5 June 2017

Mr Jerome Brown  
Committee Secretary  
Joint Standing Committee on Foreign Affairs, Defence and Trade  
PO Box 6021  
Parliament House  
Canberra ACT 2600  
By email: jscfadtt@aph.gov.au

Inquiry into establishing a Modern Slavery Act in Australia

Dear Mr Brown

Thank you for providing this opportunity for Philip Morris Limited ("PML") to make a submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade inquiry into establishing a Modern Slavery Act in Australia (the "Inquiry").

We support legislation and voluntary initiatives aimed at improving corporate performance in tackling modern slavery and human trafficking, in particular those that enable business to gain a greater visibility into extended supply chains and promote increased transparency on measures taken to mitigate and address abuse.

PML's global parent, Philip Morris International ("PMI"), has taken number of important steps to prevent modern slavery and human trafficking throughout its operations and supply chain. PMI is also developing a systematic approach to respecting human rights in line with the UN Guiding Principles on Business and Human Rights.

Our long-term goal is to implement a comprehensive human-rights risk-management system, which aims to include policies and procedures to identify, mitigate, and respond to actual and potential adverse human rights impacts.

Our comments to the Inquiry are limited to those areas of the terms of reference where we have direct experience and where we believe our knowledge may be of assistance to the Committee.

We thank the Committee for the opportunity to make a submission.

Yours sincerely

Philip Morris Limited
About Philip Morris

Philip Morris International Globally
PMI is the world’s leading international tobacco company, with a diverse workforce of around 80,000 people who hail from every corner of the globe.

We are committed to being a great employer and a good corporate citizen. We strive to be environmentally and socially responsible. We are dedicated to fighting the illegal cigarette trade. And we proudly support the communities where we source tobacco and where our employees live and work.

PMI intends to lead the development of a smoke-free future, where smoke-free products will replace cigarettes.

Smoke-free products are a much better choice than cigarette smoking. We are developing and making these products available around the world today.

That’s why we have a total of over 400 dedicated scientists, engineers, and technicians developing less harmful alternatives to cigarettes at our two Research & Development sites in Switzerland and Singapore.

It’s the biggest shift in our history. And it’s the right one for our consumers, our company, our shareholders, and society.

Philip Morris Limited Locally
PML is our local affiliate across our operations in Australia, New Zealand and the Pacific Islands.

Established in 1954 and based in Melbourne, PML was the first affiliate in the world to manufacture PMI products outside of the United States.

After successfully manufacturing in our Moorabbin, Victoria, operations facilities for almost 60 years, cigarette production was discontinued and transitioned to PMI’s Korean affiliate in 2014.

PML has offices located in capital cities around the country, employing more than 500 people nationally.

Terms of Reference Addressed

The prevalence of modern slavery in the domestic and global supply chains of companies, businesses and organisations operating in Australia

Modern slavery, forced labour, and human trafficking are well documented. According to the International Labour Organization (ILO), there are 21 million people in forced labour, of which 5.5 million are children.¹ Forced labour is present in every region of the world, with a particular incidence in Southeast Asia. Domestic work, agriculture, construction, manufacturing and entertainment are among the sectors most concerned and migrant workers are particularly vulnerable to modern slavery and forced labour.

PMI is committed to preventing modern slavery at every level of our operations across the world. We have focused our efforts on our tobacco-growing supply chain due to the informal, seasonal, and transactional nature of agriculture work, which makes farm workers more vulnerable to labour abuses, including forced labour and human trafficking.

For the last six years, we have worked actively to address the problems tobacco farmers face by understanding who the farm workers are, how they are hired, their working conditions, and how they are paid. In 2011, we instituted our global Agricultural Labor Practices (ALP) program to improve labour practices and to progressively eliminate child labour and other labour abuses where they are found on all farms from which we purchase tobacco. We partner with the leading NGO in supply chain sustainability, Verité,² to design, implement, monitor, and evaluate the effectiveness of the ALP program.

Identifying international best practice employed by governments, companies, businesses and organisations to prevent modern slavery in domestic and global supply chains, with a view to strengthening Australian legislation

In 2015, PMI became a signatory to the United Nations Global Compact (“UNGC”), aimed at advancing global sustainability goals in the areas of Human Rights, Labour Rights, Environmental Responsibility, and Anti-Corruption measures. As a signatory, we have committed to incorporate the UNGC’s Ten Principles on Human Rights, Labour Rights, Environmental Responsibility, and Anti-Corruption, which include the elimination of all forms of forced and compulsory labour (Principle 4). In 2016, PMI submitted the first Communication on Progress to the UNGC³ setting out our efforts to date (attachment 1 to this submission).

Our approach in our tobacco growing supply chain

Identifying risk and addressing labour and human rights abuses in our supply chain in all its complexity takes time. It requires a strong commitment to continuous improvement from our suppliers to achieve over time measurable, tangible progress. We have been working with many of our suppliers, particularly our tobacco leaf suppliers, to put in place policies, systems, and concrete measures to gain a better visibility into our supply chain and take action to improve performance. However, we acknowledge that more remains to be done and that only a systematic approach yields strong results in tackling the many complex challenges in this area, be they related to child labour or vulnerable migrant workers.

¹ Fact and Figures, The ILO Alliance 8.7: Global partnership to end forced labour, modern slavery, human trafficking and child labour.
² Media Release: PMI announces strategic cooperation with Verité to improve working conditions in tobacco growing worldwide, 9 May 2011.
³ Philip Morris International Communication on Progress 2015 to United Nations Global Compact
As the world’s leading international tobacco company, our tobacco supply chain spans nearly 30 countries. Global in scale, our day-to-day operations are more than just a commercial transaction between our affiliates or suppliers and the farmers we source from; they are embodied in our Good Agricultural Practices (GAP)\(^4\) that support farmers in improving the quality and productivity of their crops, respect for the environment, and in achieving safe and fair labour practices on their farms.

Our specific efforts to improve labour practices in tobacco-growing are grouped under the ALP program, which is one of the three GAP pillars. The implementation of the ALP program is mandatory for all our tobacco leaf suppliers and is reflected in our contractual arrangements worldwide. The degree to which there is a direct connection between a PMI affiliate (or the supplier of tobacco to PMI) on the one hand, and the farmer on the other hand, determines the impact the ALP program can have on the working and living conditions of farmers and their workers.

Direct contracts between the farmer and a tobacco supplier and/or PMI provide greater economic stability to farmers and enable farmers to improve the sustainability of the crop. It is equally important that they give PMI greater visibility into labour practices on farms, which is vital to identifying risks and addressing labour issues. Other purchase systems, such as tobacco auctions, make it virtually impossible to establish direct relationships with farmers, and thus create a barrier to the implementation of the ALP program. Over the last few years, significant progress has been made to increase the tobacco purchases through direct contracting. In 2015, the vast majority of our tobacco was purchased directly from farmers (87%).

Through the daily work of over 3,500 field technicians and dedicated country teams, the ALP program is being implemented in all directly contracted farms, reaching over 450,000 farms in nearly 30 countries. The components of the program are:

1. **Principles and Standards:** The ALP Code\(^5\) defines the labour standards, principles and practices we expect to be met on all supplying farms. They are based on the labour standards of the ILO Declaration on Fundamental Principles and Rights at Work and other relevant ILO conventions;

2. **Training Programs:** We have rolled out a comprehensive training program for suppliers, farmers, and workers to understand the ALP Code’s principles and standards and, most importantly, how to systematically monitor and address issues on farms;

3. **Farm-by-farm monitoring system:** This system has been implemented by more than 3,500 field technicians who support farmers on a day-to-day basis and dedicate a specific amount of time to monitor the ALP Code standards on each farm. Each farm receives several visits, at regular intervals, throughout the whole season. All field technicians gather detailed information on a farm-by-farm basis that is used to systematically identify and address issues. As part of the monitoring process, field technicians are firm and clear about the company’s expectations but also build trust, discuss and take sensible approaches to solve problems and bring concrete support to farmers when faced with barriers and problematic practices.

4. **External country-specific assessments:** These assessments are conducted by a third-party to evaluate the implementation of the ALP program and the working and living conditions of farmers and workers. The assessments are complemented by action plans developed by the relevant tobacco supplier or PMI affiliate with a view to changing conditions on farms in light of the assessment findings. We disclose and share with external stakeholders these assessments reports including the action plans.\(^6\)

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\(^4\) PMI Good Agricultural Practices, Principles and Measureable Standards.

\(^5\) PMI Agricultural Labor Practices Code, Principles and Measureable Standards.

\(^6\) PMI Sustainability, Upholding Labor Rights on Farms.
5. **Engagement with stakeholders:** We are complementing our operational efforts with community initiatives. We’re working with non-profit organisations around the world and engaging with relevant stakeholders, including governments, civil society, and international organisations. We are also collaborating with local organisations to provide access to and implement grievance mechanisms. We are also engaging in ongoing constructive dialogue with labour and human rights expert organisations and watchdog groups.

6. **Transparency:** We believe that transparency is a catalyst for positive change. We therefore disclose detailed progress reports on the implementation of the ALP program worldwide. Our latest progress reports are available online (our 2014-15 report is attachment 2 to this submission).

In May 2017, our ALP reporting was featured as an example of “leading level of disclosure” in the report "Human Rights Reporting – Are companies telling the investors what they need to know?", assessing 74 of world’s largest companies on human rights reporting. With reference to PMI, the report stated:

"Explaining the challenges faced in tracking human rights performance Philip Morris International (PMI) has leading disclosure around tracking. The company publishes its own progress reports on the Agricultural Labor Practices (ALP) program, as well as several third party assessment reports. In its ALP Program 2014-2015 Progress Report, PMI not only shares a significant amount of data, but it also has a strong narrative about its current and planned processes to measure human rights performance, and the challenges it faces in doing so...”

Although encouraged by the progress so far, we are mindful that there are still many systemic issues to address. The ALP program is allowing us to gain a better visibility into who lives and works on the farms supplying PMI and our suppliers, in which conditions, how they get to the farm and the areas of risks.

This visibility is particularly important for identifying risk factors in vulnerable populations. Although migration is not a problem for ALP per se, migrant workers are particularly vulnerable, often due to exploitation during recruitment and hiring and lack of support systems in the communities in which they work. The risks facing migrants vary between countries and communities, but range from unscrupulous crew leaders or labour contractors to problematic compensation models, such as end of season payments. Workers can also fall victim to forced labour and human trafficking.

Through our ALP Program, we know today that an estimated 100,000 migrants work in our tobacco supply chain at some stage during the crop cycle. As a consequence, we can better support farmers in improving their labour practices and tailor programs to address their specific issues.

For example, in Italy we established a collaboration with the International Organization for Migration (IOM) to provide assistance to migrants in tobacco farming. IOM assessed the needs of migrant workers who live in informal settlements in Campania and Apulia. As a result, these migrant have now access to legal advice, social and health services, language courses, information on residence permits and asylum procedures, job placement and vocational trainings and alternative accommodation solutions for migrants living in informal settlements.

We know that in the wider context of large scale migration, our actions alone are not enough. However, elements of our efforts in tobacco growing have been featured as best practice in the High-Level Event “New ways to Tackle Human Trafficking for Forced Labour along migration routes”.

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8 The Shift Project, Human Rights Reporting – Are companies telling the investors what they need to know?, May 2017
In 2015, the United States Department of Labor (DOL) also highlighted our “comprehensive and credible” monitoring system and our NGO partner efforts as one example “of leadership and good practice”, after having removed Kazakhstan’s tobacco from its “List of Goods Produced by Child Labor or Forced Labor” in 2013. DOL concluded that “child labor in Kazakhstan’s tobacco sector has been significantly reduced” and “there has been no evidence of forced labor in Kazakhstan’s tobacco sector in recent years”. Most importantly, DOL concluded that “if a case of child labor or forced labor were found in the sector, there are mechanisms in place to address the situation in an appropriate manner”. It further added that Philip Morris Kazakhstan’s had a “comprehensive and credible” monitoring system and our partner NGO efforts had been “highly effective in educating agricultural workers about their rights, available grievance mechanisms, and educational opportunities as alternatives to child labor”.

In 2014, following a research about child labour in tobacco growing in the United States, Human Rights Watch (HRW) acknowledged that

“PMI has developed the most detailed and protective set of policies and procedures, including training and policy guidance on child labor and other labor issues which it is implementing in its global supply chain.”

In 2016, HRW conducted research into child labour in Indonesia, stated in their report that

“PMI appears to have taken the greatest number of steps to be transparent about its human rights policies and monitoring procedures, including by publishing on its website its own progress reports as well as several detailed reports by third party monitors.”

Although pleased with the evidence and degree of incorporation of ALP standards and processes into our tobacco supply chain worldwide, we remain mindful that a lot remains to be done, requiring continued focus on strengthening our ability to identify risks and develop effective responses. We will also continue disclosing information about our progress, challenges, and areas in need of improvement.

Our approach beyond the tobacco growing supply chain

For social compliance beyond our tobacco growing supply chain, we have historically followed a risk-based approach, depending on the country and sector, with due diligence going from contractual requirements to third-party audits. In recent years, we have begun to take a more comprehensive approach as we develop PMI’s Responsible Sourcing Principles (RSP) in consultation with external experts and suppliers (described in our Communication on Progress to the UNGC, which is attachment 1 to this submission).

The RSP reflect our commitment to the United Nations Global Compact’s Ten Principles and the United Nations Guiding Principles on Business and Human Rights (UNGP). These RSP will set the standards and practices we expect to be met in our supply chain for over 50,000 suppliers, in the areas of Human Rights, Labour Rights, the Environment and Anti-Corruption/Business Integrity. We are rolling out the RSP to suppliers in 2017.

Our electronics supply chain

In line with our vision for a smoke-free future, the research, manufacture and sale of smoke-free products brought about new business relationships for PMI in the electronics sector across geographies where PMI has not previously sourced goods and services. Workers in electronic supply chains are vulnerable to different forms of modern slavery, including forced labour and human trafficking for forced labour.

10 United States Department of Labor, List of Goods Produced by Child Labor or Forced Labor, 1 December 2014.
12 Human Rights Watch, "The Harvest is in My Blood", Hazardous Child Labor in Tobacco Farming in Indonesia, 24 May 2016.
The vast majority of electronic products sold worldwide are assembled and/or manufactured in Asia and workers can face serious abuses putting them in forced labour, including recruitment through unscrupulous labour recruiters, payment of recruitment fees resulting in debt bondage, and withholding of documents. As such, we have prioritised work to gain a clear understanding of potential risks to rights holders in this sector and started working with our suppliers to address them.

Notably, in 2016, we made an assessment of the management systems of one of our suppliers of electronic components with the support of an expert NGO in supply chain responsibility. The purpose of the assessment was to understand the living and working conditions of the supplier staff, including foreign migrant workers. This assessment was a starting point to work collaboratively with the supplier to create and implement an action plan based on the assessment findings. This work is ongoing, and a similar approach will be rolled out to our other electronics suppliers over time as this segment of our business grows.

**Provisions in the United Kingdom’s legislation which have proven effective in addressing modern slavery, and whether similar or improved measures should be introduced in Australia**

We welcome efforts aimed at increasing visibility into extended supply chains and transparency measures taken to address the complex root causes of modern slavery, including the [Modern Slavery Act 2015](https://www.legislation.gov.uk/ukpga/2015/12) in the United Kingdom.

Awareness of modern slavery and human trafficking issues in supply chains is still relatively low. Legislative action to improve disclosure of labour and human rights matters is an important step to both raise awareness and drive concrete measures to address modern slavery issues.

Reporting requirements should be in line with internationally recognised standards and allow businesses enough flexibility to provide quantitative and qualitative information on their efforts in their own operations and throughout their business relationships. Reporting requirements should also be balanced to ensure they do not impose an unreasonable burden on business, but rather focus on driving transparency and desired outcomes.

In addition to reporting requirements, aggregating and sharing disclosure and best practices is a catalyst for improving the understanding of the private sector, civil society, and national institutions on modern slavery and human trafficking and other labour and human rights issues.

**Whether a Modern Slavery Act should be introduced in Australia**

PMI supports both voluntary and legislative initiatives aimed at improving corporate performance in tackling modern slavery and human trafficking, in particular those that enable business to gain a greater visibility into extended supply chains and promote increased transparency on measures taken to mitigate and address abuse.

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Enhancing legislation is a positive step to gain a better understanding of modern slavery and human trafficking in supply chains, provided that it is pragmatic, not overly prescriptive, and in line with internationally recognised standards and frameworks, such as the UNGP and the 2030 Agenda for Sustainable Development, in particular the targets for Sustainable Development Goal 8 for:

- ensuring decent work, eliminating poor working conditions and achieving equal pay for work of equal value (target 8.5);
- eliminating child labour, forced labour and human trafficking (target 8.7); and
- protecting labour rights and promoting safe work environments of all workers with particular attention to vulnerable groups such as migrant workers (target 8.8).

Reporting requirements should promote a “know and show” environment in order to improve awareness and transparency of business actions, successes and challenges. This approach would lead to increased dialogue and promote engagement among different stakeholders to address systemic root-cause issues, challenges and share best practices in dealing with modern slavery and human trafficking.

Governments have the obligation to protect human rights and can play a critical role in doing so by providing technical assistance to businesses, sharing best practices, and promoting an environment of transparency, accountability, participation, and inclusiveness.

We firmly believe that dialogue and a collaborative approach, including through multi-stakeholder initiatives involving the government, private sector, international organisations, and civil society are the only way to be effective in addressing the root causes of modern slavery and human trafficking. Dialogue and collaboration are also key for improving the performance of businesses in identifying and taking action on labour and human rights abuses in their supply chains.
How long will the world's leading cigarette company be in the cigarette business?

We've built the world's most successful cigarette company, with the world's most popular and iconic brands.

Now we’ve made a dramatic decision.

We will be far more than the leading cigarette company. We’re building PMI's future on smoke-free products that are a much better choice than cigarette smoking.

Indeed, our vision – for all of us at PMI – is that these products will one day replace cigarettes. Why are we doing this?

Because we should...

We understand the millions of men and women who smoke cigarettes. They are looking for less harmful, yet satisfying, alternatives to smoking. We will give them that choice.

We have a commitment to our employees and our shareholders. We will fulfill that commitment by pursuing this long-term vision for success.

Society expects us to act responsibly. And we are doing just that by designing a smoke-free future.

... and because we now can.

Success in the cigarette business gives us the resources to pursue our ambitious vision. Thanks to the imagination and perseverance of thousands of people at PMI, we have developed breakthrough products that are smoke-free and enjoyable.

And, we are selling them today. Over a million people have already given up smoking and switched to our new products, and this is just the beginning.

We're investing to make these products the Philip Morris icons of the future.

A future PMI that's known for replacing cigarettes with a portfolio of revolutionary products.

In changing times you can always choose to do nothing. Instead, we've set a new course for the company. We've chosen to do something really big.