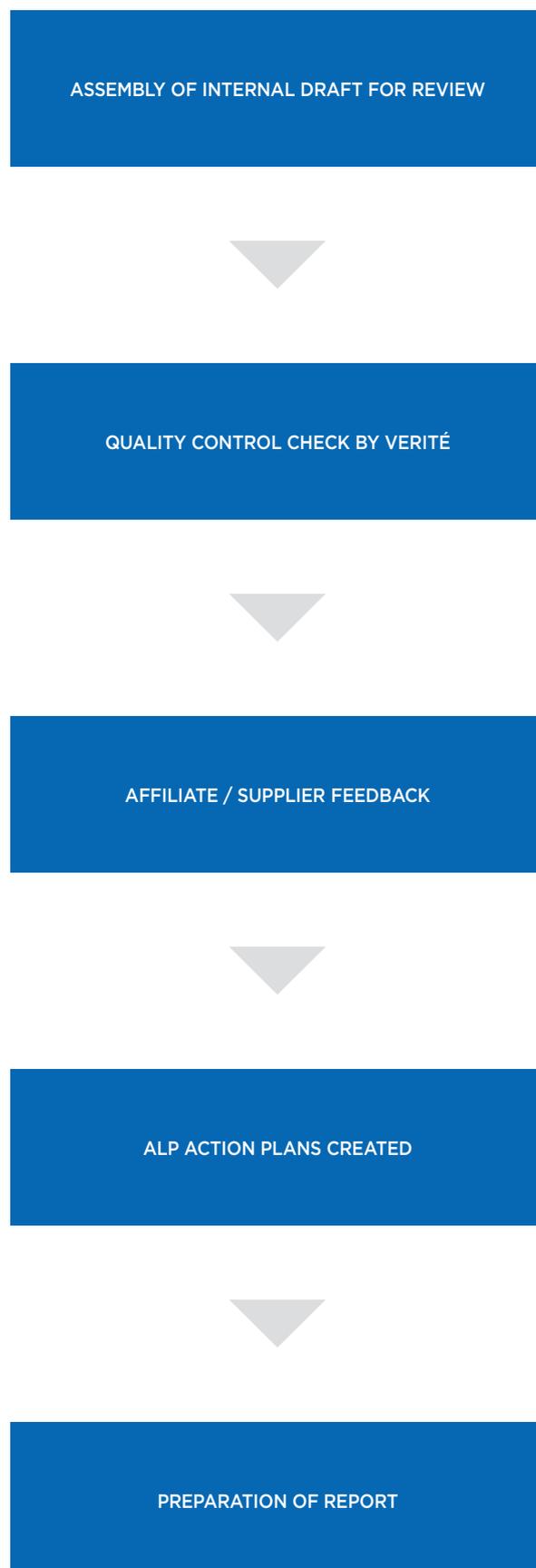
3.2.3 Reporting

CU concluded each assessment with a meeting to present a preliminary overview of their findings to our affiliates' management team. After this, each PMI affiliate or supplier provided their ALP action plans to CU for review and inclusion in the final assessment report. The information CU has collected has enabled PMI affiliates to develop concrete ways to:

- Enhance their ALP implementation efforts
- Develop comprehensive plans for the next phase of the program
- Begin tackling problematic practices on a systematic basis

The final reports will be published in the first half of 2014.

EXTERNAL ASSESSMENT REPORTING PROCESS



4 | SUPPORT SERVICES: LEARNINGS AND PILOT PROJECTS

It is important for farm workers to feel comfortable raising concerns about their working conditions. For this reason, one of the ALP Code's measurable standards states that *“workers should have access to a fair, transparent and anonymous grievance mechanism.”*

The vast majority of contracted farms in PMI's supply chain are smallholder family farms that hire a very limited number of workers, usually for short periods during the season. On small farms, workers have few options other than to bring their problems to the farmer's attention. Therefore, it is essential that farmers provide workers with a way to air these grievances without fear of reprisal, even when formal and structured grievance processes may not be realistic or suitable.

Experience shows that farmers are often unaware of their obligations to workers as employers and need

expert support to improve their labor practices. By providing services such as training on labor law, counseling on health and safety topics, and helping farmers meet their tax obligations, register workers, and apply for subsidies, some challenges can be addressed. In addition, creating a favorable environment for an effective grievance process is essential.

For this reason, ALP country teams are starting to respond to both farmers' and workers' needs for information and technical assistance via the help of support services run by a third-party. This third-party support service can also serve as the grievance system in farming communities. The process is consistent with the United Nations' "Guiding Principles on Business and Human Rights¹⁹," as are all "support service" communication and protocols related to expressing and resolving grievances between workers and farmers.



4.1 Experience in Kazakhstan

In Kazakhstan, we learned how important it is to build trust between workers, farmers, and the third-party running the support service. In this instance, our local NGO partner, Local Community Foundation (LCF), deploys experts trained in handling grievance issues in the field. LCF runs the support service to

mediate disputes and provide other valuable support to farmers and workers, such as helping migrant workers and their families with documentation or helping farmers to comply with local laws. These experts have increased their effectiveness in the community through regular farm visits, which has given them a good understanding of, and a strong relationship with, both farmers and workers.

GRIEVANCE MECHANISM TO WORKERS

ASSISTANCE SERVICES TO FARMERS AND WORKERS



PUBLIC FUND THE LOCAL COMMUNITIES
FOUNDATION OF THE ENBEKSHIKAZAKH DISTRICT

Project:
Information and consultancy support to tobacco
growing farmers and migrant workers

ARE
YOU
A MIGRANT
WORKER?

The Local Communities Foundation of the Enbekshikazakh District offers legal support to migrant workers and provides advice on the provisions of the labour and migration legislation, answers questions and recommends what can be done in a difficult situation within the framework of project entitled Information and consultancy support to tobacco growing farmers and migrant workers.

If you have any questions or find yourself in a difficult situation, please call the hotline of the "Information and consultancy support to tobacco growing farmers and migrant workers" project:

8 (777) 128 38 06
8 (72775) 4 07 25



КООМДУК УЮМ «ЕНБЕКШИКАЗАХ
ЖЕРГИЛИКТУУ КООМДУК УЮМУ»

«Фермерлерге жана эмгек мигранттарына
консультациялык жардам» жобосу

СИЗ
ЭМГЕК
МИГРАНТЫСЫЗ?

Енбекшиказак жергиликтуу кооудук уюму фермерлерге жана эмгек мигранттарына консультациялык жардам көрсөтөт - консультация берет, эмгек нормалары жана миграциялык ченем тураалуу маалымат берет, суроолоруңдарга жооп берет,проблема пайда болгон учурунда сизге акыл-кеңешин берет.

Егерде сизде суроолор пайда болсо, же кыйынчылыктарга туушар болсоңуз, биздин

8 (777) 128 38 06
8 (72775) 4 07 25

телефонуна чалып, «Фермерлер жана эмгек мигранттарына консультациялык жардам» аттуу жобого байланышыңыз.

In 2013, the support service in Kazakhstan ran for its third consecutive tobacco season²⁰ and responded to a range of needs including providing information about employment opportunities and migration laws, answering 220 hotline calls from non-tobacco farmers, accessing schools and securing passports. One successful initiative included recruiting volunteers from migrant worker communities to assist LCF in their outreach to other migrants in tobacco-growing communities. LCF pays close attention to wage and working hours calculations, helping both farmers and workers keep accurate timesheets and, after the tobacco is sold, conducts farm visits to interview individual workers and verify end-of-season payments.

4.2 Progress Worldwide

Just as training in support of ALP country implementation must be tailored to each local context, there is no single global model for an ALP support mechanism nor one single telephone number to call. In light of this, each PMI affiliate and supplier has now assessed current conditions, analyzed their Farm Profiles, consulted with farmers, workers and stakeholders, and reviewed existing

grievance mechanisms to inform decisions about the right approach for their communities. In addition, we researched potential local NGOs to support the development and execution of these plans. While PMI works with many NGOs in tobacco-growing regions, unfortunately none had the experience of running such a project with an ALP focus. Furthermore, research carried out by our colleagues around the world found that globally few organizations have the expertise, the presence in rural areas, and the standing in farming communities to tangibly assist in this effort.

While this presented challenges to implementing effective grievance mechanism pilot projects in every region in 2012, we made significant progress in most countries. In 2013, we launched three pilot projects in the Republic of Macedonia, Brazil, and Mexico. In the Republic of Macedonia, the pilot has involved different stakeholders, including the municipality, the Union of Tobacco Growers Association, and the Tobacco Association of Krivogastani, and is being run by a local NGO, the Macedonian Center for International Cooperation (MCIC). Detailed results of these pilot initiatives, their impacts, and developments in other countries will be provided in future reports.



5 | EMERGING TRENDS AND CHALLENGES

As identified in our 2012 Progress Report⁴, one of the major challenges we face in all countries where we source tobacco is the lack of clarity and understanding amongst farmers, external commentators and observers about what work is, and is not, appropriate for minors to perform on a small family farm. This is not a tobacco-specific issue, but one that exists for most crops. The informal nature of labor arrangements on small family farms is also a barrier to progress in addressing labor abuses. These barriers cannot be overcome overnight or solely as a result of our actions, but we are committed to doing our part and pleased with the progress made in both areas.

This progress is the direct result of continued focus on pragmatic, tailored approaches to addressing problems at farm level through the support of our own and suppliers' field technicians and local stakeholders, including NGOs and government

authorities. These efforts have helped farmers become more sophisticated and productive, and allowed us to be flexible in adapting the program to meet the needs on the ground.

WAYS OF TACKLING CHALLENGES THROUGH PRACTICAL APPROACHES:

- Defining age-appropriate tasks
- Raising farmers' awareness and knowledge of specific hazards
- Explaining labor-saving techniques
- Developing simple tools to help farmers formalize their relationship with workers (forms, notepads to keep track of working hours, etc.)

PAKISTAN

COMPREHENSIVE, PRACTICAL PILOT PROJECTS

Philip Morris Pakistan Limited (PMPKL) identified three main risk factors, beyond poverty, driving child labor on tobacco farms in Pakistan:

- 1) Farmers' reliance on family labor, including their children
- 2) No alternative activities for children during harvest time
- 3) Uncertainty about what constitutes hazardous work in tobacco farming

PMPKL's ALP team designed a pilot program to help tackle these issues in a holistic way. They worked with a local NGO and the Education Department to engage local communities and secure their support to make two changes:

1. Change practices: Helping farmers switch from "sticking" tobacco methods, often done by children, to a much less labor-intensive process using a simple device ("clip sticks")²².

2. Provide alternatives for children: Building on an existing PMI-supported summer school program for farmers' children, the teams included topics such as how to mitigate the risk of Green Tobacco Sickness (GTS), recognizing child labor and health and safety practices, as part of the curriculum.

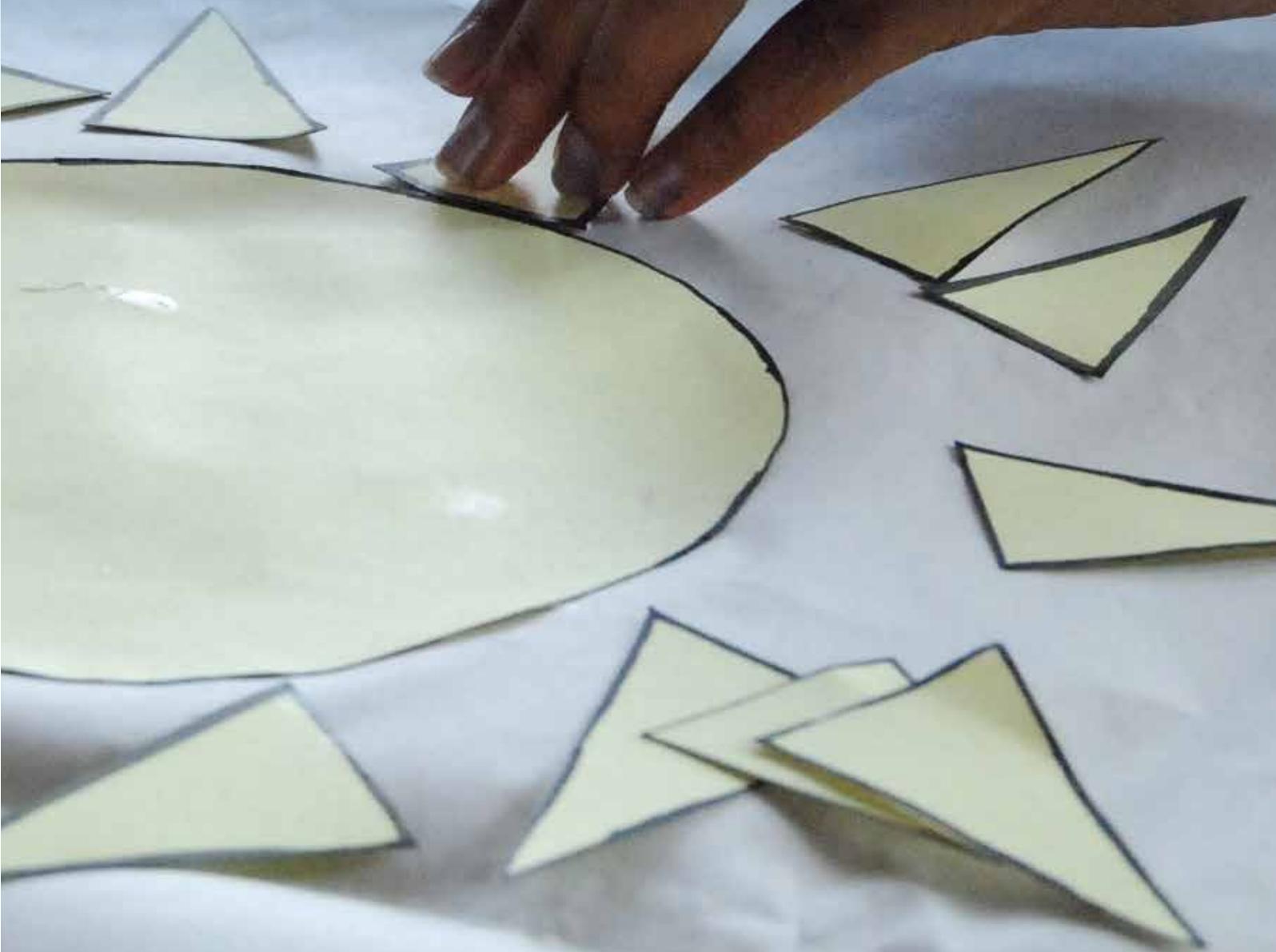
Monitoring is ongoing, but some preliminary impacts of the pilot program show:

- An immediate and significant reduction in child labor as a direct result of the switch to using labor-saving "clip sticks" on pilot farms
- Measurable improvement in locations where children attended the PMPKL summer camp as compared to areas where children did not attend
- For the first time ever, 107 girls under the age of 10 (out of a total of 254 children) attended the summer school



“It was astonishing to see that when the farmers of the local village come to school and see the activities of the children, they are very satisfied to see them involved in purposeful activities, are more likely to allow their daughters to attend, and ultimately, seem more mindful about the issue of child labor.”

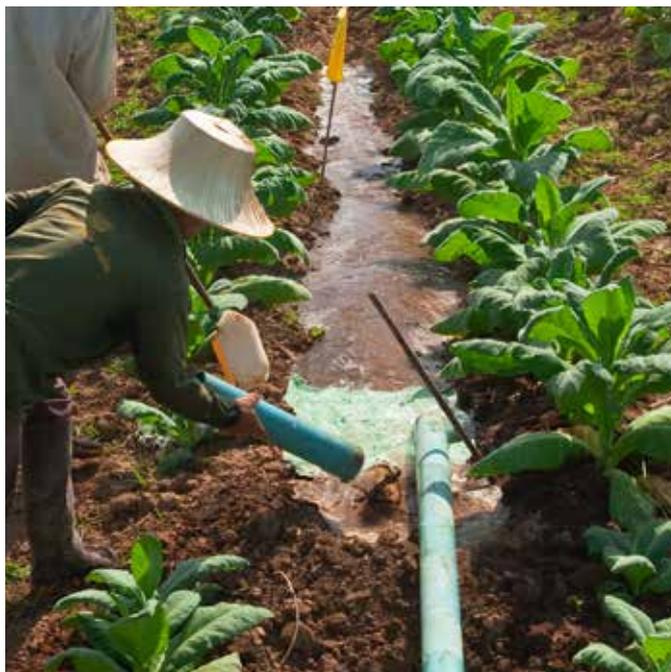
A village teacher



5.1 GAP Revision: A Comprehensive Approach To Sustainable Tobacco Growing

Improving agricultural labor practices to deliver more efficiency and higher productivity at the farm level is only one piece of the puzzle to create more sustainable tobacco production. As such, we view ALP as part of our GAP program aimed at addressing the wider range of challenges facing sustainable tobacco farming.

While difficult on a farm of any size, smaller farms of 0.5-2 hectares struggle with having enough land to rotate crops, including tobacco, in a three-year cycle. To accomplish this, the farmer must own the land and have access to adequate water supply for irrigation. Without these key resources a farmer will not make the capital investment needed to farm the land sustainably due to the fear of being displaced one day. To help foster more sustainable practices in tobacco production it is therefore essential to engage with stakeholders



at local level to help farmers attain land and water rights.

A lack of financial resources is another major factor in perpetuating systematic labor, productivity and sustainability challenges on farms. A sustainable farm requires a cash flow to pay salaries in a timely manner. When sales come at the end of the crop season, not weekly, farmers without access to credit

often resort to profit-sharing (e.g., share-cropping) agreements with individuals who would otherwise be their workers. This is a fragile arrangement especially for the share-cropper, given the reliance on good climatic conditions for a good harvest. Instead, farmers must provide a regular fair salary and link the crop performance to the workers' bonus. We realize that engaging with stakeholders to

assist farmers' access to credit can support further sustainability in tobacco production and reduces the risks to workers and farmers inherent in share-cropping. Moving forward, we will continue to pay careful attention to share-cropping farmers in our supply chain.



5.2 The Role of Women, Fair Treatment for Vulnerable Workers, and Food Security in the ALP Program

Women play a key role in addressing some of the most complex and unsafe labor practices in agriculture. PMI is actively working to grow the contribution of women in our supply chain through farm contracts with women and their involvement in ALP training sessions. In the future, we will increase our interaction with women farmers and women farmworkers. In addition, we will improve gender balance within our field technician and agronomy management teams to improve our ability to facilitate lasting change in addressing complex areas such as child labor, farm safety and improved farm productivity.



To achieve fair and equitable treatment of farmworkers, we pay particular attention to groups of farmworkers that are potentially more vulnerable to labor abuse. These groups are migrants and labor crews, where migrants may be isolated due to language barriers or

by having fewer or no legal rights in their host country, and crews are often hired by unregulated crew bosses. PMI takes direct action with farmers, where possible, to ensure that the basic rights of migrants and labor crews are respected. However, given the many complexities these workers confront, we cannot accomplish this alone. Multi-stakeholder engagement and sector-wide initiatives will be essential in effecting meaningful change in this area.

Improvements in farm productivity, no matter the crop, are also essential keys to future success. While we have focused solely on tobacco so far, we will broaden our approach in the future, where appropriate, to include other crops on the farm to help provide for adequate nutrition, improve farm incomes, and contribute to local food security. Before launching a worldwide

initiative, we are learning and implementing the first steps of this plan on a significant scale in Africa, where our suppliers are providing the seeds and fertilizer to their contracted farmers to grow food crops alongside tobacco.



5.3 Implementing ALP in the Absence of a Direct Link to Farmers

5.3.1 Malawi

In last year's Progress Report²¹ we detailed the challenges in Malawi and our planned approach there, including:

- Engagement with the government to make it possible to establish direct contractual relationships with farmers
- Support for multi-party efforts to improve the regulatory framework and define concrete actions and accountabilities to implement Malawi's National Action Plan on Child Labor
- Continued support for community-level initiatives to tackle the root causes of child labor

The 2013 season was the first time that the Malawi Government allowed an Integrated Production System (IPS) to be introduced by our suppliers,

leading to around 70% of our tobacco supply being sourced through direct contracts with approximately 60,000 farmers, up from just 3% in 2011²³. The IPS now coexists alongside the historically dominant auction process in the country. Nevertheless, IPS implementation on a large scale presented a tremendous logistical feat for our suppliers given the new infrastructure and expansion in staff capacity required to roll out the ALP program successfully.

SUPPLIER SUPPORT RECEIVED BY FARMERS IN THE INTEGRATED PRODUCTION SYSTEM:

- Crop protection agents and fertilizer for tobacco and maize
- Certified seeds for food security (soya, beans, groundnuts) and for tobacco
- Access to credit with interest rates well below the regular market level (3.5-14% instead of 40%)



IPS expansion in Malawi supports the ALP program: New infrastructure and a strong first season of results

- Approximately 100 additional supplier field technicians were hired and trained
- Hundreds of ALP village committees were created to raise awareness and establish a forum to discuss related issues
- Average tobacco yields were around 1,600 kg/ha versus 900 kg/ha for farmers selling at auction
- Higher quality tobacco resulted in an average increase of 5% on price
- IPS food support seems to have had a positive impact of on farmers' maize crop harvests helping them reach 4,500 kg/ha up from a previous average of 2,000 kg/ha

In 2013, all ALP country teams worldwide began to set in motion a more systematic ALP internal monitoring process, particularly for “prompt action” situations. In Malawi, this was implemented on a large scale by our suppliers. As a result, their field technicians there reported around 2,000 “prompt action” situations, with nearly all (85%) of the concerns registered relating to work being done by farmers’ children.

ADDRESSING CHILD LABOR

During the 2013 season in Malawi, reports from supplier field technicians showed 55% of children were found doing work on their parents farms after school hours, but 32% were absent from school on the day the incident was detected, and 15% found working on a given day were not enrolled in school at all. In fact, the Malawi government estimates that nationwide, around 600,000 school-aged children are not enrolled in school.

Reporting will improve with time, but typically finding children working led to additional farm visits by our suppliers’ area supervisors and managers to verify the practice or determine if it was resolved by the farmer. To sustain progress, it is critical to create more options for farmers to send their children to school and establish connections with governmental

entities and third parties who can support our suppliers in addressing this and other issues.

MULTI-STAKEHOLDER INITIATIVES

On the policy front, there was also progress following the landmark National Conference on Child Labor in Agriculture, with the government of Malawi strengthening the Child Labor Unit under the Ministry of Labor. However, important concerns on key regulatory topics remain. The regulatory framework has still not been incorporated into The Tobacco Act²⁵, nor has there been significant progress in addressing Malawi’s tenancy system, despite government intentions to do so, and tripartite discussions with stakeholders (with the International Labor Organization (ILO)’s support).

COMMUNITY-LEVEL INITIATIVES

Throughout the 2013 season, PMI continued our support to Total Land Care (TLC) and the “Enhancing Rural Livelihoods Program²⁶” in Malawi. We contributed an additional \$1 million USD to sustain a wide range of initiatives including building school blocks, digging shallow wells in communities, enhanced conservation agriculture efforts and continued tree planting. PMI also supported our suppliers’ village projects, including building dams for irrigation, providing vegetable seeds to farmers, and supporting smallholder farmers’ efforts to diversify.

Despite the significant structural and societal challenges in Malawi, we are encouraged by the developments since the publication of the first ALP Progress Report. We remain convinced the best approach is to stay actively engaged in strengthening all stakeholders’ efforts to improve the current situation in the country.



Total Land Care bringing drinking water to local communities



Inauguration of village dam in Kabanga

5.3.2 India

In 2012, PMI purchased less than 3% of India’s total tobacco production, mostly flue-cured and Burley, through our leaf suppliers. Given PMI’s relatively small scale in India’s large and very complex tobacco selling system, ALP is implemented differently in India than in other countries.

Flue-cured tobacco is sold through an auction system run by the Indian Tobacco Board (ITB). Suppliers do not contract with farmers directly and are therefore unable to verify that farmers know and follow the ALP Code. While the ITB employs a number of field technicians, they meet farmers infrequently, often in large group sessions, and provide only limited technical support. Farmers have access to financial support at subsidized rates to cover crop inputs but this is not targeted at farm infrastructure. Consequently, yields are low, production is inefficient

and returns for farmers are poor.

In January 2013, to begin addressing the unique challenges associated with the flue-cured tobacco crop, PMI introduced the ALP program and our wider sustainability efforts under the GAP program to the ITB. In conjunction with our suppliers, PMI secured ITB’s permission to implement a “model farm” initiative. The aim of this initiative is to practically demonstrate the opportunities for farm improvement in labor practices and productivity within the current auction system. PMI’s expectation is that this “model farm” initiative will provide the proof of concept for a direct contracting system complementary to the existing auction structure in this country (as it has done in Malawi) bringing benefits to farmers and allowing labor abuses to be identified and addressed.

INDIA MODEL FARM INITIATIVE: MYSORE REGION

YEAR ONE	Suppliers established contact with around 292 farmers (contracts were not permitted):
	• Introduction to the ALP program
	• Collection of accurate cost of production data
	• Ranking of priorities to improve farmer profitability
	• Identification of solutions to improve curing barn efficiency
	• Increasing technical support to improve yield and quality
	• Involvement of each farmer in the initiative for three years
BEYOND YEAR ONE	The initiative is intended to grow over time as approximately 50 new farmers are added by each supplier annually, upon condition of the continued support of the ITB
	PMI will work with our suppliers to support ongoing discussions with the ITB and share the results of this initiative

By contrast, suppliers can agree direct contracts with Burley farmers. However, following initial assessments by PMI and our suppliers in the country, we realized that levels of technical support and interaction with farmers throughout the season could be improved in some cases. As a consequence, PMI started rolling out the ALP program in 2012 with one supplier who has direct contracts with farmers and who focused on improving the skill set of field technicians and overall support levels to Burley tobacco farmers.

PMI trained the supplier's field technicians to introduce the ALP Code to the approximately 500 contracted farmers in the Vinukonda region. With support and regular reviews, they were able to build a solid basis for introducing the ALP program to the remaining suppliers, along with developing plans to improve the quality and yields of their contract farm base.

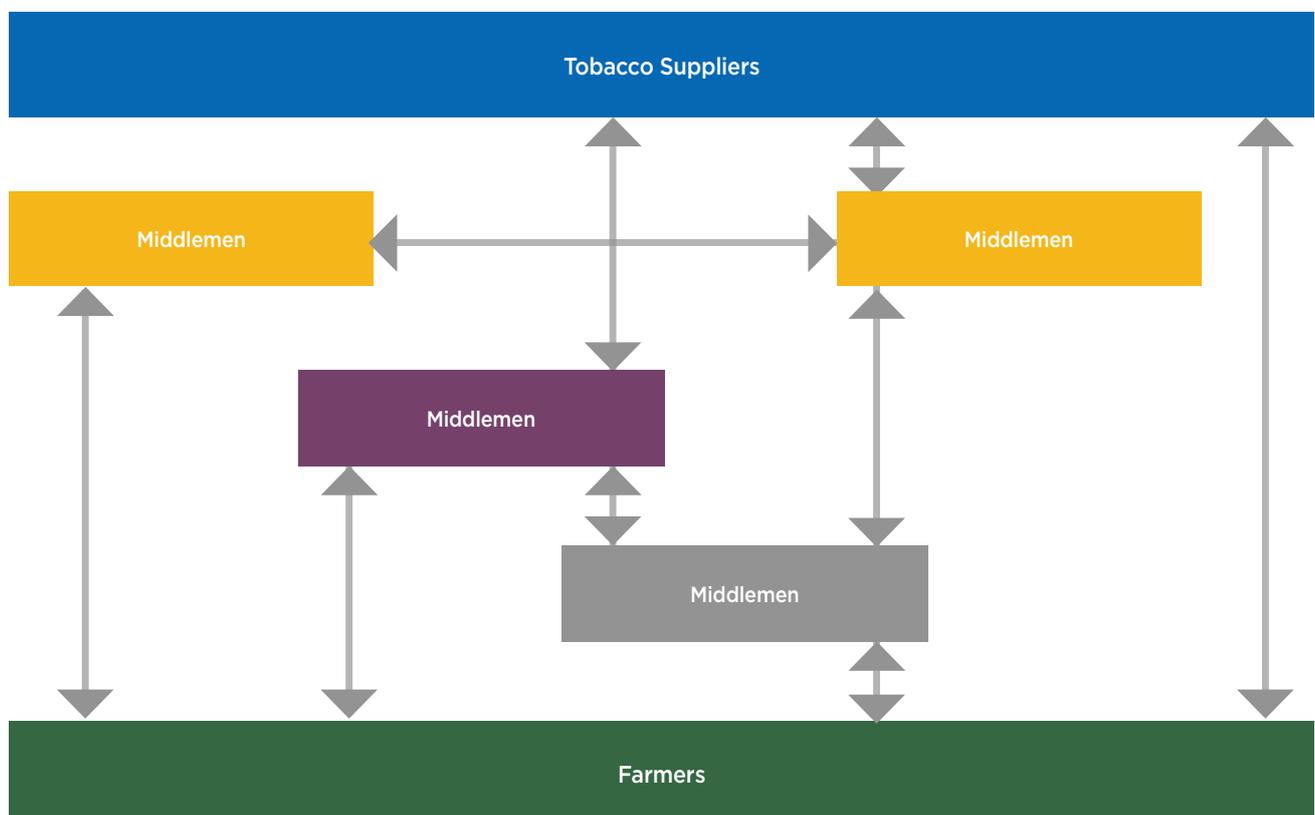
This effort has led to the expansion of the contracted

farm base in Vinukonda, Lal Chopadia and Kurnool, including resources to service an additional 1,200 farmers. In 2013, the ALP program was rolled out to the remaining suppliers.

5.3.3 Indonesia

In Indonesia, our main challenge for the implementation of the ALP program is the size and complexity of the tobacco-growing supply chain. There are approximately 600,000 tobacco farmers in the country (mostly family-run small farms with less than half a hectare), and the vast majority of tobacco is bought and sold on the open market without any direct contractual relationship with farmers. From the farm to PMI's supplier warehouses, tobacco is typically handled by many middlemen, posing significant challenges to attempts to improve production conditions, ensure farm profitability and promote fair and safe conditions for workers.

TOBACCO SUPPLY CHAIN



ALP IN INDONESIA: SMALL BEGINNINGS WITH PROMISING RESULTS

In past years, PMI's local affiliate HM Sampoerna sourced a portion of its tobacco from a local supplier that had established direct contracts with farmers (around 10,000), mostly in the region of Lombok. These farmers received technical assistance from the local supplier. In 2011, our affiliate began working with suppliers in Indonesia to expand the direct contract farm base in many existing tobacco-growing areas. This involved a step-by-step approach requiring direct engagement with the farming communities to build trust and explain the potential benefits of changing existing practices, and ultimately, to get buy-in from key stakeholders. As a result, full rollout of the ALP program began in Indonesia in 2012.

Direct contracts with PMI's suppliers immediately improved not only farmers' earnings as the middlemen were eliminated, but also brought them other new benefits, including:

- Increased economic stability for the farmer
- Access to better technology
- Protective equipment
- Crop inputs
- Technical assistance
- Access to credit

All of this contributed to better yields, higher quality and increased profitability for farmers. The approach also created the conditions for suppliers to implement the ALP program and to monitor and directly support the continuous improvement of labor practices²⁷.

In 2013, HM Sampoerna began introducing the new direct contract concept in "roadshows" with non-contracted farmers, raising awareness about child labor, health and safety, and the requirements of the GAP program, which includes the ALP Code. These events leveraged on traditional farmer gatherings such as the planting ("Gelar Tanam") and the



harvesting (“Gebyar Panen Raya”) festivals. These social gatherings brought together more than 20,000 farmers in approximately 20 tobacco-growing communities. In those areas where there were already contracted farmers, these events provided an opportunity to recognize commitment and reward farmers for ALP program implementation.

In the Indonesian context, the responsibility for preventing children from doing hazardous work or ensuring they attend school falls to mothers and farmers’ wives, which makes them an obvious choice for the focus of field technicians’ communication efforts on issues related to children on tobacco farms. For this reason, during the 2013 planting festivals, a full-day event was organized for women in the farming communities. Approximately 330 women in eight locations attended information sharing sessions on children’s rights and workshops on safety and the environment.

The outcome of this work speaks for itself: since 2012, our suppliers have significantly increased their capacity to provide support directly to farmers and have expanded the direct contract farm base to around 18,000 farmers beyond the Lombok area.

Direct contracting and support to farmers will remain central to our ALP Code implementation approach in Indonesia. Meanwhile, we continue to work with tobacco-growing communities where it is still not possible to establish direct contracts. HM Sampoerna, is working with a local NGO, STAPA²⁸, that promotes community learning groups to empower tobacco-growing families to improve their livelihoods through group discussions, training and field practices (e.g., environmental-friendly farming practices, farm management, alternative income generating activities). Since this initiative pre-dates the ALP program, we have significantly expanded the scope of activities with the NGO to include all aspects of our ALP Code, growing from three locations and 600 farmers in 2011 to nine locations and approximately 1,500 farmers in 2013.

WOMEN’S ROLE IN ALP

In Lombok, HM Sampoerna has supported more than 1,400 women since 2011 through a local NGO community-based program to empower women on tobacco farms, providing them training on household budget management, vocational skills, and promoting small home-based craft businesses to generate additional income and secure their financial independence.





6 | SUSTAINABLE PRODUCTION AND COMMUNITY INITIATIVES

Across the globe, we have developed and implemented a wide range of initiatives to:

- Improve the sustainable production of tobacco
- Improve the livelihoods of tobacco-growing communities

Below is a summary of the types of projects and investments we are making worldwide in support of tobacco farmers:

SUSTAINABLE TOBACCO PRODUCTION INITIATIVES

AREAS OF FOCUS (EXAMPLES)	INVESTMENTS
<p>Farmer training, personal protection equipment kits, curing structure improvements, water and irrigation access, fertilizer, tools and agricultural machinery, sanitary equipment, recycling CPA containers, tobacco-curing clips, hazardous materials' safe storage, and support services for workers and farmers.</p> <p><i>Source: PMI internal data</i></p>	<p>\$18.9 Million USD</p>

Through the PMI Contributions program (which provides charitable donations for specific projects to selected organizations)³⁰, and through the Eliminating Child Labor in Tobacco (ECLT) Foundation³¹, we fund a wide range of community-based initiatives and support to NGOs in many countries to help create an environment conducive to tackling complex and systemic issues on tobacco farms while encouraging changes in practices and the evolution of tobacco-growing traditions.

PMI'S CONTRIBUTIONS PROGRAMS

AREAS OF FOCUS (EXAMPLES)	INVESTMENTS
<p>Vocational training, access to education and entrepreneurship training for farmers and migrant communities, empowering women, school improvements, child labor prevention, migrant housing, daycare centers, counseling for migrant workers, communal water and sanitation, environmental and natural resources protection, and food sustainability.</p> <p><i>Source: PMI internal data</i></p>	<p>\$9.3 Million USD</p>

INDIA

CHILD LABOR PREVENTION EFFORTS

In India, our work with the local NGO, ASSIST²⁹, exemplifies our support worldwide to help prevent child labor. ASSIST aims to:

- Generate community awareness about the importance of children's education and to prevent early school drop-outs
- Improve school infrastructure, which includes the provision of clean drinking water
- Promote micro-enterprises for women to support their financial independence
- Verify that children attend school

To support the successful rollout of ALP, PMI extended the geographic scope of the program to 12 villages in 2013, impacting on the lives of more than 3,200 children.



MEXICO

CHILD LABOR PREVENTION EFFORTS

Since 2001, Philip Morris Mexico (PMM), in collaboration with the federal, state and municipal authorities, and local NGO 'the Rural Development of Nayarit' (Dernay), has established Child Care and Education Centers (CAEIs) for children of migrant workers in tobacco-growing regions. Currently, there are nine CAEIs in operation, providing a safe and clean place for 400 migrant children to learn and play while their parents work in the tobacco fields.

This initiative has delivered positive results, and with the introduction of the ALP program, PMM is building on our experience to improve its coverage and effectiveness. Over the last two years, PMM has invested 6.5 million MXP and, in 2012 alone, three new CAEIs were opened and continued to receive PMI support throughout 2013. During the upcoming season, PMM will extend CAEI opening hours and partner with the Mexican Foundation for Child Support to strengthen the advocacy and outreach work with the migrant community in tobacco-growing areas with the goal of increasing the participation of migrant children in CAEI's funded as part of the local ALP program.





6.1 Integrated Approach

Traditionally, PMI has funded many initiatives in tobacco-growing communities, both at an operational level (GAP) and a corporate level (Contributions). Today, ALP provides us with the opportunity to align all these activities around a set of common goals, and to integrate those goals as part of our day-to-day business processes. In this way, we can maximize the potential

impact of our efforts in the community and along our supply chain.

Currently, the local ALP country teams drive new program development in response to specific needs identified through ALP program implementation.

This cross-functional approach is creating innovative solutions to help address farmers' and workers' challenges while improving livelihoods and wellbeing.

PHILIPPINES

EFFECTIVE COLLABORATION TO ADDRESS CHILD LABOR

PMI's local affiliate, PMFTC Inc., is trying to provide quick and simple solutions to help farmers meet ALP standards step-by-step. When the ALP program was launched, PMFTC began monitoring the farms from which they purchase tobacco to better understand the situations of both farmers and workers, and they identified the need to tackle child labor as a top priority.

PMFTC is now working on an integrated plan to address the issue by:

- Reducing farmers' reliance on family labor by changing transplanting methods, using "clips" instead of stringing tobacco, and stalk-cutting instead of ripening leaves one-by-one
- Shifting a significant part of PMFTC's contributions funding to communities where there is evidence of more children being involved in tobacco harvesting, and building

partnerships with others to implement further activities

PMFTC worked with the Child and Family Service Philippines, Inc.³² and the Jaime V Ongpin Foundation, Inc.³³ to develop a program that includes:

- Childcare
- A summer youth camp during school holidays/ the harvest
- A backyard food-growing program
- Computer literacy training
- Education sessions for parents on child development
- A child protection advocacy campaign in the villages ('barangays')



7 | PARTNERING WITH STAKEHOLDERS

7.1 Malawi

Last year, the landmark Malawi National Multi-Stakeholder Conference on Child Labor in Agriculture, supported by PMI and others through Eliminating Child Labor in Tobacco Foundation (ECLT), raised awareness about the importance of tackling child labor.

The conference also prompted the government to prioritize the formation and convening of the National Steering Committee (NSC) on Child Labor, and facilitated the implementation of actions (such as technical assistance regarding the Tenancy Labor Bill, establishing a contract farming system, and development of child labor policy) by several institutions.

In addition, conference attendees agreed on an outcome document³⁴ providing a comprehensive framework for action. In 2013, the ECLT extended its existing public-private partnership with the International Labor Organization –International

Program on the Elimination of Child Labor (ILO-IPEC), and provided additional funds to allow ILO-IPEC to continue supporting the implementation of policies approved at the conference. This included two key elements: (i) the strengthening of the NSC on Child Labor, and (ii) the creation of the Child Labor Unit within the Ministry of Labor, which aims to promote greater coordination between the Ministries and stakeholders' efforts to tackle this problem.



Child Labor National Steering Committee first meeting in January 2013



7.2 North Carolina

In 2012, a group including PMI met in Raleigh, North Carolina, and agreed to set up a multi-stakeholder dialogue to discuss improving working conditions on tobacco farms and in the agricultural sector more broadly. During 2013, we continued our active engagement in this dialogue with representatives of other tobacco manufacturers, leaf merchants, farmers, workers, faith-based investors, and the U.S. Department of Labor. In 2013, three working groups were established:

1. Farmworker and farmer training and education
2. Necessary government level policy changes
3. Worker access to effective grievance mechanisms (and potentially related matters, such as freedom of association)

While various initiatives are being explored under each of these areas, the group recently agreed to:

- Execute a pilot program to deliver labor-focused training for farmers at select GAP program meetings in North Carolina, starting in January 2014
- Promote the North Carolina Department of Labor's on-farm training program to help increase the number of trained farmers and workers

We believe that this ongoing dialogue is helping to create favorable conditions to achieve progress in improving working conditions in the agricultural sector and we expect that the group will launch additional initiatives during 2014.



7.3 Kazakhstan

In Kazakhstan, we continue to advocate for policy changes that improve labor conditions for migrants working on tobacco farms. Over the past year, positive regulatory changes have occurred thanks to the work of many stakeholders and, ultimately, commitment from the local government.

One significant change is the regulatory framework that now allows migrant children to attend school, just like any other child in Kazakhstan³⁵. Additionally, there was also a simplification in the migrants' registration procedure³⁶. While the total number of migrants and migrants' children has declined because of a reduction in overall tobacco purchases, we have seen an increase in the percentage of school-aged children enrolled in school (from 21% in 2011 to 65% in 2013), and in legally-registered migrant workers (from zero in 2012 to around 30% in 2013).

In the face of ongoing practical challenges, Philip Morris Kazakhstan continues to implement a wide range of initiatives in tobacco-growing communities working together with local authorities, NGOs and the International Labor Organization. NGOs Karlygash and the Local Community Foundation continue to play a key role in these efforts through regular farm monitoring, child labor prevention initiatives (local community and day-care centers, vocational training, summer camps, and direct support to schools and vulnerable families), and cross-border cooperation with a Kyrgyz NGO, Business Women, to help migrant workers from the Osh region (Kyrgyzstan) prepare their registration documents before leaving for Kazakhstan.

In October 2013, the U.S. Department of Labor (DOL) acknowledged PMI's continued efforts to address child labor and migrant workers' issues when they removed Kazakhstan's tobacco from their List of Goods Produced by Child Labor or Forced Labor.

The U.S. DOL concluded that "*child labor in Kazakhstan's tobacco sector has been significantly reduced*" and "*there has been no evidence of forced labor in Kazakhstan's tobacco sector in recent years*". Most importantly, the U.S. DOL concluded that "*if a case of child labor or forced labor were found in the sector, there are mechanisms in place to address the situation in an appropriate manner*", highlighting Philip Morris Kazakhstan's "*comprehensive and credible*" monitoring system, and our partner NGO efforts which "*have been highly effective in educating agricultural workers about their rights, available grievance mechanisms, and educational opportunities as alternatives to child labor*".

7.4 Eliminating Child Labor in Tobacco Foundation (ECLT)



The ECLT Foundation is an independent multi-stakeholder organization where farmers, workers and companies —advised by the International Labor Organization

and civil society organizations— join efforts to address child labor. PMI has been a member of ECLT since 2002. ECLT supports comprehensive child labor elimination programs in areas where children are most vulnerable. These programs typically involve multiple interventions to address the social and economic factors that fuel child labor, and are implemented by reputable international NGO partners.

ECLT has active programs in Malawi, Tanzania, Uganda and Kyrgyzstan, and during 2013, a new program in Mozambique was launched with Save the Children. ECLT's programs have helped remove thousands of children from inappropriate work and have typically



resulted in the development of local expertise and the skills to help communities deal with child labor issues (via community organization, the provision of micro-loans, agri-business counseling for smallholder farmers, etc.).

During 2013, ECLT focused on creating synergies between their programs and the companies that source tobacco. The expertise developed in the context of ECLT's programs can support the companies' own efforts (such as our ALP Code), expand the impact of their own programs, and produce sustainable results long after ECLT financing is complete.

With the Malawi national multi-stakeholder conference on child labor, ECLT moved toward playing a more active role in advocating and verifying that policies to protect children in tobacco-growing communities are in place and are enforced. This resulted in a significant and important expansion of ECLT's scope and we expect to see more of these policy initiatives going forward.

TACKLING ROOT CAUSES OF CHILD LABOR IN MOZAMBIQUE: ANTICIPATED PROJECT RESULTS

ECLT's REACT Project began in January 2013, and will be rolled out over four years. By the end of 2016, the REACT Project is expected to achieve the following results:

- **A systematic protocol** to identify child labor, refer cases to the appropriate services and monitor progress to tackle the problem
- **4,500 children benefit** from quality services and are not taking part in hazardous child labor
- **Attitudes and behavior** toward child labor in tobacco growing is less accepted
- **Community and district structures** have the capacity to implement and coordinate actions to combat child labor in tobacco growing
- **500 vulnerable families** have increased their household income and food security

8 | LOOKING AHEAD

Going forward, our aim is to move every country from which we source tobacco into the next phase of the ALP program. We expect this phase to include the following elements:

- Systematic assessment of each farm’s labor practices and working conditions by our own and the suppliers’ field technicians as part of their normal business relationship with farmers
- Improvement plans for every farm
- Design and implementation of comprehensive approaches to address the most widespread issues identified
- Support services for farmers and workers implemented in all countries
- External assessments by CU covering all regions
- GAP projects promoting sustainable tobacco production in each growing region
- Further collaboration with external stakeholders
- Continued regular public reporting on ALP program implementation

WE ARE COMMITTED TO:

✓	Timely updating of Farm Profiles and increased accuracy of information collected
✓	Digital data gathering trialed or operational in all countries where we purchase tobacco
✓	Integrated ALP program plans for each country, reflecting the problems identified during the program start-up
✓	Initiatives designed and underway to begin to address and eliminate the most serious and widespread problems identified on all contracted farms
✓	Effective, innovative and evolving “toolboxes” for field technicians to help farmers make changes and address key challenges on their farms
✓	Documented evidence of changes made and improvements at farm and country level
✓	External assessments completed by CU which demonstrate how specific countries have implemented the ALP program, the effectiveness of their ALP teams, the ALP program plans and internal monitoring systems
✓	Ongoing public reporting and transparency

Notes:

1. For the purposes of this report, “PMI”, “we”, “us” and “our” refer to Philip Morris International Inc. and/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.
2. For further information about Verité, please visit: <http://www.verite.org>.
3. See http://www.pmi.com/eng/sustainability/good_agricultural_practices/agricultural_labor_practices/pages/agricultural_labor_practices.aspx.
4. A detailed description of the program and these activities can be found in PMI’s first progress published in 2012, which can be downloaded here: http://www.PMI.com/eng/sustainability/good_agricultural_practices/agricultural_labor_practices/pages/agricultural_labor_practices.aspx, http://www.PMI.com/eng/media_center/company_statements/documents/PMI_ALP_Progress_Report_2012.pdf.
5. See http://www.pmi.com/eng/media_center/company_statements/documents/alp_code.pdf.
6. A list of the countries is included in the 2012 report. To this we can add Kenya in 2013, where the local supplier had started the implementation of the ALP program in 2012, even before our decision to source from this country. The number of farmers growing tobacco PMI buys in countries where the predominant sourcing system is auction or that of middlemen traders cannot be accurately estimated and is understated here.
7. Bringing workers on the farm through a third-party labor contractor or crew leader.
8. Some workers/tenants work a farm owners’ land, effectively they are renting the land from the land owners. The “deal” sets out the division of the direct farm expenses and a defined lump sum or a portion of the profits is paid upon the sale of tobacco at the end of the season.
9. Total number of field techs trained, includes new hires trained; training sessions includes both training for new hires and refresher trainings. Farmer outreach numbers reflect all farmers have been trained at least once (with the vast majority contracted in 2012 entering their second ALP season).
10. In Lebanon (8,000 farmers) a state-run monopoly contracts directly with farmers, providing financial support and some level of technical assistance. The unstable situation in the country because of the conflict in Syria and various operational difficulties required us to delay ALP implementation.
11. Save the Children, Total Land Care, YONECO, CRECCOM and the ECLT Foundation.
12. The review teams were generally made up of PMI Operations Center (OC) staff, PMI’s regional ALP coordinators and representatives of Verité.
13. The ratio refers to the number of farms that each field technician is responsible to visit and support over the crop season in the country.
14. When farmers and workers agree a fixed amount to be paid per task.
15. Where farmers make arrangements with their neighbors to help each other during peak labor periods.
16. See page 23 for an explanation of stringing.
17. Tool developed by PMI with Verite to track the socio-economic status of the farms and systematically gather detailed information about, among other things, the type of labor employed, hiring practices, and farming activities minors might be involved in.
18. See <http://www.controlunion.com/en> for further information on Control Union.
19. See http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf (see particularly pages. 31-35).
20. 2013 season not finished, incomplete data.
21. See http://www.pmi.com/eng/media_center/company_statements/documents/pmi_alp_progress_report_2012.pdf.
22. Clip sticks are being piloted for their economic and social impact in other countries also.
23. PMI internal estimates.
24. Based on internal estimates.
25. For example: rules pertaining to direct-contract, cost of production forum discussions, the definition of who can operate as a buyer or an association.
26. See http://www.PMI.com/eng/about_us/charitable_giving/environmental_sustainability/pages/malawi_total_landcare.aspx.
27. Refer to the case study on page 13.
28. See <http://stapacenter.org>.
29. See <http://www.assist.org.in>.
30. See http://www.PMI.com/eng/about_us/charitable_giving/pages/charitable_giving.aspx.
31. See <http://www.eclt.org>.
32. See <http://cfspi.com>.
33. See <http://jvofi.org>.
34. See http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---ipec/documents/meetingdocument/wcms_190327.pdf.
35. Order issued by the Ministry of Education and dated from October. 24, 2012.
36. Introduced in March 2013. New amendments (effective from March 24, 2013) to the Rules and terms of providing work permits for foreign citizens and providing permits for attracting foreign employees for employers.

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PHILIP MORRIS INTERNATIONAL

Philip Morris International Inc.
120 Park Avenue
New York, NY 10017-5579 USA
www.pmi.com