



Tobacco

Our new Group purpose and purpose by each business can be found [here](#)

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.



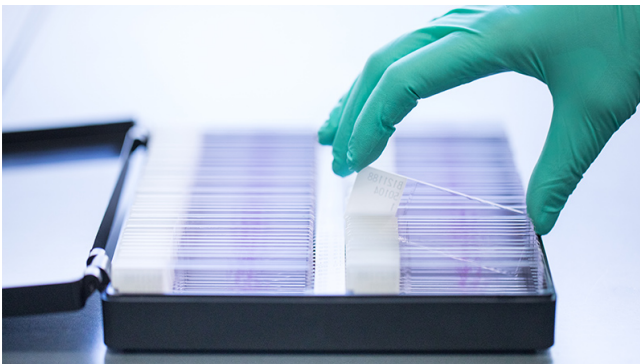
For more details on our approach to responsible marketing, please refer to our [Global Tobacco Marketing Principles](#).

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 \(RRP\) >](#)

[Products and services \(Environment\) >](#)



[Supply chain >](#)



[Optimizing the regulatory environment >](#)

[Investing in people >](#)

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[Information by
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[Reduced-Risk
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[Supply chain](#)



Smoking and health

People smoke for pleasure, but there are real risks that come with that pleasure. Smoking is a cause of serious diseases, including lung cancer, coronary heart disease, emphysema, and chronic bronchitis. These risks distinguish tobacco from most consumer goods and place a particular responsibility upon us, our industry, and public authorities.

The JT Group is committed to being transparent about the health risks of smoking. We do this by providing consumers with scientific information to help them make informed decisions about smoking. We also subject all of our ingredients to toxicological assessments, in line with stipulated requirements.

Our positions on smoking and health are available on our websites, as are the lists of ingredients we use in our products.

[Ingredients list of JT products \(in Japanese\)](#) 

[Ingredients list of JTI products](#) 

[Our attitude to smoking](#) 

[Our attitude to smoking \(in Japanese\)](#) 

Related links

Tobacco

Reduced-Risk
Products (RRP)

Products and
services
(Environment)

Supply chain

Optimizing the
regulatory
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Smoking and
health



Products and services(RRP)

Exceeding expectations with products and services

Aspirational goal

We will be a total tobacco company offering consumers (The word, consumers, used in the context of the tobacco business means adult consumers. Minimum legal age for smoking

varies in accordance with the legislation in each country.) an even greater choice of products by focusing on quality, innovation, and reduced-risk potential.

Target

Reduced-Risk Products (RRP) offer real benefits to consumers and society. Our responsibility as a manufacturer is to continuously develop and launch RRP that meet consumer expectations and to provide information on them. We will lead in providing a range of consumer choice in the RRP category.

Progress

In 2021, we offered products (RRP) with the potential of risk reduction, social consideration, convenience, and affordability, such as Heated Tobacco Sticks (HTS), infused tobacco products, e-cigarettes and oral products.

In an effort to increase the presence of JT Group in reduced-risk products, we will be accelerating the level of investment, mainly towards heated tobacco sticks. In the last three years, we invested approximately JPY 200 billion towards R&D, marketing and capital expenditures.

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

*1 Japan, Russia, UK, Italy

Our approach

Responsible innovation focusing on consumer choice has always been at the heart of what we do at JTI. The growing global market for potentially Reduced-Risk Products [Reduced-Risk Products are Products with the potential to reduce the risks associated with smoking] is a bold new frontier for delivering exactly that. We believe that the direction the vaping products market takes will – and

should – be driven by consumers. It is up to us, the innovators in the tobacco industry, to listen to consumers and ensure their needs are met with high-quality products.

We have committed to investing significantly in Heated Tobacco propositions to compete more successfully in this growing market of RRP. We have also enhanced our capabilities – or acquired new capabilities – to succeed beyond combustible products by further focusing on consumer-centricity.

We have partnered with startups and incubators to give emerging technologies and ideas the opportunity to reach our R&D centers.

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.

* Minimum legal age for smoking vary in accordance with the legislation in each country. In Japan, smoking is not permitted for those under 20 years of age.

Putting consumers first

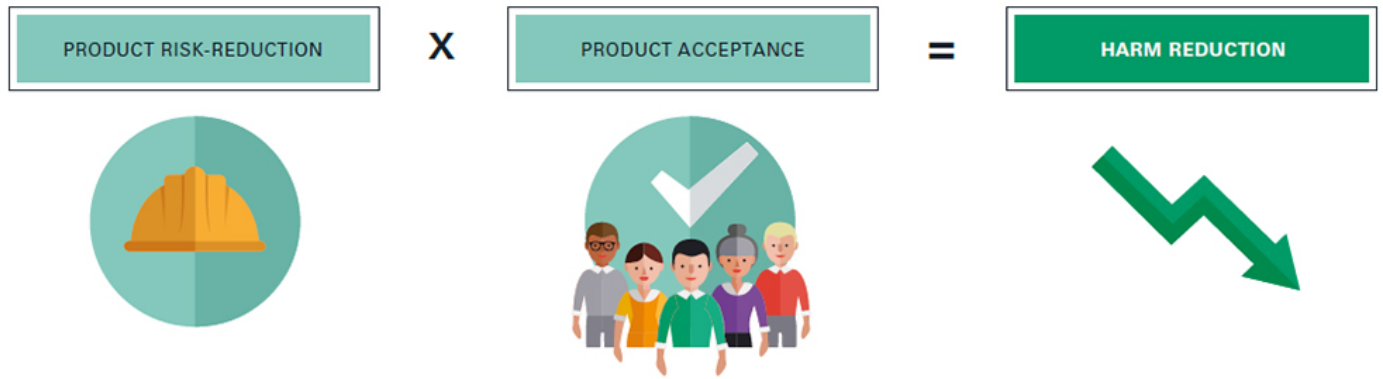
We take a consumer-centric approach to research and development, and focus on four major factors that motivate consumers to consider Reduced-Risk Products:

- The potential of reducing the risks associated with smoking
- Affordability and value for money
- Social considerations
- Convenience of usage in a variety of locations and situations

This approach to our Reduced-Risk Product research and development enables us to drive strong benefits for all of our key stakeholders: consumers, shareholders, employees, and the wider society. It also reflects the Harm Reduction Equation shown below.

The success of any harm reduction depends on two factors: the potential to reduce the risks associated with using a particular product and the number of people adopting the product. Its 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.

These products offer potential of risk reduction, social consideration, convenience, and affordability.

Heated tobacco sticks

Heated tobacco sticks contain tobacco leaf and create a tobacco-enriched vapor that can be inhaled. They deliver an enjoyable tobacco experience through heating with high temperature (c.

230-350 Celsius), not burning.

Infused tobacco products

Infused tobacco is another variant of heated tobacco products. It combines a tobacco capsule and a liquid cartridge. Tobacco leaf contained inside the capsule releases vapor via infusion of vaporized liquid.

E-cigarettes

Also known as electronic cigarettes, e-cigarettes 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.

Oral products

Oral products include snus and nicotine pouches. These nicotine-containing products are placed inside the mouth, between the gum and upper lip, where nicotine is absorbed through the oral mucosa. Oral product consumers are not exposed to the toxic compounds resulting from the combustion of tobacco. While oral products are not risk free, they do not generate environmental tobacco smoke (also known as second-hand smoke).

Snus contains tobacco (cut, ground, powdered, or leaf), while nicotine pouches are completely tobacco-free.

Realizing the full potential of Reduced-Risk Products

Our Reduced-Risk Products will be defined by their potential to reduce the health risks associated with smoking and their ability to provide an acceptable user experience for consumers. We're committed to bringing new and innovative Reduced-Risk Products to market, and are continually developing and testing them using scientifically-rigorous methods.

While it is still too early to understand the long-term health effects of RRP, various factors (including the elimination of combustion and the fewer toxicants found in the vapor) suggest there is potential for them to reduce the risks associated with smoking. That's why we're committed to ensuring that all our Reduced-Risk Products fulfill this potential.

Case study

A step towards reduced-risk substantiation

After five years, many studies and clinical trials and more than 200,000 pages submitted to FDA, we are excited to have received marketing orders for the Logic Pro, Power, and Vapeleaf* devices, as well as their tobacco flavored capsules.

FDA confirmed that Logic's products have demonstrated that marketing of the products is appropriate for the protection of the public health. This underscores years of scientific study and research dedicated to ensuring that adult consumers have access to Logic products.


Logic has always supported effective, proportionate and evidence-based regulation of ENDS (Electronic Nicotine Delivery Systems). From the moment FDA issued the Deeming Rule regulating ENDS, Logic has been engaged in a robust and committed effort to comply with all FDA requirements. Logic submitted Premarket Tobacco Product Applications (PMTAs) for its Logic Pro, Logic Power, and Vapeleaf products on August 19, 2019, well before the PMTA deadline.

* In the US, Ploom Tech, our Tobacco Infused Capsule system, has been sold as 'Logic VapeLeaf'. It has not been commercialized there recently.

JT Science: an online resource for all

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 and scientists to the regulatory community.













We strive for an open, balanced, and fair environment where factual scientific data and assessments are shared in a transparent way.

While 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](#) . As an example, a publication on the reduced exposure to selected harmful and potentially harmful constituents when switching from combustibles to heated tobacco products [here](#).

Read more about our research on the [JT Science](#) website.

Our product portfolio (As of December 2021)

OUR PRODUCT PORTFOLIO

T-VAPOR	HEATED TOBACCO STICKS (HTS)	<p>ploom S 2.0</p> 	<p>ploom S10</p> 	<p>ploom S20</p> 	<p>ploom X</p> 
	INFUSED TOBACCO CAPSULES (Infused)	<p>ploom TECH</p> 	<p>ploom TECH+</p> 	<p>ploom TECH+ with</p> 	
E-VAPOR	CLOSED TANK	<p>Logic Compact</p> 	<p>Logic Pro</p> 	<p>Logic Power</p> 	
		<p>ORAL PRODUCTS</p>	<p>SNUS</p> 		
	<p>NICOTINE POUCHES</p> 				

Case study

Enhancing the consumer experience

Ploom X is our latest generation and most exciting and ambitious proposition.

The cutting-edge device combines an aesthetic and innovative design with a more intuitive user experience, with no buttons on its surface. In addition to the ability to precisely control heating temperature, Ploom X is equipped with a new heating technology which focuses on air flow, significantly improving user experience.

We will continue to develop new functionalities for our devices to make them as safe and user-friendly as possible.



Case study

Ploom X and the power of teamwork

Developed as a global initiative, Ploom X is a perfect example of successful collaboration across different functions in multiple locations.

At the start of this truly global project, our Product Design team partnered with a design agency in the U.K. The technical configuration was then defined by our R&D teams in Japan, Germany, and Hong Kong. Now, the products are manufactured in China, and Quality Assurance is conducted in Japan and Germany.

Teams of experts from across the organization have been collaborating closely and everyone involved has gone the extra mile to make the project a success, in spite of the challenges of working across different time zones during a pandemic. The result is a new star product that will help us to secure future growth.

“

Ploom X will make the user experience more pleasurable and unique than ever before.

Listening to consumers globally, we have created a proposition that is aligned with today's lifestyles and choices.

This includes a more authentic tobacco taste, through proprietary technologies and a stylish design.



”

Takehiko Tsutsui,
SVP, Reduced-Risk Products

Case study

U.K. Enviromentum project: “Doing loads more with tonnes less”

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

Reduced-Risk Products supply chain

(As of December 2021)

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.

Where are our Reduced-Risk Products produced?



* Refills: Tobacco sticks, Tobacco capsules, pouches and cartridges incl. liquid

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 nicotine-containing products or encourage smoking or using nicotine-containing

products among consumers.

Related links

Tobacco

Products and services (RRP)

Products and services (Environment)

Supply chain

Optimizing the regulatory environment

Tackling illegal trade

Investing in people

Smoking and health



Products and services (Environment)

Aspirational goal

We will be a total tobacco company offering consumers (The word, consumers, used in the context of the tobacco business means adult consumers. Minimum legal age for smoking varies in accordance with the legislation in each country.) an even greater choice of products by focusing on quality, innovation, and reduced-risk potential.

Target

We will reduce the environmental impact of our products and packaging through design solutions, facilitating responsible collection and disposal, and consumer awareness and

education. More specifically, we will reduce our packaging (including plastic) and ensure that the remaining is 85% reusable or recyclable by 2025, rising to 100% by 2030. In total, recycled content will account for 20% of our tobacco business packaging by 2025.

Progress

We have carried several initiatives looking at design solutions and responsible collection and disposal, and consumer awareness and education.

In 2021, our efforts led to:

- 84% reusable or recyclable packaging
- 16% recycled content of packaging

Our investment in product sustainability takes into account the type of materials and packaging we use. In 2020, our international tobacco business set up a cross-functional team to embed sustainability in product development and minimize our environmental impact across our portfolio.

For more specific initiatives, read more on [Environment and Our Products](#)

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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 [Reduced-Risk Products are Products with the potential to reduce the risks associated with smoking]. 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 2021, 97% of our supplying entities^{*1} reported against ALP.

84% of our directly contracted growers and 97% of our leaf merchants' growers^{*2} were

covered by ALP.

79% 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 2021, 100% of our key suppliers were screened against ESG criteria.


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 27%, while greenhouse gas emissions from our direct leaf supply chain increased by 9%*³ in 2021.

Following announcement of JTG Net-Zero target in February 2022 “JT Group Environment Plan 2030” and Tobacco Business Sustainability Strategy was updated. Read about the updated GHG related targets on [JTI.com](https://www.jti.com) .

Progress against new targets will be reported in 2023.

WATER AND WASTE

Target

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

Progress

Since 2015, we have reduced water withdrawal by 16% and waste by 15%, in relations to our own operation.

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 2021 tree planting activities in Tanzania, Zambia and Brazil, we estimate that we are on a path to achieve consolidated 81% renewable wood sourcing by 2028.

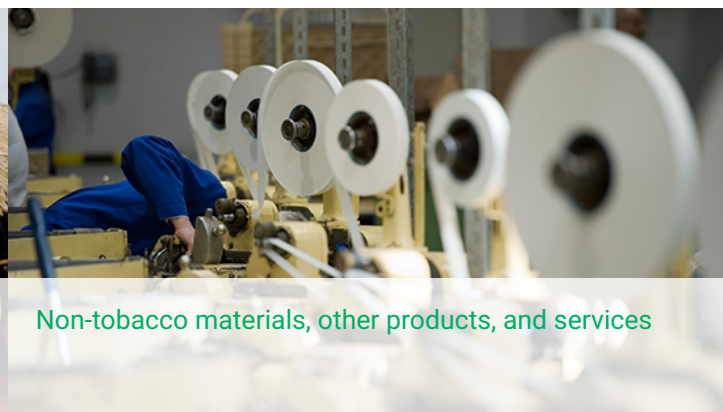
*1 ALP coverage in grower base is calculated based on the data reported by 97% of our leaf merchants.

*2 Growers from India and China are excluded.

*3 Increase in emissions is due to increased leaf volume sourced from Zambia and Tanzania, where currently wood used for curing is predominately non-renewable. Initiatives are in place to improve curing barn efficiency, reduce wood consumption, and increase the proportion of renewable wood used. We expect that impact of these initiatives will be seen from 2022 onwards.



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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Supply chain policies and standards

All of our suppliers* are required to comply with our JT Group Supplier Standards. We select suppliers based on quality, service, and cost, which is reflected in our JT Group Responsible Procurement Policy. Our contracted tobacco leaf growers and merchants must also adhere to the JT Group Principles in Leaf Tobacco Production.

Although we work with many different suppliers, our leaf supply chain due diligence process provides us with a 360° view of the entire supply chain at farm level. This process includes:

- Supply Chain Impact Assessments
- Our Agricultural Labor Practices (ALP) program
- Our ARISE (Achieving Reduction of Child Labor in Support of Education) program
- Grower Support Programs

* includes tobacco suppliers.

The JT Group
Responsible



The JT Group
Supplier



The JT Group
Principles in



Agricultural
Labor Practices



The JT Group Responsible Procurement Policy



The mission of the JT Group is to create, develop, and nurture its unique brands to win consumer trust, while understanding and respecting the environment, and the diversity of societies and individuals. To achieve this mission, the JT Group operates procurement in the manner as stated in the JT Group Responsible Procurement Policy.

1. Implementation of compliance

- Acting in a manner to comply with the legislation and regulations relating to procurement as well as social norms.
- Providing appropriate measures to protect all information provided to us by our suppliers for procurement activities.
- Operating procurement activities in an appropriate and sincere manner that follows the JT Group Code of Conduct.

2. Environment

The JT Group operates procurement in a manner to pay due consideration to the environment in accordance with the basic principle of the JT Group Environment Policy.

3. Supplier selection

Our supplier selection is based on our review of a supplier's quality, price, and service. In particular, the JT Group will consider the supplier's historical success with respect to the delivery of goods and services to be supplied to the JT Group, as well as the supplier's capability to ensure ongoing delivery of these requested goods and services. In addition to these criteria, the JT Group will consider the following:

- The supplier's compliance with relevant laws and regulations for each country and region.
- The supplier's policies that respect human rights and social norms.
- Whether the supplier has appropriate measures to pay due consideration to the environment.
- Whether the supplier has appropriate measures to protect confidential information, trade secrets, and any other information provided by business partners.
- Whether the supplier has appropriate measures that ensure business continuity, free from any operational and financial instability.

[Reporting Concerns](#)

The JT Group Supplier Standards

Wherever we operate, we expect our business partners to share our commitment to the highest standards of business integrity, legal compliance, and responsible business practice. At the Group level, our Responsible Procurement Policy sets this expectation. It clarifies that when selecting suppliers, we take account of candidates' compliance with relevant laws and regulations, and requires that we consider human rights, the environment, and other social responsibilities.

[The JT Group Supplier Standards](#)

NOTE

Japan Tobacco International (JTI), which is the international operation of the JT Group, has specific selection criteria for suppliers which are consistent with those of the JT Group. For more information, please refer to JTI's policy.

[JTI Supplier Standards](#)

The JT Group Principles in Leaf Tobacco Production



The JT Group conducts business following our management principle, the 4S model, under which “we strive to fulfill our responsibilities to our valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these four key stakeholder groups, and exceeding their expectations wherever we can.”

We secure a stable supply of quality tobacco that meets required standards at best cost through direct-procurement of leaf from growers. We then process this leaf tobacco^{*1} at our designated factory (hereinafter the “leaf tobacco production”).

To pursue our above-mentioned management principle in leaf tobacco production, we have established, and abide by, the following JT Group Principles in Leaf Tobacco Production in origins where we do business.

Our principles

- Sustainable leaf tobacco production following the JT Group’s Code of Conduct.
- Adherence to the JT Group Environment Policy, which aims to reduce environmental impacts and ensure efficient use of natural resources while striving to conserve biodiversity.
- Endeavor to produce leaf tobacco that satisfies consumers’ requirements.
- Strive to improve quality and integrity of leaf tobacco production through promotion of Good Agricultural Practice (GAP)^{*2}.

The JT Group, together with our contracted growers, will promote:

- 1 Compliance with applicable national and local legislations
- 2 Respectful treatment without applying any unlawful discrimination, abuse, or harassment of any kind to workers and prohibition of use of child labor and/or use any form of forced or compulsory labor to workers
- 3 Reasonable measures to create and maintain a safe and healthy working environment

- 4 Proper management of seed and varieties
- 5 Consideration for the environment in leaf tobacco production through conservation of forestry, soil, water resources, biodiversity, and ongoing improvement of energy efficiency
- 6 Adoption of techniques including Integrated Pest Management (IPM)^{*3} practices, aiming at reduced use of CPAs in the control of diseases, infestation of harmful insects and weed control
- 7 Management practices which contribute to avoiding Non Tobacco Related Material (NTRM) or any other contaminants
- 8 Sustainable grower incomes through responsible pricing principles and practices
- 9 Management of transportation and storage practices that ensure quality and integrity of leaf tobacco is maintained

In order to achieve these objectives, we educate and train relevant employees in the JT Group, our contracted growers and any people involved in our leaf tobacco production on an ongoing basis.

In addition to leaf procured directly from contracted growers, we also purchase leaf tobacco from third party suppliers^{*4}. In these cases, we conduct business in accordance with the JT Group Responsible Procurement Policy and we will also encourage such suppliers to follow the JT Group Principles in Leaf Tobacco Production.

NOTE

*1 Leaf tobacco processing:

To separate the lamina portion of tobacco from the stem and pack tobacco for storage and transportation.

*2 Good Agricultural Practice (GAP):

Agricultural practices which produce a quality crop while protecting, sustaining, or enhancing the environment with regard to soil, water, air, animal and plant life, and which aim at ensuring sustainable, economically viable production of usable tobacco.

*3 Integrated Pest Management (IPM):

A sustainable approach to managing pests, diseases, and weeds by combining biological, cultural, physical, and chemical tools in a way that minimizes health and environment risks.

*4 Third-party supplier:

A supplier who supplies processed packed tobacco to manufactures or any non-tobacco producer who produces green leaf for onward sale to a tobacco manufacture.

Agricultural Labor Practices

Our Agricultural Labor Practices (ALP), launched in 2013, define the standards we expect of our contracted tobacco growers for safe working conditions, fair treatment, working hours, provision against forced labor, and freedom of association. They also describe our stance against child labor and measures to eliminate it. Our farming experts, who are all fully trained on ALP, observe labor practices during farm visits, report on their findings, give advice to growers and agree improvement programs. We have continued implementing ALP with our directly contracted growers as well as with indirectly contracted growers through our tobacco merchants.

[Agricultural Labor Practices 2017](#) 

Related links

Supply chain

Supply chain policies and standards

Leaf supply chain - Raw material sourcing

Non-tobacco materials, other products, and services

Leaf supply chain - Raw material sourcing

How do we work with our leaf suppliers?

Tobacco leaf sourcing is a key part of our supply chain, and a critical component of future business growth. We work closely with our directly contracted growers and third-party leaf merchants to enhance security of supply and leaf provenance. This provides greater flexibility when responding to changing market requirements.

In 2021, we worked with 59,236 directly contracted tobacco leaf growers in Bangladesh, Brazil, Ethiopia, Japan, Malawi, Serbia, Tanzania, Turkey, the U.S., and Zambia. Contracting leaf growers directly enables us to produce a customized crop, while improving growers' productivity, leaf quality and leaf integrity. The direct contracting model also allows us to maintain verifiable provenance and traceability of leaf supply.


Tobacco leaf sourcing

Every year, we purchase approximately 50% of our planned leaf requirements from leaf merchants. The volume of leaf sourced from each established sourcing country varies from year to year, depending on the quality and volumes required. In most cases, our leaf merchants source the tobacco leaf directly from contracted growers. 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 in India at auction. This can make it challenging to determine the provenance of the leaf and implement Agricultural 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 extension services, including crop inputs in specific origins aimed at increasing grower productivity, while trying to improve our social and environmental impact. By enabling growers to become more productive and efficient in the way they grow, harvest, and cure tobacco leaf, we support them in becoming more profitable and to use resources in a more responsible way.

All of our leaf suppliers are expected to follow [Good Agricultural Practices](#)  (GAP). The concept of GAP is to produce a quality crop while protecting, sustaining, or enhancing the environment with regard to soil, water, air, and animal and plant life.

In addition to GAP, the majority of our directly contracted growers are also required to follow 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 our Agronomy Technicians. This support includes recommendations delivered through a scheduled visitation program for the duration of the crop cycle. Contracted large-scale commercial growers do not require dedicated extension service provision from us.

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

We continually look to improve our understanding and methods of tobacco farming and have made

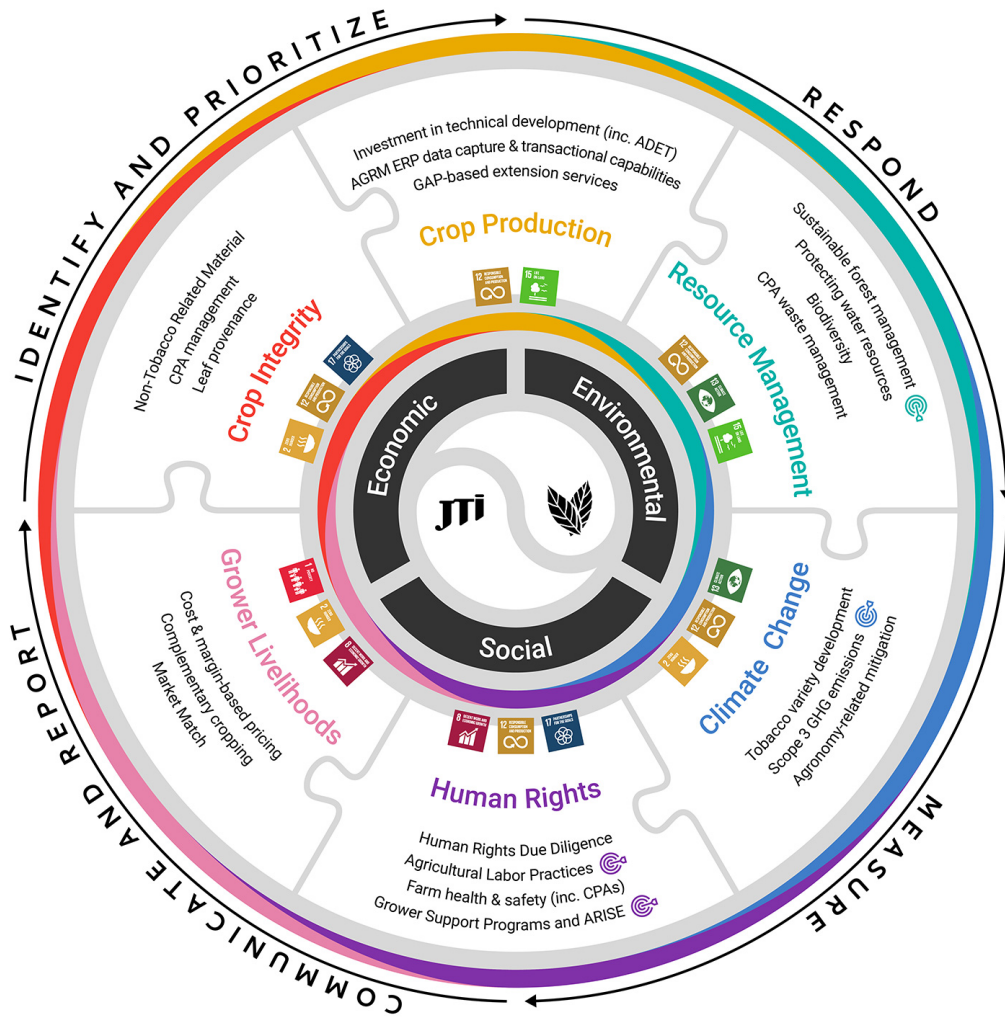
significant investments in this regard. We have Agronomy Development & Extension Training (ADET) facilities in Brazil and Zambia that explore ways of improving productivity and leaf quality in tobacco farming. Both provide relevant, applied research and development activities, such as trials on topics like crop management, soil fertility, improvements in curing barn efficiency, production cost savings, mechanization, and agroforestry. Validated trial outcomes are passed on to growers through our extension service provision. ADET facilitates the provision of training and extension services for our growers in order to promote optimal grower productivity, quality, and leaf production integrity. Our investment in research and development also involves partnering with leading international academic institutions to develop innovative new ways of producing tobacco.

Agricultural Labor Practices (ALP) and Leaf Supply Chain Due Diligence (SCDD)

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 SCDD 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 SCDD is based on a five-step framework - Identify, Prioritize, Respond, Measure, and Communicate and Report, while our ALP program helps 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 Labour Organization. It also follows the UN Guiding Principles for Business and Human Rights.





In spite of the ongoing pandemic, we took some big steps forward in 2021. We not only continued our Supply Chain Due Diligence process, but also integrated it further into the way we operate. For example, our local teams developed action plans following the 2020 Grower Livelihoods Assessment in Zambia and Supply Chain Impact Assessment in India, a new livelihoods assessment was carried out in Malawi, and Supply Chain Impact Assessments were executed in Bangladesh, Turkey, and Ethiopia. As this important journey continues, we remain committed to driving positive change across the leaf supply chain by making an impact through collaboration and listening to rightsholders.



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



During these visits, the Agronomy Technicians provide technical advice on crop management and discuss good labor practices. In cases where they identify labor-related issues, they report their observations directly into our dedicated Enterprise Resource Planning (ERP) system. Depending on the nature of the issue, the Agronomy Technicians may also provide recommendations to the grower.

These observations are then analyzed and prioritized by the local country management. This enables the selection of the right improvement measures to address root causes and respond to the adverse impacts in the most appropriate way. We track the effectiveness of the 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 our processes with the five-step framework. 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 Agronomy Technicians to observe. For example, how to identify discrimination on smallholder farms, or how to optimize our process to deal with an Extreme Breach (if one is found) to 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 an Agronomy Technician to identify and address – especially if the issue is associated with criminal activity. Responding to an Extreme Breach therefore requires caution and, in many cases, support from the police and / or other authorities or non-governmental organizations. In 2021, we investigated 33 potential Extreme Breaches that were recorded by our Agronomy Technicians in the JTI AgroMobility App. After further investigation, 17 of the reported cases were found to be either unsubstantiated or incorrectly recorded in the system and 16 were confirmed as an Extreme Breach and swift corrective action followed.

It is essential 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 rapporteur, a clear escalation route, timeline, and remediation plan, as well as access to specialist support.

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

Achieving Reduction of Child Labor in Support of Education (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. Developed by JTI, the International Labour Organization (ILO), and non-profit organization Winrock International, it continues to forge real sustainable change by implementing robust solutions to prevent child

labor.

In 2020, we restructured ARISE. Representatives in the countries where we grow our tobacco leaves are now responsible for managing local partnerships, assessing projects, and implementing local activities. This approach allows us to maximize efficiency, strengthen our relationship with growers, and harmonize the program with other relevant community projects.

Moving forward, we will embed the ARISE program within the 'Respond' element of our Supply Chain Due Diligence (SCDD) process: Identify, Prioritize, Respond, Measure, Communicate, and Report. We will also integrate data requirements for child labor into our existing leaf monitoring system, Leaf Point.

Launching our new ARISE model

2021 was a year of transition for ARISE, following the formal launch of our new ARISE model at the beginning of the year.

Under the new model, the overall ARISE strategy remains largely unchanged, as it has proven to be successful. However, we now determine projects and project goals based on local needs and challenges and define Key Performance Indicators (KPIs) accordingly.

Winrock International continued to implement the ARISE program during the first six months of the year, before we took over the full responsibility for identifying and implementing projects during the second half of the year.

Unfortunately, due to COVID-related issues such as school closures, we had to pause or adapt some of our programs in 2021. We also had to delay some of the project deliverables. In spite of these challenges, our local teams successfully launched three new ARISE programs in Malawi, Tanzania, and Zambia. Other locations are preparing to follow suit in 2022.

Moving forward, we will continue to expand this vitally important program as necessary. For example, local management are planning to launch ARISE programs in Bangladesh and Ethiopia, after identifying potential issues through our SCDD assessments.

Read more about the [ARISE program](#). 

ALP progress update

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	2021 Progress
100% of our supplying entities to report on ALP	97% of our supplying entities reported against ALP
100% of our growers to be covered by ALP	84% of our directly contracted growers and 97% of our leaf merchants' growers were covered by ALP
100% of tobacco leaf volumes to be covered by ALP	79% of our volumes were covered by ALP

We made significant progress over the last few years. Here are a few examples of how we did it:

- **Reporting improvements**

In 2020, we launched a new online reporting platform for ALP. This enables us to process data faster and with greater accuracy.

In 2021 we improved our dialogue with Leaf Merchants – not only through annual Supply Chain Due Diligence (SCDD) reporting and annual meetings, but also by conducting series of webinars around supply chain due diligence. This enabled us to share best practices, discuss each step of the SCDD process, and promote collaboration. Momentum is building behind a common focus across the sector. In 2021, the team in Bangladesh also implemented ALP and due to the high number of directly contracted growers in this origin it had a significant impact on some of our reported KPIs.

- **Sustainable Tobacco Program (STP)**

Our international tobacco business is one of five global manufacturers participating in the STP Steering Committee. STP is a risk-based program, a collaborative platform to enable continuous improvement in relation to supply chain due diligence. It is also an impact driven program. The aim is to improve the sectors environmental and social footprints, to contribute towards the United Nations Sustainable Development Goals (SDGs) and to enable transparent communication of responsible practices across the supply chain. Since 2019, we have been working with other manufacturers, leaf merchants, external subject matter experts, and various organizations and service providers to further develop STP. One of the key themes is “Human and Labor Rights”.

The development phase of the new STP was completed in June 2021, and full implementation of STP begun. An external STP Secretariat has been appointed to support the implementation by selecting One Peterson, a company with a proven sustainability track record. After two years of chairing the STP throughout the development, JTI handed over the rotational role of the STP Steering Committee chair to another manufacturer.

Also in 2021, our Leaf Merchants finalized the online self-assessments for the crop year 2020. Self-assessments cover all STP themes: Water, Human and Labor Rights, Livelihoods, Climate Change, Soil Health, Crop, Natural Habitat and Governance. Online self-assessments for the crop year 2021 are well in progress. Detailed and focused in-country pilot assessments are underway for 2022. In other developments, the STP’s IT platform, hosted by [Worldfavor](#), has evolved to provide an even more efficient and digitally enabling environment not only for data analysis, but also to support the continuous improvement process of the STP Supply Chain Due Diligence.

- **Progress in Indonesia**

By 2017, all of the leaf merchants the business was purchasing leaf from in Indonesia were reporting on ALP, with almost 100% of our grower base included in our leaf merchants’ ALP observations.

In 2018, we acquired new business in Indonesia and extended the supplier base, not only for leaf but also for Rajangan tobacco and cloves. The plan is to carry out a leaf supply chain impact assessment in 2022. The impact assessment scheduled in 2021 was postponed due to COVID-19.

- **Progress in India**

Following a Supply Chain Impact Assessment (SCIA) in India in 2019, where more than 500 people in the tobacco sector were interviewed (led by consultancy firm [twentyfifty](#)), leaf merchants have established a sustainability committee in 2020, under the Indian Tobacco Association, to drive change on a sectoral level

against mapped priorities. The business is working in collaboration with the leaf merchants and other manufacturers in this process.

We made significant progress in India in 2021, despite significant COVID-related challenges. The project involved all leaf merchants supplying Virginia tobacco to three global manufacturers including JTI. Through our Supply Chain Impact assessment, facilitated by the sustainability consultancy twentyfifty, the following priority issues were identified: health, income, climate impacts and resilience, and living conditions of the more vulnerable migrant workers.

Based on our Supply Chain Impact Assessment findings and as importantly, rightsholder feedback, the Indian Tobacco Association's Sustainability Committee defined industry-level responses. An action plan was developed, including pilot improvement projects and additional research. This action plan is now, in its preliminary phase, being implemented across approximately 10% of the grower base.

The main activities include distributing personal protective equipment (PPE), improving tobacco profitability measures, focusing research on health and wellbeing, and training farmers and workers on various topics, including health and safety, root causes driving child labor and adverse working conditions. The next step is to assess the effectiveness of the pilot program in tackling these issues and adjust our response accordingly.

- **ALP roll-out in Ethiopia and Bangladesh**

A Supply Chain Impact Assessment (SCIA) was executed in both Bangladesh and Ethiopia in 2021. This allowed the local business to identify adverse impacts and prioritize them according to severity of impact and likelihood of the harm occurring. The local team then developed detailed action plans to address these salient issues.

The prioritized issues also helped them to select the most appropriate ALP observation criteria for Bangladesh and Ethiopia. This tailored approach made ALP implementation easier and more targeted. It also increased the relevance of the program in these countries.

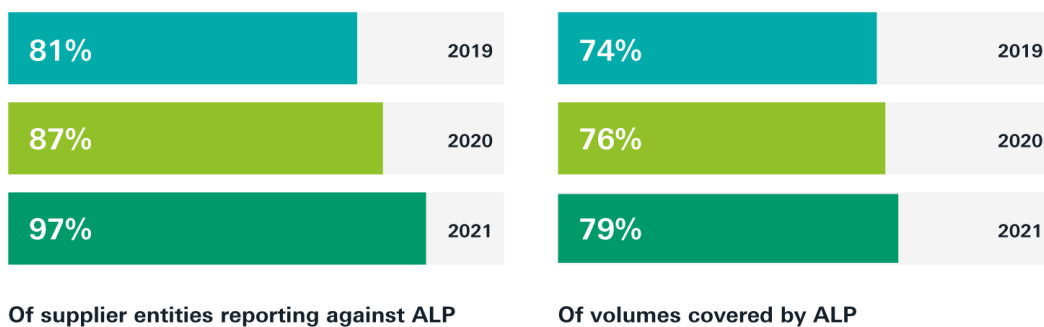
The original plan was to implement ALP in both Ethiopia and Bangladesh in 2021. However, due to the worsening security situation in Ethiopia, we were only able to implement it in Bangladesh.

In Bangladesh, the local team selected the main growing region (Kushtia) as a pilot. Local management, supervisors, and Agronomy Technicians were successfully trained on ALP.

In 2022, the local team will continue their efforts to implement ALP in Ethiopia (dependent on security situation). The local Bangladesh team will also roll out ALP to all the other growing regions in Bangladesh before the start of the next crop year in June 2022.

Historical data

Our target is to implement ALP in all sourcing countries by 2025. In this journey, the sourcing base is changing year on year due to new acquisitions or closures, demand to supply impact, climate change, etc. In spite of these changes, we have made progress in 2021, and we have a clear plan to further continue the progress in 2022: we will continue onboarding remaining suppliers, start implementing ALP in Ethiopia and scale up in Bangladesh, continue supply chain due diligence process in India... A credible, impactful implementation of our programs and processes requires time and efforts, and we accept no compromises.

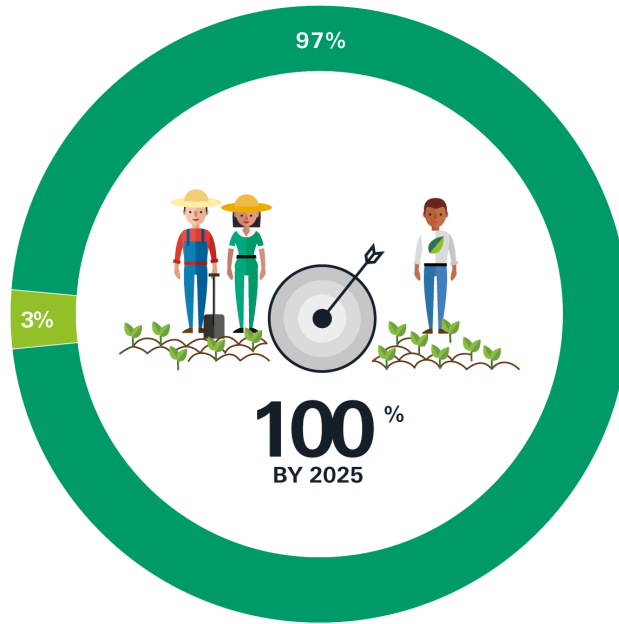


Find out more about how we plan to achieve this target, below.

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, 97% reported against ALP in 2021.

SUPPLYING ENTITIES REPORTING
DIRECTLY CONTRACTED GROWERS & LEAF MERCHANTS



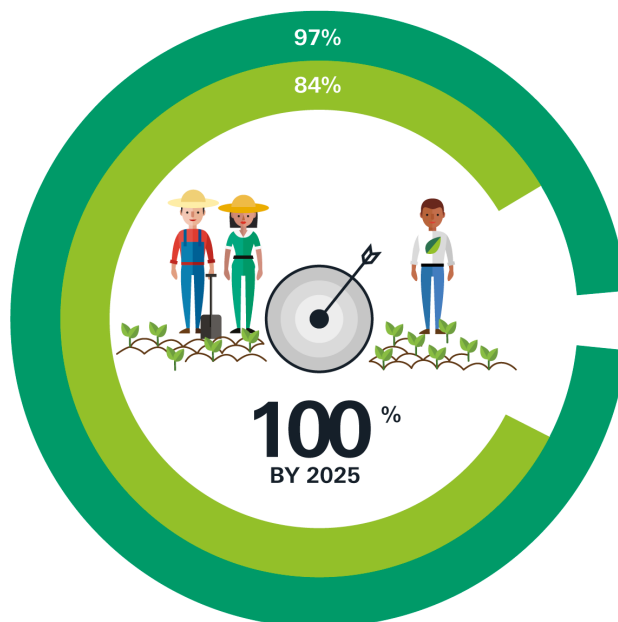
2021 scope of planned purchases



100% of our growers to be covered by ALP

Progress so far: in 2021, 84% of our directly contracted growers and 97% of the growers supplying through our leaf merchants were covered by ALP.

GROWERS COVERED BY ALP (%)



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

2021 scope of planned purchases

- Leaf merchants' growers
- Directly contracted growers

* Introducing ALP in China and India is challenging due to the way the market is structured in these countries. For instance, the third-party leaf merchants do not have direct contracts with growers e.g. in India flue-cured tobacco is sourced via auction floors. We are working with leaf merchants to establish a tailor-made approach on how to run a leaf supply chain due diligence, covering all ALP related matters.

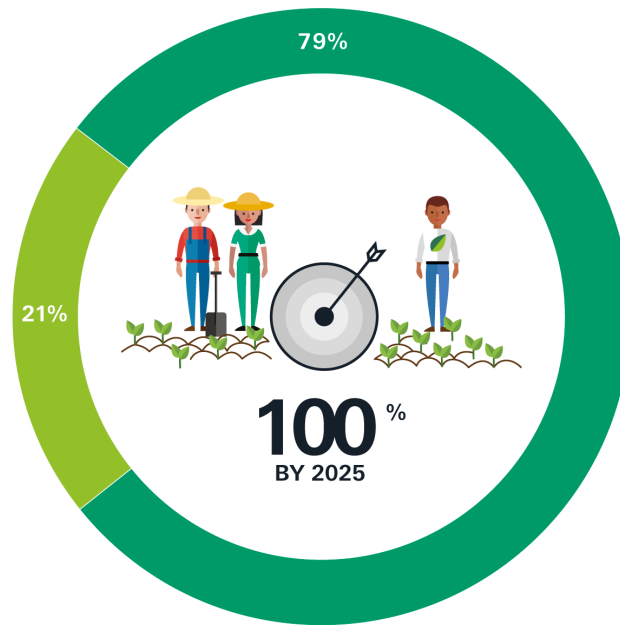
100% of tobacco leaf volumes to be covered by ALP

Progress so far: In 2021, 79% of our volumes were covered by ALP.

We have made several acquisitions in recent years, including in Ethiopia, Bangladesh, Indonesia, and the Philippines. These will be approached 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 November 2021, the local team successfully implemented the ALP program as a pilot in the Kushtia growing region of Bangladesh, which covers approximately 50% of our growers in this origin. The local team was also planning to implement ALP in Ethiopia in 2021 but unfortunately the worsening security situation there made this impossible. They now plan to implement ALP in Ethiopia in 2022, subject to the situation on the ground improving.

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



2021 scope of planned purchases



Implementation of Agricultural Labor Practices in Japan

Our 'One Tobacco' journey – to align our Group-wide leaf supply management activities – started back in 2017, when we carried out an ALP pilot study in Japan. Full implementation of the program then followed in 2018. We have a long-standing relationship with growers in Japan, and the ALP program has reinforced this relationship by continuously improving the labor environment on tobacco farms.

In 2021, we gained a deeper understanding of the farm situation and provided feedback and advice to growers. Based on our observations, we will continue to make improvements to ALP.

Our farm practices in Japan

ADET JAPAN

Enhanced curing and baling

In Japan, we are constantly looking to promote optimal grower productivity in tobacco farming. ADET JAPAN (formerly JT Farm) runs research and development activities, such as trials for developing efficient cultivation methods, agricultural machinery, and Crop Protection Agents. We also assess the productivity of our cultivation methods for new leaf varieties in Japan for testing purposes. We aim to expand new technology or leaf varieties with leaf growers as quickly as possible.

We are currently implementing a new curing process for burley tobacco, which can reduce working hours by 15% thanks to the mechanization of sewing and curing and by using a no-sorting packing method. This method also helps to prevent the contamination of non-tobacco related materials during green leaf baling. By the end of 2021, 8.6% of burley tobacco growers had adopted this new process. We will continue to scale up this practice in 2022 and beyond.

Collaboration with growers for sustainable leaf production in Japan

In Japan, the number of tobacco growers and tobacco cultivation areas have been shrinking. Reasons for this include a shortage of workers due to a lack of successors and employment. Due to these circumstances, further productivity improvement is required.

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. Launched in 2020, these initiatives included the provision of tailor-made support for individual farms, and gathering and implementing 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. We are aiming for more sustainable leaf tobacco production through the continuous collaboration with farmers.

Supporting and communicating with growers during the pandemic



Due to COVID-19, we have had to make changes to the way we interact with growers. Here are a few examples of how we have adapted:

- Where practical, our field Agronomy Technicians provided growers with technical support via phone or video call, instead of face-to-face.
- Our Agronomy Technicians also helped to raise awareness among growers of COVID-19 secure working practices, such as self-isolation, hand washing, and social distancing.
- In our international tobacco business, we launched a new online tool for processing grower contracts remotely, and supported growers with marketing.
- We helped to print and distribute COVID-19 educational materials in tobacco-growing communities.
- Where appropriate, we did continue to visit our growers in person, following all of the relevant health and safety guidelines set out by the World Health Organization (WHO) – for example by wearing masks, using hand sanitizer, and keeping a safe social distance. We also took additional safety measures, such as installing partitions and checking visitors' temperatures at our leaf buying stations in Japan, and strictly managing grower movement and attendance at all our buying stations.

Protecting our employees and their families, our tobacco growers and their communities will always be one of our top priorities. We will continue to make every effort to sensitize communities to COVID-19 preventive measures, working in partnership with local governments and other organizations.

We will also continue to engage with our leaf merchants to better understand how they are addressing COVID-19 related challenges, and how they are supporting their growers, communities, and employees. We hold online meetings with our key suppliers and receive their feedback on concrete actions and plans. In our regular ALP/SCDD reporting we have a separate section dedicated solely to COVID-19 challenges and efforts, and we share best practices with all of our leaf merchants.

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 was chairing the STP Steering Committee (consisting of industry peers) until July 2021. 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 Communicate and Report. The aim of this change is to put in place a robust supply chain due diligence process with a focus on impact.

Case study

Eliminating Highly Hazardous Pesticides (HHPs) from our supply chain

Across the JT Group, we are working to replace Highly Hazardous Pesticides (HHPs) with safer and more environmentally friendly options.

In January 2022, we updated our JTI internal standards for Crop Protection Agent (CPA) residue. As a result, the limit for HHP Criterion 1 (WHO Hazard Class 1a and 1b) is now set at laboratories' highest Limit of Quantitation (LoQ). We will adjust this limit as necessary to reflect any future changes in the WHO Recommended Classification of Pesticides by Hazard.

The HHP limits will be applied to all processed tobacco from crops transplanted in 2022. If, through our analysis, we detect that the level of HHPs Criterion 1 exceeds the LoQ, we will not purchase the tobacco. We formally communicated this to all of our tobacco suppliers in February 2021.

In addition, we have made it clear to our suppliers that we expect them to avoid environmental contamination and protect people and animals from exposure to hazardous CPAs and reinforced the point that using less hazardous CPAs is as important as wearing the correct personal protective equipment.

However, identifying and eliminating HHP Criterion 1 is only the first step. Starting from 2022, we are also planning to address other HHPs (criteria 2 to 7).

Case study

Promoting Good Agricultural Practices



Our Minimum Agronomic Standards (MAS) include practices that contribute to water and soil conservation, such as mulching to decrease water evaporation, reservoirs for seedling production, the use of box ridges to capture rainwater within the field and reduce runoff and erosion. Also, we encourage growers to use seasonal crop rotation and practice minimum tillage.

The Target Crop Calendar that forms part of MAS stipulates that tobacco seedlings are planted at a preferential period in the crop year so that the maximum plant water requirement is most likely to correspond with consistent and adequate rainfall, reducing the need for extraction of local water supply for irrigation.

Case study

Helping growers in Zambia to run their business



Through the 2020 Grower Livelihood Assessment in Zambia, the local team discovered that around 69% of our grower base is food-insecure^{*1} and susceptible to poverty.


In response, it was decided to pilot financial literacy training for growers, with the aim of improving their livelihood and economic opportunities. The training is designed to empower growers with key financial knowledge and skills to help with the day-to-day running of their business.

For growers, enhanced financial planning and budgeting skills can lead to improved productivity (tobacco quality and volumes) and food security. This in turn can improve the financial stability, health and well-being of growers and their communities.

This cross-departmental project is also a perfect example of the 'One Team' transformation. Four departments (Corporate Affairs & Communication, Agronomy, Farmer Finance and Leaf Quality) work together to deliver the training, which has become a good communication platform for

engaging growers on other important topics, such as crop production and marketing.

To date, 2,529 (39%) of our grower base in Zambia has been trained in financial literacy and the remaining will be trained during the 2022 crop year. From the total number of farmers trained in financial literacy, 30% are female and 70% are male growers.

*1 According to the FAO (Food and Agricultural Organization of the United Nations), a person is food insecure when they lack regular access to enough safe and nutritious food for normal growth and development and an active and healthy life. This may be due to unavailability of food and/or lack of resources to obtain food. Read more at www.fao.org/hunger/en/ 

Case study

Collaborating for change in Turkey

In Turkey, our international tobacco business sources leaf from several suppliers and regions, including our own vertically integrated operation. In early 2021, five global manufacturers and six local leaf suppliers, discussed to execute a shared Supply Chain Impact Assessment (SCIA) in Turkey as a part of our Supply Chain Due Diligence (SCDD) processes. All suppliers in Turkey contracted the sustainability consultancy twentyfifty Ltd. to carry out the assessment.

The SCIA took place between June and November 2021, with twentyfifty carrying out extensive social research during the July – August harvest season. Its local and international consultants interviewed a total of 567 rightsholders over a period of 23 days in 54 different communities in the Aegean, Samsun, and Adiyaman regions.

The findings were discussed with the six leaf suppliers individually, resulting in unique and appropriate action plans for each company. In November 2021, the leaf suppliers and manufacturers attended a joint industry workshop to discuss and agree collaborative industry-level actions to address the priority issues of shared concern. Focus areas agreed by suppliers were combating CPA management, provision and use of personal protective equipment (PPE), transparency on workers' wages and conditions and the root causes of child labor.

The progress of these individual and industry-level action plans will be carefully followed in 2022 and 2023. This will help to optimize the Supply Chain Due Diligence and ensure a positive impact for the rightsholders.

Frequently asked questions about how we source raw materials

Q: Which markets do you source tobacco leaf from? Which markets are the biggest contributors?

A: We source approximately 50% of our tobacco from directly contracted growers in the following countries: Bangladesh, Brazil, Ethiopia, Japan, Malawi, Serbia, Tanzania, Turkey, the U.S., and Zambia. The other 50% is sourced through third-party leaf merchants from a variety of countries such as India, Indonesia, Italy, Spain, and Zimbabwe, but also from some of the countries where we

directly contract growers. Although the main sourcing base is stable, the volumes and sourcing countries, and therefore the suppliers, may vary from year to year.

Q: How many Agronomy Technicians do you employ? Are the visits to the farms announced in advance? How frequently do you visit each grower?

A: In 2021, JT Group employed 638 Agronomy Technicians. The visits to our directly contracted growers are based on a visitation plan for each country, with assigned farms, and these can be announced or unannounced. During the visits our Agronomy Technicians provide technical advice on crop management and discuss and observe against good labor practices. The number of visits may vary slightly from country to country, but on average our growers are visited 7-9 times each crop cycle.

Q: What happens if Agricultural Labor Practices are not observed? Have you experienced cases where contracts had to be terminated?

A: If a contracted grower does not show any sign of commitment to meeting the ALP standards, or continually disregards agreed improvement measures, we may decide not to renew their contract for the following crop year. Our growers are only re-contracted based on performance – which includes compliance with contract conditions. For example, in 2021 a 95% re-contracting rate was achieved in Malawi, which clearly indicates that our grower base is predominantly made up of long-term partnerships.

Our approach to sustainable agriculture is to be grower-centric and thus support the grower and grower communities to apply good agricultural practices in a responsible manner. ALP is not a compliance tool, but a continuous improvement program. As such, the ALP program is an integral part of our strategy, with a focus on improving labor practices at farm level.

Q: How are you responding to media reports on the problem of child labor on tobacco farms?

A: We follow a five-step continuous improvement cycle: Identify, Prioritize, Respond, Measure, and Communicate and Report. If child labor is highlighted within the identification and prioritization stages of this process, then appropriate response programs are developed in that particular country/region in order to address the issue. We have implemented a number of programs to address the root causes of child labor in a variety of countries in which child labor is a particular risk, such as our flagship child labor eradication program ARISE (Achieving Reduction of Child Labor in Support of Education). Our leaf merchants also have a number of their own programs in place to address child labor.

We do not wait for media reports to make us aware that child labor is a particular problem in a given country or region. If the issue is identified as a priority, then targeted response programs should already have been put in place as per our five-step framework. In the past, we have shared these responses and any outcomes arising from them with media outlets or NGOs who raised concerns of

child labor in a particular country. This has been done many times before and any dialogue we had with such parties has been made available on our web site.

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. This allows us to find sustainable solutions together, ensure a stable supply in a dynamic environment, and 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 2021, 100% of our key suppliers were screened against ESG criteria.

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

Our approach

With people, operations, and a supply chain that stretch across the entire globe, we are keenly aware that our business doesn't operate in a vacuum. We also know that the social, ethical, and environmental footprint of our products cannot be dissociated from our suppliers.

As such, one of our core sustainability targets is to screen our key suppliers^{*1} against environmental, social, and governance (ESG) criteria by 2023.

By the end of 2021, 100% of our key suppliers had been screened accordingly. To structure and further improve our screening methodology, our international tobacco business is now implementing a new onboarding solution.

In 2021, we have developed a thorough new supplier screening process. We also selected and initiated the discussion with the right business partners to kick off a pilot implementation in 2022.

Working with the right suppliers

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. We are just as committed to following social and environmental due diligence in our non-leaf supply chain. All of our suppliers are required to comply with our Supplier Standards.

Our Group-wide supplier screening process ensures that we apply enhanced due diligence. Prior to

entering into a commercial relationship, our key suppliers*¹ go through a detailed qualification and selection process including screening and onboarding. This process allows us to learn more about the supplier and understand any gaps versus our standards and requirements. In particular, it highlights any potential risks relating to compliance, human rights, environment, and health and safety.

If any risks are identified through this process, we offer support and collaboration on how to mitigate the risks and make necessary improvements. We follow progress on a yearly basis and, if there is no improvement after an agreed duration, we may consider terminating our relationship with the supplier.

In 2020, we revised the JT Group Supplier Standards into a global, Group-wide Supplier Standards, reflecting an increase in transactions with overseas suppliers. We have been embedding these standards into all new requests for proposals and contracts, to ensure that all of our suppliers are aware of our requirements.

In our tobacco business in Japan, we screen key suppliers using our supplier database, which lists companies according to their D-U-N-S® Numbers*². In 2021, we built on this process by reassessing the key suppliers identified as high-risk in our 2020 assessment. We also helped these suppliers to make improvements.

*1 Key suppliers are defined as (a) suppliers with a planned or actual annual spend of more than 500,000 U.S. dollars (50,000,000 JPY) or equivalent, (b) companies involved in our Know Your Supplier (KYS) program, (c) third-party leaf merchants, (d) intermediaries or (e) contract manufacturing and licensees.

*2 D-U-N-S® Number is a unique nine-digit identifier for businesses. This number identifies a company as being unique from any other in the Dun & Bradstreet Data Cloud.

Moving towards 'One Team'

As part of our 'One Team' initiative, the non-leaf supply chain of our tobacco business is working together to optimize the Group's procurement activities. These 'integration' initiatives include optimizing procurement costs, aligning suppliers and standardizing specifications for both ready-made cigarettes and Reduced-Risk Products [Reduced-Risk Products are Products with the potential to reduce the risks associated with smoking]. For Reduced-Risk Products, joint work on global supply chain optimization is already underway.

Engaging with suppliers on sustainability practices

Sustainable packaging solutions are a key focus area for us, and we cooperate closely with suppliers in this area to identify, assess, and implement new solutions.

In 2021, we also began a new project to develop a supplier engagement framework on sustainability. This will help us to capture progress, identify areas for improvement, build on action plans, share learnings, and best practices, and introduce a more holistic, end-to-end approach to sustainability.

Case study

Working as 'One Team' to reach our waste reduction target

In our international operations, we are assessing the possibility of using glue instead of plastic stretch film to wrap shipping cases of finished goods. This eco-friendlier solution is already used in Japan, so JT has been supporting JTI by providing detailed guidance and sharing key learnings. If implemented, this relatively small change could potentially save 600 tons of plastic per year, equivalent to around 17 million 1.5L plastic bottles.

Looking forward

To prepare for the future, our international tobacco business is currently developing an automated internal report, showing sustainability relating to both finished goods and components. The aim is to make the way we gather and report sustainability data as transparent and efficient as possible.

Related links

Supply chain

Supply chain policies and standards

Leaf supply chain
- Raw material sourcing

Non-tobacco materials, other products, and services



Optimizing the regulatory environment

Championing better regulation for informed choice

We value and support the freedom for adults* to make informed choices. We play our part by being transparent about our products, and ensuring that consumers (The word, consumers, used in the context of the tobacco business means adult consumers. Minimum legal age for smoking varies in accordance with the legislation in each country.) are aware of the associated risks when deciding whether to use our products or not. That's why we are transparent about our positions on [smoking and health](#) .

We adhere to [six core principles](#) that define our attitude to smoking. We also work in a highly regulated operating environment. We monitor trends in order to anticipate future changes in regulation and engage with authorities where we see excessive or unworkable initiatives being proposed.

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

* Minimum legal age for smoking varies in accordance with the legislation in each country. In Japan, smoking is not permitted for those under 20 years of age.


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

In 2021, 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. We also published our [external engagement principles](#)  .

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

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.

Engagement with external stakeholders is an integral part of our business. We are open to and seek dialogue with governmental authorities and members of think tanks, business associations, and academia around the world to address issues about the manufacture, sale, and use of our products.

We are committed to engaging transparently in the public decision-making processes that affect our business. We actively participate in the debate about the regulation of combustible products and products that have the potential to reduce the risks associated with smoking, taxation, the elimination of all forms of illegal tobacco trade, and sustainability.

Our views on Reduced-Risk Product regulation

We believe that Reduced-Risk Products [Reduced-Risk Products are Products with the potential to reduce the risks associated with smoking] can offer real benefits to consumers and society.

Governments and regulators should avoid restrictive regulation which suppresses innovation and/or prevents adult consumers from being able to make an informed choice of whether or not to try these products.

We believe that adult smokers should have an opportunity to choose Reduced-Risk Products if they wish, and that regulation should both enable that choice and encourage manufacturers to continue to innovate and invest in research and development to support this.

It is our opinion that the category can be regulated with a focus on responsible marketing, youth access prevention, product quality standards, and post-marketing monitoring and evaluation.

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 recent years.

U.S. – Premarket tobacco product applications (PMTA): the September deadline

Following several changes, endorsed by the Food and Drug Administration (FDA), the submission deadline for the Premarket Tobacco Product Application (PMTA) review of tobacco products (including e-cigarettes) was extended. From September 9, 2020, all products must have submitted their PMTA to remain on the U.S. market.

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 portfolio. In 2022, Logic received PMTA marketing orders for the Logic Pro, Power and Vapeleaf devices, as well as our tobacco flavored capsules from the FDA. Read more on [products & services \(RRP\)](#).

U.K. – Public Health England reiterates the strong risk-reduction potential in e-cigarettes

In 2020, 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](#) 

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 on July 5, 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 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.

EU – Ban on characterizing flavors

A partial exemption to the ban on characterizing flavors, part of the EU’s revised Tobacco Products Directive, came to an end across the Union on May 20, 2020. From this date, it became illegal to distribute cigarettes and fine cut tobacco with sales volumes greater than 3% of their respective categories if they have a clearly noticeable smell or taste other than one of tobacco. There is some concern, based on published consumer research conducted in Poland and the U.S. by third parties, that smokers who have previously chosen to smoke products with, for example, a characterizing flavor of menthol, may now seek similar products from the illegal trade instead.

Plain Packaging

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. Furthermore, the Appellate Body did not have the opportunity to take into account the most recent data from the Australian Government, which shows that the smoking rate has not markedly declined, indicating that plain packaging has not worked as anticipated.

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 September 25, 2018. The ninth session of the FCTC Conference of the Parties (COP9) and the second session of the Meeting of the Parties to the Protocol (MOP2) took place in November 2021.

At these FCTC events in 2021, 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 COP10 and MOP3 in future. Although we continue to be denied a voice at such events, we will continue to share our views with decision-makers wherever possible.

Worldwide – Illegal Trade

In addition to the rapid spread of COVID-19, which has damaged global economies, the ongoing spread of extreme regulatory measures like plain packaging continues to elevate the risk that smokers will seek out illicit sources of tobacco. This threatens to reduce government revenues from tobacco excise at a time when governments already face a global backdrop of falling tax receipts. It will also divert money to the global network of organized criminal groups who produce and supply tobacco to the illegal market.

Case study

During the early stages of the spread of COVID-19, the South African and Indian governments chose to outlaw the sale of alcohol and tobacco products nationwide.

In South Africa, this disastrous prohibition drove huge growth in illegal tobacco networks. The South African Revenue Service anticipates that this will take years to dismantle, given that the vast majority of smokers continued to buy tobacco illegally during the lockdown period. The combined alcohol and tobacco ban cost 568 million U.S. dollars in lost government revenues.

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 2021, we took part virtually in the Global Tobacco & Nicotine Forum (GTNF). This major international conference brings together public health experts, academia, government, and members of the tobacco/nicotine industries. We participated in a special panel discussion on the key causes that exacerbate the illegal trade of tobacco and nicotine products. The discussion also covered risks emerging from the COVID-19 crisis, as well as strategies for curtailing the rising number of organized crime networks and individuals involved in illegal trade. We also set up a virtual exhibition booth to present the underlying causes of illegal trade in more detail.

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 products to adult consumers in order to maintain brand loyalty and to encourage consumers of competitor brands to switch to our products. We do not market our products to minors*, nor do we encourage anyone to start, or discourage anyone from quitting.

We support regulation on the responsible marketing of tobacco or alternative nicotine containing products, providing it is evidence-based, practical, effective, and proportionate – and that it allows us to communicate with adults who use such products.

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

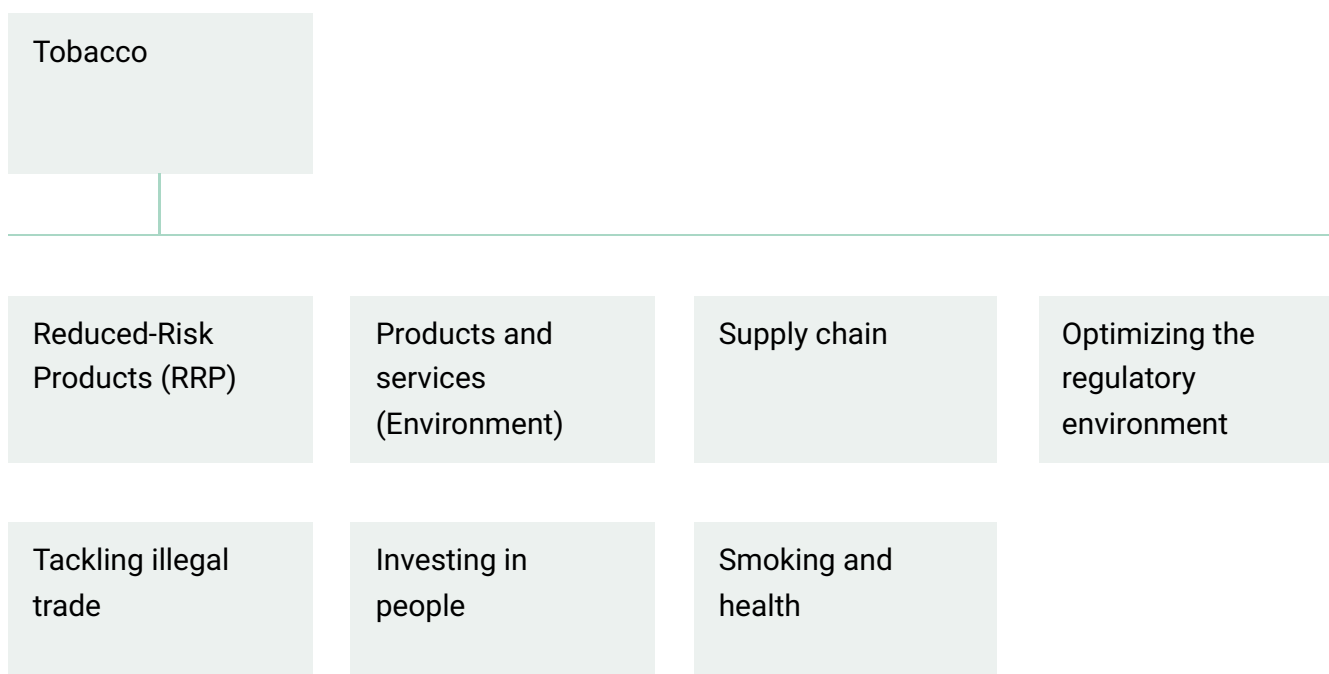
This focus is reflected in our [Global Marketing Principles](#) , a guiding document developed in 2016.

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

We provide targeted responsible retailing programs that effectively tackle youth access to our products, and these are welcomed by retailers. In the U.K. for example, the IDentify program has been developed to locate retailers who may be at risk. We offer these retailers professional training and help them to raise standards, so that they will avoid making underage sales.

* Minimum legal age for smoking varies in accordance with the legislation in each country. In Japan, smoking is not permitted for those under 20 years of age.

Related links





Tackling illegal trade

The illegal cigarette trade fuels modern slavery, organized crime, and terror groups. It causes harm to society and consumers (The word, consumers, used in the context of the tobacco business means adult consumers. Minimum legal age for smoking varies in accordance with the legislation in each country.), 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 2021, our Anti-Illicit Trade team provided 1,627 intelligence reports to law enforcement agencies, and advised 2,238 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 2021

- Over 3.27 billion illegal cigarettes seized thanks to intelligence reports provided by our team to law enforcement.
- There was a 41% 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. This vital work helps to protect our business reputation as well as consumers and society, from criminal elements. The team 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, these experts work with our markets to secure our supply chain and assist law enforcement in removing illegal tobacco from the marketplace. They maintain a robust dialogue with governments and law enforcement agencies on the threat of illegal tobacco through public-private partnerships and provide 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 own compliance and purchasing departments. It carries out due diligence checks to ensure we are entering into contracts with trustworthy suppliers, and

helps 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 track containers suspected of transporting illegal goods.

A perfect storm

The COVID-19 pandemic has blunted rather than extinguished the production and supply of illegal product. Some decrease in supply and production was evident in more strictly controlled economies during the pandemic. Western markets in particular saw relatively little reduction in the production and availability of illegal product. This is despite criminal groups initially finding it difficult to source technicians and skilled workers to work on illegal production.

During the pandemic, heightened EU border controls and regulations made it more difficult for criminals to bring illegal cigarettes to their markets of choice – usually those with high taxation policies, such as the U.K. and Ireland. By moving illegal production and supply chains inside the EU, criminals avoided border controls and reduced the risk of seizures or detection. More recently, lifting of COVID-related travel restrictions and opening of borders, the supply of illegal product globally, has started to increase exponentially.

The resourcefulness of criminals is such that the flow of illegal product was still viable even when traditional sales outlets were out of action. Technology was and still is increasingly being deployed throughout the pandemic to enable sales of illicit product to continue. This is a trend that's likely to persist. With sales opportunities unavailable during the pandemic, the online world has become the environment of choice for criminals to sell illegal tobacco products.

We are responding to these new challenges through initiatives such as Project TALON. Read the [Project TALON case study](#) to learn more about our response to this rapidly changing digital landscape.

Read more about ['The gathering storm'](#) 

Emerging global trends

- Seizures of genuine JTI products remain very low, continuing the trend from the past two years. However, the threat remains from counterfeit production, which makes up more than 98.5% of the global notified seizure volume. This highlights both the security of our supply chain and the determination of criminals to continue selling products that imitate JTI brands.
- In the EU, the presence of illegal cigarette factories continues to grow.

- Smuggling from state owned Grodno Tobacco factory Belarus continues to have a negative impact on the EU and Russian markets.
 - Illicit whites from the United Arab Emirates being smuggled into Russia.
 - Illegal trade is growing in France due to recent tax rises, and is now estimated at 36% of the country's total consumption, with 19% of NDP being counterfeit.
 - A new transportation trend has emerged in Asia as a result of targeted law enforcement actions in the coastal ports of Taiwan, Philippines, and Malaysia. Criminals now often use mother vessels, anchored out at sea, and a series of smaller vessels to facilitate smuggling outside of controlled areas (ship-to-ship transfers).
 - In 2021, we observed that Ukraine continued to evolve from a source or transit market to a destination market. The key contributors to illegal trade are local producers who are not fully compliant, as well as smuggling from Belarus. In the third quarter of 2021, the Duty Not Paid (DNP) level was estimated at 15.9%.
 - Kyrgyzstan has become a major entry point for various non-taxed commodities, including cigarettes, which are smuggled into the Eurasian Economic Union (EAEU). This development affects Kazakhstan and Russia in particular.
-

Case study

Public private partnerships in support of sustainable business

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

KEY STRATEGIES

PROGRESS IN 2021



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.

1

PROTECT OUR BUSINESS THROUGH ANTI-ILLCIT TRADE OPERATIONS

Focus on priority regions & markets
Combat counterfeit and illicit whites*

The task forces we set-up in 2018 continued to tackle illegal trade in our Russia, Ukraine and Belarus priority markets.

Our information led to the seizure of over 3.27 billion cigarettes (or equivalent in tobacco).

2

ENSURE ANTI-ILLCIT TRADE COMPLIANCE

Fulfill legal obligations
Legitimate Market Demand analyses and seizure investigations

We provided 752 forensic evidence statements to law enforcement agency requests.

We proactively shared 1,627 information reports on illegal trade to law enforcement agencies.

We are fully compliant with all our legal obligations.

3

STRENGTHEN OUR PARTNERSHIP WITH CUSTOMERS, GOVERNMENT, AND LAW ENFORCEMENT

Knowledge sharing with law enforcement
Implement anti-illicit trade awareness programs

We advised 2,238 law enforcement officers on counterfeit recognition.

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

Progress in 2021

The task force we set up in 2018 continued to tackle illegal trade in our Russia, Ukraine and Belarus priority markets.

Our information led to the seizure of over 3.27 billion cigarettes (or equivalent in tobacco).

We provided 752 forensic evidence statements to law enforcement agency requests.

We proactively shared 1,627 information reports on illegal trade to law enforcement agencies.

We are fully compliant with all our legal obligations such as OLAF under Memorandum of Understanding.

We advised 2,238 law enforcement officers on counterfeit recognition.

Target

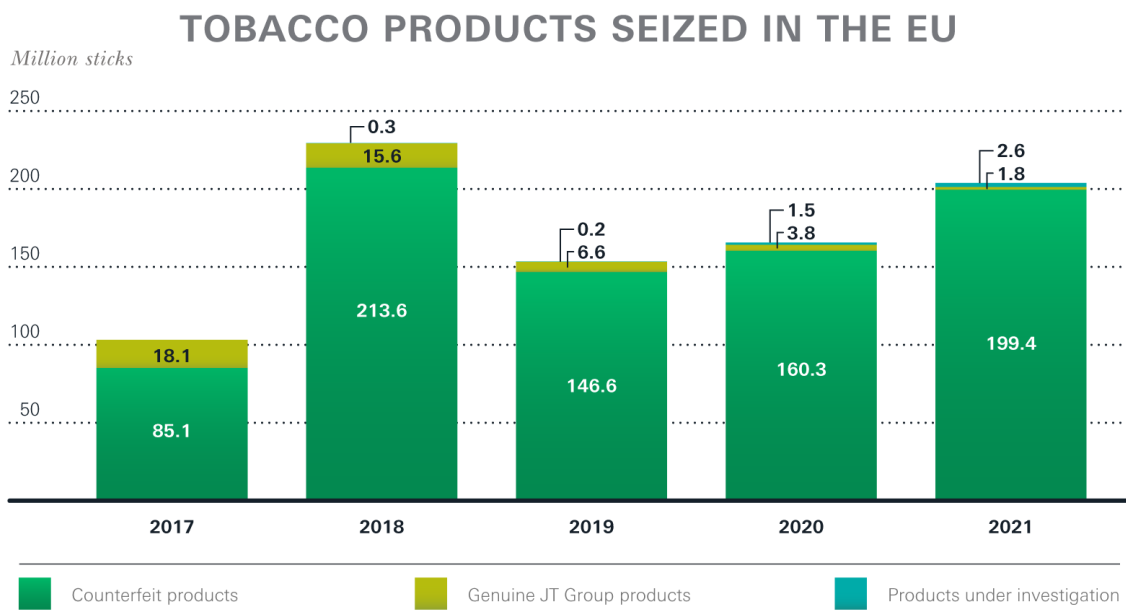
We will engage in dialogue with law enforcement agencies, with the goal of exchanging intelligence regarding illegal tobacco products, in order to support the reduction of illegal tobacco products.

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

Protecting consumers and government revenue

In 2021, our Anti-Illicit Trade team provided 1,627 intelligence reports to law enforcement agencies, leading to the seizure of more than 3.27 billion illegal cigarettes. Based on our information, as a result of JTI info, law enforcement raided more than 20 counterfeit tobacco factories and 33 illegal storage locations.

As a direct result of our work to tackle illegal trade, notified seizures of counterfeit products in the EU have remained consistently high over the past five years (over 98% of products seized are counterfeit). During the same period, notified seizures of our own genuine products in the EU decreased by 90%, 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 Europol and many law enforcement agencies including the U.K.'s HM Revenue and Customs, which recognized our international tobacco business as an industry leader in the fight against illicit trade.



Fighting the rise of counterfeiting in Europe

Over the last few 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 Ireland, which are target markets for criminals due to high taxation. It marks a shift away from the traditional sourcing of counterfeit products in China.

In 2021, over 98% of the JT Group branded products seized globally were counterfeit. We had already established a Counterfeit Task Force in March 2019 to counter this threat.

The objectives of the task force are to:

- Coordinate our investigations into global counterfeit production
- Ensure that knowledge is shared between different regions
- Pass on meaningful and evidential 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. The objective is to provide reliable and usable information to law enforcement in order to locate and seize the illegal facilities.

The threat from counterfeit production

The presence of counterfeit production facilities continues to be a significant threat around the world. In Europe, 98% of seized JTI brands in 2021 were found to be counterfeit. Seizures of genuine JTI brands are small in number and quantity. Counterfeit production is also an ongoing threat in other regions.

A Counterfeit Task Force (CFTF) was established in 2019, led by AITO and involving Quality Assurance, Intellectual Property and key market representatives. The CFTF's main focus is tackling counterfeit production in Europe. In 2021, information disseminated by AITO to law enforcement contributed to the seizure and closure of 20 illegal factories globally, of which 15 were in EU countries. Law enforcement agencies in Europe seized and closed down 17 illegal storage facilities in 2021*.

In 2021, we continued to observe an increase in the production and storage of illegal cigarettes. In many instances, the working environment and conditions can be considered as modern-day slavery.

Heightened EU border controls and regulations make it more difficult for criminals to bring illegal cigarettes to their markets of choice – usually those with high taxation policies, such as the U.K. and Ireland. By moving illegal production and supply chains inside the EU, criminals can avoid border controls and reduce the risk of seizures or detection.

In addition, combating the illegal production and distribution of cigarettes is often not a high priority for law enforcement agencies. Historically, if criminals are caught, the penalties are low. To support law enforcement, our international tobacco business is raising awareness of the social and economic consequences of illegal trade. We are doing this by providing counterfeit awareness programs and quality information on criminal activities.

* Open source information. The actual number of illegal tobacco factories raided by law enforcement agencies may be higher.

Case study

In 2021 there were several raids on illegal production and storage sites which were dispersed geographically. Belgium and the Netherlands featuring prominently. Here are just a few examples of cases where JTI contributed information:

Country	Number of illegal factories raided in 2021
Belgium	4
Greece, Jordan, Poland, Spain	2 each
Dominican Republic, Latvia, the Netherlands, Romania, Slovakia, Ukraine	1 each

Illegal tobacco factories raided by law enforcement agencies (LEAs) with our contribution (2020-2021)



We also provided information that contributed to:

- 421 seizures
- 18 illegal factory raids
- 29 illegal storage depots raided
- 1,120 suspect arrests

Case study

Project Green: fighting illegal tobacco production from outer space

Project GREEN is a unique Anti-Illicit Trade program, developed by our international tobacco business. It combines a state-of-the-art technical solution, proactive cooperation with government agencies, and the promotion of sustainable tobacco farming. In short, with the support of an external service provider, we are able to arrange the legal satellite screening of tobacco fields in Serbia.

Working in close cooperation with government agencies, we compare the satellite data with state registries. This enables us to separate and exclude authorized tobacco growing parcels and detect illegal plantations. We verify all of the digital information and gather concrete evidence (photos and/or video) before sharing our findings with government agencies for enforcement actions. The tobacco plantations that have not been registered and authorized for tobacco growing can then be destroyed.

The accurate and actionable information we have shared with the authorities in Serbia has made a significant contribution to the prevention of illegal tobacco production. Our actions even help to promote sustainable tobacco farming in the country.

PROJECT GREEN



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).

In accordance with the European Union Cooperation Agreement signed in 2007, JTI ensures it supplies 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 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 applicable 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 Tobacco Products Directive, the WHO Framework Convention on Tobacco Control (FCTC) Illicit Trade Protocol and numerous national legislations.

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.

Since 2019, Track and Trace has been a legal, mandatory requirement in the following national and regional jurisdictions: United Arab Emirates, Saudi Arabia, Russia, Kazakhstan, Kyrgyzstan, the United Kingdom and the whole European Union. In 2021, Qatar, Bahrain and Oman are expected to implement their own Track and Trace systems.

As with all other regulations, we put all our efforts into complying with these obligations, while limiting any negative impact on our business operations. 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 authorities and sanctions for those involved in illegal trade. Governments must also implement further measures to address products which will, by nature, escape those obligations, such as counterfeits or illicit whites*.

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

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 64 Parties (November 2021).

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 this 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 system within 5 years for cigarettes and within 10 years for all other tobacco products respectively after the entry into force of the Protocol for them. 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.

The other provisions covered by the Protocol, such as Free Trade Zones oversight or Assistance and Cooperation mechanisms, are equally crucial. These represent an area for public-private cooperation, with the common goal of defeating the illegal trade of tobacco products across the globe.

Taking the fight to the digital world

The fight against the illegal tobacco trade seems never-ending, as criminals seek to use tried-and-tested and innovative new methods of exploiting others. The internet – and social media in particular – continues to provide opportunities for individuals and organized crime groups to sell illegal tobacco products. During the COVID-19 pandemic, with other sales opportunities unavailable, the online world has become the environment of choice for criminals to sell illegal tobacco products. But as criminal gangs become increasingly sophisticated, so do our own efforts to fight them.

Our projects to tackle internet-based crime are well established and continue to make progress, through the removal of links and social media posts such as Facebook which illegally advertise our products, or their counterfeits.

The scope of our projects to tackle internet-based crime have expanded both in scope and size, to include activities in France, Malaysia, Romania, Russia, Serbia, Singapore, Spain, Taiwan, the U.K., the U.S., and CIS+ region.

We also identify criminal gangs using social media sites which offer larger volumes. In addition, following 'test purchases' of the JT Group products, we supply law enforcement with the evidence needed to take action.

Case study

Project TALON: fighting illegal trade in the digital world

Incredibly, organized crime groups across the globe often publish details of their illegal activities online for millions of people to view. Our international tobacco business has been at the forefront of tackling this phenomenon since 2015, when we launched Project TALON.

Project TALON focuses on taking down links and social media posts that illegally advertise our products, or their counterfeits. To date, we have identified and removed more than 30,000 online adverts for illicit tobacco, representing 3.9 million U.S. dollars' worth* of potential product losses.

The global pandemic has driven an increase in illicit trade online, as well as the associated scams and identity fraud. In the U.K. alone, over 6,350 posts were identified and taken down between August 2019 and January 2022, representing 1.25 million U.S. dollars' worth of potential product losses.

In 2021, Project TALON was extended to Romania, with excellent support from our local team and from law enforcement. This led to the identification of more than 5,300 listings.

This project continues to evolve, as we develop and implement new review methods to further improve productivity, especially across emerging platforms such as Telegram and TikTok.

We have also improved our reporting methods and created workflows to gather actionable information and monetary data for law enforcement agencies. Towards the end of 2021, local teams carried out a two-week research trial in France and the Netherlands to investigate the anecdotal increase in online illicit sales.

* the value of the advertised product

Focused on the future

Although criminal groups continue to adapt and diversify by moving onto new platforms, we have managed to stay one step ahead by expanding and enhancing our software.

In addition to website takedowns, our toolkit includes JTI AITO investigations, test purchases, private prosecutions, and sharing information with law enforcement agencies. This gives us the ability to swiftly target specific areas of a market with a high prevalence of illicit online sales.

The business is planning to re-launch Project TALON in France and other European countries in 2022.

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



Related links

Tobacco

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graph TD; Tobacco[Tobacco] --- HLine[ ]; HLine --- RRP[Reduced-Risk Products (RRP)]; HLine --- Env[Products and services (Environment)]; HLine --- SC[Supply chain]; HLine --- Reg[Optimizing the regulatory environment]; HLine --- Trade[Tackling illegal trade]; HLine --- People[Investing in people]; HLine --- Health[Smoking and health];
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Reduced-Risk
Products (RRP)

Products and
services
(Environment)

Supply chain

Optimizing the
regulatory
environment

Tackling illegal
trade

Investing in
people

Smoking and
health