

Sector Guidelines: Tobacco

Scope and purpose

Swedbank's sector guidelines are tools to enable better insights into the sustainability issues that various industries face.

The overall purpose of sector guidelines is to promote sustainability performance in our business relations and to give guidance on aspects that could be discussed with customers, suppliers and other stakeholders. The primary purpose of the guidelines is to support sustainability risk assessment and describe how Swedbank interprets sustainability risks in several sectors.

Sector Guidelines are a set of recommendations that we would like to see our customers aim towards. They are relevant to all companies within the sector and in all stages of the value chain, such as production, processing and training.

Dependent on the size and maturity of the customers' businesses, we acknowledge that their transition journeys can be in different development phases and at any point of time satisfy different set of recommendations. However, we do not wish to see our customers going against the intention of our recommendations.

Important to register; Swedbank Robur does do not invest in companies where more than 5 per cent of total sales derive from the production and/or sale of tobacco.

Sustainability impact

Tobacco in this sector guideline refers to tobacco and tobacco products. The global tobacco sector is a highly specialized oligopoly that depends on the cultivation of the tobacco crop. The Environmental, Social and Governance (ESG) risks and impacts in the sector relate to labour management practices such as working conditions, employment and respect of human rights. The most vulnerable groups from a human rights perspective are tobacco farmers and their families as well as agricultural workers hired by tobacco farmers. Within both these categories, children constitute a particularly vulnerable group. Swedbank recognizes the need to promote

economically viable alternatives to tobacco production as a way to prevent possible adverse social and economic impacts on populations whose livelihoods depend on tobacco production.

Expectations and recommendations

Swedbank expects clients, portfolio companies and suppliers to operate in accordance with relevant international norms, as well as regional and national laws, regulations and permits. We expect our business partners to manage material sustainability issues in a systematic manner within the field of human rights, labour rights, climate, environment and business ethics. We also recommend that companies involved in the tobacco sector:

- Identify material sustainability aspects and adopt relevant policies, objectives and targets;
- Have policy commitments that meet responsibilities with regard to human rights, labour rights, environmental protection, health & safety at work and anti-corruption;
- Ensure compliance with labour laws and norms on occupational health;
- Respect human rights and manage material human rights risks. The main risks for human rights violations within the tobacco supply chain are found in the areas where tobacco is cultivated, harvested and processed;
- Have a solid health and safety policy and comply with occupational health and safety measures since health impacts on tobacco workers are caused by exposure to pesticides. Effects impact the nervous system; increase the risk of cancer and impact workers' reproduction system. Workers experience immediate physical symptoms when nicotine from the tobacco plant leaf enters the skin. The long term effects on child workers' brain development is a cause of concern;
- Make sure the services offered respect the Children's Rights and Business Principles, as defined by the UN as agriculture is overall a high-risk sector in regard to child labour. Several studies document the existence of child labour on tobacco farms across the globe;

- Respect the rights of workers and ensure relevant measures are implemented to reduce the risk of over-indebtedness, which commonly occurs through a contract form common between tobacco companies and tobacco farmers and is often a result of high investment costs and unreliable returns. Heavily indebted farmers often become dependent on tobacco companies;
- Respect the rights of workers such as freedom of association and the right to collective bargaining;
- Ensure equal treatment and working conditions for migrant workers;
- Report transparently on tax payments at group and country level in line with established global initiatives;
- Conduct due diligence on supplier management of environmental, social and business ethics issues and integrate sustainability criteria within procurement processes. Verify compliance with company standards on a regular basis;
- Report regularly on material sustainability issues in line with established reporting framework standards, such as GRI.
- Ensure understanding of existing and potential clients' and portfolio companies' activities and risks. This means that Swedbank may require relevant documentation such as certificates and policies in order to understand sustainability governance and performance;
- Evaluate suppliers' sustainability performance and integrate sustainability requirements as a mandatory part of supplier agreements. This means that Swedbank may terminate supplier relationships in the event of non-compliance with our supplier code of conduct;
- Continuously educate relevant Swedbank staff on general and specific Corporate Sustainability trends, issues and opportunities;
- Monitor our portfolios to mitigate risks including sustainability risks;
- Collaborate with third-party professional Corporate Sustainability experts and establish dialogue with counterparties on environmental and social matters;
- Report transparently on sustainability performance.

Relevant norms, guiding principles & standards

- ✓ The 10 principles of the United Nations Global Compactⁱ
- ✓ UN Guiding principles on Business and Human Rightsⁱⁱ
- ✓ International Labour Organization (ILO) standards, conventions and recommendations on work environment and labour standardⁱⁱⁱ
- ✓ Children's Rights & Business Principles^{iv}
- ✓ FCTC WHO Framework Convention on Tobacco Control^v

Implementation

Sustainability risk assessment is an integral part of Swedbank Group's risk assessment within corporate lending, investment and procurement. Sector guidelines set the context for risk assessment. In order to comply with our existing sustainability framework Swedbank shall:

ⁱ The United Nations Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.
<https://www.unglobalcompact.org/about>

ⁱⁱ The United Nations Guiding Principles on Business and Human Rights were endorsed in June 2011 by the United Nations Human Rights Council. The principles are based on six years of work by the former Special Representative John Ruggie. They are based on the "Protect, Respect and Remedy" framework.
<http://business-humanrights.org/en/un-guiding-principles>

ⁱⁱⁱ International labour standards refer to conventions agreed upon by international actors to protect basic worker rights, enhance workers' job security, and improve their terms of employment on a global scale. The intention of such standards is to establish a worldwide minimum level of protection from inhumane labour practices through the adoption and implementation of said measures.
<http://www.ilo.org/dyn/normlex/en/f?p=1000:12030:0::NO>

^{iv} The United Nations Guiding Principles on Business and Human Rights represent a milestone in the business and human rights discussion. However, recognising the need for stronger visibility of children's rights, Save the Children, the United Nations Global Compact and UNICEF joined forces to develop the Children's Rights and Business Principles released in 2012, to give business a clear idea of where and how their business might impact children.
<http://www.unicef.org/csr/12.htm>

^v FCTC WHO Framework Convention on Tobacco Control Decision, Economically sustainable alternatives to tobacco growing (in relation to Articles 17 and 18 of the WHO FCTC).
http://apps.who.int/gb/fctc/PDF/cop6/FCTC_COP6%2811%29-en.pdf?ua=1