



Tobacco


Our core business is tobacco, which generates nearly 90% of our consolidated revenue. Our conventional tobacco products are manufactured in over 30 factories around the world and are distributed in more than 130 countries. In addition to conventional tobacco, we have a Reduced-Risk Product (Reduced-Risk Products are products with the potential to reduce the risks associated with smoking.) portfolio which includes e-cigarettes and tobacco vapor products.

We recognize that cigarettes are a legal but controversial product. People smoke for pleasure but there are real risks that come with that pleasure. That's why we are as clear and transparent about our positions on smoking and health as possible, and we have policies that define our attitude to smoking and responsible marketing.



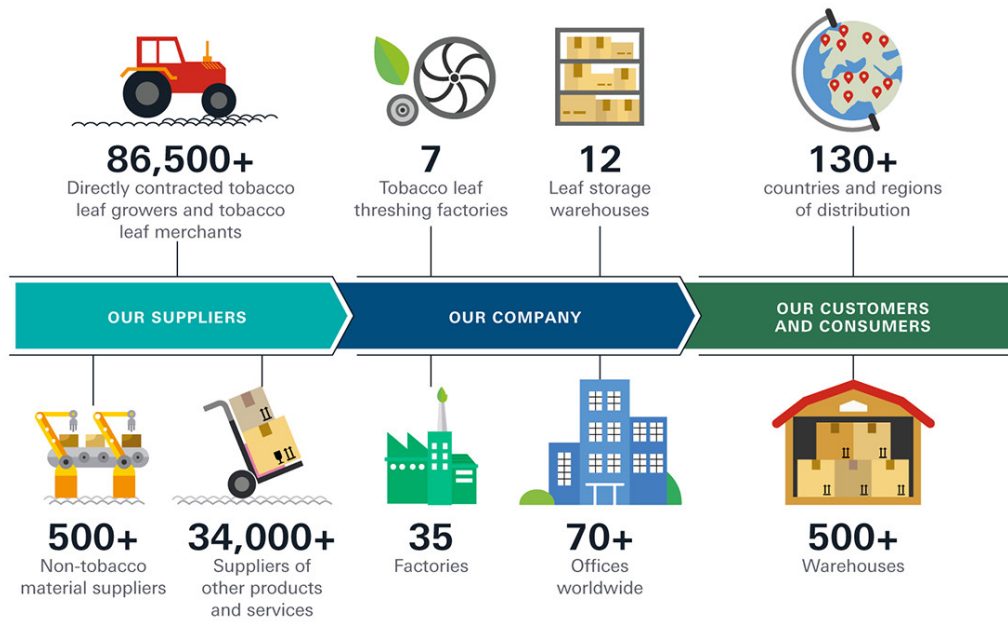
Our tobacco principles

Smoking and health

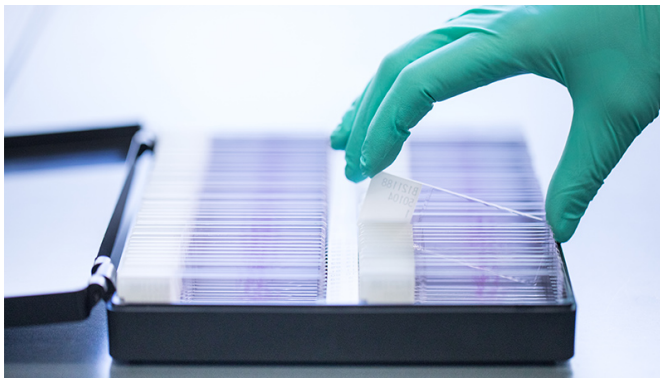
For more details on our approach to responsible marketing, please refer to our [Global Tobacco Marketing Principles](#). 

In the following four strategic focus areas, we cover our approach to sustainability across our tobacco business.

Our tobacco business value chain



The four strategic focus areas of our sustainability strategy



Products and services (RRP) >



Supply chain >



[Optimizing the regulatory environment >](#)

[Investing in people >](#)

[Tackling the illegal trade >](#)

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Reduced-Risk Products (RRP)

Exceeding expectations with products and services

Aspirational goal


We will be a total tobacco company, offering consumers an even greater choice of products by focusing on quality, innovation, and reduced-risk potential.

Target

We will lead in providing the widest range of consumer choice in the Reduced-Risk Product category.

Progress

At the end of 2019, our Reduced-Risk Product portfolio was present in 28 countries, with a choice of three tobacco vapor offerings (T-Vapor) and five types of e-cigarettes (E-Vapor).

Read more about our latest progress on the JT Group's [tobacco business sustainability strategy](#).  .

Our approach

As alternatives to traditional combustible products, e-cigarettes (E-Vapor) and tobacco vapor products (T-Vapor) are gaining popularity with consumers around the world. Our industry is changing, but our commitment to consumer choice remains.

We are always listening and reacting to the changing tastes of adult smokers and vapers around the world. We develop, test, and bring to market new and innovative forms of Reduced-Risk Products (Products with the potential to reduce the risks associated with smoking.) and offer real benefits to consumers, society, and our business.

While we believe that vaping products have reduced-risk potential compared to smoking cigarettes, they should only be used by adult consumers who are informed of the associated risks, including nicotine addiction.

Between 2018 and 2020, we are investing 100 billion Yen in Reduced-Risk Products, to further develop our supply chain and expand our research and development capabilities.

Putting consumers first

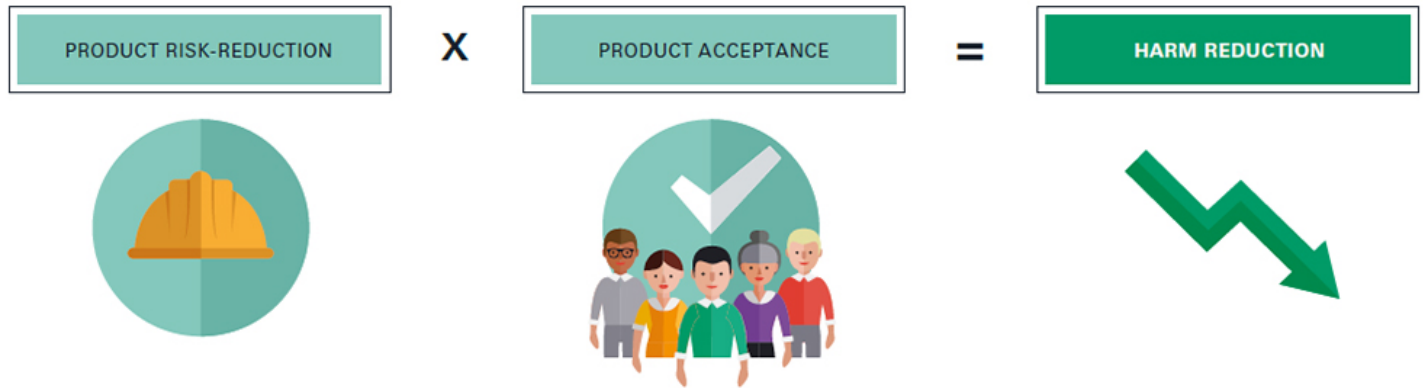
For products to have the potential to reduce the risks associated with smoking, consumers must first understand and appreciate their value. We therefore take a consumer-centric approach towards research and development, and focus on four major factors that motivate consumers to consider Reduced-Risk Products:

- The potential for a product to reduce the risks associated with smoking
- Affordability and value for money
- Social considerations – seeking products with low smell, so as not to disturb others
- The convenience of being able to use a product in a wide variety of locations and situations

This approach to our Reduced-Risk Product research and development reflects the Harm Reduction Equation shown below, and helps us to concentrate on exceeding the expectations of all of our key stakeholders: consumers, shareholders, employees, and the wider society.

The success of any harm reduction intervention is dependent on two factors: its potential to reduce the risks associated with a particular activity and the number of people who adopt the intervention. Their potential value is lost when consumers do not accept these alternative propositions.

HARM REDUCTION EQUATION



OUR CONSUMER-CENTRIC STRATEGY BENEFITS FOUR KEY STAKEHOLDERS



Empowering consumer choice

We support consumers to make informed choices, by providing information acquired through the scientific assessment of the products they may wish to use.

At the end of 2019, our Reduced-Risk Product portfolio was present in 28 countries, with a choice of three tobacco vapor offerings (T-Vapor) and five types of e-cigarettes (E-Vapor).

What is T-Vapor?

What is E-Vapor?

T-Vapor products contain tobacco that is heated (but not burnt) to create an inhalable vapor. Consumers particularly enjoy the wider social freedoms that these bring, compared to conventional products. Our T-Vapor category currently consists of Heated Tobacco and Tobacco-Infused Vapor products:

» Heated Tobacco delivers the satisfaction of a tobacco experience

» Tobacco-Infused Vapor addresses the consumer needs of social consideration and convenience, while continuing to deliver a true tobacco taste experience

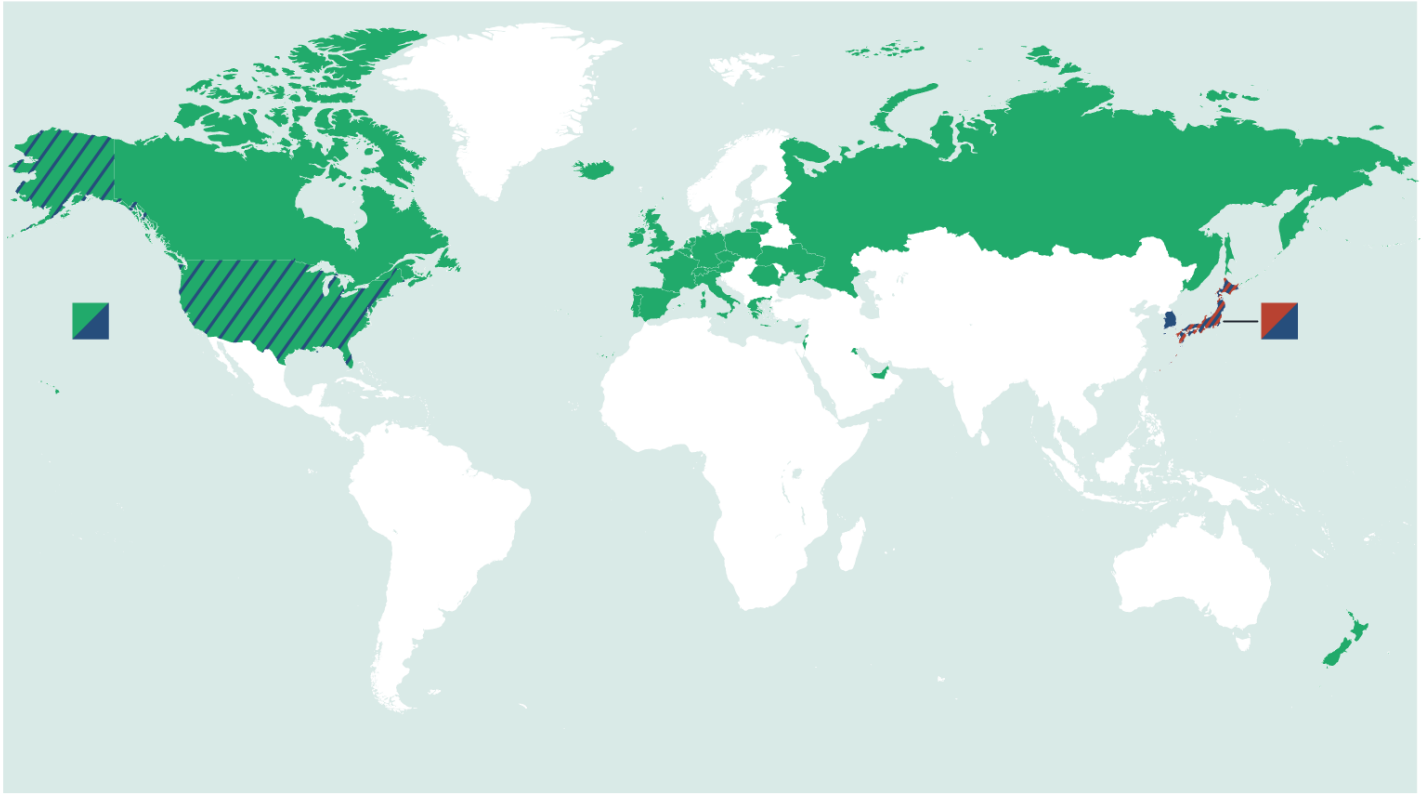
Also known as electronic cigarettes, E-Vapor products heat a liquid that usually contains nicotine, but no tobacco. They create an inhalable vapor by electrically heating a liquid (known as 'e-liquid') contained within the device or a replaceable cartridge. Consumers are particularly drawn to the wide range of different devices and flavors available. These products offer optimum levels of social consideration, convenience, and affordability.

Our product portfolio (As of December 2019)

T-VAPOR	HEATED TOBACCO				
	TOBACCO-INFUSED				
E-VAPOR	CLOSED TANK	Logic Pro 	Logic Compact 	Logic Power/Curv 	Logic Original 
	OPEN TANK	Logic LQD 			

Where are our Reduced-Risk Products available?

(As of December 2019)



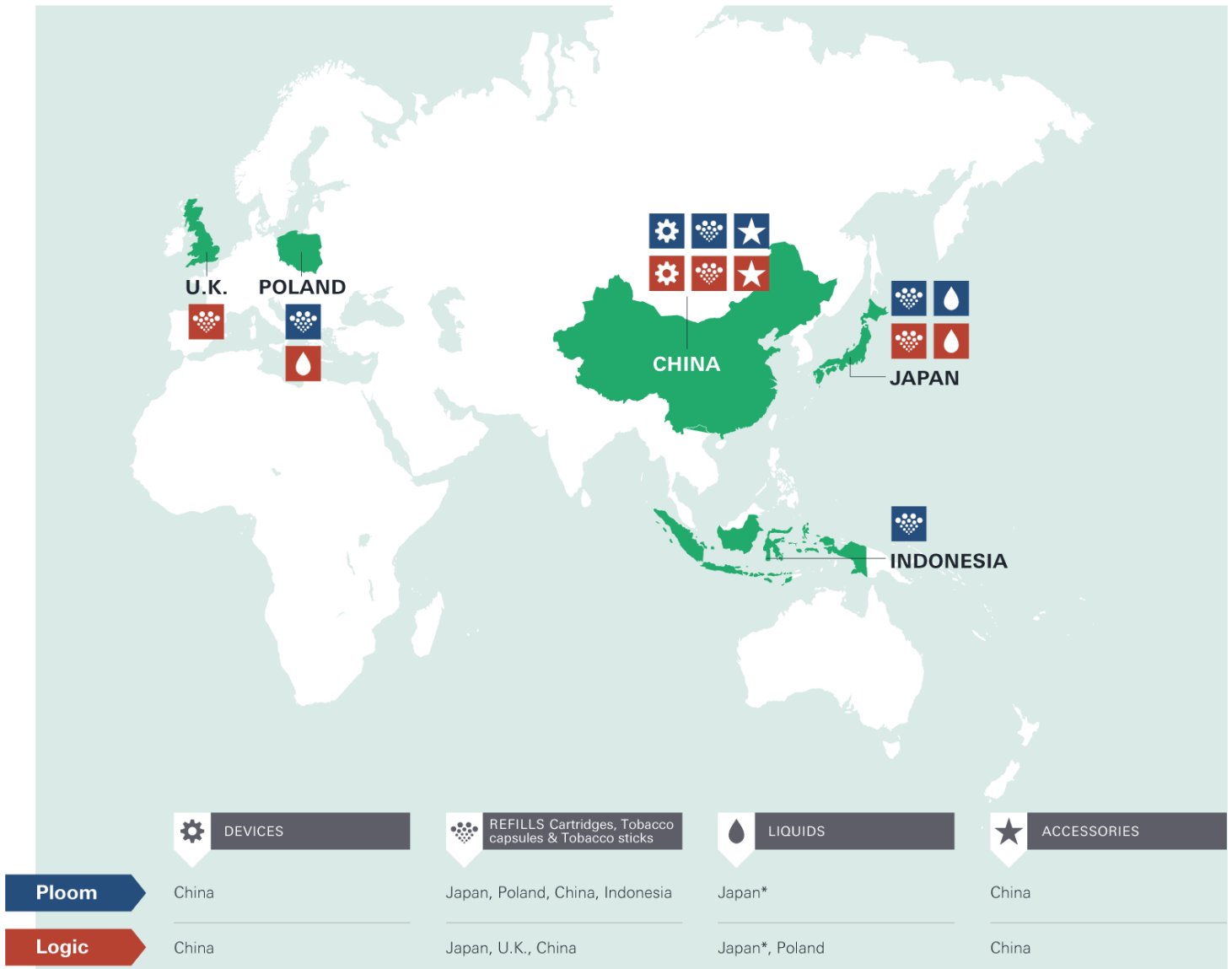
E E-Vapor	H Heated Tobacco	T Tobacco-Infused							
Austria	E	Germany	E	Japan	H T	Poland	E	Switzerland	E
Belgium	E	Greece	E	Kuwait	E	Portugal	E	United Arab Emirates	E
Canada	E	Iceland	E	Korea	T	Romania	E	Ukraine	E
Cyprus	E	Ireland	E	Lithuania	E	Russia	E	U.K.	E
Czech Republic	E	Israel	E	Netherlands	E	Spain	E	U.S.	T E
France	E	Italy	E	New Zealand	E				

Reduced-Risk Products Supply chain (As of December 2019)

We have established a dedicated supply chain for our Reduced-Risk Products, building strong supplier partnerships that support business expansion and meet the demands of our increasingly sophisticated portfolio. In addition to our in-house production capabilities, we source from manufacturers across Asia and Europe.

In 2018, we opened an e-liquids (E-Vapor) production facility on the premises of our manufacturing site in Gostkow, Poland. We then further boosted our in-house production in 2019, with the bringing into service of a new Ploom products (T-Vapor) plant in the same location. These new facilities will enable

us to keep up with the demand for e-liquids containing nicotine, tobacco capsules, and tobacco sticks in expanding markets across the world.




* Japan liquid production: Non-nicotine containing liquids only

JT SCIENCE: AN ONLINE RESOURCE FOR ALL

There are currently no globally agreed standards for assessing the risk-reduction of the alternatives to combustible tobacco products. Our team of scientists is developing methods and applying them in research contributing to the increasing scientific evidence on Reduced-Risk Products. We will continue with these studies and share progress updates on our science website, [JT Science](#) .

JT Science is a valuable online resource for both scientists and non-scientists. Our mission is to inform, educate, and collaborate with anyone who is interested in learning about the science behind the

products – from consumers to scientists to the regulatory community.

The aim of JT Science is to provide an open, balanced, and fair platform, where we can share factual scientific data and assessments in a transparent way. The results of our [scientific studies](#)  evaluating our Reduced-Risk Products are publicly available.

Responsible recycling and disposal schemes for Reduced-Risk Products

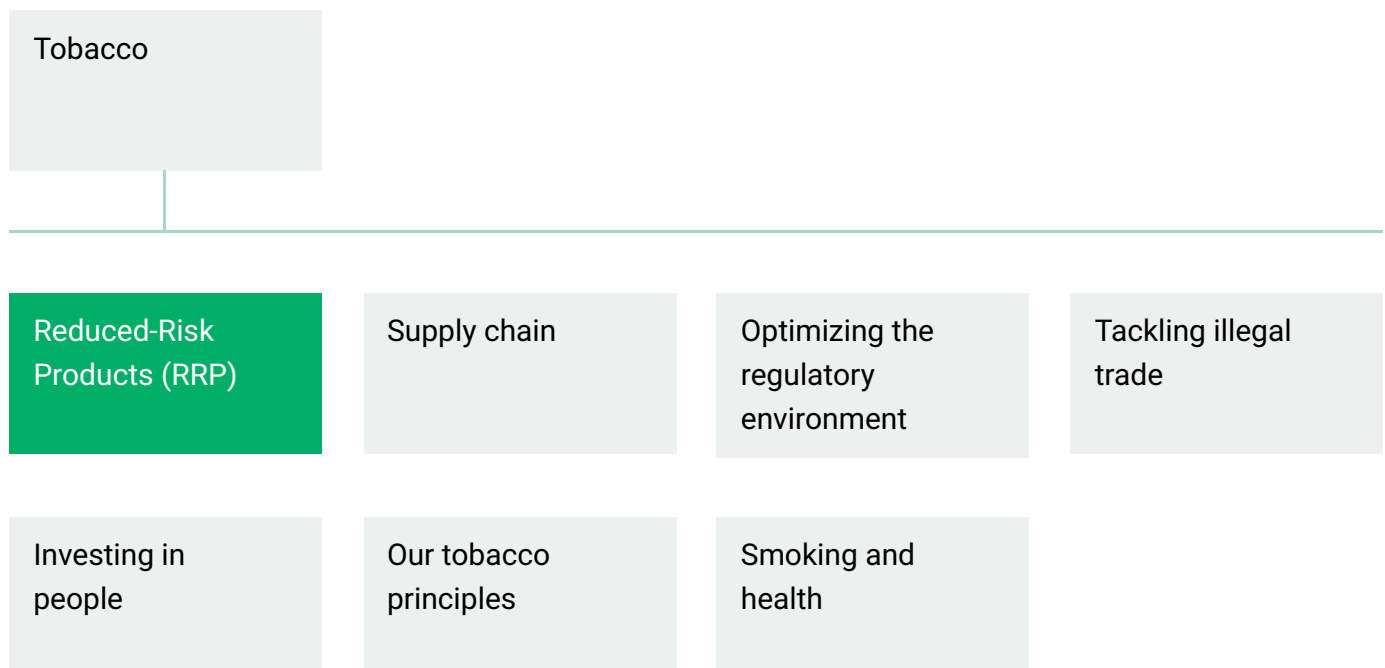
Read about the [Environment and our products](#).

Our view on Reduced-Risk Product regulation

Read about our perspective on [Reduced-Risk Product regulation](#).

Notes: This section is intended only to explain the business operations of the JT Group, not to promote sales of tobacco or vaping products or encourage smoking or vaping among consumers.

Related links



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Supply chain

Building sustainable supply chains

Maintaining a well-managed supply chain is essential for our business sustainability. We work closely with all of the stakeholders involved to reduce negative social and environmental impacts.

Our factories produce ready-made cigarettes, other tobacco products, and some of our Reduced-Risk Products. We purchase approximately half of our tobacco leaf from directly contracted growers, and the other half from tobacco leaf merchants.

To ensure the highest levels of sustainability and integrity across the supply chain, all of our suppliers are required to comply with our [supply chain policies and standards](#).

Aspirational goal

We will reduce environmental and social risks, and enable transparent and responsible practices across our supply chain.

Targets and Progress

AGRICULTURAL LABOR PRACTICES

Target

We will implement our Agricultural Labor Practices (ALP) program in all sourcing countries by 2025.

Progress

In 2019, 81% of our supplying entities reported against ALP. [58%*¹ of our directly contracted growers and 98% of our leaf merchants were covered by ALP; leaf merchants data come from reporting entities only and excluding India and China.] 74% of our volumes were covered by ALP.

SUPPLIER SCREENING

Target

We will screen all key suppliers against environmental, social, and governance criteria by 2023.

Progress

At the end of 2019, 67% of our key suppliers were screened against ESG criteria.*²

GREENHOUSE GAS EMISSIONS

Target

We will reduce greenhouse gas emissions from our own operations by 35% and from our direct leaf supply chain by 40%, between 2015 and 2030.

Progress

Since 2015, we have reduced greenhouse gas emissions from our own operations by 17.4%. Greenhouse gas emissions from our direct leaf supply chain increased by 17.9%.*³

WATER AND WASTE

Target

We will reduce water withdrawal by 15% and waste by 20%, in relation to our own operations, between 2015 and 2030.

Progress

Since 2015, we have reduced water withdrawal by 9.7% and waste by 6.3%, in relations to our own operations.*³


FORESTRY

Target

We will replace all wood from natural forests used in the tobacco curing process of our directly contracted growers with renewable fuel sources by 2030.

Progress

Based on our 2019 sustainable tree planting activities in Tanzania, Zambia and Brazil, we estimate that we are on a path to achieve 59% renewable wood sourcing by 2026.

Read more about our latest progress on the JT Group's [tobacco business sustainability strategy](#).  .

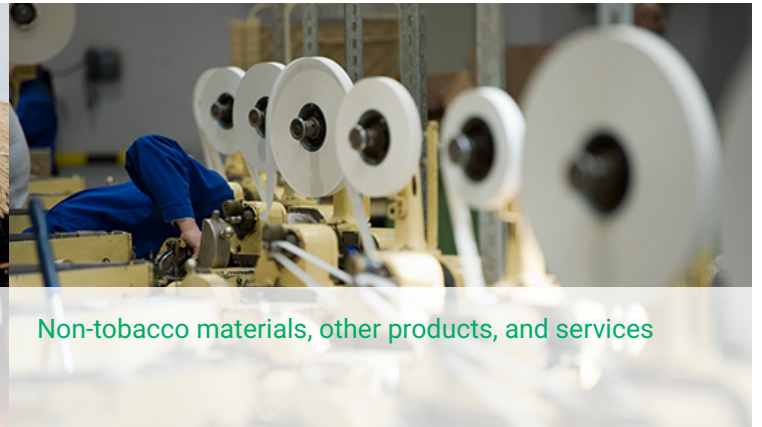
*1 The decrease from 96% in 2018 to 58% in 2019 is due to new acquisitions.

*2 Results for our international tobacco business.

*3 The main reason for the increase in GHG emissions from our direct leaf supply chain is the increased volume sourced from Zambia and Tanzania, both of which use wood for curing that currently is predominantly non-renewable. We expect that the impact of initiatives to reduce leaf-related emissions will be seen from 2022 onwards, with curing barn upgrades and the increase in proportion of renewable wood used for curing in Zambia and Tanzania.



Leaf supply chain - Raw material sourcing



Non-tobacco materials, other products, and services

Reducing our environmental impact in the tobacco value chain

Read more about our [targets on 'Greenhouse gas emissions', 'Water and Waste', and 'Forestry'](#).

Read more about our [programs and initiatives in our international tobacco business](#)  .

Related links

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Leaf supply chain - Raw material sourcing

Tobacco leaf sourcing

Tobacco leaf sourcing is a key part of our supply chain, and a critical component of future business growth. We have been working closely with our directly contracted tobacco leaf growers and merchants to build security of supply and enhance leaf provenance. This gives us greater flexibility when responding to changing market requirements.

In 2019, we contracted 86,757 tobacco leaf growers directly in Bangladesh, Brazil, Ethiopia, Japan, Malawi, Serbia, Tanzania, Turkey, the U.S., and Zambia. Contracting leaf growers directly allows us to monitor cultivation and labor practices more effectively.

How do we work with leaf merchants?

Every year, we buy around 50% of our leaf from leaf merchants. The sourcing countries vary from year to year, depending on the quality and volumes required. In most cases, our leaf merchants source the tobacco leaf directly from the grower. This means that there is a direct contract between the leaf merchants and the growers, and that the grower receives advice on crop management and good labor practices from the leaf merchant.


In some countries, leaf can be sourced in a different way, for example at auction. This can make it challenging to determine the provenance of the leaf and implement Agriculture Labor Practices. In these cases, we work with the leaf merchants and other stakeholders (e.g. the Indian Tobacco Board in India) to find a way to implement a robust and relevant supply chain due diligence process. Although we source leaf from more than 30 countries, the vast majority still comes from eight key global suppliers. We work closely with these suppliers to ensure good practices.

Sustainable agriculture

As well as securing the long-term supply of quality tobacco leaf for our business, we want to create shared value for both our growers and our business. We do this by providing services that increase

grower productivity, while at the same time always trying to improve our social and environmental impact. This results in higher yields and better quality, which in turn drives greater profitability.

Grower return is based on more than price alone. By enabling growers to become more productive and efficient in the way they grow, harvest, and cure tobacco leaf, we ultimately help them to use resources wisely and responsibly, and increase profits. For example, we help to cut costs by up to 20% by using fertilizers and agrochemicals more efficiently.

All of our leaf suppliers are expected to follow Good Agricultural Practices (GAP) as set out by the [Cooperation Centre for Scientific Research Relative to Tobacco](#)  (CORESTA). The concept of GAP is to produce a quality crop while protecting, sustaining, or enhancing the environment with regard to soil, water, air, animal, and plant life.

In addition to GAP, the majority of our directly contracted growers are also required to comply with our Minimum Agronomic Standards (MAS). These growers are contracted to grow tobacco under our stewardship. In return, they receive credit for prescribed crop inputs as well as dedicated extension service provision from one of our Leaf Production Technicians. This support includes advice and recommendations throughout the entire crop cycle.

Contracted large-scale commercial growers – notably in the U.S. – don't require dedicated extensive service provision from us. This is why not all of our directly contracted growers are required to comply with MAS.

These farming practices are not limited to tobacco. We encourage growers to use seasonal crop rotation i.e. growing other crops such as groundnuts or maize on the same land in alternate seasons. The benefits of this are extra income, improved food security, and soil conservation.

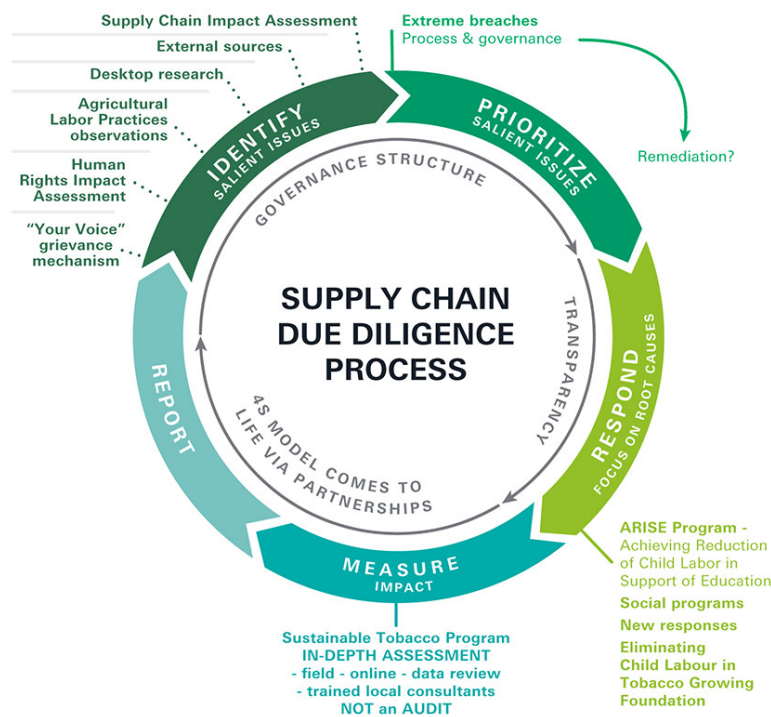
We are always looking to improve our understanding of tobacco farming. Our investment in research and development involves partnering with leading international academic institutions to develop innovative new ways of producing tobacco.

Agricultural Labor Practices and Leaf Supply Chain Due Diligence

Our Agricultural Labor Practices (ALP) are based on the International Labour Organization's conventions and recommendations. The program consists of three pillars: tackling child labor, respect for the rights of workers, and ensuring workplace health and safety.

As part of our continuous improvement approach, the ALP program allows us and our suppliers to identify potential labor challenges on tobacco farms and help improve labor practices on the tobacco farm. Being an integral part of the supply chain due diligence process, it also contributes to the social aspects of grower communities and supports sustainable agriculture overall. Whether we source tobacco directly from growers or through tobacco leaf merchants, our contracted suppliers are committed to implementing our ALP.

Our leaf supply chain due diligence process is based on a five-step framework - Identify, Prioritize, Respond, Measure, and Report, while our ALP's role is to help us to identify issues on tobacco farms on a daily basis. This process follows the Guidance on Responsible Agricultural Supply Chains provided by the Organization for Economic Co-operation and Development (OECD) and the Food and Agriculture Organization (FAO), as well as recommendations by the International Labor Organization. It also follows the UN Guiding Principles for Business and Human Rights.



To run our leaf supply chain due diligence

process perfectly will require a mindset shift and changes in the way we work, but we are making steady progress. In 2019, we continued training our own teams and suppliers, speaking to various international organizations, and collaborating with other companies on industry-wide programs.



”

Vuk Pribic,
Director, Leaf Supply Chain Due
Diligence,
JT International



ALP forms part of Leaf Production Technicians’ farm visits. The technicians visit every single farm several times per year, according to clear visitation plans with assigned farms. For example, during the last crop season, our Leaf Production Technicians made more than 350,000 visits to our directly contracted growers.

During these visits, the Leaf Production Technicians provide technical advice on crop management and discuss good labor practices. In cases where they identify labor-related issues, they report their observations in the system. Depending on the nature of the issue, the Leaf Production Technicians may also provide recommendations to the grower.

These observations are then analyzed and prioritized by the local country management. This enables us to select the right improvement measures to address root causes, and respond to the adverse impacts in the right way. We track the effectiveness of our response using KPIs, internal evaluation, assessments, and on-site investigations. We also consult relevant stakeholders, such as government authorities, civil society, members of affected communities, workers' organizations and workers.

Our main objective at present is to align all of our processes with the five-step framework: Identify, Prioritize, Respond, Measure, and Report. To ensure a streamlined and consistent approach, we aim to find synergies between our supply chain due diligence and the ALP program with the Sustainable Tobacco Program (STP).

We are facing a number of complex challenges. These include issues that are difficult for Leaf Production Technicians to observe, such as how to identify discrimination in smallholder farming, or how to optimize our process for dealing with extreme breaches and ensure that both potential victims and rapporteurs are protected.

Extreme breaches include the worst violations of workers' rights, such as slavery, forced labor, human trafficking, violence, or severe physical, mental, or sexual abuse. These can be difficult for a Leaf Technician to identify and address – especially if the issue is associated with criminal activity. Responding to extreme breaches therefore requires care and, in many cases, support from the police and/or other authorities or non-governmental organizations.

It is essential for us to have a management process setting out how to respond to an extreme breach, to ensure that action is taken promptly and appropriately when indicators are observed. We expect each supplier to have a management process incorporating three elements: protection for the victim and observer, a clear escalation route, timeline, and remediation plan, as well as access to specialist support.

Read more on ALP in our [booklet](#) 

Target

AGRICULTURAL LABOR PRACTICES

We will implement our Agricultural Labor Practices (ALP) program in all sourcing countries by 2025.

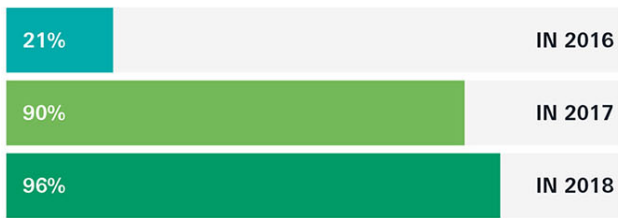
Progress

Towards the 2025 ALP target	2019 Progress
100% of our supplying entities to report on ALP	81% of our supplying entities reported against ALP
100% of our growers to be covered by ALP	58% of our directly contracted growers and 98% of our leaf merchants were covered by ALP
100% of tobacco leaf volumes to be covered by ALP	74% of our volumes were covered by ALP

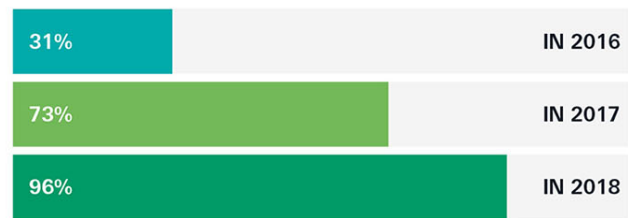
For more details, please see below.

Historical data

We previously made a commitment to implement ALP in all sourcing countries by 2019. In 2018, we were very close to achieving this commitment, as we had observed 96% of our directly contracted growers against ALP, and 96% of our tobacco leaf merchants reported against ALP. See our three-year progress between 2016 and 2018, below.



Of our directly contracted growers were observed against ALP



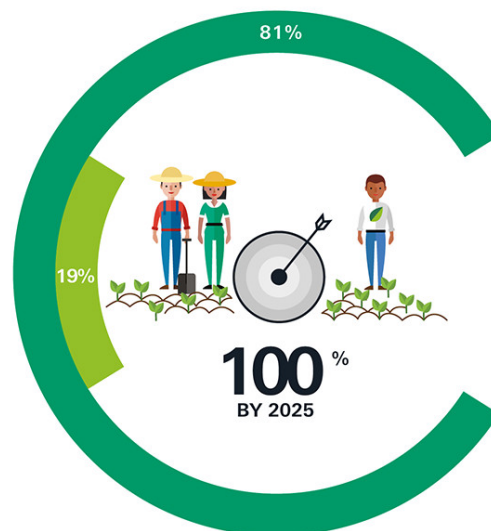
Of our leaf merchants reported against ALP

Due to our constant growth we have broadened our ALP target to include all of our acquisitions up until the end of 2018, with a new target date of 2025. Find out more about how we plan to achieve this target, below.

100% of our supplying entities to report on ALP

Progress so far: Of all the entities that provided us with tobacco leaf, either directly or through leaf merchants, 81% reported against ALP in 2019.

SUPPLYING ENTITIES REPORTING DIRECTLY CONTRACTED GROWERS & LEAF MERCHANTS



2019 scope of planned purchases

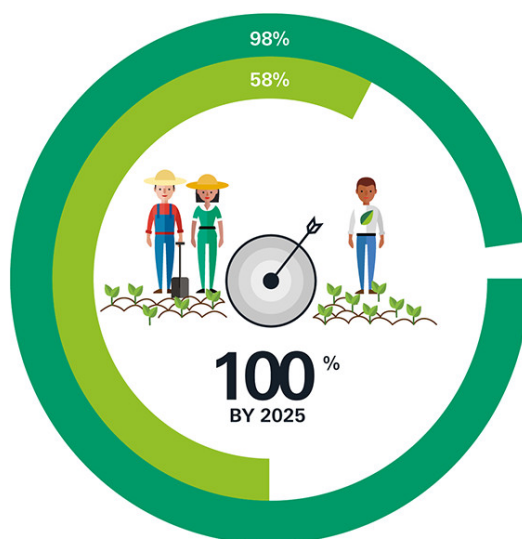
Yes

No

100% of our growers to be covered by ALP

Progress so far: In 2019, 58% of our directly contracted growers and 98% of the growers supplying through our leaf merchants were covered by ALP. The decrease from 96% in 2018 to 58% in 2019 is due to new acquisitions. Before acquiring Bangladesh, for instance, we had around 40,000 directly contracted growers. Bangladesh alone brought 29,000 more growers. Reaching this target is one of our major challenges.

GROWERS COVERED BY ALP (%)



Leaf merchants data comes from reporting entities only and excluding India and China*

2019 scope of planned purchases

Leaf merchants

Directly contracted growers

* Introducing ALP in India and China is challenging due to the way the market is structured in these countries. For instance, our suppliers do not have direct contracts with growers e.g. in India flue-cured tobacco is sourced via auction floors. A tailor-made approach needs to be applied. We are working together with the industry in India on the best way forward with regards to how to run a leaf supply chain due diligence. In 2020, we will explore the way forward in China with all relevant stakeholders.

100% of tobacco leaf volumes to be covered by ALP

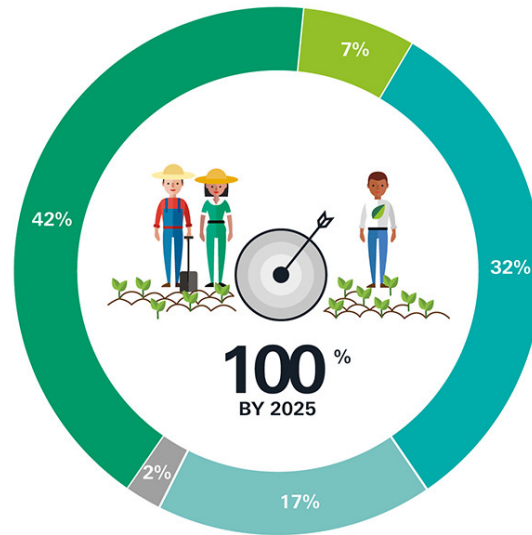
Progress so far: In 2019, 74% of our volumes were covered by ALP.

We have made several new acquisitions in recent years, including in Ethiopia, Bangladesh, Indonesia, and the Philippines. We will approach these on a case-by-case basis, as we need to understand the local market, culture, and challenges before putting in place the necessary programs.

In Bangladesh, our first challenge is to reach the large number of growers. In Ethiopia, we will introduce our ALP program in 2020 for the first time, following the completion of our Supply Chain Impact Assessment in 2019 as a part of our supply chain due diligence process.

In Indonesia, our leaf merchants have been reporting on ALP for several years. Since the new acquisition, our leaf supply chain has changed significantly, and we will carry out an impact assessment in 2020 to better understand how to implement supply chain due diligence and ALP. In the Philippines, on the other hand, our suppliers already implement ALP and submit reports regularly.

VOLUMES COVERED BY ALP (%)
DIRECTLY CONTRACTED GROWERS & LEAF MERCHANTS



2019 scope of planned purchases



Implementation of Agricultural Labor Practices in Japan

We have a long-standing relationship with growers in Japan. Following a 2017 pilot study, the Agricultural Labor Practices program was fully implemented in 2018. As a result, we carried out farm visits and questionnaires to address labor issues on tobacco farms. Throughout 2019, our JT Leaf Production Technicians continued to meet growers to provide feedback and offer advice. We also customized our surveys for different production regions. Based on our findings and observations, we will continue to make improvements.

Our farm practices in Japan

JT Farm

In order to share effective tobacco cultivation practices with growers, we established the JT Farm in Japan in 2018. The farm functions as a development center, where we try out new techniques, methods and crop varieties before introducing them to growers.

Progress continued in 2019, with a trial of new crop varieties and the development of a self-driven vehicle in partnership with another company. The aim of the trial is to deliver leaf samples to R&D for product development. The vehicle would support growers' practices on the farm such as, for instance, Crop Protection Agents (CPA) application or tobacco leaf transportation. The aim of both projects is to increase growers' productivity.

Enhanced curing and baling

We are implementing a new curing process for burley tobacco at present, which can reduce working hours by 15%. This method also helps to prevent the contamination of non-tobacco related materials during green leaf baling. By the end of 2019, 5% of burley tobacco growers had adopted this new process. We will continue to scale up this practice in 2020 and beyond.

Collaboration with growers for sustainable leaf production in Japan

In Japan, the number of tobacco growers and the land dedicated to tobacco cultivation have been shrinking. There are various reasons for this, including older generations going into retirement, younger generations choosing to pursue less physically demanding jobs that involve less heavy work, and a lack of progress in farming methods. As a result, many growers feel anxious about the future of their agricultural activities and are investing less in tobacco leaf production.

In 2019, Japan Tobacco and Japan Tobacco Growers' Association discussed various new initiatives to ensure the sustainability of tobacco leaf sourcing and meet the market's needs. Due to be launched in 2020, these initiatives include providing tailor-made support for individual farms, and gathering and sharing the best practices of more experienced growers.

We hope that these activities will help growers to implement more efficient production methods, which

in turn will strengthen the foundations of their operations and secure a more sustainable future for tobacco leaf production in Japan.


Engaging with our stakeholders

Working in collaboration with internal and external stakeholders has been key to the progress and success of the Agricultural Labor Practices program.

Our relationships with directly contracted growers produce tangible results, thanks to regular farm visits, dialogue, and training. Local and global meetings with leaf merchants enable us to identify where additional training, mechanisms, and processes are needed to manage labor risks. Engaging with local government agencies in the countries where we operate enables us to address fair and safe labor conditions in specific locations. For example, we have been successfully engaging with the Indian Tobacco Board to make progress in the area of labor rights in India.

Our international tobacco business is an active member of the Sustainable Tobacco Program (STP) and chair of the STP Steering Committee, consisting of industry peers. STP is an industry-wide platform enabling businesses to collaborate on human rights, environmental issues, and other sustainability challenges, and to drive sustainable agriculture through a continuous improvement process. 2019 was a year of reform for STP, as it was restructured around the five-step framework - Identify, Prioritize, Respond, Measure, and Report. The aim of this change is to put in place a robust supply chain due diligence process with a focus on impact. The new process will be finalized in 2020.

In 2018, we became part of the pilot project on Guidance for Responsible Agricultural Supply Chains. This initiative was run by the Organization for Economic Co-operation and Development (OECD) in conjunction with the Food and Agriculture Organization of the United Nations (FAO). By participating in this project, we have been able to share our own experiences, broaden our understanding, and benchmark against others.

The [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#)  , published 2019, presents the key findings of the pilot, lessons learned, good practices, and challenges in implementing supply chain due diligence shared by the participants. It also sets out recommendations and next steps for companies and policymakers to follow in the agricultural sector.

Case study

Grower clubs in Zambia

In Zambia, we have an established network of approximately 488 grower clubs. Each club is formed of 10 to 20 growers and led by a chairman.

The aim of the clubs is to bring growers closer together and create more effective dialogue. The clubs allow continuous communication and engagement on a variety of topics such as Farmer Finance, Agricultural Labor Practices, Minimum Agronomic Standards, and other best practices.

In 2019, we trained over 488 chairmen, in partnership with the government and the banking sector. As a result, all of our contracted growers in Zambia, for instance, now have bank accounts.

Case study

Training growers and workers in Tanzania

In Tanzania, Leaf Production Technicians reported labor issues related particularly to child labor, rights of workers, and workplace health and safety on farms in 2016. After identifying the root causes of these issues, the local Corporate Affairs and Communication team established a set of measures to tackle them. These measures were then implemented between 2016 and 2019.

Growers were trained on the effects of child labor and parents were economically empowered through training and the establishment of income-generating activities. Other measures included opening more schools to reduce walking distances and refurbishing classrooms to make better use of the space available. Both attracted more children to attend and stay in school.

We provided ALP information and training for growers, their workers, and members of the Grower Management Board to ensure that the rights of farm workers are respected. The training explained how Tanzania Labor Laws define the minimum requirements on labor practices, and the implications of these for the participants and for JTI, as a business partner.

Growers and workers benefited from refurbished clinics with a better supply of equipment, providing improved access to basic health care services.

To measure the effectiveness of the training, we assigned Leaf Production Technicians to closely monitor the growers and workers involved in previously reported labor issues. So far, these issues have not been observed again.

Case study

Workplace health and safety training in Turkey


In 2017, Leaf Production Technicians in Turkey reported that several growers and their workers were not using adequate Personal Protective Equipment (PPE) when handling tobacco.

The local Corporate Affairs and Communication team decided to provide these growers and workers with workplace health and safety training and the correct PPE. This led to a 20% decrease in observations of these issues in 2019.

ARISE

Our flagship program ARISE – Achieving Reduction of Child Labor in Support of Education – has been committed to tackling child labor in our tobacco growing communities since 2011. In 2019, ARISE placed 6,186 children into formal education, building on the impact of previous years. The program is forging real sustainable change by implementing robust solutions to prevent child labor.

In 2019, we focused on mapping out new communities to scale up ARISE, building on community capacities to ensure the sustainability of the program, and digitizing our Child Labor Monitoring System (CLMS) using blockchain technology.

Read more about the [ARISE program](#) 

Case study

Eliminating child labor with blockchain

Following a successful six-month trial period, our ARISE program is about to start using a digitized Child Labor Monitoring System (CLMS) based on blockchain technology in Malawi, Zambia, Tanzania, and Brazil, where we directly contract tobacco growers.

The CLMS will use a cloud-based platform, providing JTI with an in-depth 360° view of ARISE beneficiaries. The system will enable data collection in a streamlined, mobile, immutable, and secure way. We expect the new system to help strengthen the existing anti-child labor activities and to focus on communities where these activities are most needed.

Our Leaf Production Technicians visit our growers several times a year, for technical support. During these visits, the technicians collect data on tobacco growing and make observations on labor practices (read more about our Agricultural Labor Practices). As a result of our newly adopted CLMS, the technicians also collect kinship data from the growers, including the names of any children living on the farm, which school the children attend, and which year group they are in.

As this data collection is part of the Company's formal annual contracting process, it enables us to secure the grower's consent – an essential element of the process. The kinship data is then uploaded into the new system, to help us understand where child labor might be used in our supply chain and better target our ARISE activities. This will benefit children who are vulnerable to child labor, as well as those involved in child labor.

The software behind the new system was developed by BanQu, a ground-breaking blockchain-as-a-service software company that helps connect growers to global supply chains. The technology provides end-to-end transparency in supply chain management.



We will continue to work collaboratively with growers, communities, business leaders, and governments to create solutions that address the root causes of child labor, while always keeping the child's right to quality education at the heart of what we do.



Our contractual partner Winrock International, a U.S.-based, internationally renowned NGO, will continue to play a key role in delivering the program. New and innovative partnerships, such as our collaboration with BanQu, will enable us to digitize our approach to monitoring child labor.

”

Elaine McKay,
Director, Social Programs,
JT International

OUR CONTRIBUTION TO PREVENTING CHILD LABOR

		2016	2017	2018	2019
COMMUNITY MEMBERS EDUCATED IN CHILD LABOR ELIMINATION (*E)	Brazil	34,640	31,991	23,848	21,772
	Malawi	11,820	10,028	12,132	24,219
	Zambia	1,384	8,166	99,658	13,932
	Tanzania	879	5,060	55,160	16,022
CHILDREN OFF FARMS AND INTO SCHOOLS (*E)	Brazil	766	3,185	1,893	2,557
	Malawi	6,414	7,063	3,087	2,490
	Zambia	2,562	4,167	1,546	816
	Tanzania	0	680	597	323

2019 was a year of planning and transition to the new approach designed for the third phase of ARISE. That included scaling up to new communities, testing a new technology with BanQu and assessments of Community Action Plans. In addition, this year, the numbers reported come from Winrock International only.*

*The previous years' numbers included those from the International Labour Organization.

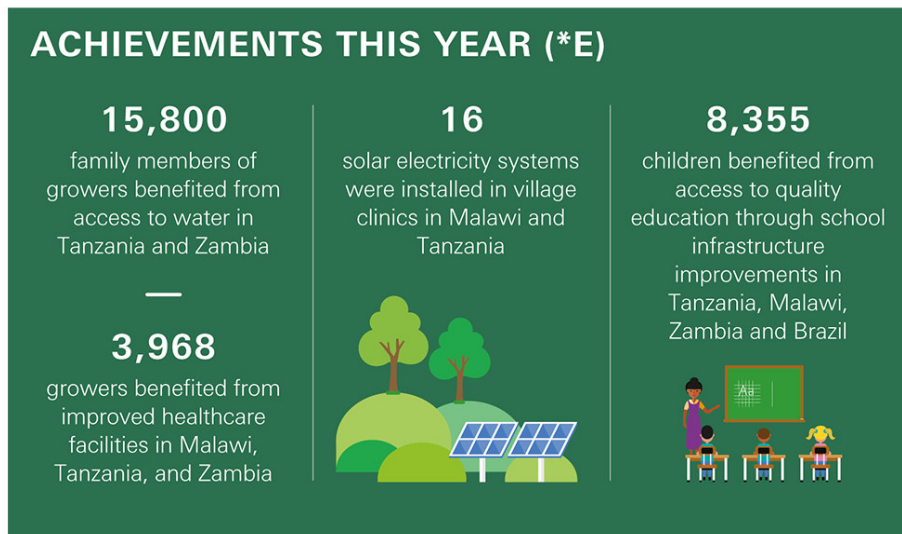
External recognition

We were categorized as a 'leader' by the Global Child Forum in their latest study, conducted in collaboration with the Boston Consulting Group. This benchmark report analyzes just under 700 of the world's largest companies and how they are safeguarding children's rights as part of their business value chain.

We are proud that the study recognizes the concrete actions we have taken to embed respect for children's rights in our supply chain, notably through our flagship child labor elimination program ARISE.

Grower Support Programs

Our Grower Support Programs are investments that address social needs in our tobacco-growing communities.



Related links

Supply chain

Supply chain policies and standards

Leaf supply chain - Raw material sourcing

Non-tobacco materials, other products, and services



Non-tobacco materials, other products, and services

Non-tobacco materials include packaging, filters, and cigarette-related materials. We also have a number of suppliers for factory machinery and logistics, including freight. We manage the sourcing of these centrally. Other products and services that flow through our supply chain include marketing-related services, facility management, IT, and other professional services, which are sourced globally, regionally, and locally.

We develop strong partnerships with our key suppliers in order to achieve mutual long-term success. Our strategic relationships are built on shared values and objectives, which allows us to find sustainable solutions together, ensure a stable supply in a dynamic environment, and be able to adapt to innovative technologies.


Target

SUPPLIER SCREENING

We will screen all key suppliers against environmental, social, and governance criteria by 2023.

Progress

At the end of 2019, 67% of our key suppliers were screened against ESG criteria*.

Read more about our latest progress on the JT Group's [tobacco business sustainability strategy](#).  .

*Results for our international tobacco business.

Supplier screening

At the end of 2019, 67% of our key suppliers were screened against ESG criteria in our international tobacco business. As our supplier screening target shows, we are committed to achieving 100% by 2023.

We aim to achieve high standards of integrity across our business operations and supply chain. We can only achieve this through close cooperation with our suppliers.

In our international tobacco business, prior to entering into a commercial relationship, our key suppliers* undergo a screening process which includes onboarding and qualification. This process allows us to understand potential risks related to compliance, human rights, environment, and health and safety. If any risks are identified, we offer support and collaboration on how to mitigate these risks and make necessary improvements.

In 2019, we further enhanced our supplier screening process by introducing our 'Lookback' screening service to identify potential supply chain risks with new key suppliers. This service automatically reviews a potential key supplier's business history over the previous five years using publicly available information. We have also strengthened and automated the annual process for renewing the certification of our existing key suppliers, by integrating a continuous key supplier monitoring service.

In Japan, suppliers of non-tobacco materials and other products and services are screened against the JT Group Supplier Standards, and we regularly monitor key suppliers through surveys.

*Key suppliers are defined as suppliers with a planned annual spend greater than 500,000 U.S. dollars, suppliers who either purchase or handle Japan Tobacco International tobacco products, leaf merchants, suppliers representing Japan Tobacco International before government, and contract manufacturing, and licensees.

Case study

Reducing the environmental impact of packaging

We take pride in the quality of our products. To make sure that our cigarettes reach consumers in optimal condition, they are delivered in packaging that utilizes cardboard and plastic film. To reduce the environmental impact of this packaging, we are running several initiatives across our operations to use less of these materials, or to replace them with more environmentally friendly alternatives.

For example, we have worked with our suppliers to optimize the use of cardboard and plastic film in our packaging, without compromising on quality. As a result, we have reduced our paper and cardboard-related consumption by approximately 1,700 tons per year, and our plastic film consumption by approximately 500 tons per year. This reflects our commitment to addressing growing consumer concern about single-use plastic and sustainability.

We are currently developing targets and action plans relating to the appropriate use and responsible disposal of materials, including plastics, used in our products and packaging. We are also committed to reducing waste by 20% in our own operations by 2030, and will continue to work hard to meet this target.

Related links

Supply chain

Supply chain policies and standards

Leaf supply chain - Raw material sourcing

Non-tobacco materials, other products, and services

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Optimizing the regulatory environment

Championing better regulation for informed choice

We value and support the freedom for adults to make informed choices, and we play our part by ensuring all consumers understand the associated risks when deciding whether to smoke or not. That's why we are as transparent about our positions on smoking and health as possible. It is also why, no matter what we do, we adhere to the [five core principles](#) that define our attitude to smoking. We also work in a highly regulated operating environment, and we monitor regulatory trends in order to anticipate future changes in regulation and prepare for the implementation of those changes well in advance. This is done in line with our tobacco principles, so that we go above and beyond our obligations.

Aspirational goal


We will ensure the Company is included in policymaking leading to fair and balanced regulation, and enhance our cooperation with governments to combat illegal trade.


Target

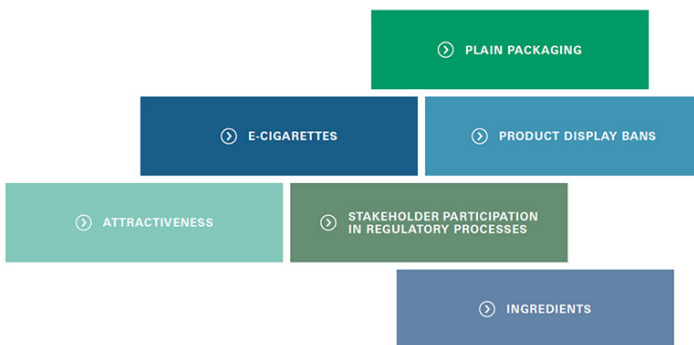
We will always protect our ability to participate in public policy debate with the aim to achieve balanced regulation that meets societal concern and supports business growth.

Progress

During 2019, we engaged openly and transparently in public policy debate and made our views known to regulators, NGOs and other relevant stakeholders in the countries where we operate.

Read more about our latest progress on the JT Group's [tobacco business sustainability strategy](#).  .

Read more about [our views on specific regulatory topics](#)  on JTI.com.



Supporting ‘better regulation’

Smoking carries risks to health, and appropriate and proportionate regulation of the tobacco sector is both necessary and right. To meet public policy goals, while respecting the rights of all stakeholders, it is important that regulation is evidence-based, practical, enforceable, and competitively neutral.

To help lawmakers develop better regulation, the OECD has endorsed the internationally recognized ‘Guiding Principles for Regulatory Quality and Performance’, which we support. These can be summarized as:

- Coherence
- Openness
- Proportionality
- Participation

- Effectiveness
- Accountability

A key aspect of better regulation is a transparent legislative process, one that involves all interested and affected parties.

With regulation affecting our products and our industry, we exercise our right to make our views known, by engaging openly and transparently with government stakeholders (including regulators), non-governmental organizations, and all other relevant stakeholders. We seek to ensure that the regulatory environment encourages innovation, business growth, and freedom of consumer choice so that we may better serve the needs of consumers, society, and our business.

We engage openly in regulatory processes at all stages, and take part in public consultations by providing arguments supported by evidence and alternative solutions.

We support public discussions on the topics of good governance, better regulation, and transparency.

Our views on Reduced-Risk Product regulation

The tobacco industry is currently undergoing a transformation as Reduced-Risk Products are gaining popularity in many countries. We believe that these products offer real [benefits to consumers and society](#), and that consumers should be free to choose them.

Governments and regulators should avoid restrictive regulation which suppresses innovation and/or prevents adult consumers from selecting these products.

However, legislative approaches to Reduced-Risk Products continue to vary widely across the world, and to change rapidly. Some countries ban these products outright; others try to regulate them to different degrees, while others lift bans altogether.

That's why we are committed to working with regulatory authorities, public health bodies, and the scientific community, to create the best possible frameworks for these products to reach their full potential, and provide a greater choice for adult consumers.

Latest regulatory developments

It is in the public interest for regulation to be evidence-based, proportionate, and effective. We support the principles of [better regulation](#), which argue for measures that preserve consumer choice and market freedom. Regulation is fast-moving and we monitor developments closely. The following are just a few examples of some key regulatory developments around the world in 2019.

U.S. – Premarket tobacco product applications (PMTA) deadline advanced

In July 2019, a ruling endorsed by the Food and Drug Administration brought forward the submission deadline for the PMTA review of “deemed” tobacco products (including e-cigarettes), from 8 August 2022 to 12 May 2020. This has since been extended to 9 September 2020 due to the global COVID-19 crisis.

In August 2019, Logic Technology Development LLC (a subsidiary of the JT Group) submitted PMTAs for a number of products in its e-cigarette and tobacco vapor line-up.

U.K. – Public Health England continues to see strong risk-reduction potential in e-cigarettes

In November 2019, Public Health England reassured users about the risk reduction potential of e-cigarettes currently marketed in the U.K. saying, “PHE and the Royal College of Physicians estimate the risk reduction to be at least 95%.”*

Read more from [Public Health England](#) 

* <https://www.gov.uk/government/publications/smoking-and-tobacco-applying-all-our-health/smoking-and-tobacco-applying-all-our-health>

Switzerland – Snus is authorized

Following a Federal Court judgment in May 2019, the marketing of snus (tobacco for oral use) is now permitted in Switzerland under the Act on Foodstuff.

EU – Directive on single-use plastics

The EU Directive “on the reduction of the impact of certain plastic products on the environment” entered into force in July 2019. Member states have two years to transpose the legislation into their national law.

Tobacco filters are included in the scope of the Directive, and we are proactively working with our stakeholders to prepare for these regulatory changes, to ensure compliance with laws and maximize the positive impact that these developments might have on our customers and our business.

WHO – Framework Convention on Tobacco Control (FCTC)

We continue to follow the evolution of the WHO FCTC. The Protocol to Eliminate Illicit Trade in Tobacco Products (the Protocol) came into force on 25 September 2018. The eighth session of the FCTC Conference of the Parties (COP8) and the first session of the Meeting of the Parties to the Protocol (MOP1) took place in October 2018.

At these FCTC events in 2018, there were no new recommendations or decisions that directly impacted the JT Group and our products. As the decisions made at these events can have far-reaching implications for our consumers, wider society, and our business, we continue to closely monitor the evolution of the FCTC and the Protocol, and are preparing for COP9 and MOP2 in 2021. Although we continue to be denied a voice at such events, we will continue to share our views with decision-makers wherever possible.

Engaging with our stakeholders

The JT Group remains committed to working with regulatory authorities, public health bodies, and the scientific community. As part of this engagement, we attend industry events where we are able to make our voice heard.

In September 2019, we attended the Global Tobacco and Nicotine Forum in Washington DC, a key international conference where commentators gathered to discuss the future of the tobacco and nicotine industry. In 2019, the JT Group sat on panels in discussions around environmental challenges and gender equality. The forum attracted over 250 participants working in academia, public health, regulation, and the tobacco industry.


Case study

Spotlight: branding ban

The ability to build and use a brand is essential for businesses to thrive and economies to prosper. Distinctive branded packaging is vital for competition, and enables consumers to identify, obtain information about, and choose their preferred brands of tobacco products easily and without confusion.

However, branding bans (also known as plain or standardized packaging) are imposed on the tobacco sector in certain parts of the world, and these are not based on, or consistent with, a credible and scientifically rigorous understanding of the behavior of smokers. These types of restrictions are also being considered for other consumer products.

Since the implementation of the plain packaging policy in Australia in 2012, no studies have shown convincing evidence that it reduces the number of people choosing to smoke.

> Visit [JTI.com](https://www.jti.com) to read [expert reports](#)  on the impact of plain packaging.


Consequently, we believe these bans fail to achieve stated public policy objectives and are, in fact, excessive and misguided.

Plain packaging has serious negative consequences for society and consumers. It makes counterfeit products easier to produce, distribute, and sell. This encourages criminality and impacts government tax revenues. Consumers and retailers struggle to tell the difference between brands, which damages competition and affects business. It also infringes our rights to property, expression, and trade, without proper justification.

In June 2020, the WTO Appellate Body ruled in favor of Australia in the plain packaging dispute. The ruling is a major step backwards for the protection of intellectual property rights internationally. Although this outcome only applies to Australia, it sets a worrying precedent that could encourage governments to ban branding on other products. Besides, the Appellate Body did not have the opportunity to take into account most recent data such as those from the Australian Government, which shows that the smoking rate has not markedly declined, indicating that it has not worked as anticipated.

Transparency

Transparency, openness, and accountability during official decision-making processes are essential to achieving sound public policies and fair regulation for any industry.

Since 14 November 2011, JTI has been a [registrant](#)  of the EU Transparency Register setting out our fields of interest and costs related to lobbying activities within the EU decision-making process.

Responsible marketing

We only market our tobacco products and e-cigarettes to adult smokers and vapers in order to maintain brand loyalty and to encourage smokers of competitor brands to switch to our products. We do not market tobacco products or e-cigarettes to minors, nor do we encourage anyone to take up smoking, or discourage anyone from quitting smoking. We support regulation on the responsible marketing of tobacco products and e-cigarettes, providing it is evidence-based, practical, effective, and proportionate – and that it allows us to communicate with adults who use our products.

We take responsible marketing very seriously, particularly when it comes to preventing youth smoking. We never market our tobacco products to minors.

This focus is reflected in our [Global Tobacco Marketing Principles](#), a guiding document developed in 2016.

When it comes to our retail partners, we continue to support them by training staff and providing campaign materials to reinforce the message that underage sales are not allowed.

We provide targeted responsible tobacco-retailing programs that effectively tackle youth smoking, and these are welcomed by retailers. In the U.K. for example, our IDentify program has been developed to locate retailers who may be at risk, and we performed 1,282 test purchases in 2019. We offer these retailers professional training and help them to raise standards, so that they will avoid making underage sales.

Related links

Tobacco

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graph TD; A[Tobacco] --- B[Reduced-Risk Products (RRP)]; A --- C[Supply chain]; A --- D[Optimizing the regulatory environment]; A --- E[Tackling illegal trade]; A --- F[Investing in people]; A --- G[Our tobacco principles]; A --- H[Smoking and health];
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Reduced-Risk
Products (RRP)

Supply chain

Optimizing the
regulatory
environment

Tackling illegal
trade

Investing in
people

Our tobacco
principles

Smoking and
health

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Tackling illegal trade

Experts estimate that over 10% of all cigarettes sold globally (excluding China) are illicit, with approximately 45 billion U.S. dollars in global tax revenue lost each year. This illegal trade fuels human trafficking, organized crime, and terror groups. It causes harm to consumers, as uncontrolled products circumvent regulations and quality controls, and undermines legitimate tobacco businesses. Tackling illegal trade is a top priority for us, and our Anti-Illicit Trade team is recognized as the industry leader in combating this problem.

Aspirational goal


We will ensure the Company is included in policymaking leading to fair and balanced regulation, and enhance our cooperation with governments to combat illegal trade.

Target

We will engage in dialogue with law enforcement agencies, with the goal of exchanging intelligence regarding illegal tobacco products, in order to support the reduction of illegal tobacco products.

Progress

In 2019, our Anti-Illicit Trade team provided 1,129 intelligence reports to law enforcement agencies, and advised 2,687 law enforcement officers on counterfeit recognition.

Read more about our latest progress on the JT Group's [tobacco business sustainability strategy](#).  .

Other key wins in 2019

- Over 3.2 billion illegal cigarettes seized thanks to intelligence reports provided by our team to law enforcement.
- There was a 34% decrease in seizures of our genuine products resulting from our efforts to ensure the security of our supply chain.

Our approach

Our global Anti-Illicit Trade team investigates the illegal tobacco trade and protects consumers and society, as well as our business and reputation, from criminal elements. It is made up of dedicated professionals with many years of public service in law enforcement, regulatory bodies, and governments.

As a key part of our business, the team works with our markets to secure our supply chain, and assists law enforcement in removing illegal tobacco from the marketplace. It maintains a robust dialogue with governments and law enforcement agencies on the threat of illegal tobacco through public-private partnerships and provides counterfeit awareness programs for law enforcement, globally.

Our Anti-Illicit Trade team also supports other areas of our business with research on illegal tobacco and raises awareness of the problem among our business partners, consumers, and society in general. The team protects the JT Group's business and reputation, supporting our long-term, sustainable future.

Increasingly, we are examining ways to tackle illegal trade across our entire value chain. This is resulting in a more transparent and collaborative relationship with suppliers of items such as tobacco leaf and cigarette filters. We have regular meetings with these suppliers and manufacturers to try to

help them prevent their products from falling into the hands of criminal networks and support their compliance training initiatives.

Our Anti-Illicit Trade team also supports our compliance and purchasing departments by carrying out due diligence checks to ensure we are entering into contracts with trustworthy suppliers, and by helping these departments to implement corporate policies and procedures.

We continue to closely monitor changing trends in smuggling, including the way in which organized crime groups use shipping routes. We are working with various law enforcement agencies across the world, such as the World Customs Organization, Interpol, and Europol, to help them track containers suspected of transporting illegal goods.



Case study

Positive progress continues in the Philippines

We have been tackling illegal trade in the Philippines since 2017, when the JT Group acquired Mighty Corporation, the country's second largest tobacco company.

There were a number of challenges to face, notably in relation to locally made counterfeit packs, imported counterfeit products from China, packs of local brands with reused tax stamps, and illicit whites with no tax stamps at all.

For our acquisition to make a positive impact to the business, we set up several tailor-made anti-illicit trade projects in late 2017. Working together with JTI Philippines and various government agencies, our Anti-Illicit Trade team successfully established processes for reporting illegal activity to law enforcement, who in turn took the necessary action against illegal trade.

Through this new system, in 2018 we were able to pass on information about illegal factories, storage areas, and even large retail markets where illegal sales were taking place. The results have been very positive, with figures suggesting that illegal trade dropped by around 50% from September 2017 to the end of 2018.

Our work continued in 2019, as the following results show:

- There were over 140 million illegal cigarettes seized in 2019
- They included 57 million counterfeit JT Group branded cigarettes, and 83 million other cigarettes
- The majority of seizures that were reported to law enforcement were from six factories and 22 storage depots
- A total of 42 machines used in the production of illegal cigarettes were removed from factories (crucial to reducing future production capabilities)
- These efforts reduced the illegal cigarette level to approximately 6% in 2019, vs. 12% in 2017



August 2019: 460,000 illegal cigarettes were seized from a cargo vessel in the Port of Zamboanga, based on intelligence shared by our Anti-Illicit Trade team. The cigarettes were found mixed in with a shipment of tropical fruit.



September 2019: Our Anti-Illicit Trade team provided information that led to the seizure of 12 million illegal cigarettes, including approximately five million counterfeits of our Marvel brand, from a warehouse in Bacolod City.



September 2019: Our Anti-Illicit Trade team shared intelligence that led to a raid on a storage depot in Iloilo City, where 143,000 counterfeit Camel, Winston, and Marvel cigarettes were seized.



Late September 2019: Officials in Subic Bay shut down a tobacco factory producing cigarettes without tax stamps, after our Anti-Illicit Trade team and other sources had passed on information several months earlier.

*'Illicit whites' refer to tobacco products manufactured legitimately but without any product flow control measures afterwards, and smuggled and sold in another market.

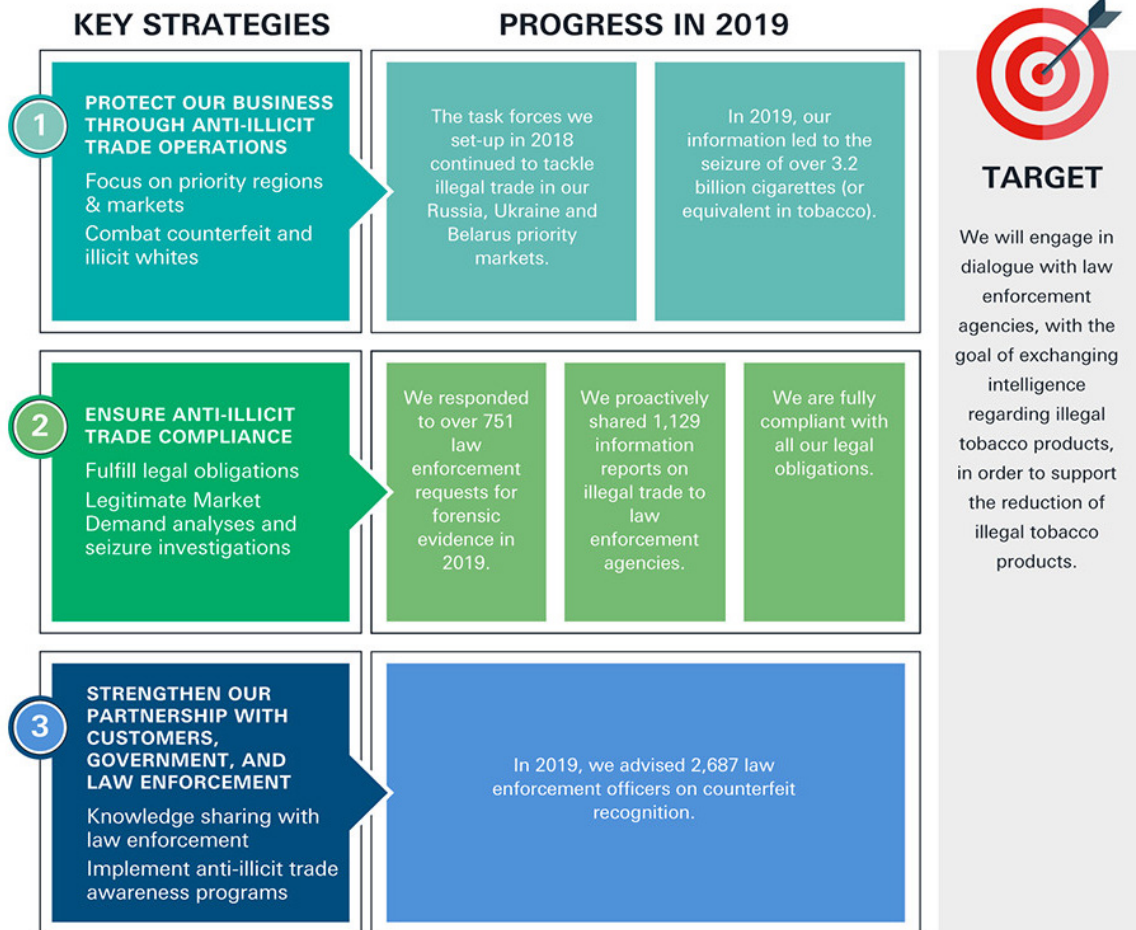
Supporting business performance through anti-illicit trade programs

Our global anti-illicit trade programs create the opportunity for public-private partnerships to combat highly organized criminality. They are also designed to support our business performance by fulfilling all legal requirements, securing our supply chain, safeguarding and creating opportunities for volume and profit growth, while protecting our Company's reputation.

We measure their effectiveness against the following KPIs:

- The number of seizures based on information we share with law enforcement
- The level of illicit trade in our top markets through analysis of empty pack surveys, and the reduction we help achieve
- Implementation of our compliance programs
- Strengthening partnerships with law enforcement agencies, especially through illegal tobacco awareness programs

STRATEGY, INITIATIVES, AND PERFORMANCE



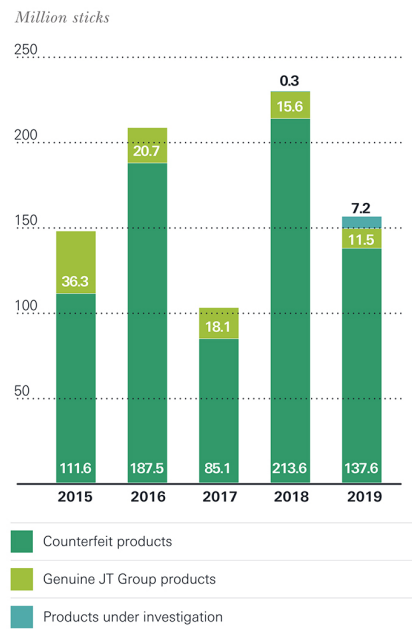
Protecting our business

In 2019, our Anti-Illicit Trade team provided 1,129 intelligence reports to law enforcement agencies, leading to the seizure of more than 3.2 billion illegal cigarettes. Based on our information, law enforcement raided more than 70 counterfeit tobacco factories and storage locations.

As a direct result of our work to tackle illegal trade, and based on seizure statistics, notified seizures of counterfeit products in the EU

have remained consistently high over the past four years (approximately 90% of products seized are counterfeit). During the same period, notified seizures of our own genuine products in the EU decreased by nearly 50%, thanks to our markets' efforts in securing our supply chain, with the support of the Anti-Illicit Trade team. This has been acknowledged by both the EU and the U.K.'s HM Revenue and Customs, which recognized our international tobacco business as an industry leader in the fight against illicit trade.

TOBACCO PRODUCTS SEIZED IN THE EU AS A RESULT OF JT GROUP INFORMATION



Fighting the rise of counterfeiting in Europe

Over the last three years, organized crime groups have established numerous illegal factories in Europe producing counterfeit cigarettes, including the JT Group brands. This has brought illegal production closer to destination markets, particularly the U.K., and marks a shift away from the traditional sourcing of counterfeit products in China.

In 2019, 94% of the JT Group branded products seized globally were counterfeit, and we established a Counterfeit Task Force in March 2019 to counter this threat. The objective of the task force is to coordinate our investigations into global counterfeit production, ensure that knowledge is shared between different regions, and ultimately pass on meaningful information that will assist law enforcement.

So far, the task force's work has focused on locating the illegal production facilities used to produce counterfeit cigarettes. These illegal facilities may comprise of different manufacturing components including leaf processing, cigarette makers and packing machines, and often storage of large quantities of finished illegal product. Our Counterfeit Task Force compiles and assesses various pieces of information obtained from different sources with the objective to provide reliable and usable information to law enforcement in order to locate and seize the illegal facilities.

Ensuring anti-illicit trade compliance

Legitimate market demand program

Companies worldwide seek to understand the demand for their products in their markets but there is a clear distinction between market demand, and 'Legitimate' Market Demand (LMD).

We must comply with our obligations under the European Union Cooperation Agreement signed in 2007. This means supplying tobacco products only in volumes that correspond with the legitimate demand of the intended market of retail sale.

With a commitment to doing the right thing, in the right way, our Anti-Illicit Trade Research team has developed a global methodology to assist our international tobacco businesses' markets with a consistent and accurate approach to annual LMD calculations. Our markets perform the LMD exercise in conjunction with their annual plan. This creates a proactive supply chain control mechanism to make sure that the planned sales volumes are in line with LMD.

The components and parameters of the LMD estimation vary depending on each market's unique characteristics and our product portfolio in that market, but the global methodology provides a logical and defensible standard.

One common factor among these varying calculations is that our demand estimations comply with all laws and regulations.

Track and trace

Our Track and Trace program has been an important element of our compliance policy for more than a decade. It helps our global efforts to support law enforcement agencies and has been developed with many of the biggest technology companies across the world, as part of our obligations within the EU Cooperation Agreement.

A highly technical and complex process, our Track and Trace program requires markings on all individual and aggregated levels of products. It helps us to track the movements of the products along the supply chain and supports our supply chain analysis. As a result, when seizures are brought to our attention, we can identify the source of diversion of the seized products and implement preventative measures.

In 2019, Track and Trace became mandatory in several jurisdictions. In addition to the United Arab Emirates, Saudi Arabia, and Russia, the first regional system applicable in all member states of the EU went live on May 20, 2019, as per the European Tobacco Products Directive (TPD2). Despite the

challenging timelines to implement such complex systems, we complied with the regulations as of entry into force, with minimal disruption in the countries where we operate.

A global response to illicit trade

The Protocol to Eliminate Illicit Trade in Tobacco Products is the first protocol to the WHO Framework Convention on Tobacco Control (FCTC). It entered into force on September 25, 2018 and has so far been ratified by 58 Parties (January 2020).

This international treaty aims to eliminate all forms of illicit trade of tobacco products, through several provisions that are binding on its Parties. We support the Protocol, as it provides a global response to the global problem of illicit trade.

One of the main requirements is that the Parties must implement a Track and Trace regime by 2023 (for cigarettes) and by 2028 (for all other tobacco products). In order for this regime to be effective, we support the implementation of an architecture based on 'open standards' and interoperability for every actor in the supply chain, while taking into account existing systems such as the new EU-wide Track and Trace system.

We also firmly believe that the fight against illicit trade can only be effective if measures such as Track and Trace are implemented along with proper enforcement by the authorities, deterrent sanctions applicable to those involved in the illegal trade, and government measures to address products that are not covered by the Protocol, such as counterfeits or illicit whites.

Case study

Taking the fight to the digital world

The fight against the illegal tobacco trade seems never-ending, as criminals seek to use well-tested and innovative new methods of exploiting others. The internet continues to provide opportunities for individuals and organized crime groups to offer illegal tobacco products. We are maintaining our challenge against unlawful activity, to protect our brands and support our markets.

Our project to tackle internet-based crime is well established and continues to make progress, through the takedown of links and social media posts which illegally advertise our products.

In 2018, we took down:

- Over 5,960 posts
- Over 65,300 items

In 2019, we took down:

- Over 3,100 posts
- Over 1.2 million items

These results represent 760,669 U.S. dollars' worth of potential product losses.

We also identify those using social media sites to offer larger volumes and following 'test purchases' of the JT Group products, we supply law enforcement with the evidence to take action. We have also taken the opportunity, in the U.K., to convict other Facebook sellers through private prosecutions.

Since it began, the project has expanded both in scope and geographically, and was rolled out in Russia, Singapore, and the U.S. in 2019. Facing threats from the illegal sale of Logic products, the U.S. project was extended to cover internet sales of Reduced-Risk Products (Products with the potential to reduce the risks associated with smoking.) , with over 7,100 online listings of illegal products detected in 2019 alone.

We will continue to expand the reach of this project, to fight the illegal trade of tobacco and e-cigarettes across digital channels.

Read more about [how we tackle the illegal tobacco trade online.](#) 

Related links

Tobacco

Reduced-Risk
Products (RRP)

Supply chain

Optimizing the
regulatory
environment

Tackling illegal
trade

Investing in
people

Our tobacco
principles

Smoking and
health