

THIRD PARTY ASSESSMENT

PHILIP MORRIS ITALY

AGRICULTURAL LABOR PRACTICES PROGRAM



Control Union Certifications

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GLOSSARY OF TERMS and ACRONYMS

ALP	Agricultural Labor Practices Program
ALP Code	PMI's labor practices code with seven ALP Code Principles
ALP Code Principle	Short statements that set expectations of how the farmer manages his farm in seven focus areas
ALP Country Team (or CT)	Inter-department group charged with ALP implementation
ALP Program	Agricultural Labor Practices Program
CA	Corporate Affairs
CU	Control Union
CPA	Crop Protection Agents
Crew leader	Person responsible for managing a group of workers
EHS	Environment, Health, Safety Department of a PMI entity
EU	European Union
Family farm	A farm that depends mainly on family members for the production of tobacco
Farm Profiles	A data collecting tool developed by PMI with Verité to track the socio-economic status of the farms, systematically gather detailed information about, among other things, the type of labor employed, farming activities that minors may be involved in, and hiring
FCV	Flue-cured Virginia tobacco
GAP	Good Agricultural Practices
GTS	Green Tobacco Sickness
INAIL	Istituto Nazionale per l'Assicurazione contro gli Infortuni sul Lavoro = National Institute for Insurance against Accidents at Work
INPS	Istituto Nazionale Previdenza Sociale = National Institute of Social Security
Leaf tobacco supplier	A company that has a contract with PMI to supply tobacco but is not a farmer
Migrant labor	Migrant labor refers to labor that comes from outside the farm's immediate area. Migrant labor can come from a neighboring region in the same country, or from a different country
Measurable Standard	A Measurable Standard defines a good labor practice on a tobacco farm and helps us determine to what extent the labor conditions and practices on a tobacco farm are in line with each of the ALP Code
NCBA	National Collective Bargaining Agreement
NGO	Non-Governmental Organization
OC	PMI Operations Center (Lausanne, Switzerland)
Phase 1	Startup of ALP Program (training, communications, outreach)
Phase 2	ALP Program full implementation (monitoring, addressing problems)
Piece work	Payment at a fixed rate per unit of production/work
PMI	Philip Morris International Inc.
PM IT	Philip Morris Italia S.R.L
PPE	Personal Protection Equipment
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
STP	Sustainable Tobacco Production
Support mechanism	A way for workers to access information and get support in difficult situations and for workers and farmers to get support in mediating disputes. Farmers have access to additional services to improve labor and business practices.

1. ALP Program background and assessment overview



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AGRICULTURAL LABOR PRACTICES PROGRAM

In 2011, Philip Morris International Inc. (PMI)¹ launched a worldwide Agricultural Labor Practices program to progressively eliminate child labor and achieve safe and fair working conditions on tobacco farms. This program applies to all tobacco farms with which PMI or PMI's suppliers have contracts to grow tobacco for PMI and consists of (1) an Agricultural Labor Practices Code, setting clear standards for all tobacco farms growing tobacco that PMI ultimately buys; (2) an extensive training program for all PMI and supplier's staff that are directly involved with tobacco growing, in particular the field technicians that provide regular visits to the farms; (3) a multi-layered internal and external monitoring system; and (4) involvement of governmental and non-governmental stakeholders in improving labor practices and enhancing the livelihoods of tobacco growing communities.

The ALP Program was developed and is being implemented in partnership with Verité, a global social compliance and labor rights NGO. Control Union Certifications was commissioned by PMI to develop the external monitoring component of the ALP Program working in tandem with PMI's strategic partner Verité carrying out assessments at PMI suppliers and contracted tobacco farms worldwide². All PMI suppliers submit annual reports and are assessed regularly on their performance. For the ALP Program implementation, internal reviews are also being performed in all countries where tobacco is sourced to assess both initial progress and challenges in the program's implementation. Third party assessments are periodic reviews undertaken by CU of PMI leaf tobacco suppliers and contracted tobacco farms worldwide.

In this initial stage, these third party assessments focus solely on the implementation of ALP Program. They specifically focus on the progress in implementing the ALP Code framed against the strategic objectives set by PMI.

The ALP Code contains seven (7) principles³:

1. **Child Labor**
There shall be no child labor.
2. **Income and Work Hours**
Income earned during a pay period or growing season shall always be enough to meet workers' basic needs and shall be of a sufficient level to enable the generation of discretionary income. Workers shall not work excessive or illegal work hours.
3. **Fair Treatment**
Farmers shall ensure fair treatment of workers. There shall be no harassment, discrimination, physical or mental punishment, or any other forms of abuse.
4. **Forced Labor**
Farm labor must be voluntary. There shall be no forced labor.
5. **Safe Work Environment**
Farmers shall provide a safe work environment to prevent accidents and injury and to minimize health risks. Accommodation, where provided, shall be clean, safe and meet the basic needs of the workers.
6. **Freedom of Association**
Farmers shall recognize and respect workers' rights to freedom of association and to bargain collectively.
7. **Compliance with the Law**
Farmers shall comply with all laws of their country relating to employment.

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

² This document contains an independent assessment by Control Union on tobacco farms operating in Italy and it does not represent any position of Philip Morris Italia S.r.l., its management or any of its affiliates. Control Union has developed this document on the basis of third party declarations collected during the period June-August 2013.

³ The full ALP Code is contained in appendix 2.

The implementation of PMI's ALP Program has been divided into two phases⁴:

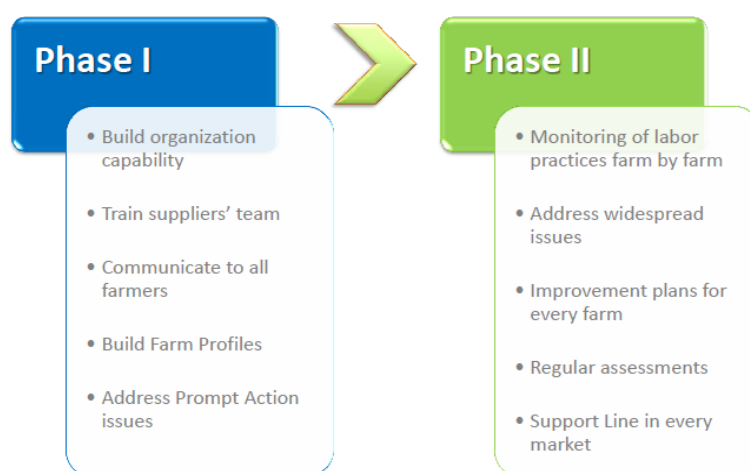
Phase 1

- Management personnel and field technicians at PM IT level understand the ALP Code and the implementation approach with the people and the processes in place to roll-out and manage the ALP Program;
- Communicate the ALP Code requirements and expectations to all farmers;
- Build Farm Profiles for every contracted farm, identifying risk areas and tracking the ALP Code communication to farmers;
- Keeping eyes and ears open to identify situations and incidents at the farms that should be reported and addressed immediately.

Phase 2

- Collect detailed information about labor practices on every contracted farm;
- Assess systematically each farm for status with the ALP Code and its Measurable Standards;
- Create and implement an improvement plan for each farm to remedy situations not meeting the standards;
- Identify and implement corrective and/or preventive measures that can address the root causes of the issues and risks found on the farms;
- Report systematically on the progress that is being made;
- Support mechanism in place.

ALP Program



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⁴ Often, there is not a strict distinction between the two phases during ALP implementation. In practice many countries start to consider how to address and respond to situations that do not meet the Code and to monitor changes before formally finishing Phase 1.

⁵ Verité and PMI, 2011.

2. PM IT assessment: Scope and methodology



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AGRICULTURAL LABOR PRACTICES PROGRAM

Since the launch in 2011, this report covers the third, external assessment of the ALP Program. PM IT was selected as the first European PMI leaf tobacco supplier to be assessed. At the time of the assessment, PM IT was still implementing Phase 1 of the ALP Program at the end of the second crop season under the ALP Program.

2.1 Opening meeting

On Monday, 8 July 2013, CU started the assessment with an opening meeting with PM IT senior management, the ALP Country Team representatives, PM IT's third party agronomy service provider⁶, PMI's regional ALP coordinators, a representative of the OC and Verité. CU presented the assessment objectives and plan while PM IT provided an overview of its implementation of ALP.

During the meeting PM IT also explained the peculiar business model for buying raw tobacco grown in Italy where farmers have to be represented by a farmers' union or association as further explained in chapter 3.2.1.

2.2 Staff interviews and ALP Program documentation

The assessment of PM IT's work included interviews with PM IT's senior management, PM IT staff involved in program's implementation, personnel of the third party agronomy service provider, and through interviews with farmers and workers during farm visits. To avoid bias, all interviews were conducted individually. In total, 11 field technicians (38% of the total number of field technicians) and two field supervisors from different farmer associations were assessed. In addition, the managing director of the farmer union was assessed. Interviews covered the following topics:

- General awareness of the ALP Program and knowledge of the ALP Code;
- Implementation of the ALP Program at PM IT level;
- Responsibilities of management personnel;
- Internal training and communication on the ALP Program;
- Communication of the ALP Code to farmers;
- Internal system of collecting Farm Profiles;
- Mechanism for reporting Prompt Actions;
- Risk mitigation strategies;
- Documented numbers of field technicians trained;
- Documented numbers of farmers included in ALP communication;
- Relationship between the three companies PM IT, the third party agronomy services provider, and the farmer union.

PM IT provided all the relevant documentation relating to the implementation of the ALP Program requested by CU including Farm Profiles, farmer communication materials, purchase contracts, training records and personnel records.

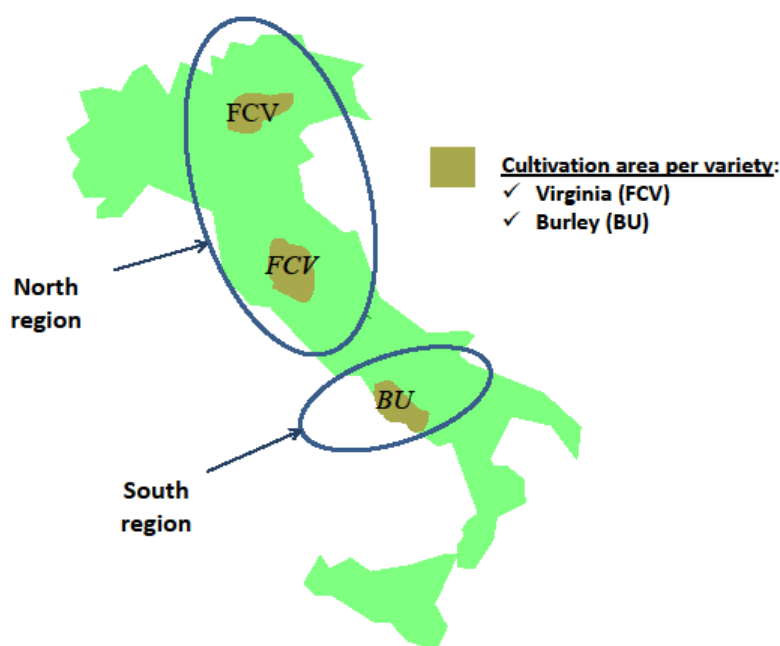
⁶ External company providing services to PM IT for the provision of buying services and agronomy supervising. For more information on the structure implemented by PM IT for the ALP Program, please see the organizational chart on page 18.

2.3 Farm sample selection

According to the standard procedure adopted by CU, the minimum number of farms that needed to be visited in order to constitute a meaningful sample was 28. This is the square root of the total number of farmers that sell tobacco to PM IT⁷ through the farmers' organization (which holds the purchasing agreement with PM IT), minus those farms that had not yet been included in the communication on the ALP⁸. In total, CU visited 42 farms but a number of farms were also excluded due to problems during the first week of the assessment⁹.

At the time of assessment, the 892 farmers that sell tobacco to PM IT through the farmers' organization were divided over three regions: Campania (86%), Umbria/Toscana (11%) and Veneto (3%). The farms in Campania had an average size of 2,6 hectares and produce Burley tobacco in the conventional manner (manually). Farms in Umbria and Veneto were larger with an average of 15,6 and 40 hectares respectively mechanically harvesting and curing.¹⁰ The farms in the two Northern regions Umbria and Veneto (128) represented a larger land area of tobacco production than the total combined production of small scale farmers (764) in the Southern region Campania.

Map of tobacco growing regions¹¹



Among farmers that sell tobacco to PM IT through farmers' organization, 62% grew between 0,1 and 3 hectares of tobacco, 34% between 3,1 and 30 hectares and 4%

⁷ 892 farms at the time of the assessment.

⁸ As PM IT had not yet included the new farmers for the 2013 crop in the communication on the ALP Code, PM IT and CU agreed to exclude these (total 83) farmers from the sample, given the scope of the assessment focused on the implementation of Phase 1 of the ALP Program.

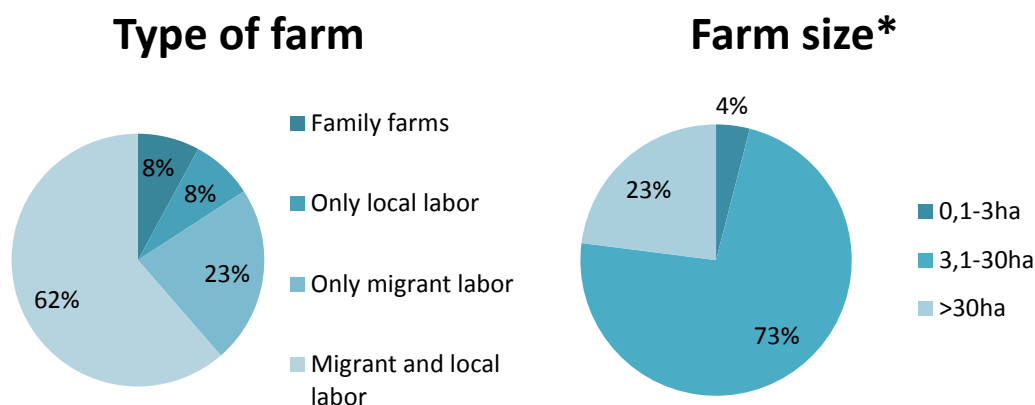
⁹ More information on this matter can be found in chapter 4.1.

¹⁰ In some cases, these farms also used mechanized topping and transplanting.

¹¹ The division of the region into North and South is based on analysis by CU.

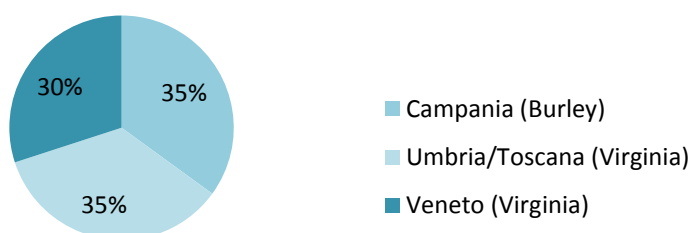
grew more than 30 hectares. While the farm sample represented the total universe of farms in the different tobacco growing regions, the assessment selection was purposely skewed towards larger farms employing a larger number of workers, a better indicator of risk. Consequently, the numbers presented in this report are not a blind indicator of pervasive behavior.

The graphs and tables below provide information on the 26 farms constituting the final sample. Percentages refer to the breakdown of demographic items on sample farms visited by the CU team.



* The sample is purposely skewed to larger farms with more external workers. The proportion of small, medium, and large scale farms visited is inverted compared to the size of the farm's production. Consequently, our sample reflects 73% of large farms while only 4% of the sample farms are producing on 0-3 Hectares (62% of total contracted farms).

Regions and Type of tobacco



2.4 Farm visits

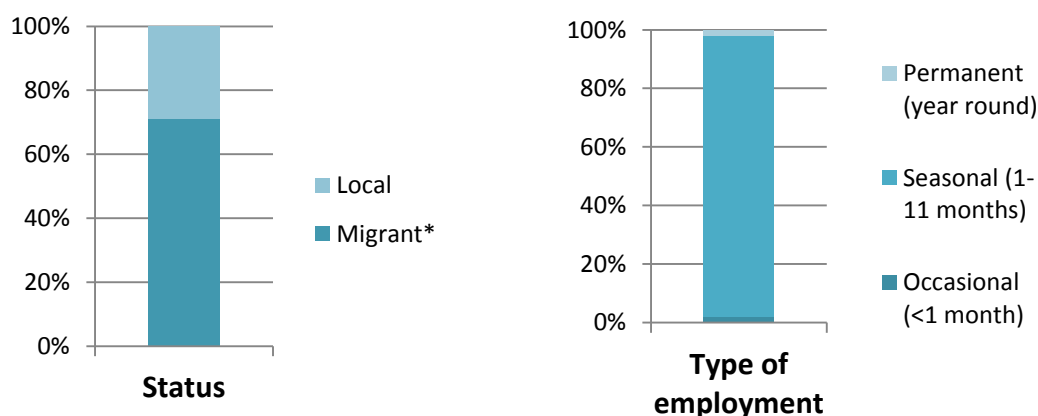
On each farm visited, CU conducted individual interviews with farmers to assess the effectiveness of PM IT's communication efforts during Phase 1, verifying:

- Whether farmers had received information about the ALP Code;
- Their level of understanding and attitude towards ALP Code Principles;
- The key messages received.

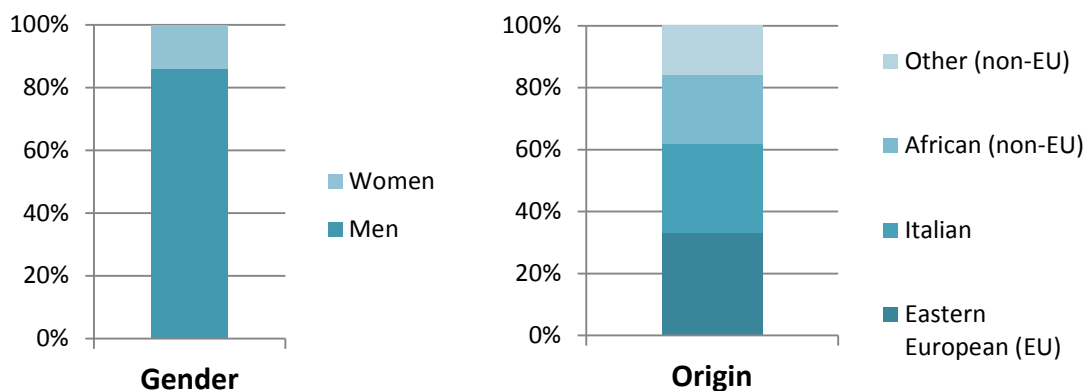
Besides interviews with farmers, family members and farm workers, CU used a variety of methods to collect information on each farm's practices relating to the ALP Code's Measurable Standards. This includes verification of documentation, and visual observation of fields, storage rooms, working areas and housing. Before every interview CU briefly explained the intention of the assessment and assured the interviewees that all information would be confidential.

2.5 Worker interviews

In total, 51 workers were assessed during the farm visits. The graphs below demonstrate the demographics of this sample.



* Migrant workers: workers from another country or region who cannot go home every day



To avoid bias, interviews with workers were conducted isolated from the farmer and field technician. On each farm, CU consciously assessed different "types" of workers i.e. occasional, seasonal and permanent workers as well as men and women, migrant and local.

2.6 Closing meeting

On Tuesday, 23 July 2013, the preliminary results of the assessment were shared with PM IT with a closing meeting held on 30 August 2013. Attending the meetings

with CU were PM IT's senior management, the ALP Country Team representatives, staff of the third party agronomy service provider and representatives of the OC.

2.7 Preparation of the final report

The final public report of the assessment is an important, external measurement of the progress of global ALP implementation in all countries where PMI sources tobacco. Publication ensures the intended transparency of the ALP Program. Key components of the reporting process include quality control by Verité, review and feedback by PMI and PM IT and market action planning. CU's primary responsibility is to author the final assessment report. During the drafting process, PMI and PM IT may request clarifications on specific findings. After both PMI and PM IT feel any findings have been clarified, they prepare a market action plan or revise existing GAP/ALP Program plans to respond to the findings. The market action plan is included in Appendix 1.

3. Assessment implementation Phase 1 of the ALP Program



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AGRICULTURAL LABOR PRACTICES PROGRAM

This chapter documents the findings of the assessment of PM IT's implementation for Phase 1 of the ALP Program. Phase 1 began with the implementation of training for management personnel and field technicians globally including:

- 1) Program objectives and expectations;
- 2) The meaning of the ALP Code Principles and Measurable Standards;
- 3) Techniques to communicate ALP Code to farmers;
- 4) Tracking progress of communication and how to build a Farm Profile;
- 5) Identifying problems when visiting the farmers they support.

3.1 Conduct of the assessment

During the first week of farm visits, in the Campania region, CU noticed there had been communications between field technicians and farmers in advance of the farm visits. This could undermine the results of the assessment and introduce bias during farmers and workers interviews.

When CU reported these problems, PM IT promptly agreed to organize a second round of farm visits in Campania one month later. Prior to this second round, the third party agronomy services provider organized a meeting with all field technicians in the Campania region. To emphasize the importance of their collaboration and needed transparency, PM IT clarified the scope and the process of the assessment.

For the second round of farm visits in Campania and address previous concerns, CU also adopted a more informal approach for the interviews with field technicians, farmers and workers. The farm visits in the other regions occurred without incident. For this report, all farm visits were chosen randomly and were unannounced.

3.2 People and processes to manage the ALP Program

3.2.1 Operational model for ALP implementation

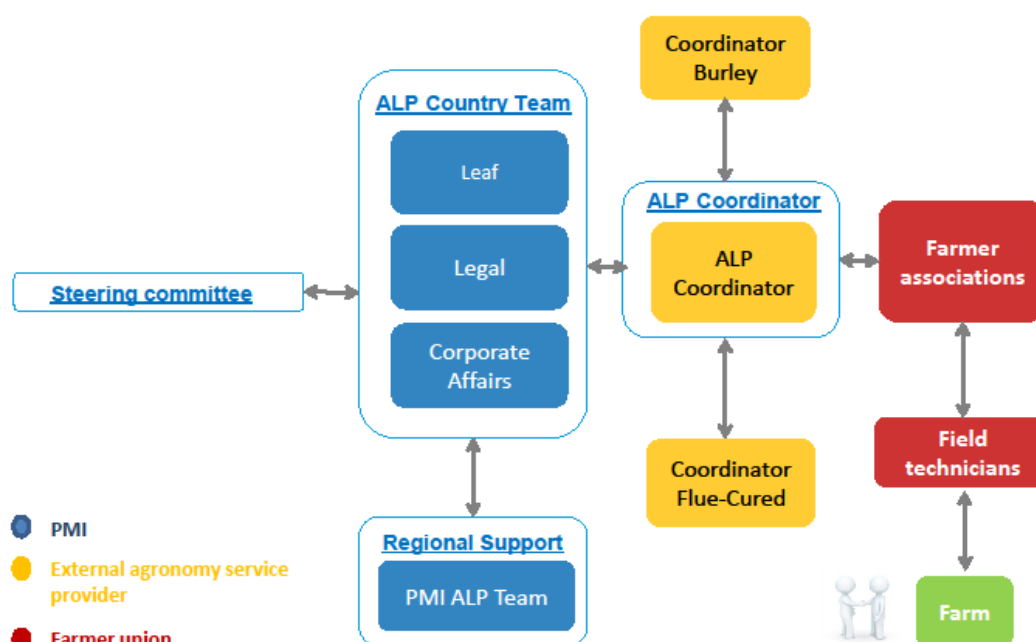
At the time of the assessment, the complex operational model for sourcing tobacco leaf in Italy challenged implementation of the ALP Program. This model, conditioned by the regulatory framework, determines how companies can legally interact with farmers. According to Italian regulations for buying raw tobacco, tobacco growers cannot sell tobacco by themselves but must be represented by a recognized growers' association/union. Consequently, at the beginning of each crop season manufacturers and growers' associations/unions sign a cultivation contract for an entire lot of raw tobacco produced by a single grower. According to this model, there is a third party between the growers and the manufacturers (PM IT in this case). The association/organization provides two types of services to growers: representing the growers, but also providing growers with agronomic assistance with its own field technicians. This organizational structure aims to bring additional value to the farmers by removing middlemen which previously dominated the supply chain but also creates additional layers of necessary communication and behavior change

As demonstrated by the chart below, PM IT cooperates with two external organizations: the third party agronomy services provider and the farmer union.

The farmer union contracts field technicians employed independently by six different farmers associations. Naturally, each organization operates differently, including policies and priorities, making consistent implementation of any program more complex. In addition, communication flows between these various parties is challenging, especially when trying to establish clear roles and responsibilities without any conflict of interest between the two.

At the farm level, field technicians are a key link for the implementation of the ALP Program. They directly interact with farmers on a regular basis. Ensuring field technicians operate in line with PMI's expectations, acting as the agents of change in line with the goals of the ALP Program remains a challenge for every PMI leaf tobacco supplier. In the case of PM IT, this operational model limits their leverage with these field technicians and requires additional efforts to achieve the intended program milestones.

Organization structure for ALP implementation



3.2.2 Internal flow of information

Both top-down as well as bottom-up communication flows could be greatly improved. Once again, the complex operational model impacts the flow of information on the ALP Code from PM IT and the third party agronomy services provider onto the field technicians (top-down). CU identified a delay in the flow of information sent by the field technicians to PM IT/ the third party agronomy services provider. For example, Farm Profiles sometimes required as long as three months to be incorporated into the internal system (bottom-up).

The sharing information on the ALP Code was facilitated by the implementation of an online tool. This system effectively supports information sharing across PM IT's departments (not all physically in the same place) but did not address the

communication challenges with external organizations who have not access PM IT's internal IT systems

A flexible flow of information is crucial for the success of the ALP Program. For example, Prompt Actions should be communicated immediately to PM IT's ALP coordinator to ensure follow up is appropriate and key messages are communicated consistently across all parties active in the supply chain.

3.2.3 ALP training, roles and responsibilities

In November 2011, PMI and the Regional European ALP coordinators introduced the ALP Program to PM IT with training sessions for the Leaf Planning Manager and ALP coordinator (third party agronomy services provider). Following this session in December 2011, the Leaf Planning Manager organized a local kick-off meeting to train the managing director, additional members of the ALP Country Team, and the steering committee. This resulted in a strong commitment from the senior management team and ALP Country Team. Specific ALP responsibilities still need to be included in the annual objectives of management personnel to increase focus on the ALP. In addition, at the time of the assessment, personnel from the external organizations did not have ALP goals included as part of their objectives.

PM IT response: *"PM IT included in the service agreement renewal with the external organizations ALP objectives to be measured with specific KPIs. Indeed, specific refresh training sessions dedicated to external organizations have been conducted already in 2014."*

As explained in chapter 3.1, field technicians in the Campania region did not initially provide the expected collaboration during the assessment. Based on interviews with 11 field technicians, CU concluded they did not have a good understanding of their responsibilities and role within the ALP Program. This is likely due to training for field technicians being limited to one session organized by the third party agronomy services provider. In addition, seven field technicians had only participated in farmer meetings; not in specific training sessions for field technicians. This was a common practice so that field technicians maintained updated on the ALP Code. However, it is not recommended for two reasons. First, by training field technicians and farmer together they are perceived as equals when their roles within the ALP Program are clearly different. Field technicians must promote the goals of the ALP Program, support farmers to change practices that do not meet the ALP Code standards and monitor its implementation. Second, the language and understanding of the ALP Program should be different for field technicians and farmers. Field technicians must have a more in-depth understanding of the ALP Code so that they can train and support the farmers to improve ALP related practices on their farms.

PM IT response: "PM IT requested FA to have, as of the 2014 crop, field technicians fully dedicated to the farmers selling tobacco to PM IT. PM IT will provide these field technicians with specific refresh training, focused on their understanding of the Code's standards, and their ability to communicate, monitor and follow-up on actual issues identified or risk factors.

PM IT will deliver specific trainings to FA's field technicians to clarify some of the key information about farmers' obligations towards workers (e.g. basic employment conditions that need to be agreed upfront, applicable minimum salary, working hours, legal requirements for overtime, and benefits for permanent workers). Specific materials (e.g. leaflets) will be also developed to enlist the applicable requirements (Q2/2015)."

3.3 Communicating the ALP Code requirements to all farmers

3.3.1 Understanding and perception of the ALP Code

Italy's supply is supported by a variety of people and organizations who interact with farmers and whose responsibilities include promotion of the ALP Code. As will be noted below the complex business model creates challenges in terms of information flow and, in some cases, the field personnel still had a limited understanding of the ALP Code, with most supervisors and technicians only fully understanding ALP Code Principles 1 (child labor) and 5 (safe work environment).

By interviewing field personnel, CU found a general perception that the ALP Code contains nothing new to farmers as is already fully covered by Italian law which aligns with international labor standard. Even if true, it demonstrates the need to reinforce the training program so all field staff understand the details, purpose, approach and their role in the implementation of the ALP Code. Furthermore, not all field technicians were aware of key legal concepts or standards such as the legal minimum salary, the legal minimum working age, potential forms of discrimination and requirements for employment contracts. Also, field personnel believed that the risks highlighted by the ALP Code do not occur in the Italian tobacco market. Overall, field technicians in the North (Umbria and Veneto) had a better understanding of the ALP Code than field technicians in the South (Campania).

Finally, the ALP Country Team still needs to develop a better understanding of the potential connections between a range of relatively common practices or situations and the potential risks that some of these practices might encompass.

PM IT response: "New materials (leaflets and calendars) have already been developed and provided to farmers during the 2014 crop season, correcting typos and translation mistakes identified by Control Union. A revamped version of the ALP Code Principle and Measurement Standards will be developed and spread through farmers and workers in Q2 2015. This booklet will include practical examples highlighting specific situations and the potential risks they may encompass."

3.3.2 The ALP communication strategy

At the time of the assessment, PM IT had included 100% of the farmers from the 2012 crop season in its communication strategy of the ALP Code. This was supported by 19 group meetings (14 for Burley and five for Virginia farmers) and with regular visits by field technicians. Field technicians generally visited farmers

weekly or bi-weekly. All field technicians declared they had sufficient time to manage their tasks (including communicating the ALP Code).

At the time of assessment, the communications strategy did not include newly contracted farmers (2013 crop season (83 in total). As these farmers were already growing tobacco for PMI, deficient planning impacted the farmer's education of the ALP Code.

In general, CU found that farmers in the North (Umbria and Veneto) generally had a better understanding of the ALP Code than farmers in the South. This is likely due to the higher level of understanding of the ALP Code among field technicians in the North, but could also be related to the characteristics of these regions. Farmers in the North typically have large farms that most likely implemented better production and employment practices when the ALP Program started. As a more industrial and economically developed region, perhaps it was also less difficult for the larger, Northern farmers to meet the expectations of the ALP Code in comparison to the smaller farmers operating in the less economically developed South.

In all regions, farmers generally had the best understanding of ALP Code Principles 1 (child labor) and 5 (safe work environment), consistent with the previous observations regarding the level of understanding of the field technicians. The challenge now is to increase awareness and understanding of the remaining five ALP Code Principles.

3.3.3 ALP communication materials

The communication materials used to explain the ALP Code to the farmers included a calendar and a leaflet referencing all seven ALP Code Principles translated into Italian and including reference to local regulations. In addition, a cap was distributed to all farmers. At several farms, CU identified the ALP calendar being used. The leaflet, however, lacked the Measurable Standards 4.3 to 4.6 and 5.2. According to PM IT, this was a printing error and will be corrected as soon as possible and reflected in their final action plan.



GTS posters and ALP calendar at one of the farms

Another potential communication technique encouraging adherence to the ALP Code is a clause in the growing contract. However, as stated by PM IT, this is difficult to achieve in the Italian market without direct contracts with the farmers. Currently, PM IT has a contract with the farmer union who in turn contracts with individual farmer associations who directly contract the farmers. Since 2013, PM IT has confirmed inclusion of a clause regarding the implementation of the ALP Program in the annual contract with the farmer union. To date, no clause has been included in the individual contracts that farmer associations have with the farmers. PM IT reported it will discuss this issue with the farmer union.

PM IT response: *"PM IT will propose to FA specific measures (including, where necessary, contractual amendments and undertakings) to enable FA to terminate, also upon request by PM IT, contracts with farmers, in case sound evidence or reasonable threat of breach of mandatory provisions of laws and regulations emerge in relation with the contract activities."*

3.4 Building Farm Profiles for all contracted farms

As a requirement of Phase 1, PM IT is expected to build Farm Profiles for every contracted farm. PMI has developed a global template for the collection of information on socio-economic indicators such as farm size, number of workers, age and number of children in the farmer's family, working status (for example part time, full time, migrants), the pay period for workers and living conditions.

3.4.1 Data gathering system for Farm Profiles

At the time of the assessment, 100% of the Farm Profiles for the 2012 crop were completed. CU verified the data in the internal system called "Omniaplace." Once field technicians complete the physical document, they send it to the third party agronomy services provider, responsible for data entry into Omniaplace, allowing PM IT to access the information at any given time. However, for the 2013 crop season, ongoing at the time of the assessment, there were 83 newly contracted farmers and their Farm Profiles had not yet been collected. Also, the updates of the 2012 Farm Profiles were still not registered in Omniaplace and there were significant differences vis-à-vis the ongoing crop at the time of the assessment. As discussed in the previous chapter, the bottom-up flow of information from the field technicians to PM IT/ the third party agronomy services provider was slow which may have contributed to the difficulty in ensuring a constantly updated internal system.¹²

A more substantive concern about the collection of Farm Profiles is the perception of both farmers and field technicians ("interference with farmers' privacy"). Field technicians declared that farmers often provide inaccurate information which is not corrected by field technicians as they also share the farmers' concerns about privacy. To ensure a positive and cooperative attitude, PM IT needs to reassure its partners, over time resulting in accurate and complete data collection.

¹² According to PMI, a new global system will be implemented shortly and all field technicians will have electronic devices which can simultaneously update information on the farms.

PM IT response: *"It is clear that the overall process is not completely effective. To address this issue, PM IT, in 2014, developed an improved Farm Profile form (on paper) and will address the limitations pointed out by Control Union through the training of the dedicated field technicians. The paper based form is however only an interim solution before the introduction of a global electronic data gathering system (Leaf2GO) which is scheduled by PMI to be implemented in Italy by the end of 2015.*

As of 2014, PM Italia, in line with the deployment of ALP Phase 2, provided the FTs with a "Farm Monitoring Form" to enable them to report on the Measureable Standards of ALP Code Principles from 1 to 4 (considered as the most relevant ones). The initiative has been widely implemented by FTs during their monitoring activities, and represented a useful tool for PM Italia to verify the progress in compliance."

3.5 Prompt Actions

PMI defines a Prompt Action situation as:

"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." (source: PMI, 2011)

Another Phase 1 requirement is to address Prompt Actions found on farms contracted to supply tobacco to PM IT. Field technicians are expected to report immediately any Prompt Actions to the ALP coordinator, who should then provide guidance on how to address the issue or escalate within the organization.

3.5.1 Prompt Action reporting mechanism

By the time of the assessment, no Prompt Action response system had yet been implemented. PM IT did have a plan to support this required mechanism to be implemented in September 2013. The proposed Prompt Action plan presented to CU was based on field technicians:

- Making their regular visits to the farms;
- Using the form created for reporting Prompt Actions which lists potential Prompt Actions;
- Identifying a situation does not meet ALP Code standards;
- Determining if a serious violation of the ALP Code exists;
- In case of a serious violation, reporting the situation to the farmer association who, in turn, informs the farm union and PM IT and follow up.

In case of non-serious violations, field technicians should first report the situation; discuss the issue with the farmer and follow-up with additional support. CU identified a few challenges to be addressed supporting successful implementation in the future:

- (i) The title of the form in Italian states "Report of actions taken in case of a breach of the ALP Code". This title does not clearly distinguish between Prompt Actions and other situations not meeting the standard. In this regard, the form is not sufficiently clear and could exacerbate field technician's and farmer's discomfort with information collection and reporting, leading either to unwarranted reporting or no reporting at all.

- (ii) The ALP Country Team needs to provide guidance to the field staff on when the presence of risk factors for forced labor may warrant a “prompt action” situation.

PM IT response: *“The “Prompt Action” protocol was revised to address CU’s observation (i.e. distinguishing “prompt actions” from other situations where the Code’s standards might not be met) and rolled out to all field technicians during Q2 2014. The roll out of this new template was supported by information sessions to clarify the nature of the potential issues requiring “prompt action”.*

Should FA’s field technicians observe a situation on the farm that fits into this category, they are required to immediately report and describe the situation observed. The revised training for field technicians will include more guidance on “prompt actions” and the reporting process, and PM IT will promote regular information exchange among the teams of the different tobacco growing regions.”

3.5.2 Issues in the Campania region

Transparency is key to the successful implementation and maintenance of the ALP Program, with emphasis on openly identifying challenges and making continuous improvement on every farm as well as fact-finding and reporting on both challenges and successes.

During the assessment, a number of barriers to achieving productive and transparent information sharing were identified in this region. First, local culture in the Campania region made it difficult for field technicians, farmers and workers to report any sensitive situations or incidents to external organizations. Second, in many cases, field technicians were noted as having a personal relationship with the farmers which may influence the reporting of any sensitive situations or incidents. In this regard, PM IT needs to reinforce the training of the third-party partner to clarify roles and responsibilities and more trust to ensure that risks or issues are being properly reported and managed.

Also, field technicians have a dual role in the operations model; the organizations they work for represent farmers during price negotiations while field technicians promote and monitor ALP Code practices and report potential Prompt Actions found on farms. It is crucial to evaluate how these complex relationships, which can deter open collaboration and information sharing, can be supported to ensure an effective reporting system can be implemented as expected.

3.6 Support mechanism (Phase 2 requirement)

3.6.1 Pilot in Umbria to be implemented

PM IT was undertaking efforts to implement a support mechanism¹³ for workers and selected a third party with experience in this kind of initiatives as the independent provider of support services to workers. A pilot in Umbria will involve a support line (toll free number) plus voice mailbox, local physical mailbox and counseling services. Before expansion, the pilot will be monitored throughout the entire 2014 crop season.

¹³ The Code aims for workers to have access to a mechanism for support and redress. In some countries where PMI buys tobacco the farmers also need help to meet their obligations under the law or the Code and so, in most places, pilots and efforts are being focused on a mechanism that can support both workers and farmers i.e. a support line.

4. Farm level assessment of ALP Code standards



THIRD PARTY ASSESSMENT

PHILIP MORRIS ITALY

AGRICULTURAL LABOR PRACTICES PROGRAM

This chapter describes the findings of the field assessment and the current situation at farm level.

First, it is important to emphasize that this report is an assessment of the implementation and the status of the ALP Program in Italy. It should not be understood as a legal assessment and under no circumstances should it be read as PM IT having legal responsibility for any findings or risks presented in this report.

At the time of this assessment, PM IT was still implementing Phase 1 of the ALP Program and, with the important exception of Prompt Actions, was not expected to engage with farmers for addressing all situations on farms that do not meet the ALP Code standards. During 2014, PM IT is expected to expand the implementation into Phase 2 of the ALP Program. Therefore, the current labor practices being reported on farms should be viewed as a baseline for PM IT's moving forward and not a judgment on the progress made to date.

Before presenting CU's findings, it is important to clarify the way in which the ALP Code is structured as this determines CU's analysis of farmers' practices. The ALP Code has seven ALP Code Principles, each with several Measurable Standards. ALP Code Principles are short statements that set expectations of how the farmers manage their farm in seven focus areas. These principles are designed to guide farmers on specific practices resulting in safe and fair working conditions.

A Measurable Standard defines a good practice and over time can be objectively monitored to determine whether and to what extent the labor conditions and practices on a tobacco farm in comparison with each Principle of the ALP Code. Each chapter covers one of the seven ALP Code Principles and CU's findings. Risks are also included and these are defined as situations that may lead to problems in the future or about which a conclusion cannot be reached due to lack of evidence.

In the Italian tobacco market because of the scarcity of Italian agricultural workers, the majority of tobacco farmers depend on migrant labor. Generally, there is a lack of interest in this type of work among Italians and youth in particular. Most young people study longer and start working on a later age. Of the farmers visited during the assessment, 23% contracted only migrant workers and 62% both migrant and Italian workers. The majority of the migrant workers had a fixed term contract for three to eight months and traveled to their home country or had other jobs during the remaining months. Some workers lived on the farm while others had their own apartment in a nearby village. The migrant workers found on the farms came from both EU and non-EU countries.

4.1 ALP Code Principle 1: Child labor

'There shall be no child labor.'

Child labor: Background

Minimum age regulations: *Article 2 of the Italian Civil Code* determines that the minimum working age is 16 years, provided that the child has completed at least 10 years of compulsory education and achieved a secondary school diploma or professional qualification. *Article 6 and Attachment 1 of Law No. 977/67, Article 4 of Legislative Decree No. 262/2000, and Ministerial Decree No. 218/2006, together*

constitute a list of hazardous activities that cannot be performed by persons under 18 years which includes, *inter alia*, working in the tobacco manufacturing process. However, persons of 16 and 17 years can work on tobacco farms as this does not involve industrial manufacturing. Persons of 16 or 17 years cannot work at night, which is considered to be between 10pm and 5am. However, *Article 2 of the Law 977/1976* states that children of farmers can start working on their family's farm at the age of 15 and can work night shifts, provided that these shifts occur occasionally or for a short period (not during school periods) and that they do not perform hazardous or harmful activities. This article is designed to ease restrictions for family farms as they depend on family labor and usually want their children to be involved in the family business.

Child labor: Analysis and Priorities

4.1.1 No evidence of child labor

On the farms visited, CU found no evidence of children being employed or helping on their family's farm. Furthermore, no evidence was found of persons below 18 being involved in hazardous activities. As mentioned above, only two farmers depended on family labor, so the risk of finding children active on their family's farm was relatively low.

4.1.2 Farmer awareness on legal minimum working age

All farmers and the majority of the workers (on 70% of the farms applicable and assessed) were aware of the legal minimum working age. The majority of the workers found unaware were migrant workers in the South, however, only a few lived in Italy with their entire family – including children – so the risk of bringing children to work was low.

Child labor: Conclusion

Both farmers and workers are aware of the legal minimum working age and the risk of child labor is apparently low. Notwithstanding, given that the elimination of child labor is one of the ALP Program's core objectives, it is understandable that PM IT defined upfront communication on this topic as a matter of priority. Whether the absence of child labor verified is a reflection of PM IT's efforts or of the socio-economic background of the farms was not something CU was able to ascertain. Nevertheless, PM IT should not lower the guard on this topic and continue its efforts to eliminate child labor from its tobacco growing supply chain. Subsequent chapters will demonstrate that other ALP Code Principles also require the same level of attention.

PM IT response: *"PM IT will continue to reinforce with its commercial partners the importance to protect children at farm level to ensure full adhesion to its standards."*

4.2 ALP Code Principle 2: Income and work hours

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

Income and work hours: Background

Minimum salary regulations: There is no general minimum national salary. Instead, labor unions established a *National Collective Bargaining Agreement (NCBA)*¹⁴ for workers of the agricultural, floriculture and plant nursery sector that determines the minimum salary for tobacco workers, which is €750,00 gross per month for the lowest level of work. *Provincial Labor Contracts* can overrule the national agreement by establishing higher salaries for workers, which is done in several provinces such as Caserta (€789,68 per month), Verona (€882,98 per month), Vicenza and Treviso (both €789,75 per month). Salaries must be paid at least monthly and the provision of pay slips is mandatory. Farmers are also required to record the hours worked by their workers.

Work hours regulations: The *NCBA* states that workers on tobacco farms can work a maximum of 39 regular hours plus two overtime hours per day (or twelve per week), totaling 51 hours a week. Compensation of additional hours is allowed, meaning that workers can work additional time that counts as regular hours during labor intensive periods, compensated later by exactly reducing the working hours during a calmer period. The exact rules (number of hours and the period in which this is allowed) differ slightly per province. According to the *NCBA*, overtime hours during regular weekdays must be paid at 25% on top of the regular wage, 40% during night shifts, 40% on national holidays, and 45% during night shifts on national holidays. Again, small differences exist in each province. The minimum rest period between two work shifts is 11 hours and all employees are entitled to one rest day per week (*Legislative Decree No. 66/2003*).

Benefits regulations: By registering workers with the required governmental institutions, they automatically receive payment during sick days (INPS¹⁵) and illness or lost days due to work related accidents (INAIL¹⁶). Other benefits such as social and health care are provided by the government and paid by both farmers and workers through income taxes. Regarding vacation, the *NCBA* determines that workers employed the entire year at the farm are entitled to 26 working days of paid vacation per year. Full time workers are also entitled to a 13th and 14th monthly salary. Workers who do not work the entire year receive these benefits through an added value to their wage called "terzo elemento"¹⁷ valued at approximately 30% of the wage covering paid vacation, national holidays, and 13th and 14th monthly salary.

¹⁴ Contratto Collettivo Nazionale di Lavoro 25-05-2010 per gli Operai Agricoli e Florovivaisti = National Collective Bargaining Agreement for workers of the agricultural, florist and plant nursery sector: http://www.asnali.org/public/file/contr_florovivaisti.pdf

¹⁵ Istituto Nazionale Previdenza Sociale = National Institute of Social Security (www.inps.it)

¹⁶ Istituto Nazionale per l'Assicurazione contro gli Infortuni sul Lavoro = National Institute for Insurance against Accidents at Work (www.inail.it)

¹⁷ terzo element = third element (literal translation)

Labor scarcity: due to the scarcity of Italian agricultural workers, migrant workers could be expected to be in a strong position to negotiate their employment conditions with farmers. However, these EU and non-EU migrants (for which - in some cases - no evidence of registration was obtained) generally lacked awareness of their legal rights, their rights were not fully upheld on some farms.

Income and work hours: Overall findings and challenges

4.2.1 Minimum salary

The majority of the farmers visited paid workers in line or above the legal minimum wage. However, in a number of cases there was an important factor to consider: there is a large and unregistered migrant workforce in Italy's agricultural sector, working on temporary or occasional jobs, and it is common practice to pay these workers in "cash-only". Many Italian tobacco farmers are dependent on migrant labor and therefore could be affected by this practice, particularly in the South where farms are smaller, less structured, and with only temporary/seasonal labor needs.

Five farmers in the South (26% of the farms applicable and assessed) provided cash payments to their workers which were lower than the minimum wage established in the National and Provincial Labor Contracts; instead of a daily salary of €39,61 (Provincial Labor Contract Caserta) or €37,50 (National Labor Contract) these workers were being paid €25 to €35 euro per day.

Migrant workers in crews seemed to earn far more than the legal minimum wage. They were being paid €2.500 to €3.000 per hectare harvested, resulting in salaries far above the minimum wage. However, as the farmers did not have insight in the payment practices, it was not feasible to verify whether these workers indeed earned above the legal minimum wage.

4.2.2 Indirect and end-of-the-harvest payments

The three farmers in the South who contracted workers through a crew leader (15% of the farms applicable and assessed) only paid their workers at the end of the task commissioned (harvesting) which took three to four months to complete. According to the *Provincial Labor Contract of Caserta*, these piece workers should have received at least 90% of their wage on a weekly basis. According to the *National Labor Contract*, the workers in Benevento should have been paid at least monthly. Both provinces are located in the South.

4.2.3 Regular and overtime hours

Seven farmers (35% of the farms applicable and assessed) did not respect the legal maximum work hours as they worked more than 51 hours a week. This would typically happen during the busy periods of the season, over periods that lasted from four to seven months. One of these farmers was in the North with the remaining six in the South.

Some farmers claimed they used a compensation mechanism to account for extra hours worked. However, only half of the farmers and none of the workers fully understood this mechanism. Although workers were paid for the hours they worked

this lack of clarity resulted in nine farmers (69% of the farms applicable and assessed) not paying their workers the overtime rate. Three of the farmers were in the North and six in the South.

PM IT response: "PM IT considers it important to empower farmers so they can demonstrate their practices, providing them with simple, basic tools (e.g. template models for pay slips and timesheets) for farmers and workers to record payments and the number of hours worked, which additionally would allow a better understanding of the current situation and further dispel potential concerns. (Q2 2015)."

4.2.4 Legal benefits

At seven farms (35% of the farms applicable and assessed) all in the South, workers were not receiving the benefits they were legally entitled to. This situation impacted both EU and non-EU unregistered migrant workers.

Income and work hours: Risks

4.2.5 Awareness of legal rights

Both farmers and workers generally had limited awareness of the legal rights workers are entitled to. The level of unawareness¹⁸ of key legal rights and ALP Code standards was as follows:

	Workers assessed unaware ¹⁹	Farmers assessed unaware
Minimum salary	16 (80%)	10 (40%)
Work hours	12 (60%)	3 (12%)
Overtime	13 (65%)	9 (36%)
Legal benefits	11 (55%)	1 (4%)

Typically awareness levels were much higher in the North than in the South.

4.2.6 Record keeping

The majority of 16 farmers (68% of the farms applicable and assessed) issued pay slips and 84% recorded payments for workers with hours / days worked. All eight farmers not issuing pay slips were small scale farmers in the South.

Income and work hours: Analysis and Priorities

As several situations were identified not meeting the standards coupled with limited awareness of this ALP Code Principle, strengthened communication efforts are needed on topics including legal minimum wage, regular payment schedules, overtime payment, and legal rights. Farmer awareness on the legal minimum wage and overtime payment seems to be more or less identical in the North and the South. However, farmer awareness on work hours and legal benefits is clearly higher in the North. This is in line with the better structure and organization of farms in the North but also reflects the limited awareness of field technicians of

¹⁸ The percentages relate to the number of applicable and assessed farms.

¹⁹ Refers to the number of farms on which not all workers assessed were aware of the specific legal right.

laws in the South. Additional training for both field technicians and farmers is necessary. Practically all situations not meeting the standards described above concerned migrant workers and thus this issue requires closer monitoring by PM IT. It should however be noted that PM IT cannot contract farmers directly due to restrictions by the regulatory framework as explained in section 3.2.1 above. Thus, any monitoring activity needs to be coordinated with PM IT's contractual partners.

PM IT response: *"In an environment where most farms are small scale family farms it is crucial to stimulate farmers' entrepreneurial behavior, reminding them of their obligations as employers under Italian law and supporting them to uphold their obligations. Therefore, PM IT will reach out to the relevant authorities and local civil society organizations (particularly in the South where informal practices seemed to prevail) to support and involve relevant stakeholders in initiatives that improve farmers understanding of their legal obligations.*

Additionally, PM IT will deliver specific trainings to FA's field technicians to clarify some of the key information about farmers' obligations towards workers (e.g. basic employment conditions that need to be agreed upfront, applicable minimum salary, working hours, legal requirements for overtime, benefits for permanent workers). Specific materials (e.g. leaflets) will be also developed to enlist the applicable requirements (Q2/2015).

For workers, PM IT will develop information materials where they can find basic information about their legal rights with indications about government bodies in charge of guaranteeing workers' rights protection.

Finally, PM IT will request FA to encourage farmers to pay the workers directly themselves (as required in the ALP Code), also when they are hired by a third person or, at least, to request brokers to behave for more accountability and for a more transparent process (e.g. providing credible proof of what they are paying to the workers through payslips) (Q2 2015)."

4.3 ALP Code Principle 3: Fair treatment

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

Fair treatment: Background

Regulations: Article 15 of Law No. 300/1970, Legislative Decree 215/2003, Legislative Decree No. 216/2003, and Legislative Decree No. 198/2006 all prohibit any kind of discrimination. Italian law distinguishes between direct and indirect discrimination. Direct discrimination exists when an employer adopts discriminatory behavior vis-à-vis an employee such as sexual orientation or trade union affiliation. Indirect discrimination occurs when the employer's behavior appears to be neutral (granting the same working conditions for all employees) but still positions certain employees at a disadvantage compared to other employees because of their race, religion, beliefs, handicap, age and/or sexual orientation.

Scarcity of Italian agricultural workers: As mentioned above, because of the lack of Italian agricultural workers, migrant workers could be expected to be in a strong position to negotiate their employment conditions with farmers. However, either because of their migrant status or their general lack of awareness, they are considered a vulnerable group.

Fair treatment: Overall findings and challenges

4.3.1 No evidence of practices suggestive of unfair treatment

All farmers and workers assessed confirmed that physical, sexual and verbal abuse was not a problem at their farms. Interviews with seven female workers confirmed this.

4.3.2 Different pay for the same job

On one farm in the South, migrant workers were being paid five euro per day less than Italian workers for doing the same job. They also worked more hours for this lower salary and were paid less for overtime hours. As only one case was identified, this does not seem to be a pervasive practice and can be easily addressed with additional training and farm visits.

Fair treatment: Risks

4.3.3 Communication with workers

Although the majority of 15 farmers (80% of the farms applicable and assessed) communicated directly with workers to discuss any potential problems, this was not the case on four farms, either because farmers contracted workers through crew leaders (three farms) or due to language barriers (one farm).

Fair treatment: Analysis and Priorities

The abovementioned findings support that unfair treatment is not a systemic issue at the farms that supply to PM IT. The presence of a potentially vulnerable migrant workforce and the practice of contracting through crew leaders, does pose significant risks. With the implementation of the support mechanism, PM IT will most likely obtain a more complete picture of the potential risks and will be better positioned to manage them.

4.4 ALP Code Principle 4: Forced labor

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

Forced labor: Background

Regulations: The *Italian Constitution* and *Criminal Law* strictly forbids any type of human trafficking and compulsory labor. Furthermore, employers are not allowed to request recruitment fees or deposits from workers to obtain their employment. Prison labor is allowed, provided that it does not result in an afflictive situation for the prisoners. According to *Legislative Decree No. 276/2003*, third party contracting is permitted through staff-leasing agreements, which only establish a commercial relationship between the farmer and the agency supplying the workers; in this situation the farmer does not have a direct employment relationship with the workers. Migrant workers from other EU countries can freely live and work in Italy and do not need to obtain a visa. Migrant workers from outside the EU, however, are subject to strict rules set forth by *Legislative Decree No. 286/1998*.

Forced labor: Overall findings and challenges**4.4.1 No evidence of workers unable to leave their job**

All farmers and workers assessed confirmed that workers were free to leave their employment at any time with reasonable notice. Also, all workers declared that they were not required to make any financial deposits or hand in their original identity documents.

4.4.2 Indirect and end-of-the-harvest payments

CU identified three farms in the South (15% of the farms applicable and assessed) where workers were contracted through crew leaders. While this practice is not an issue per se, the settling of the payment for the workers through the crew leader only at the end of the harvest, is not in line with the ALP Code standards nor with Italian laws on frequency of payment. Even when hiring workers through third parties, farmers need to ensure workers get paid what they are owed on a regular basis and, at a minimum, must have visibility into the crew leader's hiring, payment and management practices so as to dispel any concerns related to forced labor. These crews consisted of non-EU migrant workers who generally worked for three to four consecutive months in tobacco harvesting, being paid an agreed amount per hectare harvested. For these workers no evidence of registration was found. Their salaries were paid to the crew leader who worked with the crew and divided the money among the crew members. Farmers did not know how many workers were included in a crew or who they were, and only communicated with the crew leader.

Forced labor: Risks**4.4.3 Status of migrant workers**

CU did not find evidence of the registration of 14 non-EU migrant workers and seven EU migrant workers at the farms visited. The majority of these workers were found in the South. Two main types of risk were identified. First, at three farms in the South (15% of the farms applicable and assessed) groups of non-EU migrant workers, for which no evidence of registration was obtained, worked in crew format being paid only at the end of the harvest. Second, at five farms in the South (25% of the farms applicable and assessed) non-EU migrant workers, for which no evidence of registration was obtained, were working overtime hours (9 to 10 hours a day, 6 to 7 days a week) for a low salary and in harsh conditions.

Forced labor: Analysis and Priorities

This ALP Code Principle requires more attention from PM IT. Although no evidence was found of workers not being able to leave their job, several significant risk factors or practices of concern were identified on the farms visited in the South. Combined with recent research on this topic that shows that forced labor is a significant risk in the agricultural sector in the South of Italy²⁰, it is crucial that PM IT, to the extent admitted by the existing relationship with its contractors which

²⁰ See for example latest Amnesty International report on the matter here:
http://www.amnestyusa.org/sites/default/files/exploited_labour._italy_migrants_report_web.pdf

exclude any direct relationship with the farmers (as better specified in chapter 3.2.1.), closely monitors these situations and increases communication efforts with farmers to ensure reasonable assurance that none of the risk factors or practices associated with forced labor situations are prevalent.

PM IT response: *"In order to effectively address these areas of concern that reflect wider systemic problems connected with the complex issues of immigration in Italy, PM IT efforts alone are clearly not enough. PM IT is committed to do its part and, moreover, as part of this action plan, will actively seek common ground and initiatives with other stakeholders for finding practical solutions for workers problems and farmer's needs.*

One such example is the ongoing work to set up a support mechanism for farmers and workers. PM IT acknowledges the importance to provide workers with a trusted resource for voicing out and addressing their concerns, and as an effective way for mitigating the concerns raised by Control Union in a number of areas (e.g. doubts about the situation of migrant workers). PM IT understands that the success of such initiatives rely on the trust built over time and, still in 2014 developed a pilot program of a support mechanism for farmers and workers in the Umbria region with CESVOL (a local NGO) and VITA Makers. PM IT will monitor the results of this pilot, before considering a deployment in other areas."

4.5 ALP Code Principle 5: Safe work environment

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

Safe work environment: Background

Regulations: Article 2087 of the Italian Civil Code states that the employer is obliged to prevent any possible physical or psychological damage to employees. The same article determines that the employer must provide drinking water. Furthermore, the employer is required to provide the following items (Articles 69 and following, 74 and following of Legislative Decree No. 81/2008):

- Work tools
- Proper training
- Required PPE and ensure that workers use these
- First aid kit and be trained on how to use it

In addition, farmers are obliged to report work related accidents to the INAIL²¹, conduct a risk assessment to investigate potential safety hazards at their farm, and contract a registered company for the collection of empty CPA containers. Legislative Decree n. 152/2006 further states that these containers should be triple washed. Finally, persons below 18 (Article 6 and Attachment 1 of Law No. 977/1967, Article 4 of Legislative Decree No. 262/2000, and Ministerial Decree No. 218/2006), and pregnant and breastfeeding women (Article 7 of the Legislative Decree No. 151/2001) are not allowed to handle, store or dispose of CPA.

²¹ Istituto Nazionale per l'Assicurazione contro gli Infortuni sul Lavoro = National Institute for Insurance against Accidents at Work (www.inail.it)

Safe work environment: Overall findings and challenges

4.5.1 Training and awareness of Green Tobacco Sickness (GTS)

21 farmers (81% of the farms applicable and assessed) were aware of the existence and symptoms of GTS²² and awareness levels seemed identical when considering the two growing regions (North and South). On the other hand, at 17 farms (81% of the farms applicable and assessed) workers were unaware of the existence and symptoms of GTS, and in this case awareness in the North was slightly higher than in the South. Several workers were found harvesting without protective clothing (starting early in the morning when the tobacco is wet) and this is especially problematic in the South where Burley tobacco plants get very high (above the head of workers). As they harvest mechanically in the North, farmers and workers have less contact with green tobacco leaves so direct contact with green tobacco leaves is minimal.

4.5.2 CPA handling and training

Practically all persons who handled CPA were properly trained and had the legally required license for CPA application. Only one case was found in the North in which the 18 year old son of a farmer declared that he applied CPA without having a license. On the other farms visited the person who applied CPA was usually the farmer or a permanent worker. The disposal of empty CPA containers was also well managed on most of the farms visited. CPA storage facilities of 10 farms²³ (40% of the farms applicable and assessed), on the other hand, were not in line with legal requirements and the ALP Code as CU found unlocked or open storage facilities, and CPA standing out of the storage. Finally, respect for the re-entry period after CPA application was an issue on the vast majority of 17 farms²⁴ (81% of the farms applicable and assessed). Some farmers warned their workers verbally, but none of these farmers used warning signs in the field to inform both workers and external persons of recent applications. Eight farmers²⁵ (31% of the farms applicable and assessed) were unaware of the correct re-entry period after CPA application.

PM IT response: "PM IT will provide FA's field technicians with PPEs (for GTS and CPA) for all family members and workers working on the tobacco fields (expected for Q2 2015). FA's field technicians will also continue to provide advice to farmers on how to use PPE adequately and will continue to disseminate the proper information materials prepared and printed by PM IT."

An annual survey for verifying the CPA storage type and status is conducted since Q3 2014. This survey allows PM Italia to prioritize areas and farmers where the minimum storage standard are not reached as defined by ALP Code."

²² It is a form of nicotine poisoning from handling wet green tobacco leaves. The nicotine in the plant mixes with the moisture of the leaves and on contact can be absorbed through the skin. It is generally non-life threatening and preventable by taking basic protective measures (eg, not harvesting wet tobacco, wearing protective clothing). Generally the recommended action is to stop exposure - by resting, showering or washing, changing clothing, ceasing to work and drinking water. A doctor should be consulted if the symptoms persist. For further information see:

<http://tobaccocontrol.bmj.com/content/7/3/294.full>

²³ Five in the North and five in the South.

²⁴ 11 in the North and six in the South.

²⁵ Seven in the North and one in the South.

4.5.3 Clean drinking and washing water

On practically all farms visited, workers were provided with clean drinking and washing water on the farm and in the fields. Only one farmer in the North declared that he did not provide drinking water to the workers when they were in the field, however potable water was generally available in the area.

4.5.4 Accidents

Generally, workers did not have a first aid kit provided by the farmers that could be taken into the field. Furthermore, only a few farmers were able to demonstrate an official record of accidents that had happened at the farm; the majority had no procedure for registering accidents. 17 farmers (65% of the farms applicable and assessed) employed workers who were registered with the government institution to which work related accidents should be reported (INAIL). Remaining workers would be unable to officially report potential accidents.

4.5.5 Worker accommodation

Three out of the nine worker accommodation inspected by CU (33%), all in the South, were considered inadequate in comparison with the benchmark for the region. For example, housing was found unclean because there was only a dirt floor, no windows for ventilation, with insufficient personal space for workers or the housing was found insecure because it could not be locked.

Safe work environment: Risks

4.5.6 General risks

In order to ensure a safe and sanitary work environment for both family members and workers, it is important that farmers are aware of general safety hazards at the farm and take measures to prevent accidents, injury, and exposure to health risks. Only three farmers (12% of the farmers applicable and assessed), all in the North, provided a completely safe and sanitary work environment for their workers. On the remaining 22 farms (88%), one or more of the following risks were identified:

- Awareness on general safety hazards: five farmers²⁶ (19% of the farms applicable and assessed) were unaware of safety hazards such as handling green tobacco, and working at heights. At 10 farms²⁷ (48% of the farmers applicable and assessed) workers were unaware of these hazards.
- High curing barns: none of the Burley farmers with high curing barns (four in total) had safety measures for working at heights.
- Lack of resources to act in case of emergency: besides the lack of a first aid kit at these farms, most of these farmers also did not have an emergency plan, or a list with phone numbers of the nearest medical facility.

²⁶ One farmer in the North and four in the South.

²⁷ Five farms in the North and five in the South.

- Child access to farm areas: at five farms²⁸ (19% of the farms applicable and assessed) children had access to the farm areas where machinery and equipment was stored.
- Contracting workers through third parties (crew leaders or cooperatives) who do not provide appropriate training on GTS avoidance or general health and safety topics. This practice occurred at six farms; three farmers in the South contracted workers through a crew leader and three farmers in the North through a cooperative.

PM IT response: *"PM IT has delivered a two days training targeting the FTs, so as to build their skills and capacity to promote the required behavior change. The training sessions took place in December 2014 and were conducted by a third-party organization specialized on health and safety topics.*

By Q2 2015, a user friendly booklet will be distributed both to farmers and workers which integrate the basic safety requirements set by law and the requirements requested by PMI under the ALP program.

In addition, an "ad hoc" training will be developed in cooperation with a third-party expert organization in order to define specific and targeted messages to farmers and workers. Selected farmers will be encouraged to attend these training sessions by the technicians, for which there will be:

- a) participants in a voluntary basis;*
- b) farmers which have experienced or have challenges with their practices and infrastructure.*

Safe work environment: Analysis and Priorities

PM IT's choice to focus communication efforts on this ALP Code Principle is consistent with CU's findings. CPA training and provision of water was generally well managed at the farms, but issues like training on GTS, CPA storage, and emergency preparedness were found insufficient. On the majority of the farms visited, the overall safety situation could be improved, mainly an issue of increasing awareness among both farmers and workers. These long-standing practices are often difficult to change so should be considered a long term objective. Overall, large scale farms in the North have better safety standards than small scale farms in the South.

4.6 ALP Code Principle 6: Freedom of association

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

Freedom of association: Background

Regulations: *Article 19 of the Law No. 300/1970* grants labor unions, which can be created by a minimum of 15 workers, the right to form their own representative body. These labor unions represent employees' interests on the workplace and can deal with a wide range of matters affecting employees regarding social, economic and personal issues. Furthermore, as mentioned before, labor unions can enter into collective agreements, which can even derogate to the law and applicable *National*

²⁸ One in the North and four in the South.

Collective Bargaining Agreements. A specific NCBA²⁹ also exists for the agricultural sector to set requirements such as minimum wage, work hours, and benefits. Independently of their affiliation to a labor union, all workers in the tobacco sector are subject to this agreement. One of the requirements set out in this agreement is that farms with more than five workers appoint a worker representative.

Freedom of association: Overall findings and challenges

4.6.1 Awareness of freedom of association

CU found no evidence of farmers disrespecting workers' right to freedom of association. However, at nine farms³⁰ (45% of the farms applicable and assessed), one in the North and eight in the South, migrant workers were unaware of this right and the purpose it served.

4.6.2 Worker representatives and labor unions

Despite the legal requirement of appointing a worker representative at farms with more than five workers, none of the farms visited had such a representative in place because practically all workers worked temporarily at the farm, which does not provide them with sufficient time to complete this selection procedure. Also, none of the workers was associated with a labor union or association. In the case of Italian workers, this was generally due to lack of interest. Migrant workers, however, showed an interest in joining a labor union.

Freedom of association: Analysis and Priorities

The fulfillment of the right to freedom of association among migrant workers could help mitigate risks associated with this particular group. Given that overall levels of awareness are a barrier, PM IT should consider additional investment into communication on this topic and reaching out and engaging the relevant stakeholders.

4.7 ALP Code Principle 7: Compliance with the law

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

Compliance with the law: Background

Regulations: Although Italian law does not require a written employment contract, having one supports both farmer and workers. Without a fixed term contract, workers can claim indefinite employment starting from the date on which they were hired and it provides workers with more certainty of an income. In addition, some particular situations always require a written employment contracts, such as apprenticeship and trial period. The following types of employment agreements are allowed under Italian law:

²⁹ Contratto Collettivo Nazionale di Lavoro 25-05-2010 per gli Operai Agricoli e Florovivaisti = National Collective Bargaining Agreement for workers of the agricultural, florist and plant nursery sector:

(http://www.asnali.org/public/file/contr_florovivaisti.pdf)

³⁰ One in the North and eight in the South.

- Open-term: employment agreement with indefinite duration and valid until the employer or employee withdraws from the contract
- Fixed-term: employment agreement that terminates on the expiry of a specific term. According to recent amendments of Italian Law (*Law No. 92/2012*), an employer may hire a fixed-term employee – for the first 12 months – without any specific or objective reasons justifying such limited duration of the employment agreement.
- Part-time: employment agreement that provides for a reduced working time compared to the ordinary working time of 40 hours provided by law, or any time established by *National Collective Labor Agreement*.

Compliance with the law: Overall findings and challenges

4.7.1 Awareness of legal rights

None of the farmers visited had informed workers about their legal rights; only informing them of their employment terms and conditions such as salary and work hours. This is especially problematic for migrant workers, who generally were unaware of the legal minimum wage, maximum work hours, overtime payment, and freedom of association. At 13 farms (65% of the farms applicable and assessed), five in the North and eight in the South, workers were unaware of their legal rights.

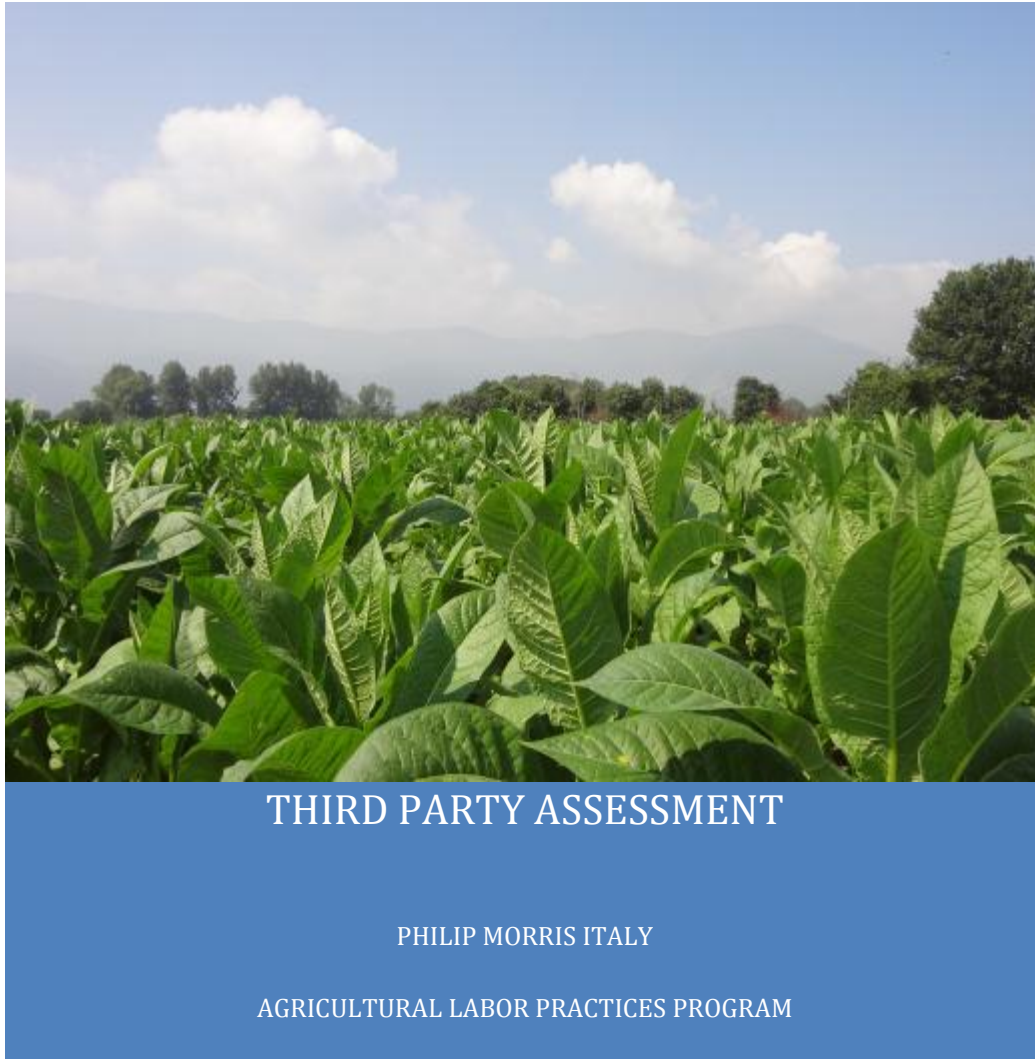
4.7.2 Written employment contracts

As explained above, Italian law does not require a written employment contract. However, 10 farmers (53% of the farms applicable and assessed) did provide a written employment contract to workers. Once again, practically all the farmers in the North supplied written contracts whereas the South did not.

Compliance with the law: Analysis and Priorities

As mentioned in chapter 3, field technicians generally had a poor understanding of several important aspects of the ALP Code connected with the requirements of Italian law. This was also reflected by an equally low level of farmer knowledge, who, in turn, do not properly inform workers of their legal rights. None of the farmers properly informed workers of their legal rights. This was especially problematic for migrant workers who were generally unaware of their rights or where to obtain such information. Again, large differences were identified between the North and the South and the bigger concerns are associated with migrant workers. Additional training of both field technicians and farmers will be required as well as efforts to provide migrant workers with information on their legal rights, provided in their respective languages.

5. Concluding remarks



With the combination of a complex regulatory framework and operational model, PM IT faces significant challenges to support a successful implementation of Phase 1 of the ALP Program. The ALP requires a multidisciplinary approach addressing labor practices in both the North and South. While CU believes that, during the first implementation phase of the ALP, PM IT took some time to get acquainted to these challenges and overall complexity of the tasks, CU also found PM IT to be fully committed to the ALP Program, offering prompt and full collaboration to ensure a successful and informative assessment. Positives include an adequate organizational structure and support, including third parties. In addition, progress was made in implementing Phase 1 training of both field technicians and farmers, and completion of Farm Profiles. Conversely, additional training and streamlined communication is needed to increase the understanding of the ALP Code Principles among both field technicians and farmers. PM IT is equipped to address the deficiencies identified, namely completing and maintaining Farm Profiles updated, ensuring Prompt Action mechanism is working properly (and is well documented) while putting greater focus on topics such as migrant workers, indirect payment, end-of-the-harvest payment and awareness on legal rights.

PM IT faces different challenges in the North and South. The Northern farms operating at a larger scale are more aligned to both Italian law and ALP Code standards. Subsequently, PMI IT will need more proactive and detailed planning in the South. All parties in the supply chain need to understand and address the lack of awareness of both Italian labor laws and the ALP Code Principles to address any practices not meeting the ALP Code.

The PM IT response and ALP Program action plan demonstrate that PM IT has analyzed CU's findings and is undertaking steps to address issues presented by CU in this report. Some activities had already been undertaken as a follow up to the assessment before the response was delivered to CU such as the distribution of new communication materials to farmers, the roll out of the new Prompt Actions reporting protocol, the launch of the support mechanism, the distribution of a booklet with basic safety guidance for farmers, and a survey on CPA storage facilities. These plans are an important step towards the next phase of the ALP Program and significant progress is expected. Future assessments will have to show whether these action plans will have the desired effect, but CU believes that this is feasible as PM IT has a strong internal structure for the implementation of the ALP Program supported by senior management.

Appendices



THIRD PARTY ASSESSMENT

PHILIP MORRIS ITALY

AGRICULTURAL LABOR PRACTICES PROGRAM

Appendix 1. PM IT response and ALP Program action plan

Introduction

Philip Morris Italy (PM IT) has started purchasing raw tobacco in Italy directly from farmers' association (ONT Italia) just three years ago (2011), based on a business case approved by PMI for creating a new business unit dedicated to Leaf.

Constrained by the regulatory environment (which limits the level of direct interaction with individual farmers), PM IT implemented a fully outsourced business model through three main business partners:

- A processing service provider for green leaf inbound, processing and logistic services;
- A Buying and Agronomy service provider for buying services, agronomy advice and supervision of FTs;
- A Farmers' association (FA) for supplying green leaf and coordinating the activities of FTs.

Control Union assessed this business model as very complex given the number of stakeholders involved. On the other hand, this model allows PM IT to interact with one single supplier for green leaf which aggregates and sells to PM IT the volume produced by almost 1.000 growers located in three different regions (Campania, Umbria and Veneto).

Although initially this model allowed PM IT to manage the leaf purchasing business with limited internal organization resources the increasing complexity of the operation and the need to provide a high quality service (e.g. the implementation of PMI's "vertical integrated leaf best practices" and other PMI initiatives such as the ALP Program) has led to a significant increase in the number of people in the Italian leaf organization which, as of January 2014, includes 7 employees.

Notwithstanding the limited organization resources in place, since the beginning PM IT management was extremely committed in supporting the launch of the ALP Program and its rollout.

This Control Union assessment came immediately after PM IT first steps in implementing the requirements of Phase 1 of the ALP Program. Although the assessment was conducted at a stage where the results of the initial efforts might not yet be fully visible, it provides a clear picture of the working conditions in the tobacco sector in Italy, is helping PM IT to set up more tailored farm level initiatives to improve the overall picture, and will facilitate the transition for the second phase of the ALP Program by setting a baseline to work from.

Although CU acknowledged PM IT progress during the Phase 1 of the program, the analysis of the farm level situation identified some important risk areas. These risk areas are not specific to tobacco but rather a feature of the challenges faced in the Italian agricultural sector. As such, they need to be addressed in the context of a comprehensive action plan where a wide range of stakeholders needs to be

involved. Below PM IT outlines the main elements of such plan, whose implementation begun already in 2014.

Philip Morris Italy (PM IT) progress with the ALP Program implementation

Governance and organizational improvements

- a) Personnel awareness and understanding of the practical situations that might configure forced labor and the measurable standards of the ALP Code Principles

Control Union pointed out the need to improve personnel and farmers' knowledge and understanding of some of the ALP Code Principles, namely the ones dealing with forced labor and compliance with the law.

PM IT commits to improve the communication in this area. Concretely, a revamped version of the ALP Code Principle and Measurement Standards will be developed and spread through farmers and workers in Q2 2015. This booklet will include practical examples highlighting specific situations and the potential risks they may encompass.

PM Italia, following the suggestion of CU, included in the service agreement renewal with the external organizations ALP objectives to be measured with specific KPIs.

Indeed, specific refresh training sessions dedicated to external organizations have been conducted already in 2014.

- b) Field technicians' commitment to the ALP Program

PM IT requested FA to have, as of the 2014 crop, field technicians fully dedicated to the farmers selling tobacco to PM IT.

PM IT, in 2014, provided these field technicians with specific refresh training, focused on their understanding of the Code's standards, and their ability to communicate, monitor and follow-up on actual issues identified or risk factors.

- c) Communications materials used during the Phase 1

New materials (leaflets and calendars) have already been developed and provided to farmers during the 2014 crop season, correcting typos and translation mistakes identified by Control Union.

- d) Farm monitoring and profile data collection

Considering the complexity of the overall organization set up, the significant number of contracted farmers and the fact that all the data need to be insert manually in the ALP database, the completion of 100% of the Farm Profiles during the 2012 crop season was a huge logistic effort that, moreover, had its own limitations as confirmed by Control Union.

It is clear that the overall process is not completely effective. To address this issue, PM IT, in 2014, developed an improved Farm Profile form (on paper)

and will address the limitations pointed out by Control Union through the training of the dedicated field technicians. The paper based form is however only an interim solution before the introduction of a global electronic data gathering system (Leaf2GO) which is scheduled by PMI to be implemented in Italy by the end of 2015.

As of 2014, PM Italia, in line with the deployment of ALP Phase 2, provided the FTs with a "Farm Monitoring Form" to enable them to report on the Measureable Standards of ALP Code Principles from 1 to 4 (considered as the most relevant ones). The initiative has been widely implemented by FTs during their monitoring activities, and represented a useful tool for PM Italia to verify the progress in compliance.

e) Prompt Action Situations

The "Prompt Action" protocol was revised in 2014 to address CU's observation (i.e. distinguishing "prompt actions" from other situations where the Code's standards might not be met) and rolled out to all field technicians during Q2 2014. The roll out of this new template was supported by information sessions to clarify the nature of the potential issues requiring "prompt action".

Should FA's field technicians observe a situation on the farm that fits into this category, they are required to immediately report and describe the situation observed. The action(s) to be taken depend on the nature of the issue but encompass (at a minimum) an instruction to the farmer who is ultimately responsible for the resolution of the issue. The revised training for field technicians will include more guidance on "prompt actions" and the reporting process, and PM IT will promote regular information exchange among the teams of the different tobacco growing regions.

With the introduction of the second phase of the ALP Program, which includes systematic monitoring, PM IT believes the reporting process will be facilitated and reinforced.

Specific focus on ALP Code Principles

In addition to the individual actions to be taken by field technicians with the farms they supervise (on a case-by-case basis whenever a problem is identified), PM IT acknowledges the need for a more comprehensive approach to tackle the key drivers of the issues or areas of concern identified by CU. Below PM IT outlines its specific plan.

a) Child Labor

Control Union did not find any evidence of Child Labor-related issues or concerns. However, PM IT will continue to reinforce with its commercial partners the importance to protect children at farm level to ensure full adhesion to its standards.

b) Worker's payment and farmers' general obligations under the law

As Control Union noted, the legislation in Italy is very fragmented and complex with differences region by region, in particular with regard to the local minimum wage. Somehow surprising, but also reinforcing this idea, was also the fact that among the labor unions in the municipalities there seemed to be also different levels of understanding about the applicable minimum salary.

In fact, farmers' low awareness of a number of other aspects under the Italian law was identified as a risk factor by Control Union.

In an environment where most farms are small scale family farms it is crucial to stimulate farmers' entrepreneurial behavior, reminding them of their obligations as employers under Italian law and supporting them to uphold their obligations.

In order to achieve this PM IT will reach out to the relevant stakeholders (particularly in the South where informal practices seemed to prevail) to support and involve them in initiatives that improve farmers understanding of their legal obligations.

Additionally, PM IT will deliver specific trainings to FA's field technicians to clarify some of the key information about farmers' obligations towards workers (e.g. basic employment conditions that need to be agreed upfront, applicable minimum salary, working hours, legal requirements for overtime, benefits for permanent workers). Specific materials (e.g. leaflets) will be also developed to enlist the applicable requirements (Q2/2015).

Whilst the overall scarcity of rural workers is a fact and a matter of concern for farmers, as Control Union also pointed out, it creates a dynamics where workers have a great bargaining power. This might help to explain why most farmers were paying at or above the Region's rural minimum wage (higher than the national minimum wage).

Notwithstanding, PM IT will develop information materials for workers where they can found basic information about their legal rights with indications about government bodies in charge of guaranteeing workers' rights protection.

Finally, PM IT will also strengthen the scope of the ALP Support Line, which was launched as a pilot in Umbria region in July 2014 (further described below). This support line aims at providing support to both workers and farmers, including with information on these legal rights and obligations.

d) Working hours, payment and demonstration of actual practices

Another common theme raised by Control Union was farmers' ability to demonstrate their practices regarding payment and working hours, which connects with the need to improve the overall farm management procedures (especially in the South). For example, with regards working hours, issues

identified by Control Union seemed to reflect the seasonality of work on small family farms (particularly during peak harvest season) and in every circumstance there was an agreement beforehand with the workers, and no evidence of involuntary overtime or abusive exploitation. In this context, in addition to reminding farmers about their obligations PM IT considers it important to empower farmers so they can demonstrate their practices, providing them with simple, basic tools (e.g. template models for pay slips and timesheets) for farmers and workers to record payments and the number of hours worked, which additionally would allow a better understanding of the current situation and further dispel potential concerns. (Q2 2015)

In addition, PM IT will request FA's field technicians to encourage farmers to pay the workers directly themselves (as required in the ALP Code), also when they are hired by a third person or, at least, to request brokers to behave for more accountability and for a more transparent process (e.g. providing credible proof of what they are paying to the workers through payslips) (Q2 2015).

f) Migrant workers / Support mechanism

A significant percentage of the agricultural workforce in Italy are migrant workers, and these are sometimes in a vulnerable position. Tobacco is no exception.

However, it is important to highlight that Control Union did not identify any clear situation of abuse, which suggests that the situation of workers in tobacco growing might not be as precarious as in other sectors³¹.

Notwithstanding, in a limited number of farms in the South (3) Control Union identified the use of migrant crews, and other informal practices such as end-of-season payment, which merit further attention as they might present a risk particularly in the case of vulnerable migrant workers.

In order to effectively address these areas of concern that reflect wider systemic problems connected with the complex issues of immigration in Italy, PM IT efforts alone are clearly not enough. No one company can bring about significant improvements in the situation of migrant workers without a much wider involvement of many different stakeholders. PM IT is committed to do its part and, moreover, as part of this action plan, will actively seek common ground and initiatives with other stakeholders for finding practical solutions for workers problems and farmer's needs.

One such example is the ongoing work to set up a support mechanism for farmers and workers. PM IT acknowledges the importance to provide workers with a trusted resource for voicing out and addressing their concerns, and as an effective way for mitigating the concerns raised by Control Union in a number of areas (e.g. doubts about the situation of migrant workers). PM IT understands that the success of such initiatives rely on the trust built over time and, still in 2014 developed a pilot program of a

³¹ <https://www.amnesty.org/en/documents/EUR30/020/2012/en/>

support mechanism for farmers and workers in the Umbria region with CESVOL (a local NGO) and VITA Makers. PM IT will monitor the results of this pilot, before considering a deployment in other areas.

g) Improve farmer's adoption of general safety standards and specific measures to address concerns regarding GTS and CPA

All people who handled CPA were properly trained by ONT's field technicians and had the legally required license for CPA application. However, proper CPA storage and re-entry period after application in the fields were a challenge on a significant number of farms.

Further general awareness about safety hazards needs improvement, particularly among workers and in the South regions.

The issues reported by Control Union relate not only to a simple matter of awareness (100% of the farmers knew about requirements for use of PPE when harvesting or CPA application) but, most importantly, with how the awareness is being translated into everyday practice (e.g. taking protection for GTS).

To address the concerns about how knowledge is being translated into practice PM IT has delivered a two days training targeting the FTs, so as to build their skills and capacity to promote the required behavior change. The training sessions took place in December 2014 and were conducted by an expert third-party organization specialized on health and safety topics.

By Q2 2015, a user friendly booklet will be distributed both to farmers and workers which integrate the basic safety requirements set by law and the requirements requested by PMI under the ALP program.

In addition, an "ad hoc" training will be developed in cooperation with a third-party expert organization in order to define specific and targeted messages to farmers and workers. Selected farmers will be encouraged to attend these training sessions by the technicians, for which there will be:

- a) participants in a voluntary basis;
- b) farmers which have experienced or have challenges with their practices and infrastructure.

Finally, in support of these awareness raising and behavior changing efforts, PM IT will provide FA's field technicians with PPEs (for GTS and CPA) for all family members and workers working on the tobacco fields (expected for Q2 2015). FA's field technicians will also continue to provide advice to farmers on how to use PPE adequately and will continue to disseminate the proper information materials prepared and printed by PM IT. An annual survey for verifying the CPA storage type and status is conducted since Q3 2014. This survey allows PM Italia to prioritize areas and farmers where the minimum storage standard are not reached as defined by ALP Code. In this way, it can foster both farmers and famers' organization to ensure that all contracted farmers meet the requirements of the ALP Code in the next years.

h) Enforcement

PM IT will propose to FA specific measures (including, where necessary, contractual amendments and undertakings) to enable FA to terminate, also upon request by PM IT, contracts with farmers, in case sound evidence or reasonable threat of breach of mandatory provisions of laws and regulations emerge in relation with the contract activities.

Concluding Remarks

It is important to highlight that PM IT is one of the most recent vertically integrated organizations within PMI, with a fully outsourced business model and without an internal agronomy organization. It has been contracting with the farmers' association for only three years but within this short period of time it has strived to promote good practices across the whole range of labor, environmental and crop quality topics.

Of course PM IT has to face some challenges: specifically, farmers' education to reach the ideal farm standards in both economic and cultural aspects. In these terms, the improvements to be achieved in farming practices are especially relevant in South Italy where the small size of farms, limited mechanization and the local culture are the main issues to be addressed with continuous improvement year by year.

Through this action plan, PM IT commits to implement a wide-reaching and integrated set of actions to address and reduce or eliminate many of the issues or risk factors raised by Control Union. Concrete progress is expected and PM IT is committed to make important improvements and learnings.

PM IT Team dealing with the ALP Program is formed by a multidepartment group from Legal, Leaf and Corporate Affairs departments, allowing proper background and expertise to address all challenges and is supported by PM IT's Senior Management who is committed to promote the necessary actions.

Appendix 2. ALP Code

ALP Code Principle 1: Child labor

There shall be no child labor.

Measurable Standards:

- 1) There is no employment or recruitment of child labor. The minimum age for admission to work is not less than the age for the completion of compulsory schooling and, in any case, is not less than 15 years or the minimum age provided by the country's laws, whichever affords greater protection.³²
- 2) No person below 18 is involved in any type of hazardous work.
- 3) In the case of family farms, a child may only help on his or her family's farm provided that the work is light work and the child is between 13 and 15³³ years or above the minimum age for light work as defined by the country's laws, whichever affords greater protection.

ALP Code Principle 2: Income and work hours

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

Measurable Standards:

- 1) Wages of all workers (including for temporary, piece rate, seasonal, and migrant workers) meet, at a minimum, national legal standards or agricultural benchmark standards.
- 2) Wages of all workers are paid regularly, at a minimum, in accordance with the country's laws.
- 3) Work hours are in compliance with the country's laws. Excluding overtime, work hours do not exceed, on a regular basis, 48 hours per week.

³² As an exception, pursuant to ILO Convention 138, developing countries may under certain circumstances specify a minimum age of 14 years.

³³ The same ILO convention 138 allows developing countries to substitute "between the ages 12 and 14 in place of "between the ages 13 and 15".

- 4) Overtime work hours are voluntary.
- 5) Overtime wages are paid at a premium as required by the country's laws or by any applicable collective agreement.
- 6) All workers are provided with the benefits, holidays, and leave to which they are entitled by the country's laws.

ALP Code Principle 3: Fair treatment

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

Measurable Standards:

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

ALP Code Principle 4: Forced labor

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

Measurable Standards:

- 1) Workers do not work under bond, debt or threat and must receive wages directly from the employer.

- 2) Workers are free to leave their employment at any time with reasonable notice.
- 3) Workers are not required to make financial deposits with employers.
- 4) Wages or income from crops and work done are not withheld beyond the legal and agreed payment conditions.
- 5) Farmers do not retain the original identity documents of any worker.
- 6) The farmer does not employ prison or compulsory labor.

ALP Code Principle 5: Safe work environment

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

Measurable Standards:

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

- 6) Accommodation, where provided, is clean, safe, meets the basic needs of workers, and conforms to the country's laws.

ALP Code Principle 6: Freedom of association

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

Measurable Standards:

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

ALP Code Principle 7: Compliance with the law

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

Measurable Standards:

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