

SBP

Sustainable Biomass Partnership

Supply Base Report: AKZ Ltd

Second Surveillance Audit

www.sbp-cert.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.sbp-cert.org

Document history

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1 Overview

Producer name: SIA AKZ (here in after referred to as AKZ)
Producer location: Jaunceltnes street 7, Aizkraukle, LV-5101, Latvia
Geographic position: Lat E 25 degrees 14 minutes, Long N 56 degrees 36 minutes
Primary contact: Gints Hansons, t. +371 29482445, gints.hansons@akz.lv
Company website: www.akz.lv
Date report finalised: 18/Sep/2017
Close of last CB audit: 16/Sep/2016
Name of CB: NEPCon
Translations from English: In Latvian and English
SBP Standard(s) used: Standard 2 version 1.0;
 Standard 4 version 1.0;
 Standard 5 version 1.0;
Weblink to Standard(s) used: <http://www.sbp-cert.org/documents>
SBP Endorsed Regional Risk Assessment: SBP risk assessment for Latvia (coming soon)
 SBP risk assessment for Lithuania (publically available soon)
Weblink to SBE on Company website: <http://www.akz.lv/en/fsc-certificate>

| Indicate how the current evaluation fits within the cycle of Supply Base Evaluations | | | | |
|--|--------------------------|---------------------|--------------------------|--------------------------|
| Main (Initial) Evaluation | First Surveillance | Second Surveillance | Third Surveillance | Fourth Surveillance |
| <input type="checkbox"/> | <input type="checkbox"/> | X | <input type="checkbox"/> | <input type="checkbox"/> |

2 Description of the Supply Base

2.1 General description

AKZ is one of the largest softwood sawmills in Latvia. AKZ only uses FSC certified and controlled wood, in the form of wood wastes from its own wood working plant. The wood working and pellet production facilities are located at the same location.

FSC Certified Wood is sourced from:

- Latvian State Forest Enterprise (Latvijas Valsts Meži),
- Lithuanian State Forest Enterprise,
- A few selected Harvesting companies (Forest Management Units).

FSC Controlled Wood is sources from:

- Latvia,
- Lithuania,
- Belarus,
- Russia (Pskov Region)

The Forest Management practices of these enterprises and regions are described below.

Each of the supply regions where sawn logs are sourced have the following main principles of sustainable forest management (SFM) and land management:

Latvia:

- Around 51,8% (3,2 milj ha) of the total land area is covered with forests.
- Forest management is described in a special law, called the Forest Law.
- 46.3% of all forests are state forests and 53.7% are private forests and forests of the other ownership.
- http://data.csb.gov.lv/pxweb/lv/lauks/lauks_ikgad_mezsaimn/MS150.px/table/tableViewLayout1/?rxid=cdbc978c-22b0-416a-aacc-aa650d3e2ce0
- To secure and maintain SFM both state and private forests are monitored and inspected by the Latvian Forest Department, which also develops the main forestry regulations.
- Before commercial activities in the forests can commence, the State Forest Department requires a long-term forest management plan for every forest unit and owner. After acceptance of the plan, the State Forest Department issues a Harvesting Licence for separate sites. The Harvesting Licence determines what kind of forest felling system is allowed, and which species and in what amount can be harvested in the area. It also determines the forest regeneration method at each harvesting site.
- After the harvesting operation, the site owner signs a report on the harvested volumes and planned forest regeneration method. The site is inspected by a representative of the State Forest department.
- The Harvesting Licence (licence number) is the main document for suppliers to track the supply chain and secure sustainable log purchases.
- Forests in protected territories and protected forests account for 17% of total forest area, or 515 thousand hectares. Forests in strict conservation areas account for 21% by area. One-fifth of the area of forests in protected territories is located in National parks (various protection tenures); with the remainder made up as follows: 16%: protected landscape areas; 13%: Baltic Sea and Riga Bay belt zone; 12%: nature parks; 7%: micro reserves; 4%: city protection belts; 3%: specially protected

forest areas; 2%: strict nature reserves and protected Baltic Sea and Riga Bay coastal dune forests. Most of the protected forests and forests in protected areas are owned by the State. The highest proportion of privately owned forests is in protected landscape forests (57%), National parks and nature parks (51%). There is a relatively smaller area of private forests in protected territories with more strictly regulated protection regimes: protected coastal forests (Baltic Sea and Riga Bay belt 33%, Baltic Sea and Riga Bay protection zone 34%); strict conservation areas (20%); and micro reserves (7%). All other forests apart from forests in protected territories and belts and their buffer zones are considered production forests.

- The Republic of Latvia has signed and ratified the Convention on International Trade in Endangered Species of Wild Fauna and Flora (The Washington Convention, 1973). In addition to the CITES Convention, trade in endangered species of wild fauna and flora is regulated by a number of EU directives that extend the scope of species within the European Union.
 - Latvia's forests are regenerated either naturally or artificially. Natural regeneration of pine, spruce and deciduous species take place according to the site conditions on wet mineral and wet peat soils. Artificial rejuvenation involves the use of genetically improved seed and planting stock; forest seed orchards cover a total area of 965 ha. The main forest tree species are: pine (697 ha); spruce (170 ha); larch (57 ha); birch (10 ha); aspen (11 ha); and others (11 ha).
 - Wood specie composition: Pine- 34,3%; Spruce-18.0%; Birch- 30,8%; Aspen- 5,4%; Black alder - 3,0%; Grey alder- 7,4%; Oak 0.3%; Ash- 0.5%; Other – 0.3%
 - 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 %.
 - Information about land structure in Latvia:
 - o Total land area in Latvia: 6.45 mil. Ha: Agricultural land 1.8725 milj ha.
 - o Forest land consists of: forests 3 056 578 ha (91.3%); marshes 175 111.8 ha (5.3%); open areas 35 446.7 ha (1.1%); flooded areas 18 453.2 ha (0.5%); objects of infrastructure 61 813.4 ha (1.8%).
 - The share of forestry, wood-working industry and furniture production amounted to 6 % GDP (2012), export counts for 18%.
 - Appr. 5% of inhabitants are employed in the industry (forestry, wood-working industry and furniture production).
 - Employment in forest industry: forestry 20 000 people, wood industry 25 000, furniture production 5 000
- Overall statistics is available at:
http://www.csb.gov.lv/sites/default/files/nr_03_latvija_2015_galvenie_statistikas_raditaji_15_00_lv.pdf
- Sources of information: [csb.gov.lv](http://www.csb.gov.lv), www.vmd.gov.lv; www.fao.org; www.zm.gov.lv

Lithuania:

- Around 30% (1,8 mill. ha) of the total land area is covered with forests.
- Around 50% of all forests are state forests; 50% are private forests.
- To secure and maintain SFM both state and private forests are monitored and inspected by the Lithuanian State Forest Department, which also develops the main forestry management rules.
- Before commercial activities in the forests can commence, the State Forest Department requires a long-term forest management plan for every forest unit and owner. After acceptance of the plan, the State Forest Department issues a Harvesting License for separate sites. The Harvesting Licence determines what kind of forest felling system is allowed and which species and in what amount can be harvested in the area. It also determines the forest regeneration method at each harvesting site.
- The Harvesting Licence (licence number) is the main document for suppliers to track the supply chain and secure sustainable log purchases.

- Adjacent lands: agricultural land covers more than 50% of Lithuania.
- According to the National Forest Inventory data (2012), the total forest land area of Lithuania was 2,173,000 ha, covering 33.3% of the country's territory. Since the 1st January 2003, the forest land area has increased by 128,000 ha corresponding to 2.0% of the total forest cover. During the same period, forest stands expanded by 104,000 ha to 2,055,000 ha. Lithuania forest land ownership is divided into: Forests of state importance (1 076 500 ha or 49.5 %), Private forests (844 500 ha or 38.9 %) and Forests reserved for restitution (251 900 ha or 11.6 %). By 1st January 2012, the number of private forest owners amounted to almost 248,000, with forest estates averaging 3.3 ha. Forty two State forest enterprises and 1 national park, under subordination of the Ministry of Environment, managed 1,037,000 ha of forest land. The number of forest districts during the last year decreased from 354 to 348 reaching an average size of 3,043 ha.
- According to functional groups Lithuania forest is divided into: group I (strict nature reserves): 26,300 ha (1.2%); group II (ecosystem protection and recreational): 266,800 ha (12.3%); group III (protective): 331,200 ha (15.2%); and group IV (exploitable): 1,548,600 ha (71.3%).
- 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. Forest composition: Scots pine - 37.6%, spruce - 24.0%, birch - 19.5%, alder - 5.6%, alder - 5.6%, Ash - 2.7%; Aspen - 2.6%, Oak - 1.8%, other species - 0.6%.
- CITES came into force in the Republic of Lithuania on 9 March 2002. The rules for trade in wild animals regulating bringing into and taking out of the Republic of Lithuania animals, parts thereof or articles made of them are prepared following the requirements of the CITES, provisions of Council Regulation (EC) No 338/97 of 9 December 1996 on the protection of species of wild fauna and flora by regulating trade therein and Commission Regulation (EC) No 1808/2001 of 30 August 2001 laying down detailed rules concerning the implementation of the protection of species of wild fauna and flora by regulating trade therein. No CITES tree species growing in Lithuania.
<http://www.fao.org/docrep/w3722e/w3722e22.htm#TopOfPage>

Russia Pskov Region:

- The forest area is state owned.
- Forest management is based on long-term rent contracts, where the state rents forest area to private forest management and harvesting companies.
- After long term rent contracts are signed, Forest Declarations are required for forest harvesting.
- The Forest Declarations (licence number) is the main document for suppliers to track the supply chain and secure sustainable log purchases.
- Forests cover 46,6% of the area of the Russian Federation, which is 764 milj. Ha.
- Main wood species: pine, spruce, birch, aspen. Hardwood is 68,4% , while softwood is 21,7%
- Forest sector – 1,3% GNP,
- Currently there are 39 milj ha certified forests in Russia, you can see more information here: (www.fsc.ru)
- 49% of Russia's landmass is covered by forest. There is no privately owned forest in Russia - all forests are state-owned. Companies are entitled to utilise the forest resources of the state. Forests are licensed as concessions and distributed to companies for the purpose of timber harvesting for a period of 1 to 49 years. Short-term use of forests (for the purpose of timber harvesting) is also possible for organizations and citizens and is agreed directly with local authorities. The main normative document regulating forest management in the country is the Forest Code of the Russian Federation. The main supervisory body is the Federal Forestry Agency. Plantation is not a form of forest management widely practiced in Russia.
- Wood species in Red Book are preserved and protected by legislation. Legislation prohibits trafficking of CITES listed species and CITES certificates are needed for export. Currently there are

four timber species growing in Russia on the CITES list (Manchurian Ash - *Fraxinus mandschurica*, Korean Pine - *Pinus koraiensis*, Mongolian oak - *Quercus mongolica*, Japanese Yew - *Taxus cuspidata*).

Enforcement is being strengthened. However cases of timber exported under CITES certificates with unknown/unclear origin clearly shows that problems continue. Due to general corruption in Russia this risk is considered as specific.

- The total forest area in the Pskov region is 2.36 million hectares, which is about 38% of the total area, total forest stock is 321.3 million m³.
- Pskov region today there are 196 forest plots lease agreements for a total area of 1,258,400 hectares.
- Among them:
 - Under Forest Management usage - 135 contracts for a total area of 998,200 hectares;
 - Permanent area leased 7101 hectares for state budget educational institution "Velikoluksky forestry technical school 's activities in education.
- 2015, the tenants took afforestation area 3205 hectares, of which forest planting was carried out 2291.95 ha. Cleaning performed in 4820 hectares of forest species and supplementation - 672 ha. Preparation of forest land for 2016 planned activities for 2,045 ha
- In 2015, tenants were also carried out other forestry activities: Made fire protection 395 842 km in length and carried fire mineralized zone maintenance - 3522.12 km. In the forest, it was created 526 fire announcements. To carry out controlled burning operations where burned branches, litter, dry grass and other flammable materials in 771.9 hectares.
- Additional information may be obtained by visiting the website:
<http://priroda.pskov.ru/vidy-deyatelnosti/vidy-deyatelnosti/deyatelnost-v-sfere-lesnyh-otnosheniy/ispolzovanie-lesov>

Belarus:

- The forest area is state owned.
- 39,3% of Belarus (9,48 milj. Ha) area is covered by forests, forest land is overtaking 86.1% of the total forest area.
- Forest land in Belarus is distributed among two groups: 51% belongs to forests of group I, and 49% belongs to forests of group II. Forests of group II are exploitable forests and are meant for wood harvesting, while forests of group I are protected forests and conservation and recreation areas where commercial clear cutting is prohibited (Forest Code 2000).
- State owned Forest Management Units organize forest site management, according to legislation.
- Sales of logs are organized exceptionally through state auctions. Batches of round wood are offered for purchases.
- After the auctions, the volumes of procured round wood are divided to Forest Management Units, which execute forest harvesting operations and supply the volumes.
- To ensure sustainability, the Forest Management Units, from which AKZ receives the round wood, are regularly audited by an independent auditor.
- Main species in Belarus forest are the following: pine – 50,4%, birch 23,1%, spruce 9,2%, black alder 2,1%, aspen 2,1% and other species 3,3%.
- The development of protected natural areas in the forests and the provision of its special protected forest areas: 18% of forest area is fully or partly restricted to wood harvesting.
- The dominant forest regeneration method in Belarus is artificial regeneration (86% of the total forest regeneration area). About 95% of the artificially regenerated area has been planted.
- In 2006, the share of the forest sector in GDP was about 4.2%. There are about 5 000 companies and enterprises of various forms of property (including over 470 large and medium enterprises), which employ more than 146 000 people (about 3.2% of the total number of employed people) in the forest sector.

- In the structure of the forest industry, mechanical woodworking predominates (69.5% of the total forest industry production), while pulp and paper form the second largest branch (18.6%). The share of the logging industry is 10.5%
- Legislation prohibits trafficking of CITES listed species and CITES certificates are needed for export.
- According to FSC data, there were 61 forest management units what was certified under FSC schemes on 1 January 2014. With total area of forest 5 mil ha, what is more than 62,1 % of all forests. 91 forest Management companies are certified under PEFC scheme with total area of 7,7 milj ha. There are 83 Forest Management units what have received PEFC certificate for their production units and products. Certification in forests continuing.

Resources ://www.metla.fi, <http://www.mlh.by>; www.fao.org

Subdivide by SBP-approved Forest Management Schemes.

| | |
|------------|---|
| Latvia: | 18% Private forests FSC Controlled Wood (SBP controlled), 21% State Forests FSC Mix (SBP Compliant) |
| Lithuania: | 22% Private forests FSC Controlled Wood (SBP controlled), 19% State Forest FSC 100% (SBP Compliant) |
| Russia: | 7% FSC Controlled Wood, from Pskov Region (SBP controlled) |
| Belarus: | 13% FSC Controlled Wood (SBP controlled) |

Total amount of feedstock suppliers around 90 units.

2.2 Actions taken to promote certification amongst feedstock supplier

AKZ is promoting Sustainable Forest Management (mainly FSC) certification. We explain to our suppliers its criteria and importance. AKZ give priority to FSC certified suppliers. AKZ promote only FSC controlled and FSC certified wood supply with that action certified wood purchase is promoted.

2.3 Final harvest sampling programme

AKZ production is organized with 0 waste technologies. AKZ uses round wood in their sawing operations and does not harvest trees with the goal to produce pellets. AKZ only use wood wastes, originating from woodworking. The resources originate from well-managed multifunctional forests with a long rotation period. AKZ sources are either FSC certified wood, or FSC controlled wood.

2.4 Flow diagram of feedstock inputs showing feedstock type [optional]

2.5 Quantification of the Supply Base

Supply Base

- Total Supply Base area (ha): 15,76 million ha.
- Tenure by type (ha): 13,23 million ha state owned. 2,53 million ha privately owned.
- Forest by type (ha): 15,76 million ha Temperate zone
- Forest by management type (ha): 15,76 million ha Managed Natural Forests

e. Certified forest by scheme (ha): 2,53 million ha FSC Certified

Feedstock

f. Total volume of feedstock: Chips 75 627 m³; Sawdust 207 486 m³; Shavings 43 969 m³ to pellet mill

g. Volume of primary feedstock: 422 578 m³ round wood in 2016 (per year) to the saw mill

h. List percentage of primary feedstock (g), by the following categories.

Subdivide by SBP-approved Forest Management Schemes.

Latvia: 14% Private forests FSC Controlled Wood (SBP controlled), 24% State Forests FSC Mix / PEFC (SBP Compliant)

Lithuania: 22% Private forests FSC Controlled Wood (SBP controlled), 17% State Forest FSC 100% (SBP Compliant)

Russia: 3,6 % FSC Controlled Wood, from Pskov Region (SBP controlled)

Belarus: 17,6 % State Forest FSC 100% (SBP Compliant), 1,8% FSC Controlled Wood (SBP controlled)

FSC certified wood:

- 38% Large forest holdings, certified to an SBP-approved Forest Management Scheme
- 2% Small forest holdings, certified to an SBP-approved Forest Management Schemes

FSC controlled wood:

- 60% Small forest holdings not certified to an SBP-approved Forest Management Scheme

i. List all species in primary feedstock, including scientific name:

- Norway Spruce (*Picea abies* L.)
- Scotch Pine (*Pinus sylvestris* L.)

j. Volume of primary feedstock from primary forest:

0 m³ of primary feedstock. We only use wood wastes to produce pellets. The supply base does not include any known primary, or old growth forests. The Forest management systems in place ensure the identification of primary and other High Conservation Value Forests.

k. List percentage of primary feedstock from primary forest (i), by the following categories. Subdivide by SBP-approved Forest Management Schemes

0% of primary feedstock. We only use wood wastes to produce pellets. The supply base does not include any known primary, or old growth forests. The Forest management systems in place ensure the identification of primary and other High Conservation Value Forests.

Volume of secondary feedstock: Chips 75 627 m³; sawdust 207 486 m³; Shavings 43 969 m³ to pellet mill, from our own saw mill.

l. Volume of tertiary feedstock:

Not applicable.

3 Requirement for a Supply Base Evaluation

| SBE completed | SBE not completed |
|--------------------------|-------------------|
| <input type="checkbox"/> | X |

Supply Base Evaluation not invented due to the reason that existent FSC certified volumes are sufficient for existing orders.

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

With this we confirm, that Latvian Biomass Association LATbio has reviewed the Supply Base Report provided by SIA AKZ.

After reading the report, we can conclude that the AKZ Ltd. has conducted in-depth case studies of forest management both Latvian and other countries, of which the raw materials are being purchased. It shows a serious and detailed approach to sustainable forestry issues and requirements.

Review is prepared by: Guna Rasa, Project Manager, Latvian Biomass Association LATbio

11.2 Public or additional reviews

Not applicable

12 Approval of Report

| Approval of Supply Base Report by senior management | | | |
|--|--------------------------|-------------------------|-------------------|
| Report Prepared by: | <i>Gints Hansons</i> | <i>Sales Specialist</i> | <i>19.09.2017</i> |
| | Name | Title | Date |
| The undersigned persons confirm that I/we are members of the organization'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 finalization of the report. | | | |
| Report approved by: | <i>Ingrida Rozukalne</i> | <i>Finance director</i> | <i>19.09.2017</i> |
| | Name | Title | Date |

13 Updates

13.1 Significant changes in the Supply Base

No any changes in Supply Base

13.2 Effectiveness of previous mitigation measures

Not applicable

13.3 New risk ratings and mitigation measures

Not applicable

13.4 Actual figures for feedstock over the previous 12 months

Supply Base

Total Supply Base area (ha): 15,76 million ha.

Tenure by type (ha): 13,23 million ha state owned. 2,53 million ha privately owned.

Forest by type (ha): 15,76 million ha Temperate zone

Forest by management type (ha): 15,76 million ha Managed Natural Forests

Certified forest by scheme (ha): 2,53 million ha FSC Certified

Feedstock

m. Total volume of feedstock: Chips 75 627 m³; Sawdust 207 486 m³; Shavings 43 969 m³ to pellet mill

n. Volume of primary feedstock: 422 578 m³ round wood in 2016 (per year) to the saw mill

o. List percentage of primary feedstock (g), by the following categories.

Subdivide by SBP-approved Forest Management Schemes.

Latvia: 14% Private forests FSC Controlled Wood (SBP controlled), 24% State Forests FSC Mix / PEFC (SBP Compliant)

Lithuania: 22% Private forests FSC Controlled Wood (SBP controlled), 17% State Forest FSC 100% (SBP Compliant)

Russia: 3,6 % FSC Controlled Wood, from Pskov Region (SBP controlled)

Belarus: 17,6 %State Forest FSc 100% (SBP Compliant), 1,8% FSC Controlled Wood (SBP controlled)

FSC certified wood:

- 38% Large forest holdings, certified to an SBP-approved Forest Management Scheme
- 2% Small forest holdings, certified to an SBP-approved Forest Management Schemes

FSC controlled wood:

- 60% Small forest holdings not certified to an SBP-approved Forest Management Scheme
- List all species in primary feedstock, including scientific name:

- Norway Spruce (*Picea abies* L.)
- Scotch Pine (*Pinus sylvestris* L.)

Volume of primary feedstock from primary forest:

0 m³ of primary feedstock. We only use wood wastes to produce pellets. The supply base does not include any known primary, or old growth forests. The Forest management systems in place ensure the identification of primary and other High Conservation Value Forests.

List percentage of primary feedstock from primary forest (i), by the following categories. Subdivide by SBP-approved Forest Management Schemes

0% of primary feedstock. We only use wood wastes to produce pellets. The supply base does not include any known primary, or old growth forests. The Forest management systems in place ensure the identification of primary and other High Conservation Value Forests.

Volume of secondary feedstock: Chips 75 627 m³; sawdust 207 486 m³; Shavings 43 969 m³ to pellet mill, from our own saw mill.

Volume of tertiary feedstock:

Amount of shavings 43 969 m³

13.5 Projected figures for feedstock over the next 12 months

Chips 75 000 m³

Sawndust 250 000 m³. Shavings 50 000 m³

Species: *Picea abies*; *Pinus sylvestris*