



Tobacco

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

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



Our tobacco principles



Smoking and health

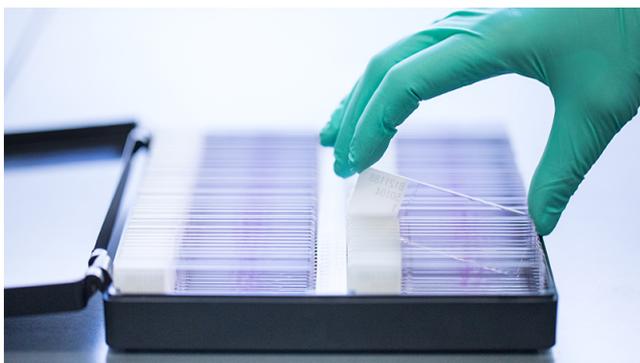
For more details on our approach to responsible marketing, please refer to our [Global Tobacco Marketing Principles](#). 

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

Our tobacco business value chain



The four strategic focus areas of our sustainability strategy



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



[Supply chain >](#)

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



[Optimizing the regulatory environment >](#)

[Investing in people >](#)

[Tackling the illegal trade >](#)

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[Tobacco](#)

[Information by
business
segment](#)

[Reduced-Risk
Products \(RRP\)](#)

[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

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



Products and services(RRP)

Exceeding expectations with products and services

Aspirational goal

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

Target

We will lead in providing the widest range of consumer choice in the RRP category.

Progress

At the end of 2020, we offered a choice of 6 tobacco vapor offerings (T-Vapor) and/or 5 types of e-cigarettes (E-Vapor) in 27 countries

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

Our approach

As alternatives to traditional combustible products, tobacco vapor products (T-Vapor) and e-cigarettes (E-Vapor) are gaining popularity with consumers around the world. Although the industry

is changing, our commitment to consumer choice remains.

We also believe that it is vital to focus on innovation and listen to consumers' needs. 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.

Between 2018 and 2020, we invested 100 billion yen in Reduced-Risk Products Products with the potential to reduce the risks associated with smoking., and we plan to invest further in the coming years.

Putting consumers first

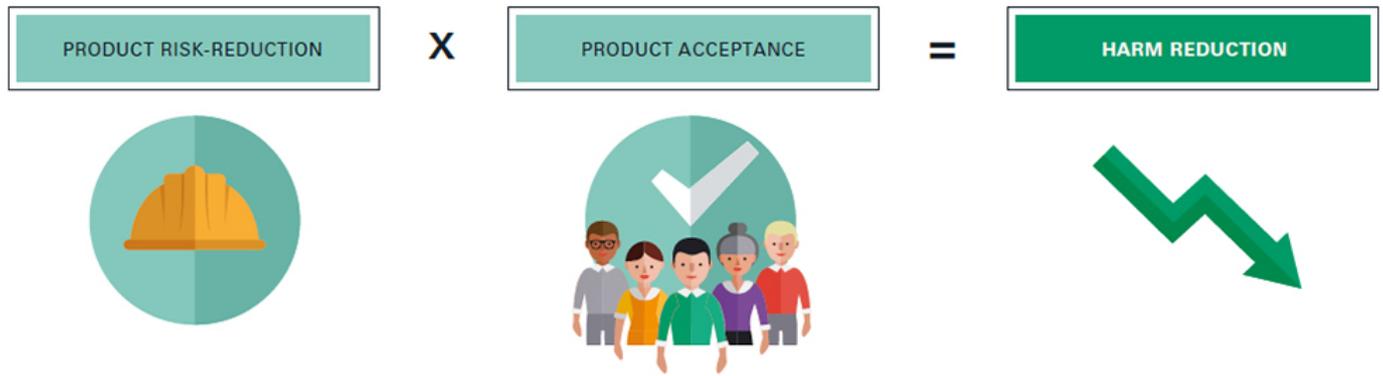
For products to have the potential to reduce the risks associated with smoking, consumers must first understand and appreciate their value. We therefore take a consumer-centric approach to research and development, and focus on four major factors that motivate consumers to consider Reduced-Risk Products:

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

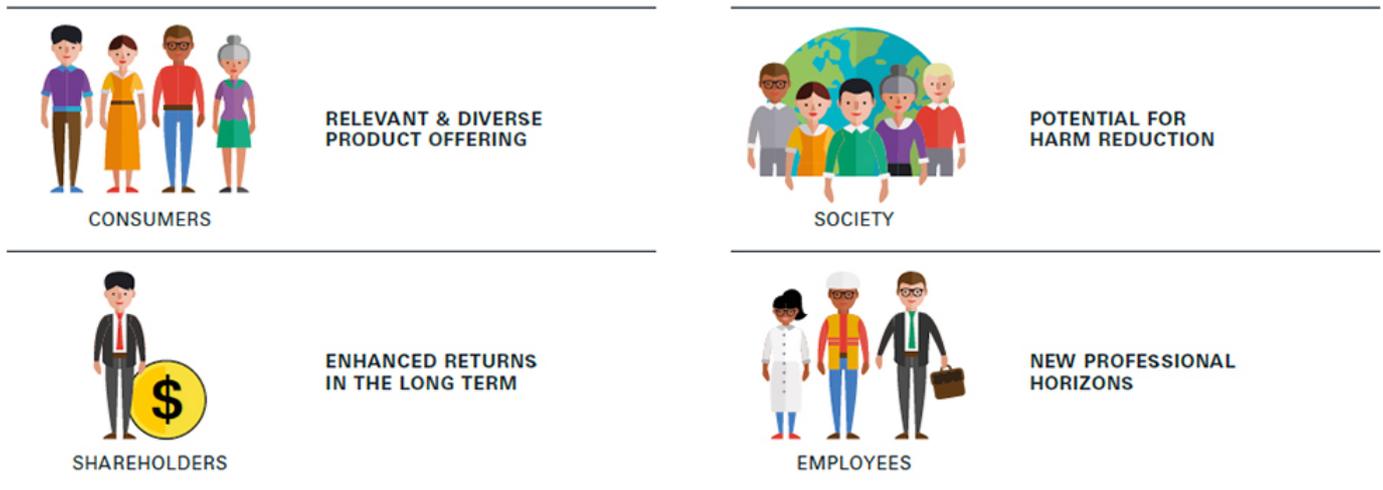
This approach to our Reduced-Risk Product research and development reflects the Harm Reduction Equation shown below. It also helps us to concentrate on exceeding the expectations of all of our key stakeholders: consumers, shareholders, employees, and the wider society.

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

HARM REDUCTION EQUATION



OUR CONSUMER-CENTRIC STRATEGY BENEFITS FOUR KEY STAKEHOLDERS



Empowering consumer choice

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

In 2020, our Reduced-Risk Product portfolio was present in 27 countries, with a choice of six tobacco vapor offerings (T-Vapor) and five types of e-cigarettes (E-Vapor).

What is T-Vapor?

T-Vapor products contain tobacco that is heated (but not burnt) to create an inhalable vapor. Consumers particularly enjoy the wider social freedoms that these bring, compared

What is E-Vapor?

Also known as electronic cigarettes, E-Vapor products heat a liquid that usually contains nicotine, but no tobacco. They create an inhalable vapor by electrically heating a liquid

to conventional products. Our T-Vapor category currently consists of Heated Tobacco and Tobacco-Infused Vapor products:

» Heated Tobacco delivers the satisfaction of a tobacco experience

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

(known as 'e-liquid') contained within the device or a replaceable cartridge.

These products offer optimum levels of social consideration, convenience, and affordability.

JT Science: an online resource for all

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

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

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

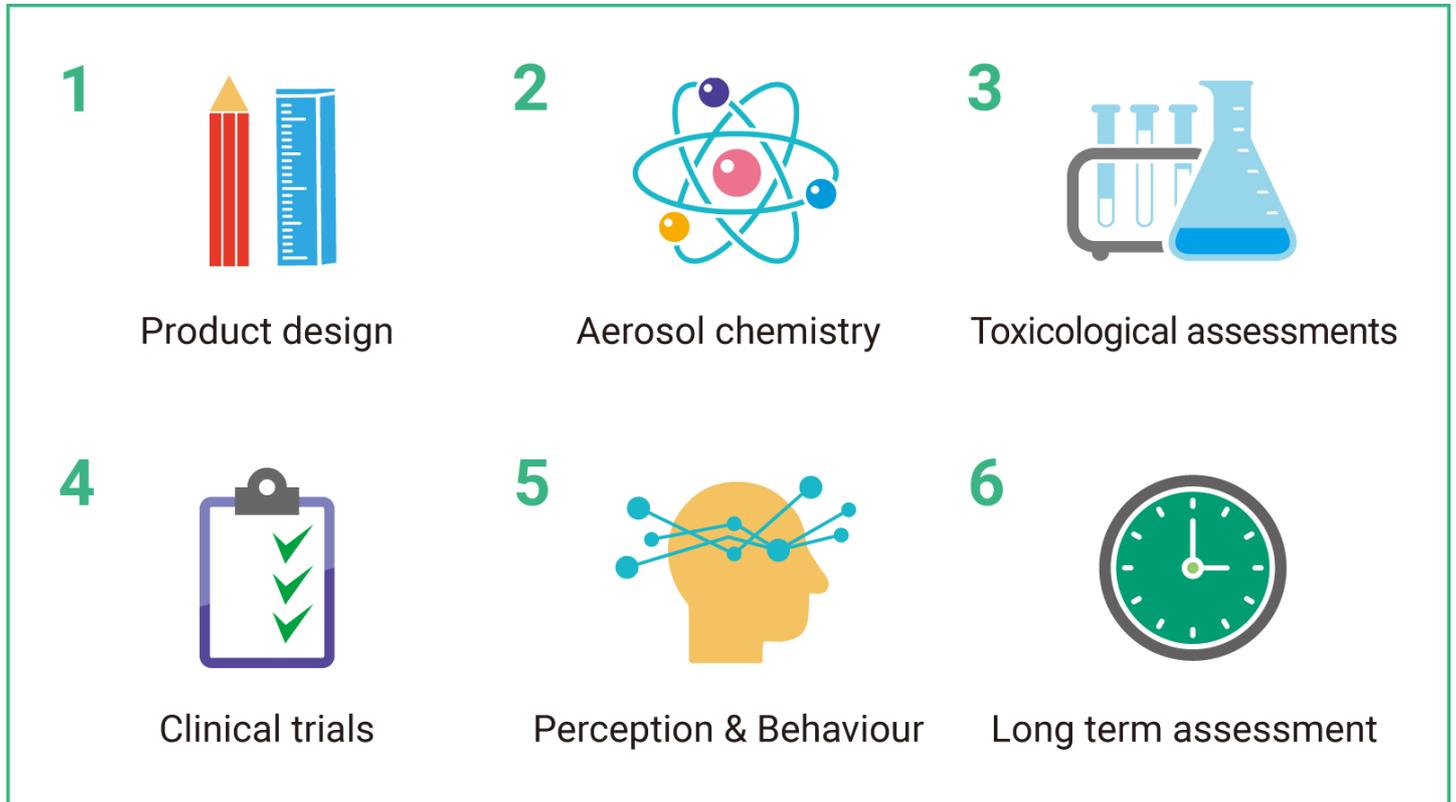
Realizing the full potential of Reduced-Risk Products

Our next-generation 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 Reduced-Risk Products, – 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.

To realize the full potential of Reduced-Risk Products, we follow the research process below.

RRP Development and assessment: A six-step journey



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

Our product portfolio (As of December 2020)

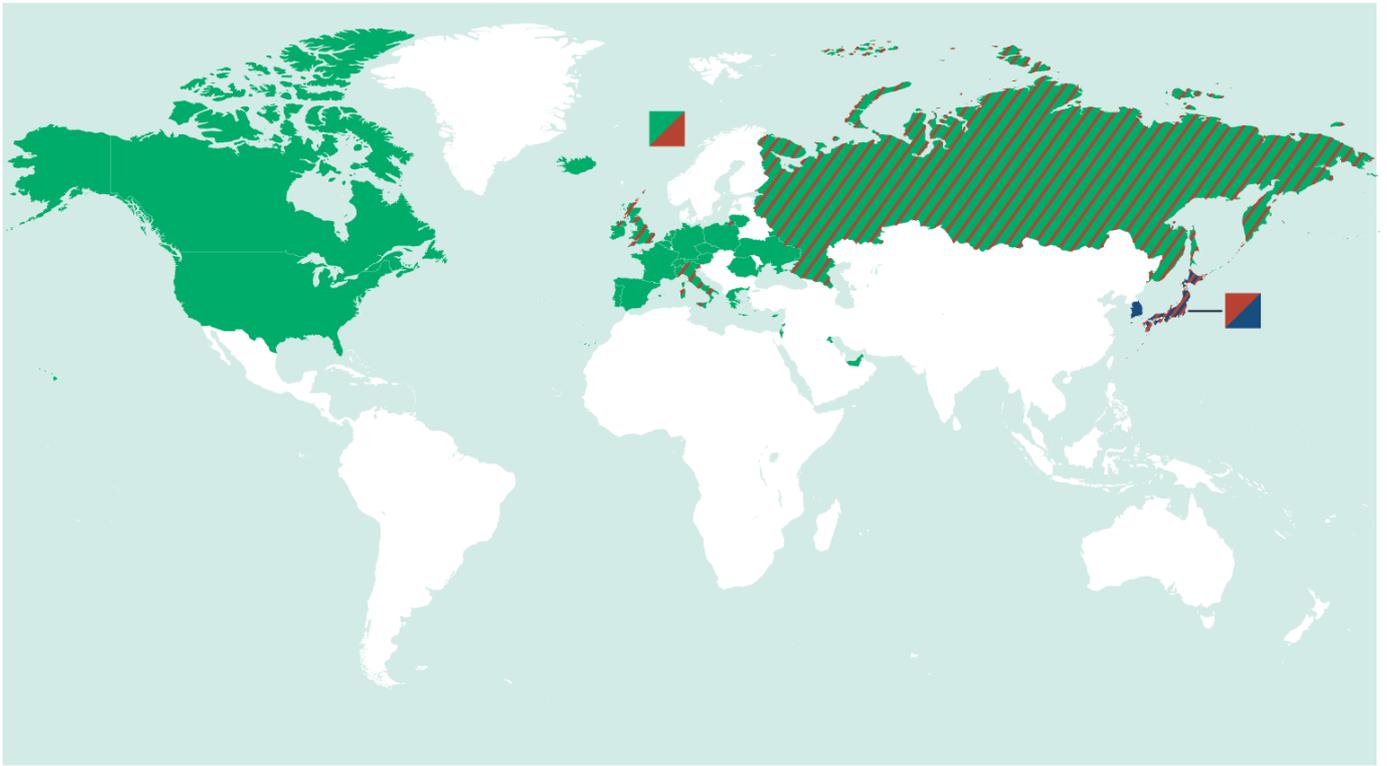
T-VAPOR	HEATED TOBACCO STICKS (HTS)	<p>ploom S 2.0</p> 	<p>ploom S10</p> 	<p>ploom S20</p> 	
	INFUSED TOBACCO CAPSULES (infused)	<p>ploom TECH</p> 	<p>ploom TECH+</p> 	<p>ploom TECH+ with</p> 	
E-VAPOR	CLOSED TANK	<p>Logic Compact</p> 	<p>Logic Pro</p> 	<p>Logic Power/Curv</p> 	<p>Logic Original</p> 
	OPEN TANK	<p>Logic LQD</p> 			

Successful launch of Ploom in Russia

- We launched a second-generation Heated Tobacco product, Ploom Model S, in one of our most important international markets, Russia, in March 2020.
- The product offers intuitive design, convenience, and authentic tobacco taste. It is an excellent choice for adult consumers looking for alternatives to conventional tobacco products.
- Despite the challenges of COVID-19, the launch was successful and results have been encouraging, showing high consumer satisfaction and acquisition rates.
- Following this positive start in Russia, we launched the product in the U.K. and Italy in November 2020.

Where are our Reduced-Risk Products available?

(As of December 2020)



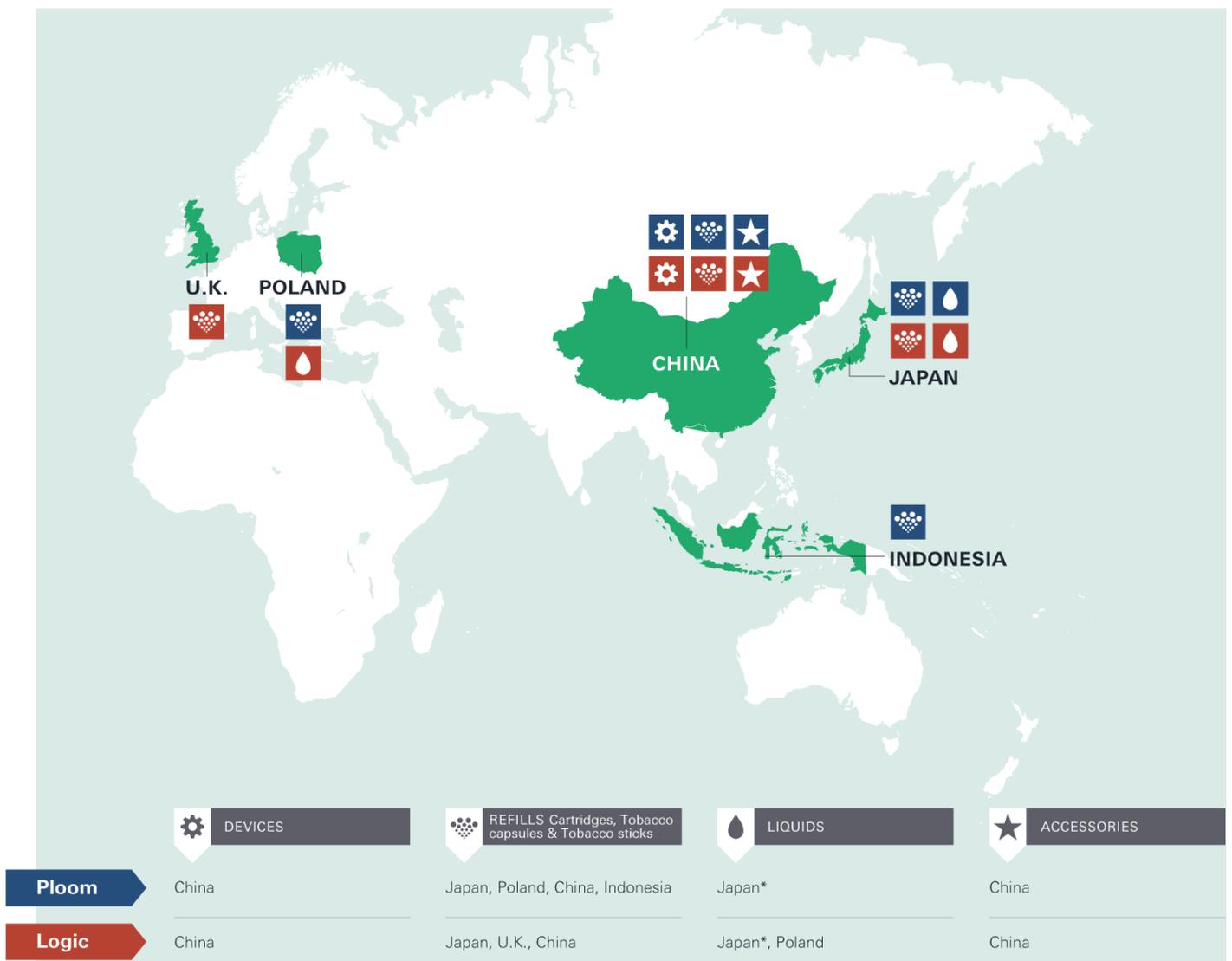
H Heated Tobacco Sticks (HTS)		T Tobacco-Infused		E E-Vapor					
Austria	E	Germany	E	Japan	H T	Poland	E	Switzerland	E
Belgium	E	Greece	E	Kuwait	E	Portugal	E	United Arab Emirates	E
Canada	E	Iceland	E	Korea	T	Romania	E	Ukraine	E
Cyprus	E	Ireland	E	Lithuania	E	Russia	H E	U.K.	H E
Czech Republic	E	Israel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

Reduced-Risk Products supply chain (As of December 2020)

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

In 2018, we opened an e-liquids (E-Vapor) production facility at our manufacturing site in Gostkow, Poland. We then further boosted our in-house production in 2019 by bringing into service a new Ploom product (T-Vapor) plant in the same location. These new facilities enable us to keep up with the demand for e-liquids containing nicotine, tobacco capsules, and tobacco sticks in expanding markets across the world.

Where are our Reduced-Risk Products produced?



* Japan liquid production: Non-nicotine containing liquids only

Responsible recycling and disposal schemes for Reduced-Risk Products

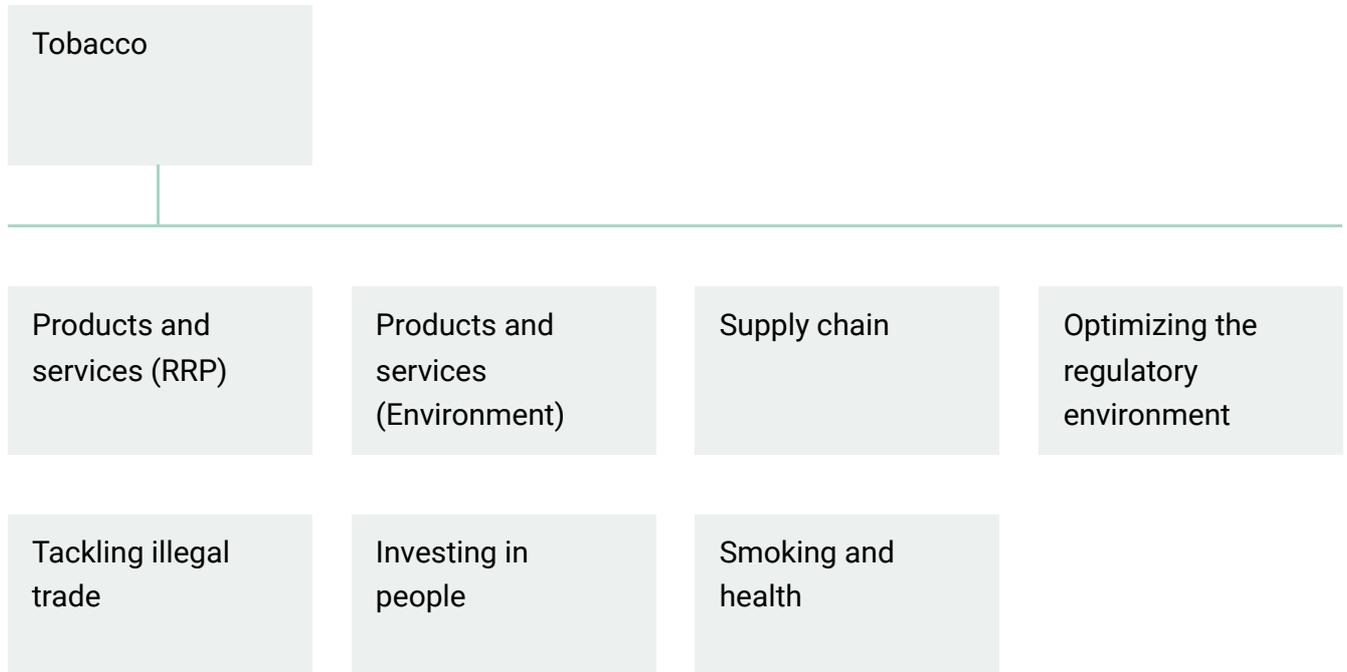
Read about the [Environment and our products.](#)

Our view on Reduced-Risk Product regulation

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

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

Related links



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Products and services (Environment)

Aspirational goal

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

Target

We will 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.

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 specific initiatives, Read more about [Environment and Our Products](#)

Related links

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



Supply chain

Building sustainable supply chains

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

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

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

Aspirational goal

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

Targets and Progress

AGRICULTURAL LABOR PRACTICES

Target

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

Progress

In 2020, 87% of our supplying entities reported against ALP.
[58% of our directly contracted growers and 92%*¹ of our leaf merchants' growers were covered by ALP; leaf merchants data come from reporting entities only and excluding India and China.]

76% 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 2020, 64%*² 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 28.6% and greenhouse gas emissions from our direct leaf supply chain by 6.0%.

WATER AND WASTE

Target

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

Progress

Since 2015, we have reduced water withdrawal by 14.9% and waste by 13.8%, in relations to our own operations.

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 2020 sustainable tree planting activities in Tanzania, Zambia and Brazil, we estimate that we are on a path to achieve consolidated 41% renewable wood sourcing by 2027.*3

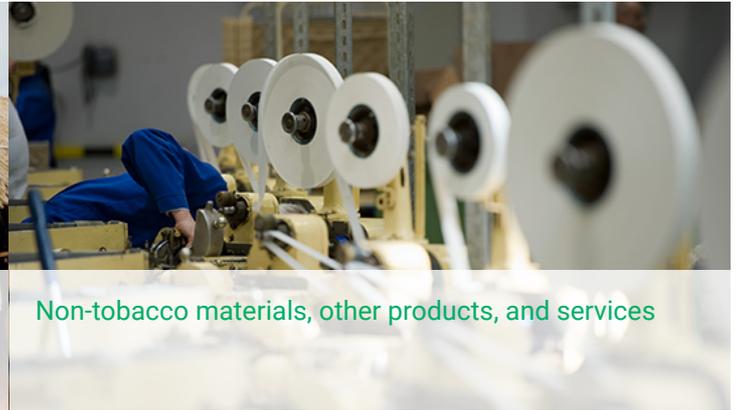
*1 The decrease from 98% in 2019 to 92% in 2020 is due to new suppliers reporting, who have not implemented ALP yet.

*2 The decrease from 67% in 2019 is due to "key supplier" definition change, resulting in increased number of key suppliers, however total number of suppliers screened has increased.

*3 Reduction from 59% in 2019 to 41% in 2020 can be attributed to lower tree planting and survival rates versus planned. Efforts and dedicated programs are in place to achieve 100% renewable wood supply by 2030.



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

Tobacco

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



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 Procurement Policy	The JT Group Supplier Standards	The JT Group Principles in Leaf Tobacco Production	Agricultural Labor Practices
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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 the mission of the JT Group, 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 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 upon 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 suppliers' selection criteria 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



JT Group conducts business following our Management Principles, 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.”

JT Group secures a stable supply of quality tobacco that meets required standards at

best cost through direct-procurement of leaf from growers and processes this leaf tobacco^{*1} at our designated factory (hereinafter the “leaf tobacco production”).

To pursue our above mentioned Management Principles in the leaf tobacco production, we have established, and abide by, the following “JT Group Principles in Leaf Tobacco Production” in Origins where we do business.

- 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 CPA's 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; and
- 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 this leaf tobacco procurement process through third party suppliers, we conduct business in accordance with “JT Group Responsible Procurement Policy” and we will also encourage such suppliers to follow “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.

For further information on our initiatives to end child labor in communities where we procure tobacco, please refer to the link below.

[Working to end child labor\(JTI\)](#) 

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

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graph TD; A[Supply chain] --- B[Supply chain policies and standards]; A --- C[Leaf supply chain - Raw material sourcing]; A --- D[Non-tobacco materials, other products, and services];
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Supply chain
policies and
standards

Leaf supply chain
- Raw material
sourcing

Non-tobacco
materials, other
products, and
services

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Leaf supply chain - Raw material sourcing

Tobacco leaf sourcing

Tobacco leaf sourcing is a key part of our supply chain, and a critical component of future business growth. We 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 2020, we worked with more than 76,000 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.

How do we work with leaf merchants?

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 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 complimentary 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.

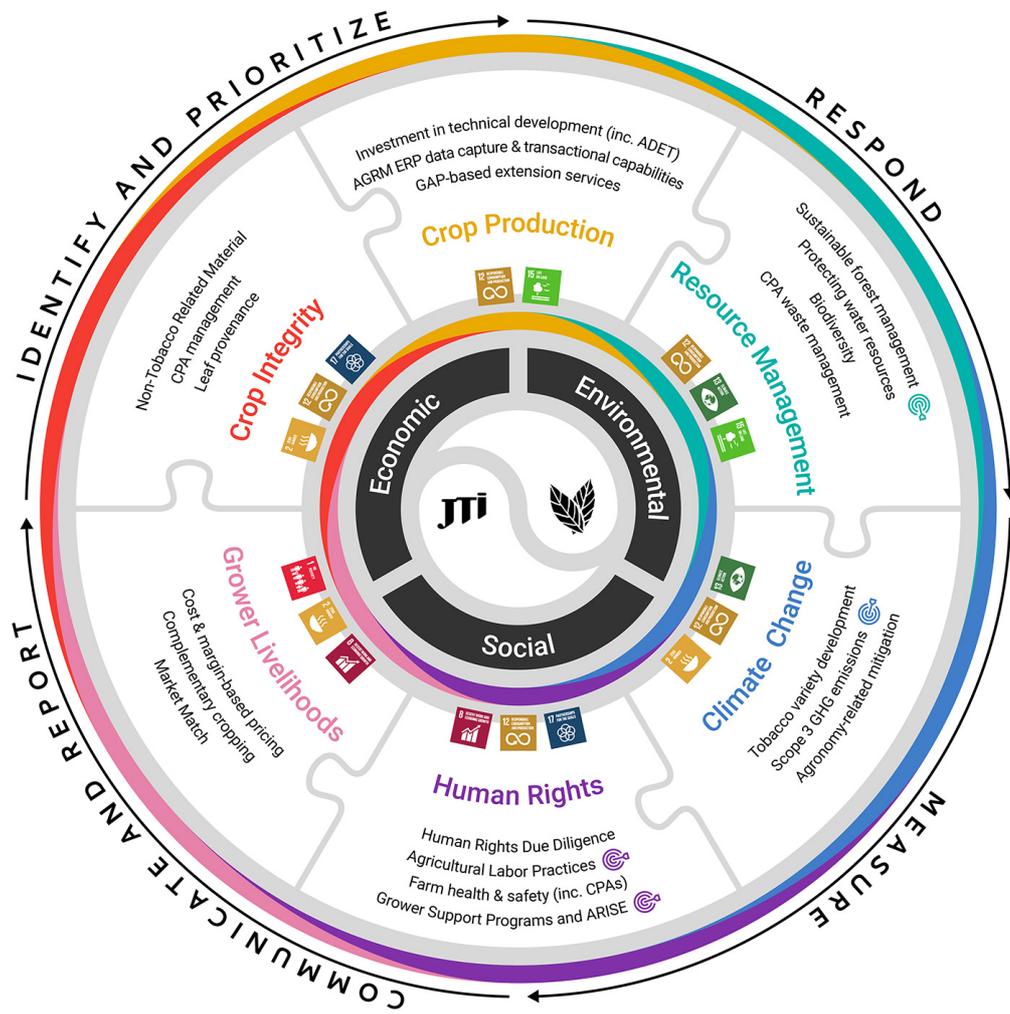
We continually look to improve our understanding and methods of tobacco farming and have made significant investments in this regard. We have Agronomy Development & Extension Training (ADET) facilities in Brazil and Zambia that explore ways of improving productivity and leaf quality in tobacco farming. 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 supply chain due diligence process, it also contributes to the social aspects of grower communities and supports sustainable agriculture overall. Whether we source tobacco directly from growers or through tobacco leaf merchants, our contracted suppliers are committed to implementing our ALP.

Our Leaf Supply Chain Due Diligence process (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.





Although 2020 was a very challenging year, we continued to roll out our leaf supply chain due diligence program. For example, we undertook a grower livelihoods assessment in Zambia; continued working with our suppliers in India who have formed a sustainability committee to drive industry change; and onboarded new suppliers to our online reporting platform. At a global sectorial level, we redeveloped a due diligence platform with other manufacturers, leaf merchants, subject matter experts and service providers. This allowed us to create a revised Sustainable Tobacco Program based on a five-step framework – Identify, Prioritize, Respond, Measure, and Communicate and Report. We strongly believe that this will drive positive industry change and better protect rightsholders.



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



ALP forms part of Agronomy Technicians' farm visits. The technicians visit the farm of every single contracted grower several times per year, according to clear visitation plans with assigned farms. For example, during the last crop season, our Agronomy Technicians made more than 340,000 visits to our directly contracted growers.

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 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, such as how to identify discrimination in smallholder farming, 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 extreme breaches therefore requires care and, in many cases, support from the police and/or other authorities or non-governmental organizations.

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. The program is forging real sustainable change by implementing robust solutions to prevent child labor.

In 2020, we restructured ARISE and set up a new advisory committee to ensure the smooth implementation of the program around the world.

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.

The ARISE Advisory Committee consists of relevant stakeholders in our international tobacco business, external partners, and other experts. Its purpose is to ensure the implementation and development of the program, by identifying issues relating to child labor in the leaf supply chain and other operations.

Moving forward, we will embed the ARISE program within the 'Respond' element of our 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.

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

External recognition

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

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

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	2020 Progress
100% of our supplying entities to report on ALP	87% of our supplying entities reported against ALP
100% of our growers to be covered by ALP	58% of our directly contracted growers and 92% of our leaf merchants' growers were covered by ALP
100% of tobacco leaf volumes to be covered by ALP	76% 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.

- **More suppliers reporting**

We have onboarded more leaf merchants to ALP reports. Together with our activities in countries such as Bangladesh, Ethiopia, India, and Indonesia, this brings us closer to reaching our ALP target: to implement ALP in all sourcing countries by 2025.

- **Sustainable Tobacco Program (STP)**

Our international tobacco business is one of seven 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 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”. We completed pilot self-assessments on this subject in 2020. In 2021, STP is planning its first on-site reviews.

- **Progress in Indonesia**

By 2017, all of the leaf merchants we were 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 our supplier base, not only for leaf but also for Rajangan tobacco and cloves. We are planning to carry out a leaf supply chain impact assessment in 2021. This was initially scheduled for September 2020 and has been postponed due to COVID-19. We have also onboarded new suppliers who historically have not reported data to us.

- **Progress in India**

Following a Human Rights impact assessment in India, where more than 500 people in the tobacco sector were interviewed (led by consultancy company “twentyfifty Ltd.”), leaf merchants have established a Sustainability Committee, under the Indian Tobacco Association, to drive change on a sectorial level against mapped priorities. We are working in collaboration with our leaf merchants and other manufacturers in this process.

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

Next, we are planning to implement ALP in Ethiopia and Bangladesh. In Bangladesh, we have already begun the impact assessment that will lead to an ALP pilot in 2021.

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 2020, and we have a clear plan to further continue the progress in 2021: we will continue onboarding new suppliers, start implementing ALP in the newly acquired businesses in Ethiopia and 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.

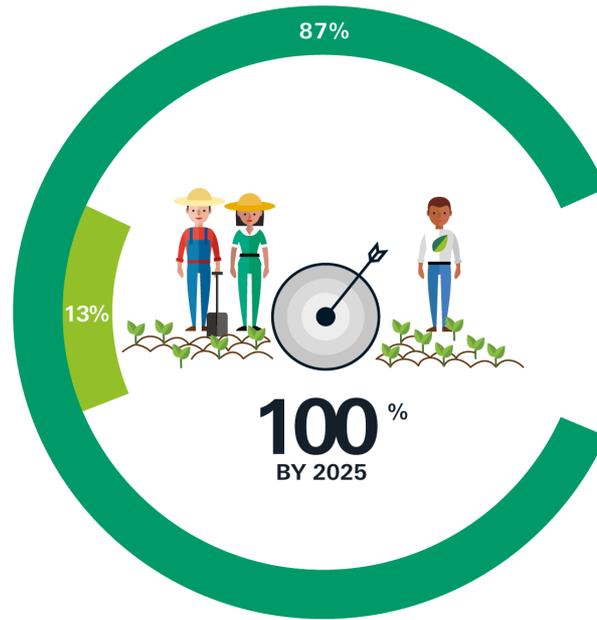


Find out more about how we plan to achieve this target, below.

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, 87% reported against ALP in 2020.

SUPPLYING ENTITIES REPORTING
DIRECTLY CONTRACTED GROWERS & LEAF MERCHANTS



2020 scope of planned purchases



100% of our growers to be covered by ALP

Progress so far: in 2020, 58% of our directly contracted growers and 92% of the growers supplying through our leaf merchants were covered by ALP. The decrease for the growers supplying through our leaf merchants from 98% in 2019 to 92% in 2020 is due to new suppliers reporting, who have not implemented ALP yet.

GROWERS COVERED BY ALP (%)



Leaf merchants' growers data comes from reporting entities only and excluding India and China*
2020 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.

100% of tobacco leaf volumes to be covered by ALP

Progress so far: In 2020, 76% of our volumes were covered by ALP.

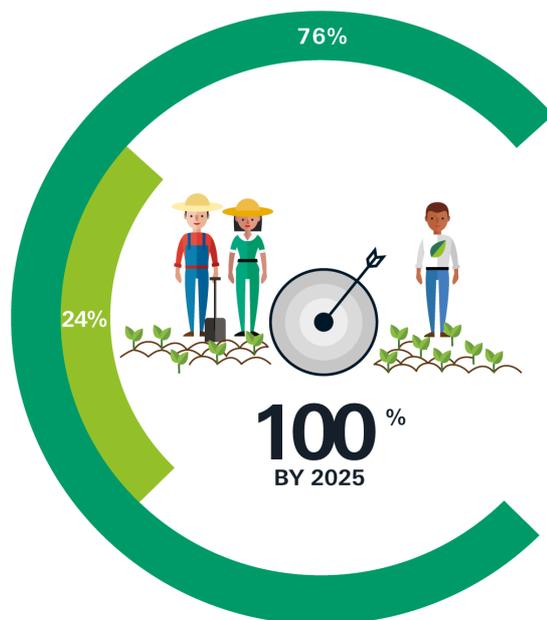
We have made several new acquisitions in recent years, including in Ethiopia, Bangladesh, Indonesia, and the Philippines. These will be approached on a case-by-case basis, as we need to understand the local market, culture, and challenges before putting in place the necessary programs.

We will implement our ALP program in both Bangladesh and Ethiopia towards the end of 2021,

following the completion of a supply chain impact assessment in 2019 (Ethiopia) and 2020 (Bangladesh) as a part of our supply chain due diligence process.

In 2020 we also onboarded to ALP reporting new suppliers in Indonesia.

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



2020 scope of planned purchases

-  Volumes covered by ALP
-  Volumes not covered by ALP

Implementation of Agricultural Labor Practices in Japan

We have a long-standing relationship with growers in Japan. Following a 2017 pilot study, the Agricultural Labor Practices program was fully implemented in 2018. As a result, we carried out farm visits and questionnaires to address labor issues on tobacco farms. Throughout 2019, our JT Agronomy Technicians continued to meet growers to provide feedback and offer advice.

In 2020, we also carried out customized surveys for different production regions. Based on our findings and observations, we will continue to make improvements.

Our farm practices in Japan

JT Farm

The purpose of the JT Farm is to increase growers' productivity by developing new, more efficient cultivation methods, or by establishing cultivation methods for new varieties.

Since 2019, we have also been developing a driverless trial vehicle to support growers in applying Crop Protection Agent and transporting tobacco leaf in the field.

JT Farm is currently assessing the productivity of our cultivation methods for new varieties in Japan's climatic conditions and gathering samples for testing purposes. We hope to expand the new varieties to production areas as soon as possible.

Enhanced curing and baling

We are implementing a new curing process for burley tobacco at present, which can reduce working hours by 15%. This method also helps to prevent the contamination of non-tobacco related materials during green leaf baling. By the end of 2020, 6% of burley tobacco growers had adopted this new process. We will continue to scale up this practice in 2021 and beyond.

Collaboration with growers for sustainable leaf production in Japan

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

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

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

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

Supporting and communicating with growers in 2020

When COVID-19 struck in 2020, we quickly had to find alternatives to our usual practice of visiting growers at regular intervals. Here are a few examples of how we 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 engaged with our leaf merchants throughout 2020 to better understand how they are addressing COVID-19 related challenges, and how they are supporting their growers, communities and employees. We held online meetings with our key suppliers and received their feedback on concrete actions and plans. In our regular ALP/SCDD reporting we included a separate section dedicated solely to COVID-19 challenges and efforts, and we shared a summary of 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 chair of the STP Steering Committee, consisting of industry peers. STP is an industry-wide platform enabling businesses to collaborate on human rights, environmental issues, and other sustainability challenges, and to drive sustainable agriculture through a continuous improvement process. 2019 was a year of reform for STP, as it was restructured around the five-step framework: Identify, Prioritize, Respond, Measure, and 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.

In 2018, we became part of the pilot project on Guidance for Responsible Agricultural Supply Chains. This initiative was run by the Organization for Economic Co-operation and Development (OECD) in conjunction with the Food and Agriculture Organization of the United Nations (FAO). By participating in this project, we have been able to share our own experiences, broaden our understanding, and benchmark against others. The [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#) , published in 2019, presents the key findings of the pilot, lessons learned, good practices, and challenges in implementing supply chain due diligence shared by the participants. It also sets out recommendations and next steps for companies and policymakers to follow in the agricultural sector.

Case study

Crop Protection Agent management

We have adopted Integrated Pest Management (IPM) principles in all of the origins in which we directly contract tobacco growers, this allows us to better manage pests and diseases. Crop Protection Agents (CPAs) are only ever used as a last resort, where bio-pesticides and other alternative controls have proved ineffective.

A recent example of IPM principles being applied successfully is in Ethiopia, where some of our growers had been suffering yield and quality losses, resulting in a substantial impact on their income. This was caused by a virus called "bushy-top" which is transmitted by insects. Our Agronomy Technicians observed and investigated the issue, which led to a review on the crop protection practices being applied locally. An alternative solution based on IPM principles was found, including the use of carefully selected low hazard CPAs. Once this was applied, the disease was eradicated in the following crop. This allowed our growers in Ethiopia to realize their crops full potential in relation to yield and quality, which also increased their income.

All of our contracted growers and their workers must be trained and demonstrate proficiency in CPA storage, handling, application, personal protective equipment usage and safe disposal. When supplying our contracted growers with CPAs, we always select the lowest toxicity option available and we do not allow them to use any Highly Hazardous Pesticides (HHPs) Criteria 1 (WHO Hazard Class 1a and 1b). We have also worked hard to remove HHPs from our entire leaf supply chain, and we will achieve this by the end of 2021.

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

Grower clubs in Zambia

In Zambia, we have an established network of approximately 693 grower clubs. Each club is formed of 10 to 20 growers and led by a chairman.

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

In 2020, we piloted a training on financial literacy with 500 chairmen and selected model farmers to help ensure the financial health and stability of contracted growers, their families and communities. The expectation is that the trained chairmen will take on training and mentorship role for their pool of growers.

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 2020, JT Group employed 647 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 2020 we achieved a 95% re-contracting rate 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

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graph TD; A[Supply chain] --- B[Supply chain policies and standards]; A --- C[Leaf supply chain - Raw material sourcing]; A --- D[Non-tobacco materials, other products, and services];
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Supply chain
policies and
standards

Leaf supply chain
- Raw material
sourcing

Non-tobacco
materials, other
products, and
services

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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 2020, 64% of our key suppliers were screened against ESG criteria.

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

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 requests for proposals and contracts, to ensure that all of our suppliers are aware of our requirements.

In our international tobacco business, we are currently working on enhancing the reporting and monitoring tool, in order to have a more robust system in place by 2021.

In our Japanese operations, we also launched a new supplier database listing suppliers' D-U-N-S Numbers^{*2} for efficiency purposes.

*1 Key suppliers are defined as suppliers with an actual or planned annual spend greater than 500,000 U.S. dollars (50,000,000 JPY), suppliers who either handle, store and/or transport JT Group finished products and contract manufacturing. In addition, our international tobacco business classifies as key suppliers the leaf merchants, the suppliers representing JTI before government, and the 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.

Case study

Reducing the environmental impact of packaging

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

For example, we are working with our suppliers to optimize the use of cardboard and plastic film in our packaging, without compromising on quality. As a result, we reduced our plastic film consumption by approximately 200 tons in 2020. In 2021, we plan to reduce our paper and cardboard-related consumption by approximately 2,100 tons compared to 2020.

We set a new target relating to the appropriate use and responsible disposal of materials, including plastics, used in our products and packaging. Read more about activities in '[Products and services \(Environment\)](#)'

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 all consumers understand 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](#)  .

It is also why, no matter what we do, we adhere to the [five core principles](#) that define our attitude to smoking. We also work in a highly regulated operating environment, and we monitor regulatory trends in order to anticipate future changes in regulation and prepare for the implementation of those changes well in advance. This is done in line with our tobacco principles, so that we go above and beyond our obligations.

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

Aspirational goal

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

Target

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

Progress

During 2020, we engaged openly and transparently in public policy debate and made our views known to regulators, NGOs, and other relevant stakeholders in the countries where we operate.

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

Supporting 'better Regulation'

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

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

- Coherence
- Openness
- Proportionality
- Participation
- Effectiveness
- Accountability

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

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

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

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

Our views on Reduced-Risk Product regulation

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

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

However, not only do legislative approaches to Reduced-Risk Products vary widely across the world, but they also continue to change rapidly. Certain countries ban these products outright; others try to regulate them to different degrees, while others lift bans altogether.

That's why we are committed to working with regulatory authorities, public health bodies, and the scientific community to create an effective yet proportionate regulatory framework for these products. Our aim is for Reduced-Risk Products to reach their full potential by meeting consumer expectations and providing a greater choice for adult consumers.

Latest regulatory developments

It is in the public interest for regulation to be evidence-based, proportionate, and effective. We support the principles of [better regulation](#), which argue for measures that preserve consumer choice and market freedom. Regulation is fast-moving and we monitor developments closely. The following are just a few examples of some key regulatory developments around the world in 2019 and 2020.

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.

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 eighth session of the FCTC Conference of the Parties (COP8) and the first session of the Meeting of the Parties to the Protocol (MOP1) took place in October 2018.

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

Worldwide – Illegal Trade

In addition to the rapid spread of COVID-19, which has damaged global economies and looks certain to plunge world economies into a deep recession, 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 2020, we took part in the virtual Global Tobacco and Nicotine Forum (GTNF), a key international conference where experts such as those from public health, academia, government, and members of the tobacco/nicotine industries gathered to discuss the future of tobacco and nicotine industry. Our representatives participated in the six sessions and talked about the issues of illegal trade, regulatory environment, sustainability of tobacco industry, as well as diversity and inclusion. We also set up a virtual exhibition booth that presented in more details the issue of illegal trade, its underlining causes and consequences to the economy and society at large.

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 nicotine and tobacco products, providing it is evidence-based, practical, effective, and proportionate – and that it allows us to communicate with adults who use our products.

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

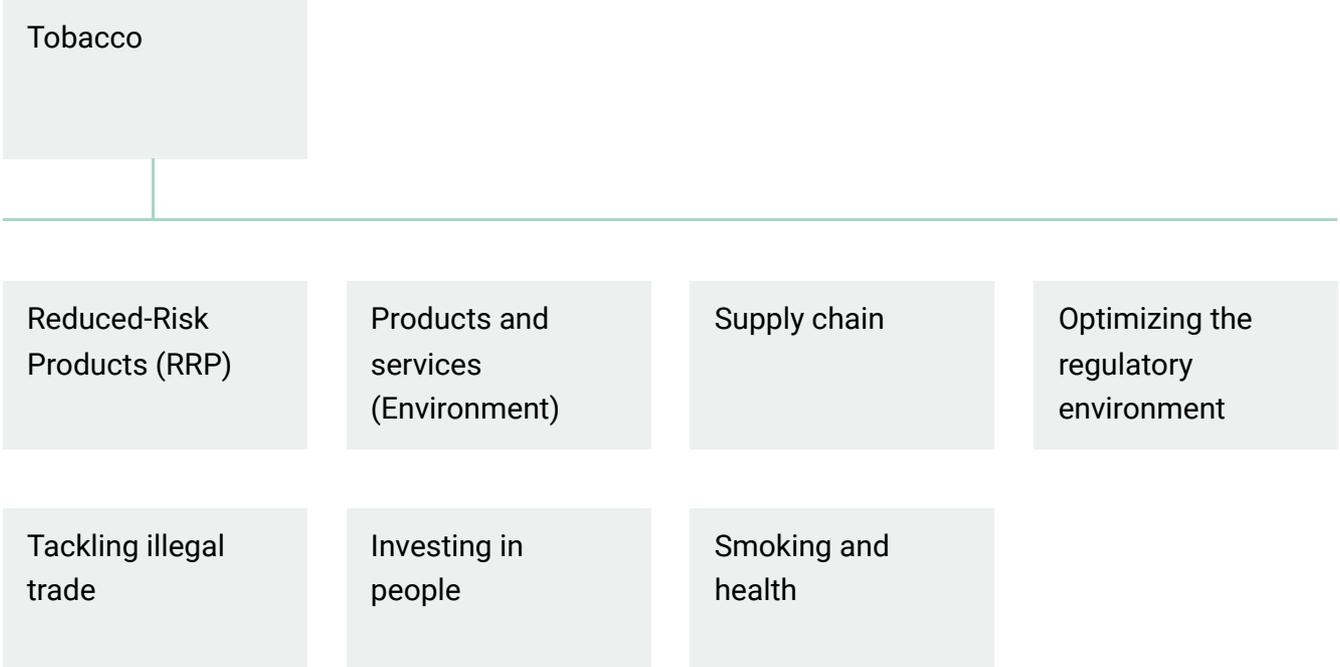
This focus is reflected in our Global Tobacco Marketing Principles, a guiding document developed in 2016.

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

We provide targeted responsible retailing programs that effectively tackle youth access to our products, and these are welcomed by retailers. In the U.K. for example, the IIdentify 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.

Related links

Tobacco



Reduced-Risk
Products (RRP)

Products and
services
(Environment)

Supply chain

Optimizing the
regulatory
environment

Tackling illegal
trade

Investing in
people

Smoking and
health



Tackling illegal trade

The illegal cigarette trade fuels modern slavery, organized crime, and terror groups. It causes harm to society and consumers, as uncontrolled products circumvent regulations and quality controls, and undermines legitimate tobacco businesses. Tackling illegal trade is a top priority for us, and our Anti-Illicit Trade team is recognized as the industry leader in combating this problem.

Aspirational goal

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

Target

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

Progress

In 2020, our Anti-Illicit Trade team provided 1,117 intelligence reports to law enforcement agencies, and advised 859* law enforcement officers on counterfeit recognition.

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

* This figure was impacted by the fact that all trainings had to be undertaken virtually in 2020 due to COVID-19

Other key wins in 2020

- Over 3.22 billion illegal cigarettes seized thanks to intelligence reports provided by our team to law enforcement.
- There was a 62% 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 current global pandemic is causing turmoil across the world and is affecting all forms of society and commerce in unheard-of ways. Against this backdrop of global social upheaval, organized criminals are planning ways to exploit public anxiety and profit from the trade in illicit goods and other products, including personal protection equipment. From experience, we know that any decline in affordability fuels a trade in illicit or counterfeit products, particularly where this runs parallel to tax increases designed to boost public finances.

Nowhere is this truer than when it comes to the illegal tobacco trade. The trade in illegal tobacco is underpinned by criminals who want to make money and consumers seeking to save money. The current pandemic crisis creates conditions forming a 'perfect storm', one that will find some consumers inadvertently, and others willingly, consuming greater amounts of illegal tobacco product.

The resourcefulness of criminals is such that the flow of illegal product is still viable even when traditional sales outlets are out of action. Technology has been increasingly deployed throughout the pandemic to enable sales of illicit product to continue. This is a trend that's likely to persist.

Organized criminal groups (OCGs) aim to reap more monetary rewards in the economic aftermath of COVID-19 by exploiting an anticipated increase in public demand for cheaper goods amidst growing economic uncertainty, dwindling consumer confidence, and a decline in disposable income. This situation would be further exacerbated if governments sought to impose tax increases in order to restore public finances.

At JTI, we will strive - in partnership with Law Enforcement and Border Agencies - to deliver the intelligence and support needed to help identify and seize illegal tobacco.

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

Emerging global trends

- Criminal groups are prepared to 'wait and see' instead of 'running scared' into other forms of illicit trade activities
 - Traditional production and supply of illegal product has been blunted rather than extinguished
 - Social media and phone apps have been increasingly deployed to enable sales of illicit products between consumers and supplier
 - Differing law enforcement priorities and border restrictions have been variable in limiting supply and the availability of illegal products
-

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 2020



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-ILLICIT 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 3.22 billion cigarettes (or equivalent in tobacco).

2

ENSURE ANTI-ILLICIT TRADE COMPLIANCE

Fulfill legal obligations
Legitimate Market Demand analyses and seizure investigations

We responded to over 515 law enforcement requests for forensic evidence.

We proactively shared 1,117 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 859 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.*

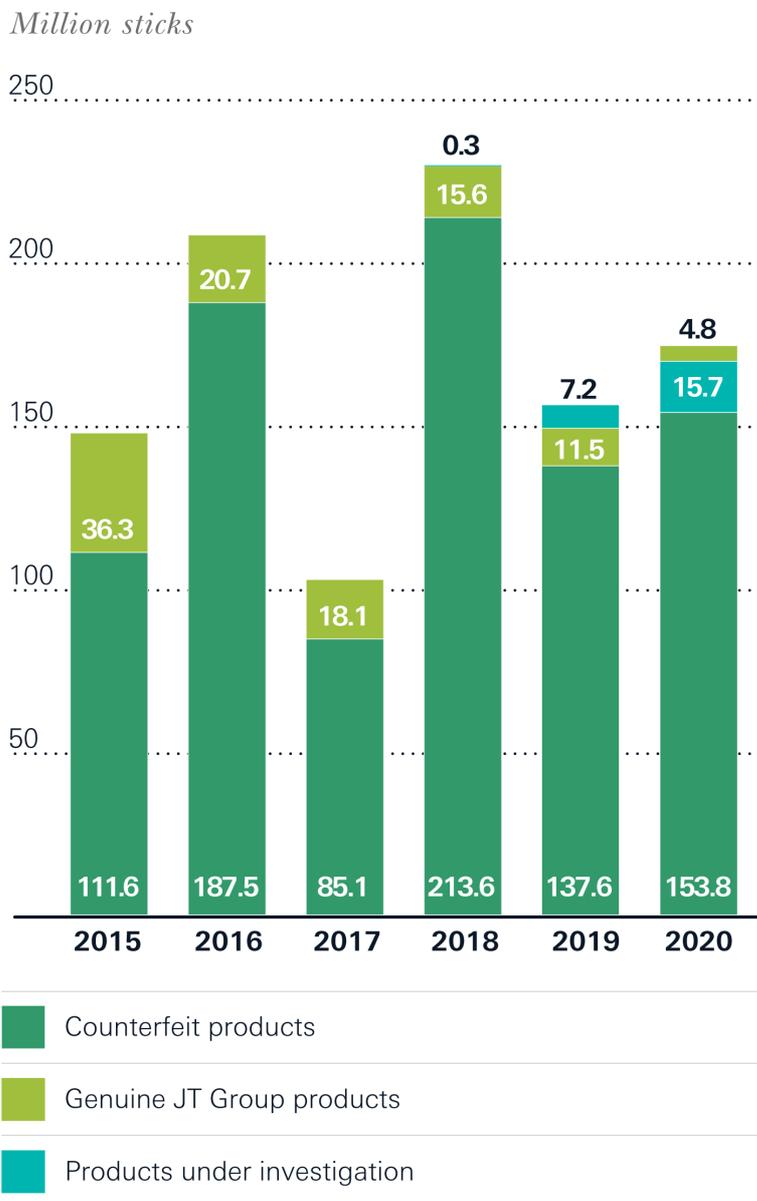
Protecting consumers and government revenue

In 2020, our Anti-Illicit Trade team provided 1,117 intelligence reports to law enforcement agencies, leading to the seizure of more than 3.22 billion illegal cigarettes. Based on our information, law enforcement raided more than 62 counterfeit tobacco factories and 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 97% of products seized are counterfeit). During the same period, notified seizures of our own genuine products in the EU decreased by 88%, 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.

TOBACCO PRODUCTS SEIZED IN THE EU



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 2020, over 97% 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 COVID-19 pandemic has blunted rather than extinguished the production and supply of illegal products. Some decrease in supply and production has been evident in more strictly controlled economies during Covid-19. Western markets in particular have seen relatively little reduction in the production and availability of illegal products. This is despite criminal groups initially finding it difficult to source technicians and skilled workers to work on illegal production.

Case study

Project VISTA and the growth of counterfeit production in the EU

The illegal production of cigarettes is mainly controlled by organized crime groups whose sole objective is financial gain. Many involved are dangerous and ruthless criminals, so ensuring the safety of all of our employees is a priority. We initiated Project Vista to protect our Trademarks.

A significant new criminal trend, particularly in the EU, is the growth in 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, JTI 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.



In 2020 there were several raids on illegal production and storage sites in countries where counterfeit production was, historically, non-existent, including Belgium, Germany, Ireland, the Netherlands, and Spain. Here are just a few examples of cases where JTI contributed information:

Country	Number of illegal factories raided in 2020
Philippines	3
Greece	3
Romania	2
Jordan	2
Canada	1
Spain	1
Latvia	1

RaidMalaga



- An illegal factory seized by the Guardia Civil near Malaga, Spain, on February 12, 2020. This factory was concealed underground beneath purpose-built stables and included basic living accommodation. When the law enforcement agency officers raided the facility, they liberated six factory workers from Lithuania and Ukraine, who had been trapped inside and were short of air.

Ensuring anti-illicit trade compliance

Legitimate market demand program

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

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

With a commitment to doing the right thing, in the right way, our Anti-Illicit Trade team has

developed a global methodology to assist our international tobacco businesses' markets with a consistent and accurate approach to annual LMD calculations. Our markets perform the LMD exercise in conjunction with their annual plan. This creates a proactive supply chain control mechanism to make sure that the planned sales volumes are in line with LMD.

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

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

Track and trace

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

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

Since 2019, Track and Trace has been a legal, mandatory requirement in the following national and regional jurisdictions: United Arab Emirates, Saudi Arabia, Russia, and the whole European Union. In 2020, the authorities of the U.K. announced their intention to implement a new system, as a consequence of Brexit.

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 62 Parties (April 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 the Protocol, as it provides a global response to the global problem of illicit trade.

One of the main requirements is that the Parties must implement a Track and Trace 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.

The scope of our projects to tackle internet-based crime have expanded both in scope and size, to include activities in France, Malaysia, Russia, Serbia, Singapore, Spain, Taiwan, the U.K., the U.S., and CIS+ region. In 2020, we contributed to over 5,169 takedowns.

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 Armor: protecting consumers from potential danger

Project Armor is an Anti-Illicit Trade initiative tackling online sales of counterfeit Logic products in the U.S. with a secondary objective to identify online sellers around the world who are selling genuine or counterfeit Logic products in the U.S. or Canada without proper age verification.

Working in partnership with law enforcement agencies, our Anti-Illicit Trade team helps to remove these potentially dangerous vapor products from the supply chain. This in turn helps to close down criminal enterprises and bring offenders to justice.

Having brought this issue to the fore, we are now considered an invaluable partner in the fight against counterfeit vapor products in the U.S.



2020 at a glance:

- Total listings or suspicious posts detected and reported: 5,729
- Total number of sites checked for age verification: 893
- Value of the counterfeit items removed from the web: 456,935 U.S. dollars
- Test purchases completed: 9
- Investigation reports completed: 66

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

Related links

Tobacco

Reduced-Risk
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(Environment)

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trade

Investing in
people

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