



**SUPPORTING
FARMERS'
LIVELIHOODS**

The opportunity

Sustainability Focus
Report 2014



**BRITISH AMERICAN
TOBACCO**

THEY GROW, WE GROW: HELPING FARMERS TO THRIVE

OUR CHIEF EXECUTIVE



Tobacco leaf is the most essential part of our products, so the farmers who grow it are absolutely crucial to the success of our business.

NICANDRO DURANTE

Chief Executive, British American Tobacco, November 2014



At BAT, we have a long and proud history in agriculture, working directly with farmers around the world and advancing agricultural practices. Today, we continue to provide on-the-ground advice and support to our contracted farmers, develop new technologies and conduct cutting-edge research – for example, into more sustainable leaf varieties.

The farmers we work with are valued business partners. We want them to feel confident about their future and to be self-sufficient and prosperous. This is not philanthropy; it's a pragmatic, commercial approach to securing our supply chain and ensuring the integrity and quality of our products to satisfy our consumers.

This is especially important today when we are facing more and more challenges in agriculture. These include increasing demand for land and natural resources, food security, child labour, urban migration and ageing farmer populations.

Yet, in these challenges, I see an opportunity for us to build further on our long-standing approach and work with others to develop multi-stakeholder solutions to support farmers and their livelihoods. I'm committed to a future where all our farmers have the resources they need to be successful and to ensuring farming communities can thrive."

OUR AGRICULTURAL SUPPLY CHAIN

We do not own tobacco farms...

or directly employ farmers – but our approach to agriculture and working with farmers means we have strong influence



We buy 400,000+ tonnes of tobacco...

from our 100,000+ contracted farmers and third party suppliers around the globe. These are mainly in developing countries and emerging economies in Africa, Asia and Latin America

EXPERT VIEW



Although gradually declining, the number of people employed in agriculture is greater than for any other human activity – around 35% of all those in employment globally.

Most of those people are in developing economies and at the lower end of the income scale. At the same time, agriculture is estimated to consume a hugely disproportionate 70% of the world's freshwater as well as use large amounts of land.

DR KENNETH M BAKER

Chairman, World Agricultural Forum

Note: These are the personal views of the author

The challenges are therefore to raise the living standards of agricultural workers, to make agriculture more efficient in its use of natural resources, to raise productivity and to make agriculture more sustainable. These are all interconnected and progress in one sustains the others.

Agriculture, by its very nature, plays an integral part in the management of the environment. It relies on natural resources, harnessed through technology, to deliver the food we eat and the products we use. But there are significant barriers to improving agricultural practices, notably illiteracy and low educational levels in poorer

societies, lack of access to finance for implementing new developments and low productivity levels. However, with sufficient will and ingenuity, such barriers, I think, can be overcome.

I applaud all efforts to improve productivity, making more efficient use of natural resources and maintaining soil fertility – factors which should lead to higher income and greater prosperity for farmers. We can have a healthy debate on the pros and cons of the production of any crop, but as farmer prosperity improves, more options become available to individual farmers."

SMALL SCALE

1 hectare or less

No mechanisation or hired labour

Growing food crops for own consumption, such as fruit and vegetables

MEDIUM SCALE

Between 1.1 and 4 hectares of land

Some mechanisation and hired labour

Growing other crops for commercial sale, such as wheat and maize

LARGE SCALE

Over 4 hectares of land

Fully mechanised with some hired labour

Growing multiple crops for commercial sale, such as cotton and soy bean

Examples of the differing characteristics of our farmers' businesses



Our support for our contracted farmers

1,000+
leaf technicians worldwide

100,000+ farmers
directly supported

£65m+
spent each year

100% of suppliers are reviewed...

through our Social Responsibility in Tobacco Production (SRTP) programme and we publish their scores at www.bat.com/SRTPdata

■ Sustainable farmer livelihoods



NATURAL RESOURCES

SOIL HEALTH
WATER QUALITY
AND AVAILABILITY
BIODIVERSITY
PRESERVING FORESTS



INFRASTRUCTURE AND RESOURCES

ACCESS TO ENERGY, CLEAN
WATER AND SANITATION
FARMING TECHNIQUES
AND TECHNOLOGIES



SKILLS, KNOWLEDGE AND LABOUR

ADVICE, SUPPORT, TRAINING
HEALTH AND SAFETY
LABOUR STANDARDS
AND HUMAN RIGHTS
NEXT GENERATION OF FARMERS



FARM INCOME

PROFITABILITY
QUALITY YIELD
FARM EFFICIENCY
FOOD SECURITY



COMMUNITY NETWORKS

FARMER CLUBS
NETWORKS
COMMUNITY GROUPS

Sustainable farmer livelihoods



FARM INCOME

Maintaining a stable income in agriculture can be challenging in the face of an unpredictable climate and changing market forces. If our farmers have profitable businesses, they and future generations are likely to feel more motivated to remain in agriculture and look after their environment, which helps secure our long-term supplies of tobacco.

TOBACCO: A PROFITABLE CHOICE

Often farmers choose to grow tobacco because it's hardy and can generate high profit margins. For example, on an average farm in southern Brazil, tobacco grown on 16% of the land accounts for 55% of the farmer's income¹.

We want all our farmers to get a fair deal. That's why we guarantee to buy a certain amount of tobacco from them each year. This gives them a regular income, enabling them to invest in their farms and build successful businesses.

For our farmers, tobacco isn't the only crop they grow. It's part of a diverse crop portfolio, grown alongside or in rotation with other crops such as cereals, fruit and vegetables.

We also provide seeds that offer greater yields, quality and resistance to diseases and drought. These can lead to better returns for the farmers and higher quality leaf for our products.

This is all a great way of helping to support food security and self-sufficiency for our farmers – which, in turn, makes them less vulnerable and more resilient to market forces and other challenges they may face.

Tobacco's contribution to the total farm income

Tobacco is just one part of a total farm income. For many years, our leaf operations have assessed farmers' profit margins from tobacco and compared them to other crops. We are now building a more comprehensive and consistent picture of tobacco's contribution to overall farmer livelihoods. We're conducting a detailed analysis, using a standardised approach, to calculate the overall profitability of tobacco and the other local crops our farmers grow.



I get a fair price for the leaf I supply, the seeds are of good quality, and the training and technology I have accessed through Souza Cruz have helped me get the most out of my land – not just for tobacco, but for my maize crops too. That's why I have chosen to work with them for the last 13 years."

Sanges Alberto Klafke, Brazilian tobacco farmer supplying our subsidiary company, Souza Cruz

80%

of farmers surveyed in Pakistan stated that they cultivate tobacco because it generates more profit compared to other crops²



¹ The Tobacco Growers' Association of Brazil (AFUBRA), data from 2012/13 growing cycle, www.afubra.com.br.
² Nielsen study, *Economics of Tobacco Crop: An Assessment of the Contribution and Impact in Pakistan*, June 2014.



NATURAL RESOURCES

Forest and soil health, water availability and quality, and pest control are essential for long-term agricultural productivity. We are working together with our farmers to help ensure continued access to natural resources for our business and for rural communities.



IMPROVING SOIL HEALTH

Healthy soil is vital to any farm, and we continue to work on ways to improve soil fertility and stop the erosion of farm land. We provide guidance and techniques for our farmers on preserving soil health, such as crop rotation, mulching, 'green manure', irrigation, drainage and the reduced use of pesticides.

SUSTAINING WATER

Agriculture accounts for 70% of freshwater withdrawals globally and up to 90% in some developing countries³. With issues such as deforestation and climate change affecting freshwater sources, ensuring the continued availability and quality of freshwater for farming is becoming a major challenge.

While many tobacco crops are rain fed, others, such as those in Pakistan, need irrigation. It is therefore vital that we try to find more sustainable ways for farmers to water their crops while protecting the needs of local communities. We still have much to do in this area and so are starting with assessments of our strategic leaf operations identified as 'high risk'. This will help us better understand long-term water supply and demand requirements and inform the development of action plans.



³ Data from the United Nations World Water Assessment Programme, www.unesco.org/water/wwap.

⁴ With three major international conservation NGOs: Earthwatch Institute, Fauna & Flora International and Tropical Biology Association.

PRESERVING NATURAL FORESTS

Loss of natural forests is one of the most significant environmental impacts linked to tobacco growing, due to wood often being used as a fuel in curing processes.

We are helping farmers to preserve natural forests through afforestation programmes, which provide a sustainable source of wood, and by finding locally available, alternative fuels such as rice paddy husks and candlenut shells.

We're also exploring ways to reduce wood fuel consumption by using innovative designs for curing barns. For example, 'rocket barns', which we are piloting in Zimbabwe, use up to 50% less fuel than conventional curing barns because their distinctive double chimneys draw air more quickly.

As a result, 98.7% of the wood our farmers use for curing does not come from natural forest. We aim to increase this further.

170 million
*trees planted by
our afforestation
programmes over
the last six years*



Taking action on risks and opportunities

We use a biodiversity risk and opportunity assessment (BROA) tool, developed with our Biodiversity Partnership⁴, to identify, assess and address issues arising from impacts and dependencies in tobacco growing areas. 100% of our leaf operations completed assessments by the end of 2010 and a second round of assessments is on track for completion by the end of 2014.

BROA has been recognised by the UN Food and Agriculture Organisation and World Business Council for Sustainable Development as an approach that is comprehensive enough to be used by any organisation operating in an agricultural landscape, so we've made it freely available at www.batbiodiversity.org/broa and are encouraging others to use it.



INFRASTRUCTURE AND RESOURCES

Tobacco is often grown in developing countries where access to health services, clean water, sanitation, energy and technology can be a challenge. By improving access to basic infrastructure and resources, we can help ensure some of our most important tobacco growing areas are viable places to live and work.

INVESTING IN COMMUNITIES

Many of our companies have built close ties with the communities in which they operate and we have a long-standing approach to corporate social investment (CSI). These CSI activities often support local infrastructure projects that can benefit wider communities. For example, our company in Pakistan provides basic healthcare facilities for remote rural areas through mobile doctor units. In 2013, more than 87,000 patients were treated.

£30 million
invested in community projects in tobacco growing countries over the last five years

We are now working to closer align our CSI with our leaf operations activities, by requiring at least 70% of CSI spending in all our tobacco growing countries to be focused on sustainable agriculture and farmer livelihood projects by the end of 2015.

MAKING TECHNOLOGY ACCESSIBLE

We provide our farmers with access to new farming methods and technologies which might otherwise be unavailable to them. Examples include new seed varieties developed by our global agronomy centre; 'floating trays' for producing seedlings; innovative technologies for irrigating crops; and mechanised equipment to help with harvesting.

These help our farmers to improve productivity, reduce labour requirements and optimise quality and yields, as well as guaranteeing the integrity of tobacco for our products.



Providing power and safe drinking water for rural communities in Bangladesh

Because of their rural location, many of our upland farmers in Bangladesh haven't had an electricity supply. Access to clean water for drinking and sanitation can also be a major challenge for them.

Since 2011, BAT Bangladesh has provided over 1,300 solar energy panels that generate electricity for 15 remote villages in tobacco growing areas.

The company also runs a project which has, so far, installed 53 water filtration plants that purify up to 270,000 litres a day, providing much needed clean drinking water in 14 districts.



Thanks to BAT, we now have safe and clean water in our village. They also trained us on how to maintain and repair the filtration unit – so now we can look after it ourselves in the community without having to rely on more outside help.”

Sirajul Islam, tobacco farmer in Jhenaidah region, Bangladesh



SKILLS, KNOWLEDGE AND LABOUR

Accusations of poor working conditions and child labour are often made in relation to tobacco growing. Along with urban migration and ageing farming populations, these are common challenges across agriculture. We are working to address them and to help our farmers remain skilled and healthy.

PROMOTING HUMAN RIGHTS

Conditions for workers and child labour can be particularly challenging human rights issues in agriculture. We have a long-standing commitment to human rights, having first introduced our Child Labour Policy in 2000. In 2013, following the publication of the UN Framework and Guiding Principles on Business and Human Rights, we reviewed our approach in consultation with stakeholders, to strengthen it further.

Our new Human Rights Policy, published recently in our revised Standards of Business Conduct, details our commitment to promoting human rights in our sphere of influence. The policy includes our commitments to no child labour, no exploitation of labour and respect for freedom of association.

There have been some allegations regarding child labour in our supply chain, such as in Malawi and the US⁵. We take such allegations very seriously and are committed to open dialogue and a multi-stakeholder approach to address any issues identified.

100% of our suppliers are reviewed through our Social Responsibility in Tobacco Production (SRTP) programme. This includes an assessment of activities to prevent child labour and labour standards aligned to ILO conventions. SRTP has minimum requirements and if they're not met, action plans are put in place. If suppliers continue to fail to meet the minimum requirements, they risk losing their position as a supplier to BAT.

We co-founded the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation and continue as active members today. We also have a number of long-standing community-based programmes in our tobacco growing operations.

91%

scored in SRTP by our leaf suppliers for activities to prevent child labour

⁵ For example: Human Rights Watch, *Tobacco's Hidden Children: Hazardous Child Labour in US Tobacco Farming*, May 2014.

TEACHING SKILLS

Our leaf technicians are an important source of advice, support and training for farmers, helping them to run successful, profitable and high-yielding farms.

We also work with farmers to help them protect their health, such as by using chemicals safely. A major priority for us is raising awareness of green tobacco sickness (GTS), a type of nicotine poisoning that occurs when nicotine is absorbed through the skin from wet tobacco leaves. We are supporting changes in practices, encouraging our farmers to wear protective clothing and not to handle wet leaves, as well as providing them with information on the symptoms and treatment of GTS.

Empowering farming communities

We have a number of projects around the world focused on providing skills and knowledge to farming communities. For example, to help develop a next generation of farmers, our company in Brazil works with local partners to provide classroom and practical training for rural youth on areas such as farm management, crop diversification and project planning.

In Sri Lanka, our Sustainable Agricultural Development Programme works with more than 16,000 rural families teaching food cultivation and animal husbandry skills. This helps them to improve nutrition, gain economic independence and maximise land use.



We were struggling to make ends meet before this, but now they have taught us to grow our own produce. Except for a few things, we now grow everything at home, and this can save a lot of money."

AD Susantha Kumara, programme beneficiary, Sri Lanka



COMMUNITY NETWORKS

Many of our farmers live and work in remote rural areas. Helping to build and strengthen farmer networks in these areas can provide them with support and create opportunities for sharing best practice, which in turn helps our tobacco growing areas continue to be effective operations.

STRONGER TOGETHER

The regular training, workshops and seminars we run, help to facilitate networks among our farmers' communities. In some countries, we go beyond this by establishing formal farmer clubs or forums as part of wider community projects.

For example, our company in Bangladesh has established over 50 farmer clubs in collaboration with the Government's Department of Agricultural Extension. The clubs are led by committees made up of local community members and company representatives. They include a combination of classroom training and field work, on areas such as alternative fuels, pesticide management, irrigation techniques, green manuring and composting. The training provided covers other crops such as rice and vegetables, not just tobacco.

Community action to address water scarcity in Lombok, Indonesia

On the Indonesian island of Lombok, deforestation and land clearance has contributed to declining water flows, creating a high risk to the rural communities' water supplies.

We have been working since 2009 with Fauna & Flora International, as part of our Biodiversity Partnership, to try to address this. The project has taken a multi-stakeholder approach involving central, provincial and district government agencies, local NGOs, the University of Mataram and local communities, including our tobacco farmers. Activities have included establishing community groups and networks, providing training on water management and alternative fuels, restoring watersheds by planting trees, and facilitating the development of a 15-year Integrated Watershed Management Plan for the Renggung area, signed by the Head of the Central Lombok District Government.



Water scarcity is an issue which cannot be addressed by one group working in isolation. The Lombok project is a great example of how business, the community, government and other key stakeholders can work together to find joint solutions that benefit people and nature. I feel privileged to be part of it."

Anna Lyons, Programme Manager for Agricultural Landscapes in Asia-Pacific, Fauna & Flora International, Singapore



TOBACCO FARMING: DEBATING THE FUTURE

In recent years, there has been considerable debate about the social, environmental and economic impact of tobacco growing, especially in developing countries. Organisations such as the Framework Convention Alliance and the World Health Organisation's Framework Convention on Tobacco Control are calling for tobacco farmers to be encouraged to switch to alternative crops.

Such calls are based on claims that tobacco growing has worse impacts than other crops. In particular, there are concerns regarding deforestation, the exacerbation of poverty and social inequality through bonded labour and child labour, and occupational health risks such as green tobacco sickness (GTS).

It is true that, like all crops, tobacco has impacts, but our approach to agriculture and working with farmers, as detailed in this report, is designed to mitigate and reduce them.

We agree that governments should look at the impacts of tobacco growing, as with any commercial crop. But we believe this should be done in an inclusive and evidence-based way that takes into consideration the wider agricultural context.

As we actively engage with regulators and governments on this issue, we have developed five core principles which we believe can help guide their future policy decision making.



INDEPENDENT EVIDENCE

To help contribute to the evidence base on tobacco growing and to support public policy decision making, we commissioned independent research by DD International. The 2012 report, *The role of tobacco growing in rural livelihoods*⁶, comprised a literature review of over 300 published sources, as well as investigations of three contrasting tobacco growing countries: Bangladesh, Brazil and Uganda.

The research concluded that there is no clear evidence to support allegations that tobacco cultivation poses a greater hazard to either the welfare of poor farmers or the environment compared to other available agricultural crops.



The evidence points to the need to carefully specify and understand context when investigating the role of tobacco cultivation in rural livelihoods and to contrast tobacco growers with non-tobacco growers. Policy makers need to ensure that context is taken into account, avoiding a 'one size fits all' approach."⁶

⁶ DD International, *The role of tobacco growing in rural livelihoods: rethinking the debate around tobacco supply reduction*, February 2012.

EVIDENCE-BASED

Driven by demand and market dynamics

Based on sound research and scientific evidence

Understands the long-term nature of agricultural issues

Considers the local context and that moves to alternative crops might have a bigger impact in some countries

RESPECTFUL OF LIVELIHOODS

Prioritises farmers and their communities

Ensures farmers continue to be free to choose which crops they grow

Acknowledges the significant role tobacco farmers play in their local communities

HOLISTIC

Adopts a broad approach to agricultural problems as the majority of the challenges of tobacco growing are common to most crops

Understands that tobacco is part of a mixed agricultural system grown alongside or in rotation with other crops

Acknowledges the initiatives already underway, to avoid duplication and ensure resources are used efficiently

Our recommended five core principles for guiding future policy

INCLUSIVE

Allows all participants in the tobacco growing supply chain to participate in decision making

Takes a consultative approach, to cover wider issues such as the environment, regional communities, excise and the labour market

Does not restrict the tobacco industry's existing support for farming communities, as this may exacerbate poverty and poor environmental management

LOCALLY RELEVANT

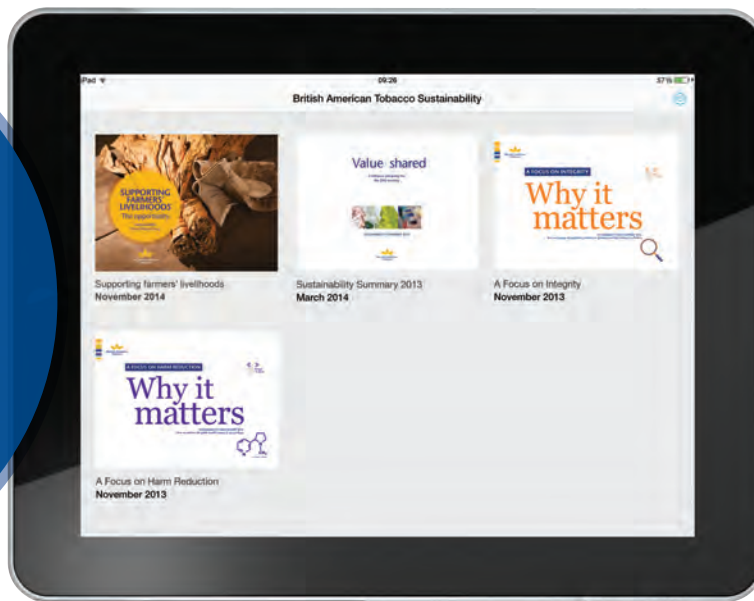
Takes local political, economic and environmental factors into account

Gives precedence to local implications and priorities

Finds practical, workable solutions that can be adapted locally

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INDEPENDENT ASSURANCE

Ernst & Young LLP has been engaged by British American Tobacco to provide limited external assurance of this focus report. A full assurance statement, including the scope of work and conclusions, can be found at www.bat.com/assurance.



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