

## Hail & Cotton Fighting Against Forced Labour and Child Labour in Supply Chains Report FY 2023

### I. Introduction

This report was prepared by Hail & Cotton Inc. to meet the requirements of the Canadian *Fighting Against Forced Labour and Child Labour in Supply Chains Act* (the Act) for the reporting period ending 30 June 2023. It was approved by the Board of Directors on 27 May 2024.

Hail & Cotton is proudly a family-owned global company that has been operating for more than 120 years. Our mission is to be the preferred independent supplier of sustainable, quality leaf tobacco and services while striving to improve the welfare and environment of the communities in which we operate.

We are committed to eradicating forced labor, child labor, and other forms of modern slavery from within our business and supply chains. We are committed to respecting all internationally recognized human rights, as contained in the *International Bill of Human Rights*. Our approach to addressing human rights impacts is aligned with the principles contained in the United Nations Guiding Principles on Business and Human Rights (UNGPs), the *OECD Due Diligence Guidance for Responsible Business Conduct* (OECD Guidelines,) and the International Labour Organization (ILO) *Declaration on Fundamental Principles and Rights at Work*, and other applicable national legislation. More information on our commitment in respect of human rights will be included in our [Global Human Rights Policy](#), expected to be published in 2024.

Driven by our shared values of integrity, mutual respect, and dedication across the communities in which we operate, we are also committed to taking a people-centered approach to addressing identified adverse human rights impacts and improving our practices through continuous dialogue with affected rightsholders and stakeholders.

### II. Structure, Activities, and Supply Chains

#### *Our Structure and Business Activities*

For the purposes of the Act, this report is a joint report filed by Hail & Cotton Inc. (H&C Inc.) on behalf of itself and Hail & Cotton (Canada) Ltd, which is a wholly owned subsidiary of H&C Inc.

Hail & Cotton is a supplier of several types of leaf tobacco, value-added products, and services to the world's manufacturers of tobacco products. We are a leading producer of most types of tobacco through both large- and small-scale growers.

Hail & Cotton is an international business, headquartered in the United States, with offices spanning 13 countries worldwide. Our team comprises more than 5,000 permanent and seasonal employees, and more than 3,800 seasonal and temporary workers across all facets of our business.



*Hail & Cotton distinguishes three types of businesses across global locations:*

- *Operations – countries where production and other integral functions of the business are performed.*
- *Office – countries where administration, sales, and management functions are performed.*
- *Sourcing – countries where tobacco and related products are purchased from independent companies.*

### *Our Supply Chain*

We primarily source raw leaf tobacco from other tobacco-producing countries in South America, North America, Africa, Asia, and Europe. Our suppliers range from growers and other tobacco suppliers, such as tobacco auctions and third-party suppliers. Our Commercial and Field Operations teams regularly communicate directly with our suppliers and other key stakeholders.

Our supply chain also includes inputs (such as chemicals and fertilizers), packaging (such as hogsheads and cartons), machinery, equipment, vehicles, fumigation materials, factory supplies (for repairs and maintenance of equipment), and health & safety supplies.



### **III. Steps to Prevent and Reduce Risk**

Within our own operations, we have strict recruitment and HR processes in place to ensure that all employees, whether permanent or temporary, are of the appropriate age to work and are authorized to work. Candidates are thoroughly vetted, and documents are verified at various stages of the process for compliance. These processes are guided by relevant internationally recognized and local labor legislation and regulatory frameworks, specifically when it comes to forced and child labor.

Our recruitment protocol addresses the risk of underage workers and includes necessary checks that an agency must provide at our request. Alongside the protocol, our contracts with labor agency providers strengthen the checks that are carried out and enable Hail & Cotton to audit agency practices to ensure compliance with the contractual provisions. A specific provision prohibiting recruitment fees was added to the protocol during the reporting period.

Within our supply chain, we regularly monitor tobacco growers by following the guidelines of the Sustainable Tobacco Program (STP). This is our main method to prevent and reduce risks related to human rights and labor issues.

Under the STP, our Field Technicians make unannounced visits to farms to ensure labor standards are being followed. If any suspected violations of these standards are found, we take action according to our established due diligence processes, which are described below.

Our Field Technicians are specially trained to identify instances of forced labor or child labor during their farm visits, among other issues. They are required to register, report, and resolve any suspected cases of forced or child labor that they encounter.

By making these unannounced monitoring visits and properly reporting violations, our Field Technicians play a crucial role in upholding labor standards and human rights throughout our tobacco supply chain.

### **IV. Policies and Due Diligence Processes**

#### *Governance*

Hail & Cotton's Board and Executive Committee provide oversight on Hail & Cotton's strategic direction, ensuring that we operate in a responsible and sustainable manner. Our day-to-day efforts towards developing a sustainable approach across all levels of our business are overseen by our Leadership Team. The Global Sustainability Team ensures the management, alignment, and implementation of sustainable practices across the company's operations, and the senior managers at the operational level support this global position and the implementation of local initiatives.

During the reporting period, meetings were conducted to begin addressing key sustainability issues, including human rights issues and governance. These meetings identified the need for a formal approach to sustainability that could communicate our intentions and ambitions regarding environmental, social, and governance aspects. We also identified the need to formalize Hail & Cotton's sustainability governance structure, noting that the responsibility for ensuring that our principles are upheld rests with the Executive Committee. Senior management also oversees strategic implementation on a day-to-day basis in the countries where they operate.

It was decided that two committees will be established and become active in the next reporting period to govern our approach, namely:

- Sustainability Steering Committee – will report to the Board and comprise Division Presidents, the Chief Financial Officer, the Senior VP for Finance and Administration, and Senior Sales VP and General Managers of our company’s significant tobacco operations. This Committee will be expected to meet monthly and will receive information from representatives of the Sustainability Strategic Committee
- Sustainability Strategic Committee – Our Sustainability Strategic Committee will report to the Sustainability Steering Committee and comprise Tobacco Operations Managers. It will be led by the Global Sustainability Director, supported by the Senior VP for Finance and Administration. This Committee provides a platform to understand the day-to-day challenges faced in our operations and to explore opportunities for sustainability improvements, including how to address forced and child labor.



*Policies*

Hail & Cotton has several policies and procedures in place to govern our approach to human rights, forced labor, and child labor. These include:

- **Code of Business Ethics:** The Code outlines the norms, rules, responsibilities, and proper practices within our organization. This includes the principles of adhering to standards set by national and international labor laws regarding working conditions and child labor.
- **Sustainable Tobacco Program (STP) Policy** – outlines Hail & Cotton’s approach to human rights due diligence and meeting the requirements of the STP program.
- **Good Agricultural Practices (GAP) Statement** – is a set of standards for the safe and sustainable production of crops and livestock. It aims to help farm owners maximize yields and optimize business operations while also minimizing production costs and negative impacts. This includes but is not limited to labor management, elimination of forced and child labor, and health and safety.
- **Labor Policy: Elimination of Child Labor, Equal Opportunities, and Health & Safety USA** – sets out Hail & Cotton’s standards on labor, equal opportunities, and Health & Safety.
- As required by STP, all origins had individual corporate social responsibility, code of conduct, child labor, human rights, and forced labor Policies.

During the reporting period, the need for additional global groupwide policies was identified, and the following were in various stages of drafting. At the publication date of this report, all but two are published and they have now been formally adopted. These policies are:

- [Global Human Rights Policy](#) – sets out Hail & Cotton’s overall approach to human rights and adherence to international standards and best practices.
- [Global Child Labour Policy](#) – contains detailed guidance and expectations regarding child labor.
- [Global Sustainability Approach](#) – provides an overview of Hail & Cotton’s actions, initiatives, and aspirations to improve sustainability performance, including issues related to human rights and labor practices.
- [Agricultural Labour Practices Code \(ALP Code\)](#) - sets the minimum standards to be followed by growers, including labor intermediaries or crew leaders in all origins without replacing local legislation. Our ALP Code follows the International Labor Organization Declaration on the Fundamental Principal Rights at Work and other important ILO Conventions.
- Global Supplier Code of Conduct – sets minimum standards for Hail & Cotton suppliers to adhere to. This policy will be published by December 2024.
- Global Whistleblowing Policy – sets whistleblowing standards supported by a program equipping the company with tools to receive and manage grievances from employees, and throughout our value chain through a global platform and local solutions. This program will be implemented in phases starting in 2024.

#### *Due Diligence Processes*

Up to the end of the reporting period, Hail & Cotton has implemented a decentralized approach to due diligence procedures, specifically each country of operation had its own individual procedure. Hail & Cotton has participated in the Sustainable Tobacco Program (STP) since its inception (early 2000s) and all country processes have aligned with the STP framework. The STP is an industry-wide impact-oriented initiative that includes a focused approach to sustainability aspects and issues relevant to the tobacco industry’s supply chain. It aims to improve environmental and social footprints in the tobacco supply chain and includes comprehensive third-party risk assessments, monitoring, and improvement plans. It provides tobacco supply chains with actionable information to drive measurable impact and improvement. Our conformance with the requirements of STP helps ensure high environmental, social, and agronomy standards in our tobacco leaf supply chain on a day-to-day basis for aspects including Human & Labor Rights, Crop Protection & Integrity, Water Stewardship, Biodiversity, Livelihoods, Climate Change, Natural Habitats, and Soil Health.

All Canadian growers with substantial labor use the Seasonal Agricultural Worker Program (SAWP) through the Canadian government. Where we contract growers directly, Field Technicians visit farms to provide technical advice on crop management and discuss good labor practices. Field Technicians make unannounced visits to our suppliers (growers) and are trained to identify instances of forced or child labor during these visits. If they identify labor-related issues, they report their observations internally, and depending on the nature of the issue, they may also make recommendations to the grower. The frequency of visits may vary according to the crop phase and country. In the United States and Canada specifically, a grower receives a Field Technician visit three to six times during the crop season. When a grower employs migrant workers, they are expected to follow federal guidelines regarding migrant worker employment.

Conformance regarding the grower’s performance against the STP themes is collected and individually analyzed by the local STP coordinator/ manager in each country. Every quarter, all origins supply the STP Secretariat with data, as part of an STP self-assessment, conducted per country. The STP Secretariat then reviews the collected data, on behalf of customers and may request clarification and changes to improve monitoring processes. Based on a country-

level risk analysis of STP data, the STP Secretariat may also conduct In-Depth Assessments (IDAs) within tobacco-growing origins.

At present, STP data is reviewed and monitored internally by individual origins. Moving forward, there will be a global STP review, in order to standardize data collection and improve the corporate risk-management system, as part of our planned Global Supply Chain Due Diligence Framework.

We recognize that a more robust supply chain due diligence process is a critical requirement to meet legislative requirements and our corporate responsibility under internationally recognized human rights and due diligence frameworks. Over the next reporting period, we will begin developing a Global Supply Chain Due Diligence Framework to make progress towards meeting our commitments. Our due diligence process and procedures will also become centralized under one global approach.

## **V. Assessing and Managing Forced Labour and Child Labour Risks**

Hail & Cotton is aware of the risk of forced and child labor associated with agricultural supply chains, particularly in a smallholder context. The risk of forced and child labor is assessed to be lower, although not insignificant, in the United States and Canada. We understand that there is the potential for adverse human rights impacts within our operations and supply chain.

To manage the risk of child labor and exploitation within our own business, we rely on our recruitment protocol to prevent instances of child labor within our operations. This includes a provision for reporting and investigating suspected cases and requesting information from agency staff providers as appropriate.

As part of the Sustainable Tobacco Program (STP) process and requirements, operations keep registers of initiatives taken to improve field issues identified during the technical assistance visits, as part of our field monitoring system. Our field technicians in Canada visit growers regularly (on average every other week during the growing season). Due to our small grower base in Canada (12 growers in the 2023 season), we can easily visit and keep track of every grower and their operations. We use farm monitoring to identify actual or potential issues and concerns. Every visit is documented, and any issues are recorded and reported.

During the reporting period, we commenced the development of a digital Grower Management System. This bespoke Hail & Cotton tool will be accessible via mobile phone and will monitor growers in our supply chain, assessing their compliance with our policies and procedures, and their conformance with the STP Principles, which include but are not limited to, child labor and fair labor.

Farm worker training is also offered through the GAP Connections program. This is a voluntary training program available to growers, giving them access to training for their H2A workers. The program consists of an annual self-assessment, annual recordkeeping requirements, and an annual monitoring visit (i.e., audit or site visit). This program supplements our internal STP program and provides further assurance as to the labor practices of the growers we source tobacco from. We require all our growers in the United States to attend annual GAP training.

Topics covered: Worker rights and responsibilities, Worker concern helpline, Health & Hygiene, Human Trafficking awareness & prevention, Sexual Harassment, General Farm Safety, Operation of Equipment, Personal Protective Equipment, Emergency Plans & response, Agrochemicals, COVID-19.

## **VI. Remediation Measures**

If instances of forced or child labor are found, we are able to implement remediation measures, monitor their effectiveness, and maintain open communication in line with our responsibilities under the UNGPs. This is reflected in our Human Rights Policy, which will be formally adopted in the next reporting year period.

During the reporting period, in Hail & Cotton Inc. or Hail & Cotton (Canada) Ltd.'s operations, no instances of forced or child labor were found and therefore no remediation action was required to be implemented. This therefore includes no need to remediate any loss of income to vulnerable families resulting from measures taken to eliminate the use of forced labour or child labour.

Hail & Cotton's approach to remediation is described in the Global Human Rights Policy to be published in 2024 and our prompt action and extreme breach protocol, as part of its STP program in Canada and across other divisions. The approach sets out a process for responding to suspected cases of negative human rights impacts, including modern slavery (including forced labor) and child labor. This includes safeguarding the rightsholder, providing an appropriate remedy, and an internal reporting and monitoring process.

Our Code of Business Conduct, Integrity, and Ethics contains an internal whistleblowing provision for employees that sets out the process for raising concerns about ethical issues, including forced and child labor. Any concerns raised are handled confidentially and equitably by the appropriate personnel. In the event that an issue requires external support from third-party experts or law enforcement, these parties would be engaged.

## **VII. Training**

Employees have been provided with optional training in the form of lunch and learn series recordings. This series included a dedicated session on child labor risk. The session was delivered on-site at the US Headquarters to senior managers and the recording, including materials, was distributed to all employees.

Three managers attended an accredited six-week online training program about child labor run by a third-party accredited training center.

A training matrix has been developed and will be implemented in the next reporting period. This matrix will include mandatory training modules on Human Rights, Child Labor, and Forced Labor among other important topics. Different training will be provided based on an employee's role and responsibilities within Hail & Cotton.

For our agricultural supply chain, we are currently piloting an extensive training program in one of our sourcing origins, with plans for a global roll-out. Our agronomy teams prepare yearly crop-season calendars that incorporate comprehensive training for our Field Technicians on adhering to our Agricultural Labor Practices (ALP) Code and relevant procedures.

The "Train the Trainers" initiative ensures this training extends beyond our staff to the tobacco growers, their workers, and local communities surrounding the farms. User-friendly visual aids and posters are created in local languages to reinforce our guidelines and expectations in an easily understandable way.

## VIII. Assessing Effectiveness

Through the STP Program, Hail & Cotton is able to continuously monitor the potential occurrence of human rights risks at the farm level. Managers within individual Hail & Cotton entities are responsible for overseeing the implementation of the STP Program. This includes assessing the data collected by Field Technicians to establish whether further action is needed. At present, we proactively evaluate criteria such as plot size, crop stage, and number of workers on site to anticipate situations with higher potential for human rights violations before they occur. This data-driven approach allows us to effectively assess risk and take preventative measures to uphold ethical labor standards among our suppliers.

During the reporting period, an ESG Working Group monitored progress and discussed the effectiveness of actions taken to address human rights risks. The ESG Working Group features cross-functional personnel from across the corporate group, including Hail & Cotton Inc. employees and those responsible for managing the Canadian operations. It meets on a monthly basis to continuously monitor performance.

In 2024, we undertook a review of our Sustainability Governance structure to strengthen our commitments in this area. We established a Sustainability Strategic Committee to ensure the full integration of sustainability principles across all levels and functions of the organization. We are in the process of forming several sub-committees focused on the effective implementation of our sustainability initiatives and standards within each of our global operating regions. Measuring effectiveness will form part of our Global Supply Chain Due Diligence Framework.

Looking to the future, we intend to continue our work in establishing a corporate Global Supply Chain Due Diligence Framework, which will include human and labor rights. As part of the development of this Global Supply Chain Due Diligence Framework, we strive to identify our salient human rights issues and further develop our approach to mitigation and remediation. We have since developed a training matrix that we will use to increase our human rights capacity building and training for growers, employees, and business partners.

## IX. Approval and Attestation

This report was approved pursuant to subparagraph 11(4)(b)(i) of the Act by the Board of Directors of Hail & Cotton Inc.

In accordance with the requirements of the Act, and in particular section 11 thereof, I attest that I have reviewed the information contained in the report for the entity or entities listed above. Based on my knowledge, and having exercised reasonable diligence, I attest that the information in the report is true, accurate, and complete in all material respects for the purposes of the Act, for the reporting year listed above.



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Roderick J. Roe  
CFO  
5/27/24

"I have the authority to bind 'Hail & Cotton Inc.'"