

# Japan Tobacco

October 2021



**Our engagement and dialogue with EOS over the years has been useful in demonstrating our commitment to eliminate child labour and to improve investor confidence.**

Yusuke Takaki, Associate General Manager, Investor Relations, Japan Tobacco Inc.

Japan Tobacco has demonstrated its commitment to eliminating child labour from its supply chain through various programmes and significantly improving its reporting on the issue, including a standalone human rights report. EOS continues over a decade of engagement with the company on ESG issues.

## Background

Japan Tobacco has international operations, increasing since its acquisition of UK-based Gallaher in 2007 and sources from around the globe, including Africa, Latin America and Southeast Asia. Child labour in the tobacco supply chain is a prevalent problem across the industry and presents significant risks to companies. Comparing Japan Tobacco to its industry peers, we believe that the company sits somewhere in the middle, leaving room to work towards better practices. EOS at Federated Hermes has been engaging with Japan Tobacco since 2008 on a range of issues.

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Engagement objective:



### Social:

Rigorous policy and system in place to eliminate child labour from its supply chain

### Sustainable Development Goal:



### Our engagement

Following a report by Human Rights Watch (HRW) about child labour in US tobacco supply chain<sup>1</sup>, we raised our concerns about the allegations in our meeting at the company's headquarters in Tokyo in 2015. Japan Tobacco told us about its policy and programmes in place to tackle child labour but it did not provide a detailed account with regard to the specific allegations. We again raised our concerns with the CFO of the company's international business at a conference in London in 2016, who acknowledged the significance of the issue but told us of the difficulty in eliminating such practices in some countries and regions.

In a call with investor relations in 2017, we asked how the company responded to new allegations by HRW about child labour in Indonesia, to which we were not able to obtain a satisfactory response. However, in a follow-up communication, Japan Tobacco acknowledged the findings of the HRW report. It said it was rolling out its Agricultural Labour Practice (ALP) in Indonesia that year, which defines the standards it expects of its contracted tobacco growers and prohibits child labour, to address the issue. We outlined our expectation that the company report on the progress and achievements of the programme.

<sup>1</sup> <https://www.hrw.org/news/2014/05/14/us-child-workers-danger-tobacco-farms>

In a call in 2018 with investor relations and the corporate social responsibility team, we gained some confidence about the company's work towards the elimination of child labour, as it gave us granular details. However, it admitted that it takes time to identify and rectify all problems, especially through dealers, which it attributed the reasons for recurrent allegations of child labour to. In a call in 2019, Japan Tobacco told us that most of the farmers who are contracted directly by the company are implementing its ALP and that this was verified by expert consultants. We welcomed its plan to publish its responses to NGOs regarding allegations about child labour, and highlighted that it is important for the company to clarify its position regarding these allegations, while continuing to implement relevant measures.

## Changes at the company

In a call in 2020, we were pleased with the company's disclosure of details on progress, including the number of children enrolled in education through the Achieving Reduction of Child Labour in Support of Education (ARISE) programme, in line with our engagement requests. The company directed us to the webpage where its correspondence with NGOs and media regarding allegations of child labour is published.

In our meeting in 2021, we welcomed the steady progress in promoting the ALP to its suppliers, despite the pandemic. We heard that Japan Tobacco consolidated its supplier base around those compliant with the ALP, effectively ceasing agreements with non-compliant suppliers. As the company was not clear about reporting the latest figures related to ARISE, given challenges during the Covid-19 pandemic, we strongly encouraged it to continue reporting and explain that the impact of the pandemic was beyond Japan Tobacco's control and delays in the implementation of the programmes will not be due to a lack of effort. In July 2021, we were pleased to see the company publish its first standalone human rights report including updates on the progress in its efforts to eliminate child labour.



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## Next steps

We will continue to engage on other issues including water risk in the supply chain and cross-shareholdings.



**Sachi Suzuki**  
Engagement  
EOS



This case study has been fact-checked by Japan Tobacco to ensure a fair representation of EOS work carried out and changes made at the company.



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