



PHILIP MORRIS  
INTERNATIONAL

AGRICULTURAL LABOR PRACTICES  
PROGRESS UPDATE

# FOCUSING ON MEXICO: IMPROVING HUMAN RIGHTS AND LABOR PRACTICES

Q4 2020



## BACKGROUND

Mexico is an important sourcing market for Philip Morris International (PMI). Initially, Philip Morris Mexico (PMM) implemented a direct sourcing model (buying tobacco directly from farmers); however, in 2015, it changed its sourcing approach to purchasing through a third-party supplier, Tabacos del Pacífico Norte (TPN—a subsidiary of Universal Corporation) in the state of Nayarit. TPN, as PMM's supplier, started to implement the Good Agricultural Practices (GAP) framework, which is a demanding set of standards focused on governance, crop, environment, and labor practices. A component of the GAP framework is the rollout and implementation of the Agricultural Labor Practices (ALP) program (see infographic 1). The key aim of ALP is to eliminate child labor and other labor abuses and improve the livelihood of all contracted farmers in PMI's tobacco supply chain.

## KEY COMPONENTS OF THE ALP PROGRAM



The ALP code, based on ILO conventions, comprises seven principles, which apply to the 335,000 farmers worldwide from whom we source tobacco directly or indirectly. The principles are: no child labor, no forced labor or human trafficking, fair treatment, safe working environment, fair income and work hours, freedom of association, and terms of employment.



Awareness-raising and training for suppliers, farmers, workers, and PMI's Sustainable Agriculture teams about applying the code and addressing any shortcomings in the process.



The cornerstone of the ALP program is a robust monitoring system performed across 22 countries by over 2,800 field technicians. They visit the farms regularly to ensure the implementation of the ALP code and identify and address issues requiring immediate remediation.



Layers of control: External assessments performed by Control Union (a specialist supply chain auditor), external verifications conducted by local partners and targeted Human Rights Impact Assessments—to independently evaluate the implementation of the ALP program, the effectiveness of our monitoring system, and our initiatives on the ground.



Collaboration with civil society organizations, governments, academia, and the private sector on initiatives to address systemic issues and to empower communities.



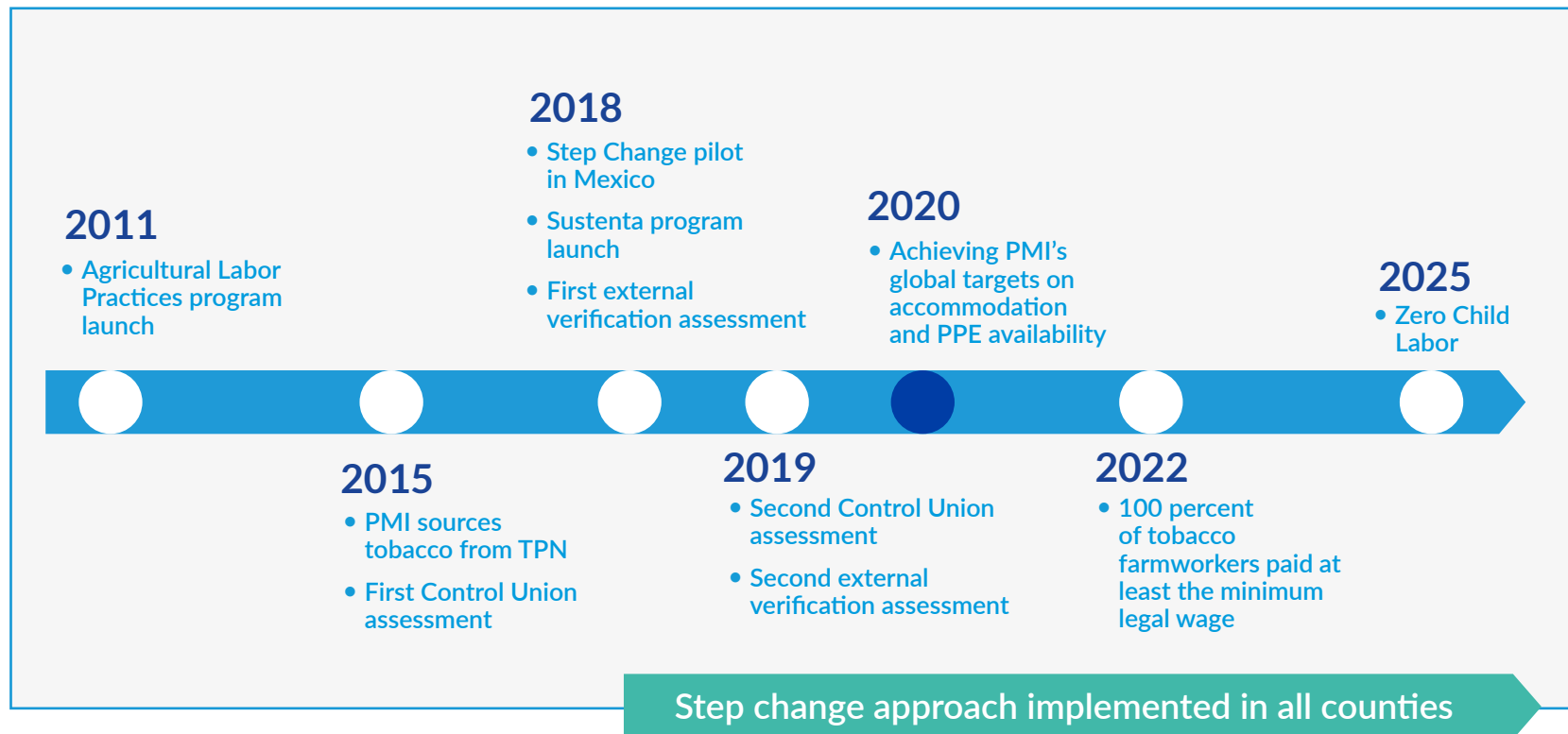
Transparency: We share our progress and challenges annually in our integrated report, we issue quarterly progress updates on specific topics or countries, and we make public all the CU assessments (available at [pmi.com](https://www.pmi.com)).



In 2015, TPN began to implement the ALP program on the ground. This means focusing on extensive training of the field technicians on the ALP code requirements and the other components of the program, such as recording of farm profiles and farm-by-farm monitoring. That same year, TPN monitored almost 80 percent of its contracted farmers against the ALP standards. In the following years, TPN further improved its governance and ensured that proper resources were allocated, covering 100 percent of its farmer footprint in the farm-by-farm monitoring visits.

In parallel, in 2018, the global ALP program reached an important level of maturity, with a more accurate sense of the program's overall performance and improvement opportunities. Looking at consolidated data from all sourcing markets, PMI took the decision to deploy a "step change" approach to achieve significant, long-term "change" for the most recurring issues in the most impacted locations. Mexico was identified as the appropriate learning ground for piloting PMI's new step change approach.

Mexico showed us how a step change could look in practice, and we will analyze this in detail in the following sections. Overall, it helped us identify a set of key principles ([ALP Step Change Guiding Principles](#)) that needed to be put in place in order to achieve impactful results. Thanks to that experience, we were able to implement holistic, integrated strategies that address the root causes of the most persistent issues identified through our control mechanisms (monitoring and external assessments).



THE STEP CHANGE APPROACH WAS THEN REFLECTED IN DECISIVE  
EXTERNAL COMMITMENTS AND AMBITIOUS TARGETS, APPLICABLE  
TO ALL PMI'S SOURCING MARKETS

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ZERO

child labor in our tobacco  
supply chain by 2025



100 PERCENT

of tobacco farmworkers paid at least  
the minimum legal wage by 2022



100 PERCENT

of tobacco farmworkers provided with safe and  
adequate accommodation by the end of 2020



100 PERCENT

of farmers and workers having access to personal  
protective equipment (PPE) for the application of  
crop protection agents (CPA) and prevention of  
green tobacco sickness (GTS) by the end of 2020



## OUR FOOTPRINT IN MEXICO



**+ 1,300**

TPN Contracted  
farmers



**20**

Field technicians



**681**

Farmers providing  
accommodation



**2 ha**

Average tobacco  
farm size



**961**

Prompt actions



**+7,000**

Total workers

**+2,700**

Migrant workers

## THE STEP CHANGE APPROACH IN PRACTICE

Mexico, as mentioned above, was the ideal country for PMI to test the step change approach because of the complexity of its tobacco supply chain. The situation in the region of Nayarit is that tobacco farmers rely heavily on migrant workers from the Cora and Wixáritari (or Huichol) indigenous groups. These workers migrate with their families from Mexico's highlands and settle in tobacco-growing areas for several months. The vulnerability of this population (due to their migrant status and indigenous cultures), exposes them to potential human rights and labor rights risks (e.g., poor living and working conditions).

Typically, the earnings during the tobacco season are the main source of annual income for these indigenous families. Therefore, maximizing the number of working hours, and consequently income (as they are paid on piece-rate), is the key reason why they often prefer living and sleeping on the field, in order to not lose time and money commuting (as often accommodation options are at a distance). After an in-depth, root-cause analysis of the complex and systemic problems in the area, in consultation with all relevant stakeholders (workers, indigenous leaders, field technicians, NGOs, local authorities, and companies from other sectors) and our strategic partner, Verité, in 2018, the Sustenta program was established. Sustenta is TPN's sustainability program, which includes a comprehensive action plan to improve the poor living and working conditions of migrant

workers in Nayarit, while contributing to achieving PMI's global targets.

More specifically, the analysis conducted showed that the initial work needed to be focused on:

- Preventing workers from living on the tobacco fields;
- Preventing night work;
- Providing adequate accommodation to all migrant workers;
- Providing workers with access to shaded areas for rest and to toilets and washing facilities;
- Ensuring availability and usage of PPE for harvesting and crop protection agents' application.



## ENABLING CHANGE: TARGETED INITIATIVES

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The Sustenta program introduced a comprehensive action plan that included targeted initiatives on the ground to address the identified risks. It started with the reorganization of work and labor schedules on Nayarit's tobacco farms.

The initiatives included improving workers' accommodation, providing the necessary PPE, constructing resting areas on the fields, and funding childcare centers. Extensive communication efforts were also undertaken with the objective of informing farmers and both local and migrant workers of the program and its benefits.

To support the overall implementation of the Sustenta program, PMM and TPN partnered with Fundación de Apoyo Infantil (FAI).



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*For me, this program is a great example of what we can achieve when we believe that change is possible; when a company has a clear commitment to make things happen despite the complex context. In Philip Morris, we always challenge the status quo. For us, good is never enough, and we are always looking for different ways to do things better and to have a positive impact in the communities where we buy the tobacco.*

*In Nayarit, we have been working to support our tobacco supplier in order to move forward and comply with our Agricultural Labor Practices code. Great things have been achieved; not only giving comprehensive attention to the children of migrant workers, but also improving the quality of life and the labor conditions of thousands of tobacco farmers and workers. For us, sustainability begins in our value chain, working together with allies that can help us change lives.*

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— Paulina Villegas, manager, sustainability,  
External Affairs Mexico



# IMPROVING LIVING AND WORKING CONDITIONS

A key risk identified during the root cause analysis in 2018 was related to living and working conditions. The most severe risks included migrant workers sleeping on the fields without access to accommodation, toilets and washing facilities, and ensuring at least minimum wage payments.

## MINIMUM WAGE PAYMENTS

The main driver of the indigenous migrants' problems, as mentioned above, was that they were paid by the piece, and the amount of money earned was the main source of their

annual income. This meant that the more hours they worked, the more pieces they were able to make and, therefore, the more income they could generate. Migrant workers were used to working long hours into the night and would sleep on the fields to maximize their earnings. A key action TPN took was to apply a 25 percent increase on the piece-rates paid to workers, with annual adjustments for inflation. By doing this, TPN was aiming to ensure that without night work, migrant workers would earn the same amount of money as before the Sustenta action plan, but with good working conditions.



Before: Workers did not use the recommended PPE



After: The worker is using the full recommended PPE (at a minimum, long sleeves, long pants and gloves).



## ACCOMMODATION AND RESTING AREAS

The second focus area was to ensure that workers were no longer living in tents on the farms and are provided access to safe and adequate accommodation protected from the hazards of agricultural field. As a key component of Sustenta, TPN, Verité, and FAI developed a set of minimum accommodation standards in line with local legislation and relevant international frameworks. Farmers established action plans to identify potential accommodation options (in their own or in rented houses) and then worked to upgrade the proposed structures and align these with the defined standards.

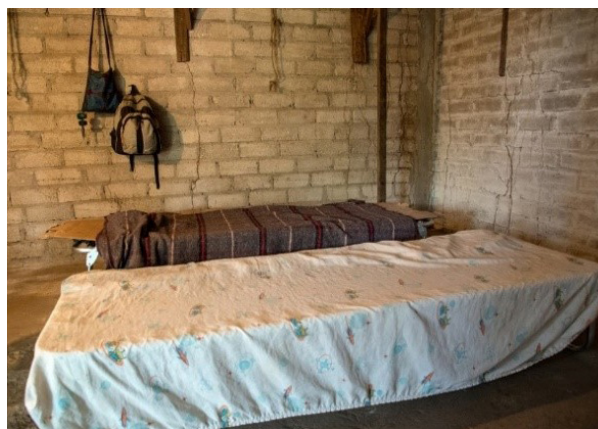
With the introduction of the new standards, much of the provided accommodation required some refurbishments, including building safer structures, providing access to electricity, an adequate number of beds, and cooking facilities, among others. Where accommodation was far from the field, farmers also needed to provide transportation to workers. After implementing the Sustenta program for several years, the 2020 results show that all 2,700 migrant workers and their families (four to five members per family) are provided with safe and adequate accommodation, with final refurbishments being currently validated by external assessments.

Lastly, farmers upgraded resting areas on the fields to provide workers' access to water and sanitation and shaded areas for breaks. In 2020, more than 7,000 local and migrant workers benefited from this initiative and now have more comfortable working conditions.

In this important endeavor, farmers invested significant resources to align with the defined standards and, thus, provide proper living and working conditions to workers. TPN, acknowledging this financial investment, contributed with monetary incentives to farmers that had implemented the action plans, covering the relevant costs for a three-year period.



*Before: migrant workers were sleeping in tents on the field*



*After: farmers provide migrant workers with accommodation*



## SAFE WORK ENVIRONMENT

An integral part of the ALP code is the safe work environment principle. This includes availability and usage of PPE to ensure safety while working on a tobacco field, especially when handling CPA and green tobacco.

When the Sustenta program began, sets of PPE were not commonly available on tobacco farms. This represented a high risk for farmers and workers as they were exposed to hazardous chemicals and to green tobacco sickness. TPN began a comprehensive distribution campaign to ensure that everyone working on tobacco has access to appropriate PPE.

However, despite the successful provision and the many improvements made over the years, there are still some challenges with the usage of the required PPE. In fact, using the recommended PPE items in certain conditions might be uncomfortable for farmers and workers. This is especially noticeable for PPE used to prevent green tobacco sickness (during harvesting and stringing tobacco) as workers need to wear long-sleeve shirts, pants, gloves, and closed footwear in hot weather. To increase usage, TPN and PMM are exploring innovative solutions to deliver PPE kits with materials and alternative designs that provide more comfort and safety.



*Before: Workers harvested tobacco without using PPE.*



*After: Workers harvesting tobacco with the PPE distributed by TPN.*



“ For the last six years, we’ve been working on this great initiative promoted by Philip Morris, aimed to protect the rights of workers’ children and adolescents by providing them with food, education, and health in the centers for education and child care (CECI); spaces that offer them conditions of equity and inclusion for a better future. ”

— María Josefina Menéndez Carbajal, Fundación de Apoyo Infantil CEO



## PREVENTING CHILD LABOR

The risk of child labor in the tobacco supply chain of Nayarit was high, especially because indigenous workers migrate with their families. Children did not have access to local schools and would stay with their parents on the tobacco fields, in the absence of any alternative. Even if they are not actually working, the very presence of so many children was of concern.

PMM and TPN introduced a targeted initiative to prevent child labor by operating dedicated childcare centers (Centros de Educación y Cuidado Infantil—CECI, or child care and education centers). This approach was, however, further reinforced in 2018, with the implementation of the Sustenta program, as the CECI proved effective at addressing the root causes of child labor among migrant families. In 2020, FAI took over the operation of the centers and has strengthened the program by enhancing child protection and awareness activities.

The four CECI provide a safe space for migrant workers’ children (ages 2 to 14) where they receive comprehensive care, including: schooling, meals, and medical attention during opening hours. On top of that, FAI provides children safe transportation to and from workers’ accommodation. In 2019 alone, 44 trained social workers positively impacted, taught, and supported over 1,300 children. This has reduced the presence of children on the tobacco fields and the risks and incidences of child labor.





“ *I like my children to come to CECI. We don't worry because our children don't get sick from being in the field. I feel happy because now we have water, bed, light, everything!* ”

— Anselmo, worker, 34 years old

“ *Everything was very fun; I liked meeting the people who take care of our children and who teach them to learn what is important while we are working in the field, because it makes us feel safe.* ”

—Herminio, father, 30 years old

The CECI program integrates the implementation of a comprehensive care model (Modelo de protección integral con enfoque de derechos) with the objective to improve the health as well as the emotional and physical development of children. The program also provides formal education to children who participate in the centers. During the week, it includes workshops and activities for parents and children with various topics such as child protection, health and hygiene, and emotional welfare. In addition, the centers also raise awareness of the ALP code through information sessions, workshops, and recreational activities. These reached over 500 families (both of farmers and migrant workers) in 2019.

This holistic approach is key to achieving the ALP program's ultimate aim of improving livelihoods of all contracted farmers and the surrounding communities.



## ENABLING CHANGE: RAISING AWARENESS



“ I learned that we must use the personal protection equipment: boots, hats, gloves, etc., to carry out well-protected field work, as there are many dangers. ”

—Francisca, farmer, 63 years old

To enable the changes needed (no tobacco work after sunset, provision of decent accommodation, and improved working conditions in the field), communication was critical. Every effort was made to create the conditions necessary to overcome cultural barriers, and, in parallel, create a sense of empowerment within the indigenous community.

PMM supported TPN in developing communication material to distribute to stakeholders, including field technicians and farmers. Additionally, TPN developed a sensitization campaign in the workers' communities of origin with the support from the National Institute of Indigenous People. A key stakeholder in the process was ARIC (Asociación Rural de Interés Colectivo de Productores de Tabaco), that not only supported the decisions of TPN and PMM, but has also strengthened the communication with farmers. The objective was to ensure that the requirements were understood and perceived positively by both farmers and the indigenous migrant workers.

PMM and TPN, with the support of FAI, strengthened this awareness-raising campaign by reaching out to indigenous migrant workers before they arrived on the

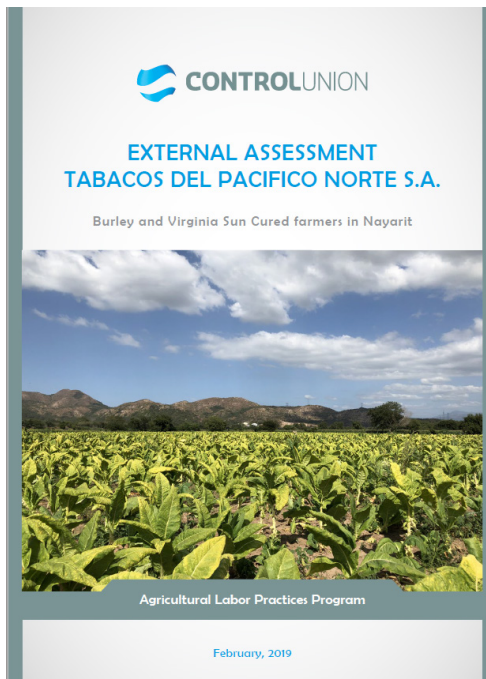
field. FAI organized trainings through group meetings with indigenous migrant workers and TPN field staff in their communities of origin. Radio messages were also aired to reach the most remote communities. In addition, TPN identified indigenous workers and community leaders to amplify the message and support advocacy efforts among their peers. This proactive approach proved to be very effective in communicating the key requirements and were successfully applied by the majority of migrant workers.





# ASSESSING OUR PRACTICES

One of the key components of the ALP program are the various layers of control (infographic 1), implemented through external assessments. The objective of these is to evaluate the implementation of the ALP program and the effectiveness of the monitoring system and the impact of initiatives on the ground. External third-party assessments are performed by Control Union (CU), a specialist supply chain auditor, whereas external verifications are conducted by local partners in select countries.



## CONTROL UNION

The CU assessment evaluated the labor practices on contracted farms, and assessed whether these were meeting the standards of the ALP code. CU also evaluated TPN's internal structure and capacity to implement the ALP program, the understanding of farm practices, and how issues were being identified, recorded, and addressed.

The main findings were related to the principles of no child labor, income and work hours, safe work environment, and terms of employment. CU made several important recommendations, such as the potential to improve training on wearing PPE to avoid green tobacco sickness and exposure to hazardous chemicals and proper storage of CPA containers. Various risks were also highlighted related to children involved in tobacco activities and low awareness among farmers and workers on overtime rates and workers' legal benefits.

In addition to the above-mentioned opportunities for improvement, many positive findings were also identified, mainly based on interviews with farmers, workers, and family members. These included the payment of the legal minimum wage to the majority of workers as well as improvements in overall safety conditions on the farms and a significantly lower number of workers sleeping on the fields.

Following this assessment, TPN further confirmed its commitment to addressing the issues identified and integrated the areas of improvement and relevant recommendations in the 2020 revision of the Sustenta action plan.

## EXTERNAL VERIFICATION

External verification (EV) by local partners was introduced in 2018 with the twofold objective of verifying the effectiveness and accuracy of farm-by-farm monitoring by PMI's suppliers and, in parallel, providing recommendations on improving the impact of initiatives aiming to address issues.

In Mexico, FAI has been our implementing partner in this EV work, supporting PMM and TPN to understand objectively the progress of the Sustenta program. In addition to assessing the overall implementation of the ALP step change program on the ground, FAI was also tasked with verifying a) if the accommodation provided by farmers for migrant workers met national law and agreed standards, b) if workers were paid at least the minimum wage, and c) if working conditions had generally improved.

FAI's verification approach involved three components: identification of key performance indicators, on-the-field verification, and recommendations. The reports from the first years showed some discrepancies between the farm-by-farm monitoring data and FAI's findings, in

particular with regard to issues related to accommodation. This prompted TPN to put in place measures, including increasing the number of unannounced field visits by ALP supervisors, in-depth training for field technicians to enhance their monitoring skills (properly identifying issues) and reporting accuracy.

In 2020, due to Covid-19, FAI was not able to complete all the farm visits in scope, hence partial results were reported. Despite this, we could see the progress, efforts, and improvements of the local and migrant workers' situations, not only in the field, but also in the provided accommodations.

Overall, the external verification has proven to be a strong complementary tool for PMM and TPN, to provide a deeper understanding of the remaining weak areas, clear recommendations on what needed to be done, and valuable support to the field team to proactively address issues and risks.

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*Tabacos Del Pacifico Norte, a subsidiary of Universal Leaf Tobacco, has as a priority to offer our farmers and customers a business proposal with a sustainable basis in all the processes of our supply chain, taking care of the environment where we work and its people.*

*In the last three years, we have developed a program focused on caring for people—farmers, workers, and families who work in our tobacco production. The challenge was not easy since we were faced with deeply rooted customs and traditions, but working together with our main client PMM/PMI we found the root cause of the problem, and today with pride we can say that we have made a step change of life in all of them by offering them decent working and housing conditions. This cause has been our greatest satisfaction and commits us to continue working and investing in programs that ensure the sustainability of our business.* ”

— Javier Favela, managing director, TPN



**Tabacos del  
Pacifico  
Norte S. A. de C. V**



“

*High level of commitment and amazing team work with different backgrounds, high support from management teams; I believe that things can change and small wins everyday cheer us on to keep working hard for the last three years to implement a long-term sustainable change for the rural tobacco communities and indigenous working communities in Nayarit. It is a project that also changed my life.* ”

— Paulina Villa, manager, social sustainability Americas



## CONFIRMING OUR COMMITMENT TO CONTINUOUS IMPROVEMENT

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2020 was a challenging and uncertain year due to the Covid-19 pandemic. Our priority as a company is to guarantee the safety and well-being of our employees and do our best to support everyone working in our supply chains while continuing to deliver on our work and programs.

Given the restrictions mandated by the government in Mexico, various activities were halted. We decided to momentarily pause all activities in the CECI to comply with government regulations and to protect the health and safety of personnel and children. Additionally, the farm-by-farm monitoring had to be adjusted to fewer visits by field technicians, and the ongoing external verification had to conclude early (and will resume in 2021, if possible).

Throughout these significant disruptions, PMM supported the vulnerable population in the state by reallocating the funds from the CECI and providing

over 3,000 food packages to farmers, workers, and their families.

Despite the problems and challenges that we are facing in 2020, alongside our supplier TPN, we are accelerating our work in order to reach the two 2020 company-wide targets on accommodation and the availability of PPE.

Looking ahead toward 2021, PMM, together with TPN, FAI, and the growers' association (ARIC), are preparing for the next crop season having as a central objective the security and health of people. In this respect, each involved party has developed a clear and comprehensive protocol to be applied for the uncertain reality we are facing. We will continue working hard to deliver on all our commitments toward achieving zero child labor, ensuring payment of minimum wages to all workers, and improving the livelihoods of farmers and tobacco-growing communities.





## PHILIP MORRIS INTERNATIONAL

We welcome your feedback. If you have comments or suggestions, please contact [sustainability@pmi.com](mailto:sustainability@pmi.com)

Or visit [www.pmi.com/sustainability](http://www.pmi.com/sustainability) to find out more.

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### Headquarters

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

[www.pmi.com](http://www.pmi.com)

### Operations Center

Philip Morris Products S.A.  
Avenue de Rhodanie 50  
1007 Lausanne  
Switzerland

[www.pmi.com](http://www.pmi.com)