SBP

Sustainable Biomass Partnership

Supply Base Report: Kurzemes Granulas

First Surveillance Audit

www.sustainablebiomasspartnership.org

Completed in accordance with the Supply Base Report Template Version 1.2

For further information on the SBP Framework and to view the full set of documentation see www.sustainablebiomasspartnership.org

Document history

Version 1.0: published 26 March 2015

Version 1.1 published 22 February 2016

Version 1.2 published 23 June 2016

Contents

1 Overview

Producer name:	SIA "Kurzemes Granulas"
Producer location:	Kustes dambis 22, Ventspils, LV-3601, Latvia
Geographic position:	57.393883, 21.607353
Primary contact:	Viesturs Grinbergs, phone: +371 636 62086, E-mail: info@granulas.lv
Company website:	http://www.granulas.lv
Date report finalised:	Date of approval by senior management: 01/Aug/2016
Close of last CB audit:	Date and location of the closing meeting CB: Ventspils, 08/Sep/2016
Name of CB:	SIA NEPCon
Translations from English:	NA
SBP Standard(s) used:	Standard 2, version 1.0; Standard 4, version 1.0; Standard 5, version 1.0; 5A instruction Version 1.0
Weblink to Standard(s) used:	http://www.sustainablebiomasspartnership.org/documents
SBP Endorsed Regional Risk Assessment:	not applicable
Weblink to SBE on Company website:	not applicable

Indicate how the current evaluation fits within the cycle of Supply Base Evaluations				
Main (Initial) Evaluation	**First Surveillance**	**Second Surveillance**	**Third Surveillance**	**Fourth Surveillance**
☐	**X**	☐	☐	☐

2 Description of the Supply Base

2.1 General description

Most part of SIA “Kurzemes Granulas” raw material is received from Latvian sawmills as by-products (sawmill residues). Small part of the same type of raw material indirectly comes from Lithuania and Norway.

For audit period: 1St January 2015 till 31st December 2015:

Total SBP-compliant Feedstock: 24.6%.

SBP-compliant Primary Feedstock: 93% certified (fuel wood), in total 6 suppliers, 20%-30% softwood, 70%-80% hardwood;

SBP-compliant Secondary Feedstock: 20,3% certified (chips and sawdust), in total 32 suppliers, 60%-70% softwood, 30%-40% hardwood;

SBP-compliant Tertiary Feedstock: : 32,6% certified (shavings), in total 1 supplier, 100% softwood;

FSC Controlled Feedstock: 47,3% of total feedstock, in total 36 suppliers, 20%-30% softwood, 70%-80% hardwood.
Controlled feedstock from own verification program: 75.4% of total feedstock, in total 36 suppliers, 20%-30% softwood, 70%-80% hardwood.

For period 1st January till 31st July 2016:

Total SBP-compliant Feedstock increased up to 85,7%;
SBP-compliant secondary feedstock: 83,4% certified (chips and sawdust), in total 31 supplier, 60%-70% softwood, 30%-40% hardwood;
SBP-compliant Tertiary Feedstock: 92% certified (shavings), 1 supplier, 100% softwood.

Species of raw material:

Aspen - Populus tremula; Grey alder - Alnus incana; Black Alder - Alnus glutinosa; Silver birch - Betula pendula; Downy birch - Betula pubescens; Oak - Quercus robur (L.); Ash - Fraxinus excelsior (L.); Scots pine (whitewood) - Pinus sylvestris; Norway spruce (redwood) - Picea abies;

LATVIA forest resources

In Latvia, forests cover area of 3 056 578 hectares. According to the data of the State Forest Service (concerning the surveyed area allocated to management activities regulated by the Forest Law), forest Land amounts to 51.8 % (ratio of the 3 347 409 hectares covered by forest to the entire territory of the country).

The Latvian State owns 1 495 616 ha of forest (48.97% of the total forest area), while the other 1 560 961 ha (51.68 % of the total forest area) belong to other owners. Private forest owners in Latvia amount to approximately 144 thousand.

The area covered by forest is increasing. The expansion happens both naturally and by afforestation of infertile land unsuitable for agriculture.

Within the last decade, the timber production in Latvia has fluctuated between 9 and 13 million cubic metres (State Forest Services: vmd.gov.lv, 2015).

Forest land consists of:

- forests 3 056 578 ha (91.3%);
- marshes 175 111.8 ha (5.3%);
- glades (forest meadows) 35 446.7 ha (1.1%);
- flooded areas 18 453.2 ha (0,5%);
- objects of infrastructure 61 813.4 ha (1.8%).

State Forest Services: vmd.gov.lv, 2015.

Distribution of forests by the dominant species:

- pine 34.3 %;
- spruce 18.0 %;
- birch 30.8 %;
- black alder 3.0 %;
- grey alder 7.4 %:
- aspen 5.4 %;
- oak 0.3 %;
- ash 0.5 %:
- other species 0.3 %.

State Forest Services: vmd.gov.lv, 2015.

Share of species used in reforestation, by planting area (2014):

- pine 20 %;
- spruce 17 %;
- birch 28 %;
- grey alder 12 %;
- aspen 20 %;
- other species 3 %.

State Forest Services: vmd.gov.lv, 2015.

Timber production by types of cuts, by volume produced (2014):

- final cuts 81.00 %;
- thinning 12.57 %;
- sanitary clear-cuts 3.63 %;
- sanitary selective cuts 1.43 %;
- deforestation cuts 0.76 %;
- other types of cuts 0.06 %.

State Forest Services: vmd.gov.lv, 2015.

The field of forestry

In Latvia, the field of forestry is supervised by the Ministry of Agriculture, which in cooperation with stakeholders of the sphere develops forest policy, development strategy of the field, as well as drafts of legislative acts concerning forest management, use of forest resources, nature protection and hunting (www.zm.gov.lv).

Implementation of requirements of the national law and regulations notwithstanding the type of tenure is carried out by the State Forest Service under the Ministry of Agriculture (State Forest Services: www.vmd.gov.lv).

Management of the state-owned forests is performed by the *Joint Stock Company "Latvia's State Forests"*, established in 1999. The enterprise ensures implementation of the best interests of the state by preserving value of the forest and increasing the share of forest in the national economy (www.lvm.lv).

Export yielded 1.978 billion euro (approx. 20 % of the total amount in 2014).

Biological diversity
Historically, extensive use of forests as a source of profit began later than in many other European countries, therefore a greater biological diversity has been preserved in Latvia.

For the sake of conservation of natural values, a total number of 674 protected areas have been established. Part of the areas have been included in the European network of protected areas *Natura 2000*. Most of the protected areas are state-owned.

In order to protect highly endangered species and biotopes located without the designated protected areas, if a functional zone does not provide that, micro-reserves are established. According to data of the State Forest Service (2015), the total area of micro reserves is 40 595 ha. Identification and protection planning of biologically valuable forest stands is carried out continuously.

On the other hand, for preservation of biological diversity during forest management activities, general nature protection requirements binding to all forest managers have been developed. They stipulate that at felling selected old and large trees, dead wood, underwood trees and shrubs, land cover around wet micro-lowlands (terrain depressions) are to be preserved, thus providing habitat for many organisms.

Latvia has been a signatory of the CITES Convention since 1997. CITES requirements are respected in forest management, although there are no species included in the CITES lists in Latvia.

Forest and community
Areas where recreation is one of the main forest management objectives add up to 8 % of the total forest area or 293 000 ha (2012y). Observation towers, educational trails, natural objects of culture history value, picnic venues: they are just a few of recreational infrastructure objects available to everyone free of charge.

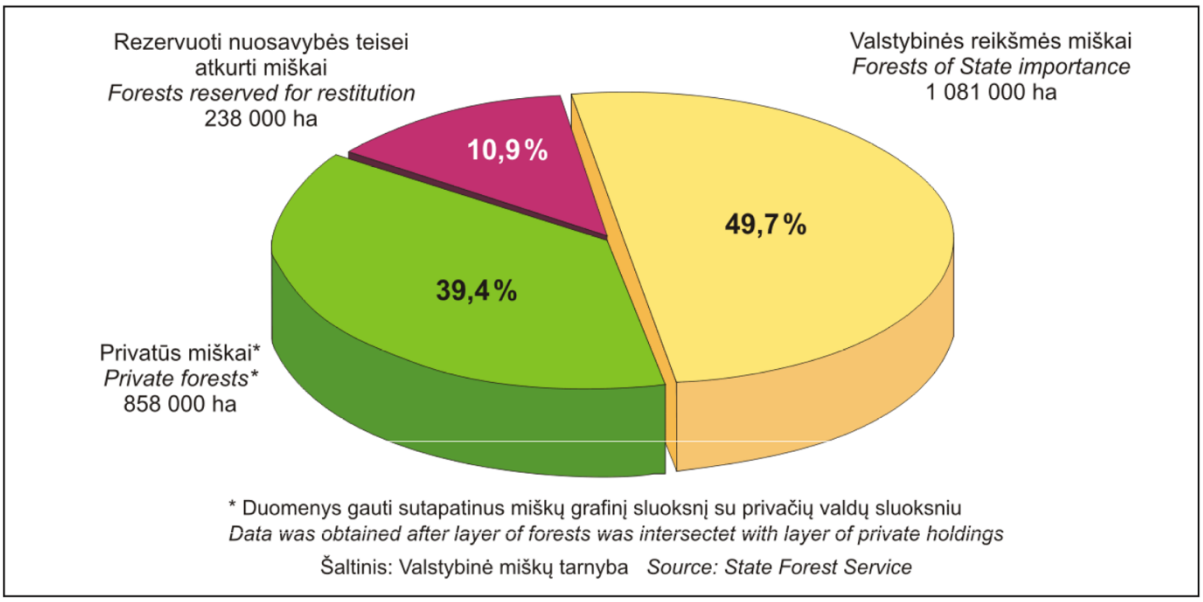
Special attention is devoted to creation of such areas in state-owned forests. Recreational forest areas include national parks (excluding strictly protected areas), nature parks, protected landscape areas, protected dendrological objects, protected geological and geomorphologic objects, nature parks of local significance, the Baltic Sea dune protection zone, protective zones around cities and towns, forests within administrative territory of cities and towns. Management and governance of specially protected natural areas in Latvia is co-ordinated by the Nature Conservation Agency under the Ministry for Environmental Protection and Regional Development.

Certification
All forest area of Latvijas valsts meži as well as some part of forests in private and other ownership are FSC and PEFC certified. From all totally forest area 3 347 409ha is approximately 1,737 milj. ha of Latvian forest are certified according to FSC and PEFC certification scheme. Both the FSC and PEFC systems have found their way into Latvia.

LITHUANIA forest resources

Agricultural land covers more than 50 percent of Lithuania. Forested land consists of about 28 percent, with 2,18 million ha, while land classified as forest corresponds to about 30 percent of the total land area. The south-eastern part of the country is most heavily forested, and here forests cover about 45 percent of the land. The total land area under the state Forest Enterprises is divided into forest and non-forest land. Forest land is divided into forested and non-forested land. The total value added in the forest sector (including manufacture of furniture) reached LTL 4.9 billion in 2013 and was 10% higher than in 2012.

FOREST LAND BY OWNERSHIP 01.01.2014



Forest land is divided into four protection classes: reserves (2 %); ecological (5.8 %): protected (14.9 %); and commercial (77.3 %). In reserves all types of cuttings are prohibited. In national parks, clear cuttings are prohibited while thinnings and sanitary cuttings are allowed. Clear cutting is permitted, however, with certain restrictions, in protected forests; and thinnings as well. In commercial forests, there are almost no restrictions as to harvesting methods.

Lithuania has been a signatory of the CITES Convention since 2001. CITES requirements are respected in forest management, although there are no species included in the CITES lists in Lithuania.

Lithuania is situated within the so-called mixed forest belt with a high percentage of broadleaves and mixed conifer-broadleaved stands. Most of the forests - especially spruce and birch - often grow in mixed stands. Pine forest is the most common forest type, covering about 38 percent of the forest area. Spruce and birch account for about 24 and 20 percent respectively. Alder forests make up about l2 percent of the forest area, which is fairly high, and indicates the moisture quantity of the sites. Oak and ash can each be found on about 2 percent of the forest area. The area occupied by aspen stands is close to 3 percent.

The growing stock given as standing volume per hectare is on the average of l80 m^3 in Lithuania. In nature stands, the average growing stock in all Lithuanian forests is about 244 m^3 per hectare. Total annual growth comes to 11 900 000 m^3 and the mean timber increment has reached 6.3 m^3 per year and per hectare.

Current harvest has reached some 3.0 million m^3 u.b. per year. The consumption of industrial wood in the domestic forest industry, including export of industrial wood, is estimated to be less than 2.0 million m^3. The remainder is used for fuel or stored in the forests, with a deteriorating quality as a result.

The potential future annual cut is calculated at 5.2 million m^3, of which 2.4 million m^3 is made up of sawn timber and the remaining 2.8 million m^3 of small dimension wood for pulp or board production, or for fuel. The figures refer to the nearest 10-year period. Thereafter a successive increase should be possible if more intensive and efficient forest management systems are introduced.

Certification of all state forests in Lithuania is done according to the strictest certification in the world – the FSC (Forest Stewardship Council) certificate. The audit of this certificate testifies to the fact that Lithuanian state forests are managed especially well – following the principles of the requirements set to protection of and an increase in biological diversity.
(Resources: http://www.fao.org/docrep/w3722e/w3722e22.htm)

NORWAY forest resources

Forest facts

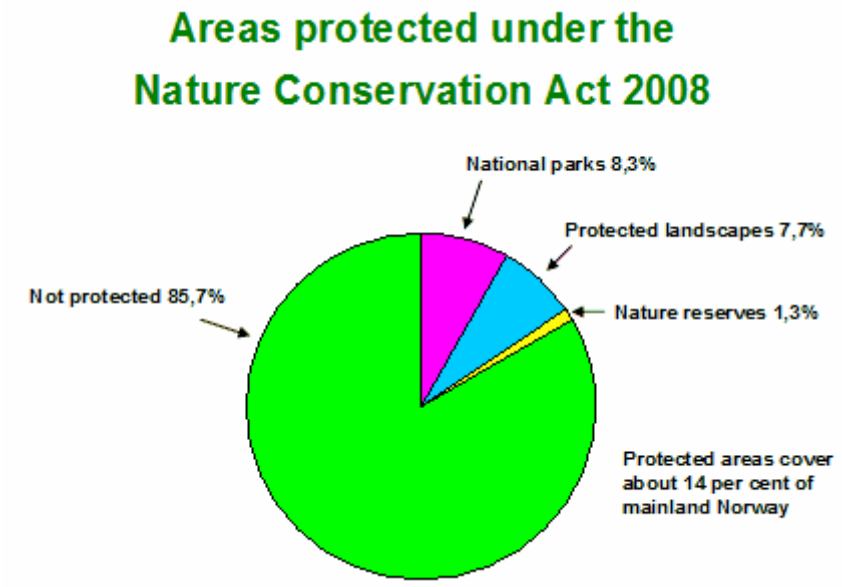
About 38% of the surface area in Norway is covered by forest. The total forested area amounts to 12 million hectares, including more than 7 million hectares of productive forest. 15% of the productive forest has been estimated as non-economic operational areas due to difficult terrain and long distance transport, which means that economical forestry may only be operated in about 50% of the forested area. The most important species are Norway spruce (47%), Scots pine (33%) and birch (18%).

From the forest area: Privately owned forests 80 % ; State and municipalities 12 %
Industrial private 4 %; Local common land 4 %

Forest certification

All productive forests in Norway are certified, i.e. 7.397.000 hectares. The number of certified forest owners is approximately 43.000 (private, municipalities, state).

Forest protection



Areas protected under the Nature Conservation Act 2008

Biodiversity

Approximately 6.4% of mainland Norway has protected area status. In addition, 15,000 square km of Spitsbergen is designated as conservation area - national parks, nature reserves or other kinds of protected area cover 10-12% of the area of the remote islands.

The total number of species in Norway is estimated to be 45,000, of which approximately 33,000 are known and described. It exists information enough to estimate whether a species is threatened or not for only 10,000 species. Of these, 150 are threatened by extinction, 279 are deemed vulnerable, 800 are categorized as rare (the last number also includes species which are rare of natural causes, and not only because of human intervention). 359 are deemed species of special concern, 36 species are indeterminate, while 169 species are classified as insufficiently known.

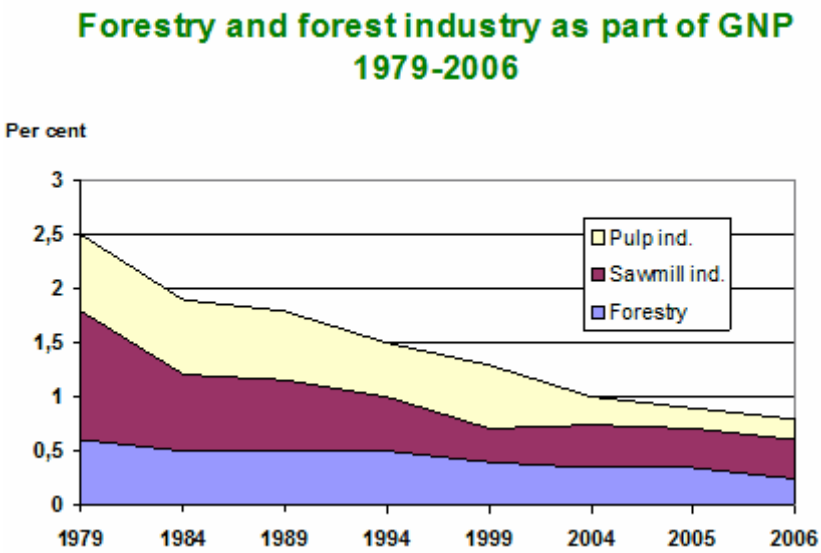
Species "Red lists" can be used to point out the habitats containing an especially rich variety of endangered species. Red list species have often proved to be the red warning lights of nature to tell us that a biotope is threatened or something else is wrong in nature. The red lists also give us a picture of the condition of our flora and fauna, and may contribute to the efforts of securing and improve the ecosystem for these species. http://www.borealforest.org/world/world_norway.htm

In the country there are areas of endangered high conservation value forests. More specifically there are Global200 and IFL areas in the northern mountain regions.

Those regions identified by Conservation International as a Biodiversity Hotspot http://www.biodiversityhotspots.org/xp/hotspots/Pages/d efault.aspx Those forest, woodland, or mangrove ecoregions identified by World Wildlife Fund as a Global 200 Ecoregion and assessed by WWF as having a conservation status of endangered or critical. Those regions identified by the World Resources Institute as a Frontier Forest Intact Forests Landscapes, as identified by Greenpeace (www.intactforests.org)

Forest sector in Norway's national economy

In 2006 forestry and the forest industries accounted for about 0.8% of the Gross National Product in Norway. Of the total employment of 2.443.000 persons in Norway approximately 40.000 people receive their income from forestry and from the forest industry. 6.700 persons (0.3%) are directly employed in forestry.
About 50 percent of the Norwegian round wood harvested is used by sawmills. There are 225 sawmills in Norway operating on an industrial scale.



Forestry and forest industry as part of the GNP 1979-2006

A lot of people use the forest for recreational activities, both traditional and modern, including walking, picking berries and mushrooms, hunting and fishing.

2.2 Actions taken to promote certification amongst feedstock supplier

The company concludes long-term procurement contracts with enterprises that have attested their participation in wood chain of custody certification. The objective of the chain of custody system is to provide information on the origin of forest raw materials down from the point of delivery. The company has initiated to the FSC / PEFC certified wood procurement increase from 24.6% in 2015 to 85.7% in January-July 2016. As well as their business decision is specifically not to increase the FSC / PEFC certified wood procurement, but looking or SBP certification up to expectations and whether SBP certified biomass final buyers will keep their promises and respect the 'good practice' principles. The company has established the FSC / PEFC certified wood higher purchase price than uncertified. Thus, all involved companies from the forest management and logging enterprises to woodworking sphere are interested that sustainable forestry methods are attested.

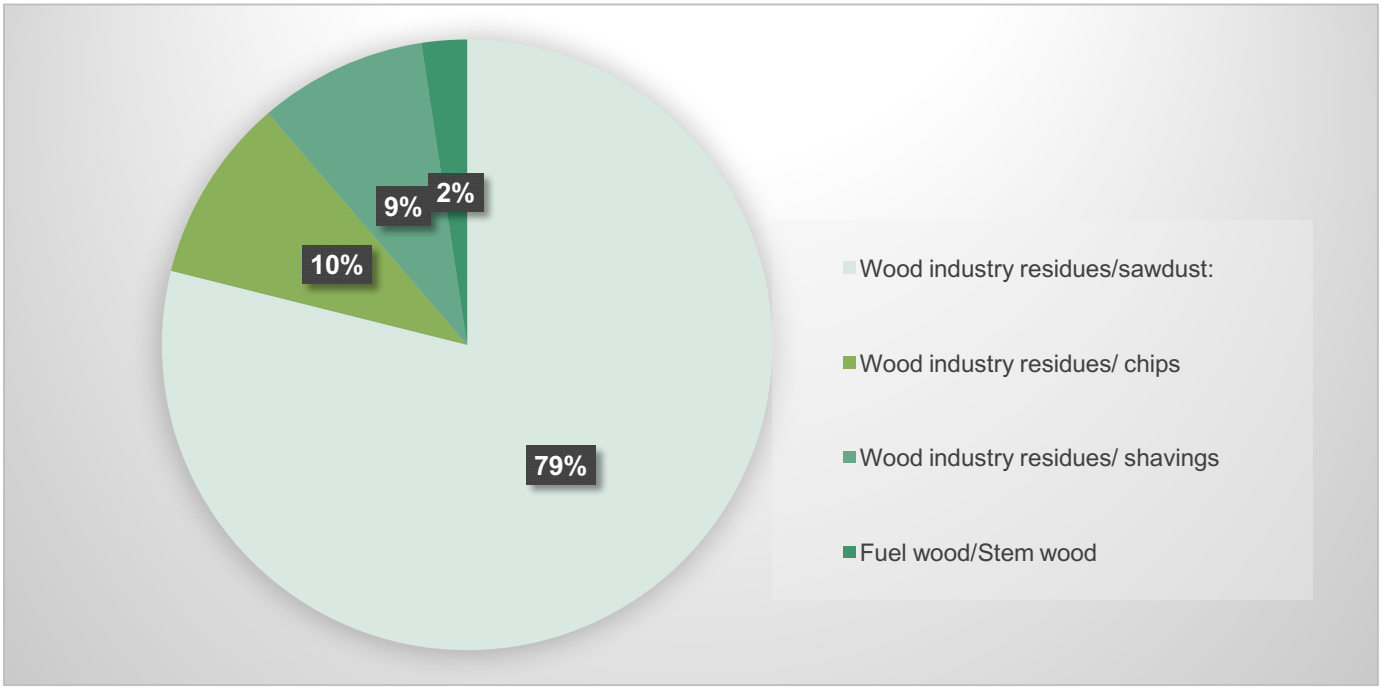
The company procures wood for pellet production mainly from woodworking enterprises of Kurzeme region, which in turn procure round wood from the FSC and PEFC-certified forest in Joint Stock company “Latvia`s State Forest”

Woodworking residues are procured from woodworking enterprises that mainly produce sawn materials and other products. Motivation for getting certified for those enterprises is the fact that support to sustainable forest management by certified chain of custody increases sales opportunities for both main and side products

2.3 Final harvest sampling programme

The proportion of biomass quantity as primary raw material after final fellings is about 25-35% compared to quantity of other raw material assortment. The primary raw material has been procured from the Supply Base area and it consists of round wood/firewood. The raw materials are procured in well developed, free and open market with competition of other customers. Different assortments of raw materials are obtained from the logging. All companies of forest industry have public price lists for the assortments. The price lists reflect the solvency of the industry for different assortments. The price lists clearly indicate that logs and veneer logs are the most valuable assortments while firewood (e.g. for pellet production) is less valuable assortment. This information is derived from the documents and data submitted by suppliers and forest developers.

2.4 Flow diagram of feedstock inputs showing feedstock type



2.5 Quantification of the Supply Base

Supply Base

a. Total Supply Base area (ha): **17 236 578** (ha) cumulative area of all forest types within SB
b. Tenure by type (ha): Government **4 016 616 ha;** Privately owned **12 018 961 ha**; / other **1 198 000ha**
c. Forest by type (ha): Hemi- boreal- **3 056 578 ha**, /Boreal **12 000 000, ha/** Temperate **2 180 000 ha**
d. Forest by management type (ha): Managed Semi- Natural **17 236 578 ha**
e. Certified forest by scheme (ha): FSC, total certified area **3 907 000** ha FSC and **9 087 000** ha PEFC

Feedstock

f. Total volume of Feedstock: 122'945 tonnes (or 525'437 loose/m3), (Latvija – 91,5%; Lithuania - 5,8%; Norway- 2,7%, Canada and USA- 0,007%).

g. Volume of primary feedstock: 3'706 m^3

h. List percentage of primary feedstock (g), by the following categories. -. Subdivide by SBP-approved Forest Management Schemes:
   - Certified to an SBP-approved Forest Management Scheme; 93%
   - Not certified to an SBP-approved Forest Management Scheme: 7%

i. List all species in primary feedstock, including scientific name
   Picea abies (L.) H. Karst.); Pinus sylvestris (L.); Alnus glutinosa (L.) Gaertn.); Alnus incana (L.) Moench); Populus tremula (L.); Betula pendula (Roth; silver; Betula pubescens (Ehrh.)

j. Volume of primary feedstock from primary forest:: 0%

k. List percentage of primary feedstock from primary forest (j), by the following categories. Subdivide by SBP-approved Forest Management Schemes:
   - Primary feedstock from primary forest certified to an SBP-approved Forest Management Scheme
   - Primary feedstock from primary forest not certified to an SBP-approved Forest Management Scheme

l. Volume of secondary feedstock: specify origin and type: wood chips- 11'976,32 tonnes (LV) and sawdust - 97'061,8 tonnes (LV, LT,N);

m. Volume of tertiary feedstock: specify origin and composition –
   Wood industry residues/ Shavings/tertiary, dry - 10'941,88 tonnes (LV,LT,N).

3 Requirement for a Supply Base Evaluation

SBE completed	SBE not completed
□	**X**

SBE system is not implemented, because more than 85% from total input of secondary feedstock is FSC Mix Credit or 100% PEFC Certified (as on 1st August 2016). For the next period the company (SIA KURZEMES GRANULAS) has enough FSC and PEFC certified material in order to fulfil sales plan of SBP certified pellets.

4 Supply Base Evaluation

4.1 Scope

Not applicable

4.2 Justification

Not applicable

4.3 Results of Risk Assessment

Not applicable

4.4 Results of Supplier Verification Programme

Not applicable

4.5 Conclusion

Not applicable

5 Supply Base Evaluation Process

Not applicable

6 Stakeholder Consultation

Not applicable

6.1 Response to stakeholder comments

Not applicable

7 Overview of Initial Assessment of Risk

Not applicable

8 Supplier Verification Programme

8.1 Description of the Supplier Verification Programme

Not applicable

8.2 Site visits

Not applicable

8.3 Conclusions from the Supplier Verification Programme

Not applicable

9 Mitigation Measures

9.1 Mitigation measures

Not applicable

9.2 Monitoring and outcomes

Not applicable

10 Detailed Findings for Indicators

Not applicable.

11 Review of Report

11.1 Peer review

Not applicable

11.2 Public or additional reviews

The report is available on the company's website http://www.granulas.lv for public inspection of all interested parties. After reading all the interested parties can send their comments, if any, at the company info@granulas.lv

12 Approval of Report

Approval of Supply Base Report by senior management			
Report Prepared by:	***Ilonda Dzirko***	***Vice accountant***	***1.08.2016***
	Name	**Title**	**Date**
The undersigned persons confirm that I/we are members of the organisation's senior management and do hereby affirm that the contents of this evaluation report were duly acknowledged by senior management as being accurate prior to approval and finalisation of the report.			
Report approved by:	***Viesturs Grinbergs***	***CEO***	***1.08.2016***
	Name	**Title**	**Date**
Report approved by:	***[name]***	***[title]***	***[date]***
	Name	**Title**	**Date**
Report approved by:	***[name]***	***[title]***	***[date]***
	Name	**Title**	**Date**

13 Updates

To increase amount of SBP Compliant Biomass SIA “Kurzemes Granulas went through PEFC certification and got the PEFC Certificate in May 2016. The company has initiated to the FSC / PEFC certified wood procurement increase from 27% in 2015 to 85.7% in January-July 2016

13.1 Effectiveness of previous mitigation measures

Not applicable

13.2 New risk ratings and mitigation measures

Not applicable.

13.3 Actual figures for feedstock over the previous 12 months

Period: 01/07/2015 till 1/07/2016.

Total feedstock: 110’181.66t (481’327 loose m3).

Primary feedstock (fuel wood): 0 m3

Wood chips: 8’027.9 t ;

Sawdust: 90’997.2 t;

Shavings: 11’156.5 t.

13.4 Projected figures for feedstock over the next 12 months

Period: 01/08/2016 till 1/08/2017.

Total feedstock: about 105’000t.

Primary feedstock (fuel wood): 0 m3

Wood chips: 10’000 t ;

Sawdust: 84’000 t;

Shavings: 11’000 t.