Supply chain

What the future might look like

Supply chains have always needed to be flexible and agile. But there are increasing pressures to adapt faster than before: climate change, more competition and demand for greater business growth, to name a few.

The anticipated growth in demand for agricultural products is particularly relevant for us. As the global population expands and economic development generates more disposable incomes, there will be increased competition between crops for energy, land and water.

We also expect business to play a greater role in addressing social and environmental issues, through influence and public-private partnerships.

How we’re preparing for the future

- Protecting the long-term security of our tobacco leaf supply by encouraging sustainable agriculture based on multi-stakeholder partnerships.
- Using our supply chain programmes and partnership projects with suppliers and third parties to protect the human rights of our suppliers, contracted farmers and local communities.
- Working to help build an objective evidence base on the impacts of tobacco growing compared to other crops.
- Listening to our Supply Chain Sustainability Stakeholder Panel’s guidance and challenge on our supply chain sustainability issues.
- Reducing environmental impacts in our operations and encouraging our suppliers to reduce theirs.

Our material issues

Reported
- Working with farmers
- Sustainable agriculture
- Supply chain management

At bat.com:
- Tobacco curing
- Integrated pest management
- Green tobacco sickness

Our materiality test determines which topics are of the greatest significance to our business and stakeholders.

YOU ASK US

Where fertile land is used to grow tobacco rather than food, doesn’t tobacco cultivation contribute directly to hunger and malnutrition?
- Read our response in the sustainability and our business section

Do you have any questions or feedback on our supply chain management or other sustainability issues?

We will donate £10 to the Global Trees Campaign for each of the first 200 responses we receive to the feedback survey.

www.bat.com/sustainability/feedback
Viewpoint from the Group Operations Director

It is vital to ensure our supply chain is fit for purpose for the long term. That’s partly about how it’s structured – for example, being vertically integrated gives us greater flexibility. But it’s also about making sure our supply chain works in sustainable ways, from growing tobacco through to distributing our products around the world.

Importantly, our approach covers both our own operations and our wider supply chain. We join forces with partners in our supply chain and with other stakeholders to find solutions that work for all of us, preparing us for changing regulation, climatic instability and evolving consumer needs.

The business case for adapting to climate change is strong and includes competitive advantage, cost savings, community resilience, liability management and good investor relations. To me, it’s clearly good business, as well as good stewardship.

What’s the issue?

Our supply chain sustainability strategy prepares our business for the future. The strategy covers our own planning, manufacturing, logistics and trade marketing operations. But the most significant part of it relates to tobacco growing. Even though this is an area where some of our greatest supply chain impacts are, we do not own tobacco farms or directly employ farmers. However, with relationships with over 140,000 farmers in 19 countries, we do have strong influence.

We believe these relationships and this experience mean we have an important part to play in developing sustainable agriculture solutions that focus on the whole agricultural sector, not just tobacco.
Working with farmers

Agronomy support
We have around 800 leaf managers and technicians worldwide, who provide agronomy support to all our directly contracted tobacco farmers and engage with farming communities in all our tobacco growing locations.

Engaging with our contracted farmers in this way helps make their farms viable and efficient. In doing so, we protect the security and quality of our tobacco leaf supply. However, our agronomy support covers areas of agricultural practice other than just tobacco farming. So it also helps farmers improve the quality and yields of food crops, making them more self-sufficient.

It includes:
- Information on best practice like labour and safety standards and the appropriate use of agrochemicals;
- Advice on how to maximise yields, optimise crop quality, achieve reliable returns and improve the long-term sustainability of a farm; and
- Guidance on improving the long-term potential of the soil and other farm resources, for example through crop rotation.

Our global agronomy centre in Brazil supports our leaf managers by identifying best practice and helping them to help farmers implement it consistently.

While the support we provide our contracted farmers undoubtedly brings advantages to our business in terms of access to high quality tobacco leaf, it also plays a significant role in improving local environments and livelihoods and in helping tobacco farmers mitigate the impacts of climate change.

Sustainable sourcing
Tobacco leaf sometimes requires additional heat for curing and, in 2011, 78 per cent of the tobacco leaf we purchased used wood as the fuel for this. We promote afforestation programmes to enable farmers who require wood for tobacco curing to obtain it from sustainable sources and we have a target of zero use of natural forest for our directly contracted farmers' curing fuels by 2015.

In 2011, we made progress towards this target, with a fall from 12.1 per cent to 7.3 per cent. This can be viewed in the wood fuel sources data.

We are also encouraging some of our contracted farmers to cure their tobacco with appropriate, locally available alternative fuels. These can include gas, sawdust, coal, candlenut shells or liquid petroleum gas, as well as coffee or rice paddy husks. All fuels have environmental impacts, so we are also evaluating ways to minimise fuel consumption, for example by using innovative designs for curing barns. You can read more about this in a case study on curing barn design in Zimbabwe.

Continual improvement
We monitor the social and environmental performance of all our leaf suppliers through our Social Responsibility in Tobacco Production (SRTP) programme.

The programme includes good agricultural practices, which combine viable tobacco production with positive environmental management; soil and water conservation; appropriate use of agrochemicals; promoting afforestation programmes; safety standards; medical facilities; and eliminating exploitative child labour.

In 2011, as well as all suppliers carrying out self-assessments, the independent reviewer LeafTc carried out 26 reviews in 17 countries. By the year end, 96 per cent of suppliers had been reviewed by LeafTc at least once. SRTP has been shared with the industry and the details of the review criteria are available on www.leaftc.com.

In 2011, we introduced minimum performance thresholds for all our tobacco leaf suppliers and we are revising the full programme, in consultation with LeafTc. The updated version is expected in 2012 and will also be aligned with the International Labour Organisation’s new Code of Practice on Safety and Health in Agriculture.

The latest SRTP scores, including those for the child labour section, can be seen in the SRTP performance data.
Human rights in the supply chain

Human rights issues are a concern in many parts of the world where we operate. We use our influence where we can to improve conditions in our supply chain. We do this through our supplier standards and partnership projects with suppliers and third parties.

Our approach draws on the UN Universal Declaration of Human Rights and the Organisation for Economic Cooperation and Development’s (OECD’s) Guidelines for Multinational Enterprises. Human rights criteria are incorporated into our major supply chain management programmes, including our Business Enabler Survey Tool and our Social Responsibility in Tobacco Production (SRTP) programme. Our leaf managers and technicians also help our contracted farmers to protect the occupational health of their farm workers, for example by using agrochemicals safely.

In 2012, we will review our approach to human rights following the publication of the OECD’s revised Guidelines for Multinational Enterprises and the Conventions of the International Labour Organisation (ILO). This will include a review of our Child Labour Policy with input from the ILO.

**OUR APPROACH TO HUMAN RIGHTS IN THE SUPPLY CHAIN**

- Our SRTP programme for all our tobacco leaf suppliers covers child labour and other human rights issues.
- Through our agronomy support services, we encourage compliance with Group policy and local laws.
- We have had a Group-wide Child Labour Policy since 2000.
- We were one of the founding members of the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation in 2001. See [www.eclt.org](http://www.eclt.org).
- We have a number of long-standing community-based programmes to address child labour in tobacco growing areas.
- Our suppliers are required to meet criteria on issues including workers’ rights and child labour.
- We are incorporating human rights criteria into all our framework agreements with global suppliers. We expect this to be completed in 2012.

**Tackling child labour**

Child labour is an important human rights issue for any industry with an agricultural supply chain and the tobacco industry is no exception.

We have had a Group-wide Child Labour Policy since 2000, it is a key element of our SRTP programme and we were one of the founding members of the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation in 2001. We continue to play an active role in the ECLT Foundation along with others in the industry, trades unions and the ILO. The Foundation runs community-based projects to raise awareness of child labour issues; improve access to education and health services for children; and build local capacity to address the problem. A number of our companies in tobacco growing countries also run their own community-based programmes to address child labour.

**External allegations**

In 2010 and 2011, allegations were made by representatives of the US Farm Labour Organising Committee (FLOC) about conditions for migrant workers on tobacco farms in North Carolina, USA. Reynolds American Inc, an associate company of which the Group is a 42 per cent shareholder, was targeted in FLOC’s campaign.

We take this matter very seriously. In order to understand the complexity of the situation and to encourage progress, we have engaged with the Trades Union Congress in the UK and the International Union of Food workers. Reynolds American Inc. is fully committed to constructively engaging with all stakeholders who share an interest in tobacco farm working conditions in North Carolina and steps to establish this process are underway.

**Employee viewpoint**

I hadn’t appreciated how complicated the child labour issue was before I started working here or how much of our time with farmers would be spent on it. I think it’s really important for people to understand that it’s considered normal among the local communities for children to help out on their parents’ farms. It becomes child labour when the ‘helping out’ starts to interfere with the child’s welfare, safety or education. It’s not always an easy distinction to make, so we help the farmers to understand where the line needs to be drawn and the steps they need to take, like making sure children don’t handle chemicals.

Adeladan Ademola Amidu,
Leaf Training and Sustainability Supervisor, British American Tobacco Nigeria
Curing barn design to reduce wood fuel use in Zimbabwe

Some tobacco farmers use wood as a fuel for curing tobacco. We have a target of zero use of natural forest for our directly contracted farmers curing fuels by 2015. Among other things we are doing to reach this target, British American Tobacco is looking at innovative designs for curing barns that optimise fuel efficiency.

One design is the rocket barn, which uses a double chimney system to draw air through the inner barn. This results in a faster curing process that uses much less wood fuel than conventional barns. The rocket barns are suitable for small-scale farmers as they are affordable, easy to build and designed for small- to medium-scale production levels.

The barns were designed by Peter Scott and the Burn Design Lab and have been used in countries such as Tanzania and Malawi for some years now. From January 2010 to April 2011, our company in Zimbabwe collaborated with Northern Tobacco and the Tobacco Research Board on a pilot to assess the performance of the barn design.

Test rocket barns were constructed at the Tobacco Research Board’s Kutsaga Research Station in Harare, with a conventional barn being used as a control. Results taken over a two-month period showed that rocket barns can use up to 50 per cent less wood fuel. British American Tobacco Zimbabwe is now encouraging its contracted farmers to switch to rocket barns, with a goal for them to do so by the end of 2015.
SRTP performance data

Social Responsibility in Tobacco Production
Average percentage of leaf suppliers’ self-assessment scores

Child labour section of Social Responsibility in Tobacco Production
Average percentage of leaf suppliers’ self-assessment scores
Wood fuel performance data

<table>
<thead>
<tr>
<th>Year</th>
<th>Company-sponsored advised forestry</th>
<th>Commercial forest</th>
<th>Natural forest</th>
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<tr>
<td>2011</td>
<td>62.9%</td>
<td>29.8%</td>
<td>7.3%</td>
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<tr>
<td>2010</td>
<td>59.1%</td>
<td>28.8%</td>
<td>12.1%</td>
</tr>
<tr>
<td>2009</td>
<td>66.4%</td>
<td>27.2%</td>
<td>4.3%</td>
</tr>
<tr>
<td>2008</td>
<td>67.2%</td>
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<tr>
<td>2007</td>
<td>80.0%</td>
<td>14.0%</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

*Company-sponsored or advised forestry includes trees grown by farmers and cooperatives advised by our direct agronomy services as well as trees planted or sponsored by our companies.

**We ceased reporting sources unknown from 2010 following a review of wood fuel reporting, which allows these sources to now be identified.
Independent research

We do not agree with the majority of claims that tobacco farming has far worse social and environmental impacts than other agricultural crops or practices.

In 2011, we commissioned independent research by Development Delivery International (DDI) into the impact of tobacco growing, which comprised a literature review of over 300 published sources on the subject and field research into the circumstances of tobacco and non-tobacco farmers in three contrasting tobacco growing countries.

This literature review concluded that the existing research base was both limited and lacked contextual understanding. No clear evidence to support a causal link between tobacco cultivation and poverty or that tobacco growing necessarily leads to adverse labour or employment outcomes could be found. The literature on environmental risks was equally problematic with the possible exception of deforestation, although the evidence suggested that this is site specific and can be mitigated. It also found that there is no clear evidence that tobacco growing exacerbates poverty and that there is minimal evidence that it contributes to food insecurity.

The second part of the study took the form of a practical investigation in Bangladesh, Brazil and Uganda looking at whether tobacco cultivation poses a greater hazard to the welfare of poor people in comparison with the cultivation of other available crops. The case study results show that the claims for a direct causal link between tobacco cultivation and poverty do not hold true as a generalisation. It also found that the ability of households to move in and out of tobacco cultivation does not support a picture of entrapment; that tobacco cultivation is seen to be an important and reliable income source that enhances food security and has contributed to increasing farmers’ welfare; and that suitable agronomy support can help mitigate both environmental and health risks, such as green tobacco sickness, associated with tobacco farming.

DDI’s report contributes to the currently limited evidence base in this area and includes detailed on the ground research about the impact of tobacco cultivation on farmers’ livelihoods. The report says that the percentage of the literature reviewed that shows any peer-review or quality assurance process is rather limited and so restricts the evidence base that policy makers can work with. As a result, we are concerned that regulators will develop policy that will affect the lives of hundreds of thousands of tobacco farmers and is based on neither adequate research nor robust evidence. The report can be downloaded from www.ddinternational.org.uk.

“Stakeholder viewpoint

The review of the evidence comparing environmental risks of tobacco cultivation with other international agricultural commodities suggests that as far as environmental risk is concerned, tobacco growing would seem to pose no greater threat than any other commodity, especially when compared to crops like cotton and sugar cane, which have high requirements for agrochemicals and where land management practices can have significant negative impacts on ecosystems.

“The role of tobacco growing in rural livelihoods: Rethinking the debate around tobacco supply reduction” by Development Delivery International, February 2012
Sustainable agriculture

The world population is forecast to reach nine billion by 2050 and this, along with economic development leading to people having higher incomes, means twice as much food will need to be produced from the same amount of land. This is focusing the attention of a wide range of stakeholder groups involved in sustainable agriculture.

Sustainable agriculture means farming communities are successful in terms of their productivity but also protect the environment and provide social benefits like education. We believe that a framework for sustainable agriculture needs to include standards and regulations to support best practice; tools and technologies to improve productivity and reduce environmental impacts; and key services for communities, including healthcare and education.

To be successful, sustainable agriculture needs to look at the whole landscape, not just individual crops. A single tobacco farmer implementing good practices is neither sufficient nor effective if neighbouring farmers and community members are not also involved. That is why we want to work with others to develop an approach that includes cross-sector solutions and involves all a community’s stakeholders.

In 2011 and early 2012, we held two stakeholder dialogue sessions on sustainable agriculture. The first, in the UK, was held with the Food and Environment Research Agency. Along with UK policy makers, NGOs and other key influencers, we discussed the policy and regulation needed to effectively address the social, environmental and economic challenges of agriculture. The main insights from the session included:

- There needs to be robust and appropriate regulation, supported by relevant agricultural policies, to ensure compliance both with global standards and to address specific issues in different countries;
- Sustainable agriculture will require the adoption of more economic and ecologically efficient practices;
- These practices will be implemented through appropriate tools and technologies that deliver sustainable outcomes; and
- Improved communication and education throughout the agricultural supply chain is fundamental to translating strategies and policies into action and ensuring that tools and technology are adopted at the farm level.

The second dialogue session was held in Bangladesh, a key tobacco growing country. It was attended by stakeholders from the UK and across Asia. Participants were taken on a field visit to see our agronomy support services in action and an independently facilitated session was then held the following day to get feedback on our approach and discuss the challenges of sustainable agriculture in Southern Asia.

The main insights from the session were that a holistic ‘landscape’ approach involving different stakeholders in the process is needed and that further dialogue and collaboration will be required to raise awareness and create results. Participants all stressed the importance of educating and empowering farmers and how the sharing of best practice will be necessary to accelerate the process.

You can download copies of the dialogue reports from [www.bat.com/reporting](http://www.bat.com/reporting).
Supply chain management

In 2011, we established a Supply Chain Sustainability Stakeholder Panel to give us guidance and challenge on our supply chain sustainability issues. The Panel is made up of two suppliers, two professionals from other FMCG companies and two independent experts. You can read more about the Panel in the viewpoint from the Chair on the following page.

We developed our supply chain sustainability strategy in consultation with internal and external stakeholders in 2010. It requires each division of our supply chain to minimise its most significant environmental impacts.

Manufacturing and logistics use more energy and resources than the rest of our direct operations, so the strategy focuses on them. In both areas, we have measures in place to assess and reduce our environmental impacts and are exploring and adopting alternative technologies and renewable sources.

We use our Sustainable Business Assessment to compare the potential social and environmental impacts and risks associated with new products, components or packaging. Life cycle analysis provides detailed environmental information to incorporate into our decision-making. For example, consideration of energy and CO2 impacts are now used in our global factory sourcing decisions.

Our Business Enabler Survey Tool, which we use to evaluate the sustainability standards of our materials suppliers, now incorporates additional sustainability criteria. We are also integrating further sustainability principles into the selection criteria for our direct materials and machinery suppliers.

Our suppliers are encouraged to monitor and measure their environmental impacts using a scorecard that we trialled in 2011 with strategic materials suppliers. The scorecard was developed in 2010 together with these suppliers and covers energy, water, waste and CO2e. It helps us monitor performance and identify areas for joint improvements. We are now working with these suppliers to develop the next stage of the scorecard and will expand its use to our machinery suppliers.

OUR BUSINESS ENABLER SURVEY TOOL (BEST)

BEST assesses the sustainability performance of our materials suppliers, providing a framework for continual improvement. Suppliers must obtain Approved, Qualified or Certified status in order to be retained by British American Tobacco. During 2011, we carried out 41 BEST reviews, of which 23 gained the minimum Approved status, 16 gained Qualified status and two gained the highest status, Certified.

STAKEHOLDER VIEWPOINT

Through our work with British American Tobacco, we were able to participate in a stakeholder dialogue session and the development of the supplier scorecard. This collaborative approach has been particularly fruitful for us and helped jump start our company-wide sustainability programme. We welcome British American Tobacco’s feedback and sharing of best practices as we continue on our journey.

Juliette Audren, Sustainability Programme Manager, SWM-INTL (paper and reconstituted tobacco leaf supplier)
In 2011, I became the Chair of British American Tobacco’s newly formed Supply Chain Sustainability Stakeholder Panel. Our remit is to advise and challenge the business on the implementation of its supply chain sustainability strategy.

We meet twice a year, each time focusing on a specific area or issue. So far we’ve looked at sustainable agriculture and water management. We review the Group’s current approach in these areas, along with its plans going forward, and then we offer our insights and suggestions. And with a wealth of experience and knowledge on the Panel, we have a lot to say! It’s too early to say what sort of impact we’ve had, but so far I’ve found the business to be very open and willing to take on board what we have to say.

Some stakeholders might be reluctant to engage with the company on sustainability issues because of the negative associations with ‘big tobacco’. However, for the Panel, it’s clear that British American Tobacco has a valuable contribution to make to the debate. I think policy makers and others appreciate the input of organisations whose supply chains range from small producers in developing countries to multinationals, as they can offer insights about what works on the ground.

When we first saw the details of the Group’s approach to sustainable agriculture, we were surprised at just how much they were doing. I guess they don’t shout about it because they’ve been discouraged by the criticism the tobacco industry has received. We suggested that if British American Tobacco were to promote its concept of sustainable agriculture generally – not just growing tobacco sustainably – then this might improve the lives of tobacco growers as well as relationships with those stakeholders who are currently reluctant to engage with a tobacco company.

As the Panel moves into its second year, we look forward to seeing how our work with British American Tobacco progresses and how our input is making a difference in the business.

Dr Douglas Crawford-Brown, Panel Chair Cambridge Science and Policy Consulting
Supply chain goals and commitments

Our supply chain commitment
We will work for positive social, environmental and economic impact in our supply chain.

2012 goals
- Aim for zero use of natural forest for directly contracted farmers’ curing fuels by end 2015;
- Continue working with the independent SRTP reviewer, LeafTc, to review and update the assessment by end 2012;
- Incorporate requirements for human rights and other sustainability criteria into all our framework agreements with global suppliers by end 2012;
- Conduct a review of our approach to human rights following the publication of the OECD’s revised Guidelines for Multinational Enterprises, including input on our Child Labour Policy from the International Labour Organisation;
- Conduct a detailed review of our strategic operational sites in high-risk water stress locations;
- Roll out our energy and CO₂e assessments for warehouses across the Group by end 2012;
- Roll out our programme to improve fuel efficiency across all Group Trade Marketing & Distribution teams by end 2012; and
- Develop the next version of our supplier scorecard and expand its use
About this Report

This is the British American Tobacco p.l.c. Sustainability Report 2011. It reports on the activities of British American Tobacco companies in the UK and internationally and covers the calendar year 2011. Associate companies are excluded. References to ‘British American Tobacco’, ‘we’, ‘us’ and ‘our’ when denoting opinion refer to British American Tobacco p.l.c. (the Company) and when denoting tobacco business activity refer to Group operating companies, collectively or individually as the case may be.

Statements and assurance

This Report contains forward-looking statements that are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in the countries in which the Group operates.

It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated. Ernst & Young LLP has been engaged by British American Tobacco to provide external assurance of this Report. Ernst & Young LLP reviewed all commitments and statements of progress, data, GRI information, text and, specifically, performance-related information for the period 1 January 2010 to 31 December 2011.

PDF downloads

This PDF download may not represent the full Sustainability Report 2011. The full version of the Report can be found online at www.bat.com/sustainability