



PHILIP MORRIS
INTERNATIONAL

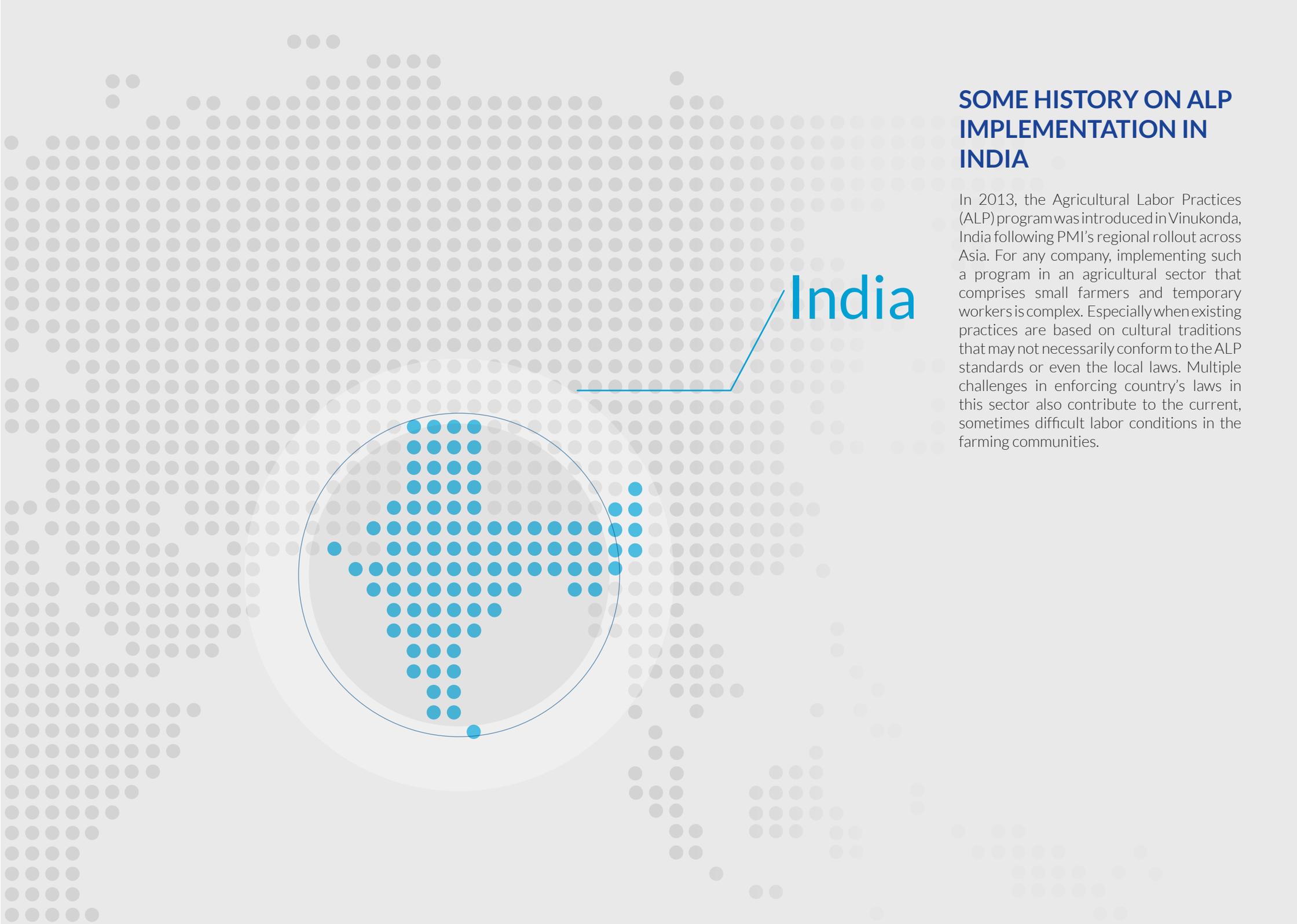
ALP PROGRESS UPDATE
**FOCUSING ON
INDIA**

3/2019



SOME HISTORY ON ALP IMPLEMENTATION IN INDIA

In 2013, the Agricultural Labor Practices (ALP) program was introduced in Vinukonda, India following PMI's regional rollout across Asia. For any company, implementing such a program in an agricultural sector that comprises small farmers and temporary workers is complex. Especially when existing practices are based on cultural traditions that may not necessarily conform to the ALP standards or even the local laws. Multiple challenges in enforcing country's laws in this sector also contribute to the current, sometimes difficult labor conditions in the farming communities.



India

When PMI's supplier, Godfrey Phillips India (GPI), started in 2014 to communicate the ALP code requirements to the farmers they had to face and address these challenges. GPI first introduced the collection of farm profiles, including the demographics of the farms and regular farm-by-farm monitoring, both performed by field technicians. In the first year of the roll-out, the process – including the reports of non-conformance – required improvements to ensure it would effectively depict the situation and issues on the ground. It was decided at that time that a more structured approach had to be given to make the program more effective.

In 2015, GPI with PMI's support started implementing significant improvements to the program by building, as a first step, an effective governance structure consisting of the establishment of a dedicated ALP country team and a steering committee overseeing the roll-out. Additionally, GPI enhanced the skills and capabilities of the field technicians and increased their number. These changes led to field technicians that were better equipped to communicate and train the farmers and workers on their

rights and obligations, more comprehensive farm profile information and more accurate visibility of the issues on the ground. Knowing what the issues were led to better designing of interventions in the farms with the goal to meet the ALP standards.

This new sense of commitment from the field teams and the country steering committee who guided and supported their teams was key to achieving progress and making the difference during this transition of the ALP program in India.

GPI considered the issues they uncovered as an opportunity to initiate social interventions to address the root causes and engage with local stakeholders to ultimately improve the labor conditions in the farms. Through collaborations with PMI and third-party NGOs, key initiatives were selected and started in 2015, and have continued to expand ever since.

Since 2011, PMI has been implementing the Agricultural Labor Practices (ALP) program to eliminate child labor and other labor abuses and to achieve safe and fair working conditions and a decent livelihood for all farmers contracted to supply tobacco.

THE ALP PROGRAM COMPRISES FIVE ELEMENTS

- 1 The ALP Code to be followed by over 350,000 farmers whom we source tobacco from.
- 2 Training for PMI's Leaf Sustainable Agriculture teams, suppliers, farmers, and workers about the Code and how to address any gaps when applying it.
- 3 Internal monitoring by over 2,600 field technicians, solving problems and communicating PMI's expectations during their regular visits to farms.
- 4 External assessments by Control Union, a specialist supply chain auditor, to independently evaluate the implementation of the ALP program.
- 5 Collaboration with civil society organizations, governments, and the private sector on initiatives to address systemic issues.

TOBACCO FARMS IN INDIA - KEY DEMOGRAPHICS

STATUS IN 2018

Total IPS Farmers



3,878

▼ -20% vs 2017

Men

93%

Women

7%

People on the farm



61,631

88% School-aged children attending school

Adult

92%

Children

8%

Field Technician



51

76 Farmer per FT ratio

Farm size (ha/farmer)



1.4

Prompt Action Status

2017

Reported **134** Resolved **100%**

2018

| 2017 | 2018 |
|---------|-----------|
| 65 65 | 123 123 |
| 0 0 | 0 0 |
| 0 0 | 0 0 |
| 0 0 | 0 0 |
| 69 69 | 14 14 |

Safe working Environment

Income & Work Hour

Forced Labor & Human Trafficking

Fair Treatment

Child Labor

ELIMINATING CHILD LABOR THROUGH TARGETED INTERVENTIONS

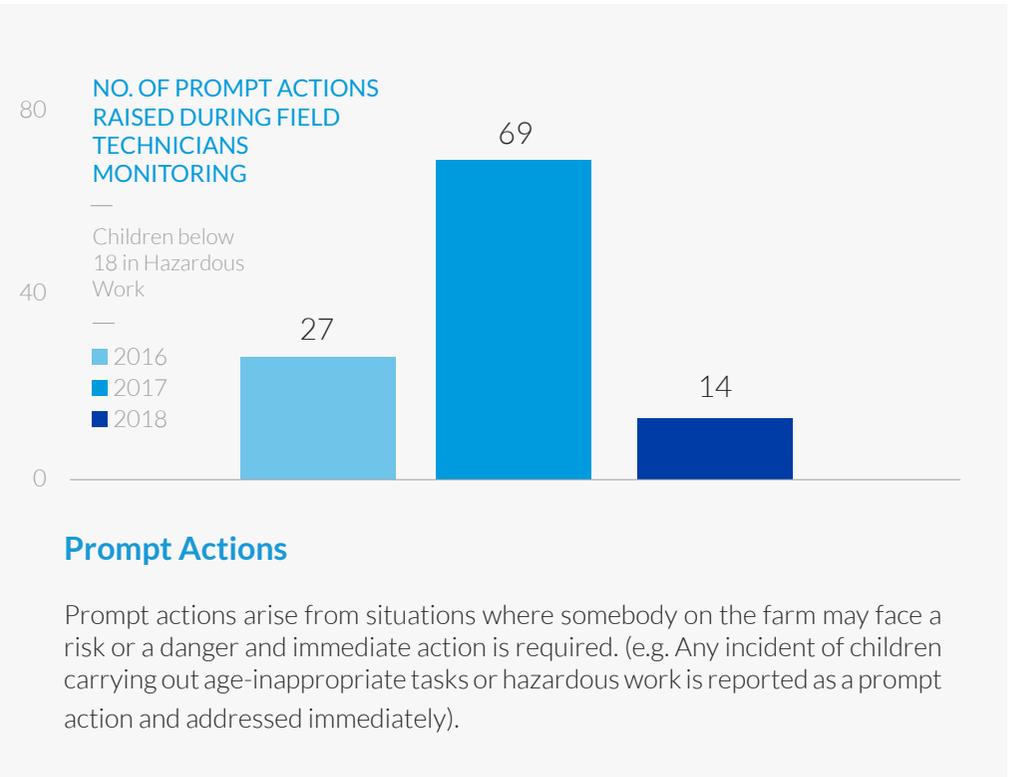
Child labor has been one of the key issues that we had to address.

In the Vinukonda area, the risk of child labor in tobacco is mainly driven by lack of schools or poor-quality education in rural communities, lack of after-school recreational activities, and farmers not understanding the risks of some tobacco-related tasks. Since 2015, we partnered with ASSIST, a leading local NGO, that helped engage with the local communities to initiate school rehabilitation and after-school programs.

The school rehabilitation program is intended to improve school facilities through repairs of school buildings, provision of safe drinking water, establishment of separate toilets for boys and girls, and provision of basic school-yard landscaping with simple playgrounds for children. While they may not be considered as sophisticated additions to school premises, Teachers and parents thought that the project was effective in attracting children to attend school, with

both school enrolment and attendance improving.

Talluri Paul, one of the parent-farmers from Chalivendram, Vinukonda, whose child goes to school as a third grader, said that the improvement in the school inspired his child to spend most of the school hours at school. He also added that he was proud to have his child in such a fine school (because of the improvements).



BEFORE



AFTER



BEFORE



AFTER



AS OF 2018, A TOTAL OF 48 SCHOOLS HAVE BEEN REHABILITATED, REACHING OVER 3,800 CHILDREN IN THE TOBACCO GROWING COMMUNITIES.

| Grop Year | No. of Schools | No. of Children |
|-----------|----------------|-----------------|
| 2016 | 15 | 1,637 |
| 2017 | 9 | 709 |
| 2018 | 10 | 708 |
| 2019 | 14 | 509 |
| Total | 48 | 3,818 |

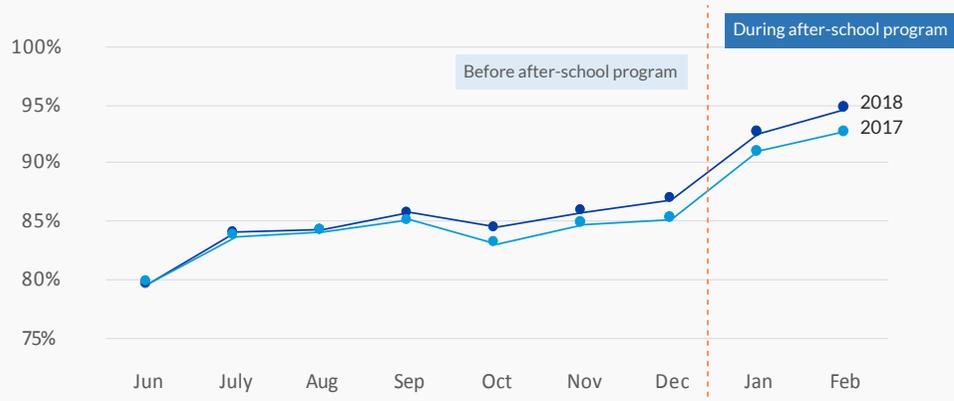


To complement this initiative and address the risks of children engaging in hazardous tobacco tasks (mainly harvesting and tobacco handling) after their classes, we also introduced after-school recreational and learning activities in most of the rehabilitated schools. These additional after-school activities contributed to improving children's enrollment and attendance. GPI's monitoring

(which includes unannounced visits), showed no incidences of child labor in the areas where after-school activities were introduced. As of 2019, there were 35 schools providing after-school programs reaching a total of 3,684 children of which 2,329 (63%) are children of tobacco farmers and tobacco workers.



CHILDREN'S ATTENDANCE RATES IN SCHOOL



Source: ASSIST (School attendance records)



Comparing the attendance rates before and during the after-school activities, school records in 2017 and 2018 show an increase in children's attendance to schools for the months of January and February, the peak of tobacco season when the risk of child labor is the highest.





EXTERNAL ASSESSMENT

GODFREY PHILLIPS INDIA LTD.
Burley farmers in Guntur and Prakasam



Agricultural Labor Practices Program

December, 2017

In 2018, an external assessment, conducted by Control Union in Vinukonda, confirmed the progress made so far to address child labor. It showed a 95% awareness of the standards related to child labor among farmers, 57% among workers and 64% among farmers' family members. There was also no evidence found of children below 18 years of age being employed or helping with any tobacco work at their family farm for all 63 farms visited during the assessment.

Despite the positive results of the assessment, GPI is committed to continuously improving the farm-by-farm monitoring and field technicians' skills to identify and help address potential child labor incidences. GPI has also introduced a stricter consequence management approach, including non-renewal of farming contracts in cases of recurrent issues on child labor found in farms; however, to date, there have not been any recurrent child labor issues.

Looking ahead, in 2020, we plan to expand the rehabilitation program to cover at least 12 more schools. In parallel, GPI will introduce "Kids' Day" sessions (Involving entertaining activities and role plays) in additional villages to further raise awareness of child labor and the risks related to tobacco growing to both children and their parents.

"Control Union asked farmers, family members and workers what had changed on their farms since the start of the ALP Program. The general feeling was that the number of children working in tobacco production had decreased and that work safety had increased. Furthermore, it was reported that the relationship between farmers and workers had improved in the entire region throughout the last years, parallel to the ALP implementation."

**Excerpt from Control Union
Assessment Report, 2018**

IMPROVING SAFE WORKING CONDITIONS IN THE FARMS

There is no doubt that maintaining safe working conditions in the farms is one of the key challenges that GPI has faced since the beginning of the ALP roll-out. This is due to farmers' lack of awareness of basic farm safety practices, and the notion that safety is not a priority given the low reported number of accidents or injuries in the farms. Since 2012, the supplier has provided locked storage for farm chemicals to their farmers. In the succeeding years, complete Personal Protective Equipment (PPE) kits have also been provided to farmers and workers to ensure safety during crop protection agents (CPA) application and to prevent Green Tobacco Sickness (GTS). Awareness raising trainings on proper usage of protective equipment are regularly conducted with both farmers and workers, including the provision of manuals.

In addition to protective equipment and CPA storage, that prevent workers and farmers against exposure to chemicals and green tobacco sickness, first-aid kits were also distributed to farmer clusters in 2017. This is to ensure access to basic first-aid in case of minor injuries that occur on the field.

In line with PMI's step change commitments, GPI will continue working on improving its strategies to address the root causes of unsafe farming practices and ensure that all people working on the farms are trained and have access to relevant equipment. In addition to the provision of protective equipment, GPI will enhance monitoring to ensure the workers' effective usage of appropriate equipment. In case of recurring non-conformances to this requirement, GPI will apply a consequence of the non-renewal of contracts to farmers.

"Awareness about Green Tobacco Sickness (GTS) among farmers was high and complete sets of protective equipment were worn by all workers at 95% of the farms visited by Control Union. Farmers were happy that GPI had provided the sets and mentioned that, before the training from GPI, they had not been aware of the hazards of GTS."

Excerpt from Control Union Assessment Report, 2018



ENGAGING WORKERS THROUGH AN EFFECTIVE GRIEVANCE MECHANISM

As workers and farmers are placed at the core of the ALP program, it was necessary to provide them with access to a grievance mechanism where workers and farmers could raise concerns and seek help. Given that in India there was no existing mechanism that could support tobacco communities to resolve labor disputes or conflicts, GPI and PMI decided to establish a grievance mechanism model. We started in 2016 by conducting a baseline study to identify an implementing partner and better understand the challenges of this undertaking. In 2017, with the support of ASSIST, we built a local grievance body, called “Racha Banda,” or “Informal Dispute Redressal” (IDR). This body is composed of volunteer local leaders, farmers, as well as workers assigned to resolve issues raised by either workers or farmers. We started by conducting pilot grievance mechanisms in three villages covering 276 farmers and 346

workers. The strategy was to rely on a series of community activities, including street plays in order to raise awareness about these newly created mechanisms and their purpose.

PMI had regular consultations with the dispute redressal body to help ensure that all grievances are properly documented, resolved, and followed up to ensure the closure of issues. At the end of the crop season in 2017, there were 21 labor related issues and conflicts brought to the IDR with 76% coming from women workers. Issues reported include, among others, delayed payments, inadequate working conditions and safety issues. The fact that workers and farmers trust the IDR body and seek support, is a testament that this local grievance mechanism works and adds value to the communities.

This structure has since expanded to a total of 20 villages and resolved a total of 71 disputes between farmers and workers. The IDR committees in the villages continue to function through regular meetings, under the NGO’s supervision.

This initiative will continue to ensure that workers, especially women workers, are given an opportunity to raise their grievances as well as being members of the IDR body contributing in the dispute resolution among farmers and workers.





ENHANCING COMMUNITIES' WELLBEING

To generate a more holistic impact in the tobacco growing areas, the initiatives undertaken to address labor issues were integrated into relevant programs in the communities. These initiatives cater to people's specific needs, whether for their household use, simple infrastructures that aid in their farming, or health-related services that are lacking in the villages.

Among the key initiatives, there was the installation of 22 water treatment stations providing drinking water to 22 villages with 1,400 farmers and over 35,000 people. Five check dams were also built in areas prone to drought enabling farmers to grow their crops (not only tobacco) even during drier years. A total of 112 medical camps have been conducted, reaching over 2,400 farmers.

GPI clearly understand that these types of contributions are important to the farming communities. The objective is of course to support farmers to align their practices with the ALP guidelines and achieve sustainable farming production, while in parallel finding more opportunities to improve farmers', workers' and communities' livelihoods.

"The number of projects undertaken by GPI showed that the company considered ALP not only as a PMI requirement for Burley farmers, but also as an opportunity to improve general living conditions in the region. Considering that local communities in India tend to be very closed to outsiders, the CU auditors from India, in particular, were impressed by the good relationship between farmers and field technicians..."

**Excerpt from Control Union
Assessment Report, 2018**

MOVING TOWARDS A STEP CHANGE

While significant progress has been made particularly in addressing child labor and ensuring a safe working environment, some issues persist. Based on GPI's internal monitoring, field technicians still report non-usage of PPE among workers and a few cases of children working in the farms. However, our biggest challenge is to ensure that workers are paid at least the minimum wage.

Based on GPI's internal monitoring and the Control Union assessment, it was reported that several farmers were not paying the minimum wage, especially when the work was task-based. In addition, women workers were also found to be particularly impacted given that they were often paid lower than men for the same type of work, which constitutes also a violation of the ALP Code.

The non-payment of minimum wage is particularly complex given that it is an issue of the whole agricultural sector in India, applying not only to tobacco, but also to other crops. The practice is that farmers and workers agree in advance of the season on a fee which is often lower than the legal minimum wage.

In order to address this, GPI analyzed the root causes and drivers of the issue based on their farm monitoring, they mapped the different payment practices across different growing areas and identified a set of potential actions that will be tested in one village. Bearing in mind the sensitivity of the issue, and the possible consequences to other crops, GPI

will carefully implement the corrective actions and ultimately ensure sustainable solutions for the benefit of both farmers and workers. The pilot is planned to start in the next crop season in 2020.

In addition to the above-mentioned pilot, GPI plans to establish later this year self-help groups to empower women in the communities to contribute to households' overall income. Additionally, these groups will have to improve skills of all women working on farms, including the tobacco farmers' wives. This will be achieved through capacity building, financial and livelihood trainings, and establishment of self-help groups' connections to existing governmental programs and micro-business initiatives.

Given the above challenges, GPI is undertaking a critical review of the overall implementation of the ALP program including the current initiatives, governance, field technicians' performance and remediation strategies. In addition, GPI introduced enhanced consequence management and pre-contracting due diligence for the next crop season, aiming to only continue contracting farmers who have demonstrated compliance with the standards or consistent effort to reach them. External verification will also be introduced in 2020, as a follow-up to the Control Union assessment, to further examine the effectiveness of the ALP implementation and relevant interventions. This integrated approach aims to sustainably address the

persistent issues that keep surfacing over the years, and ensure that farmers reach full conformance to ALP standards and ultimately achieve the Step Change global targets.



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We welcome your feedback. If you have comments or suggestions, please contact sustainability@pmi.com

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