



Supply Base Report: Highland Pellets LLC

Fourth Surveillance Audit

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Completed in accordance with the Supply Base Report Template Version 1.3

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: Highland Pellets LLC

Producer location: 5601 North Industrial Dr, Pine Bluff AR 71602

Geographic position: 34.26509 N, -92.067747 W

Primary contact: Ellen Kincaid, Sustainability Manager; +1 870-209-2686,
ellen@highland-pellets.com

Company website: www.highland-pellets.com

Date report finalised: 16/Nov/2020

Close of last CB audit: January 2020, Pine Bluff

Name of CB: SCS Gobal Services

Translations from English: NA

SBP Standard(s) used: Versions 1.0 of Standard 1, Version 1.0 of Standard 2, Version 1.0 of Standard 4, Version 1.0 of Standard 5, Version 1.0 of Standard 6

Weblink to Standard(s) used: <https://sbp-cert.org/documents/standards-documents/standards>

SBP Endorsed Regional Risk Assessment: NA

Weblink to SBE on Company website: <http://highland-pellets.com/supply-base-report/>

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"/>	<input type="checkbox"/>	<input type="checkbox"/>	X

2 Description of the Supply Base

2.1 General description

Highland Pellets LLC's wood pellet production plant is located in Pine Bluff, Arkansas, USA. Highland Pellets LLC owns all wood and fiber inputs, owns and manages the pellet manufacturing facility and owns and sells the finished wood pellets to customers in Europe. Highland Pellets LLC primarily purchases from the state of Arkansas, but includes 25 Counties from Northern Louisiana in its supply base.

Arkansas has a population of approximately 3 million people, 79% of which are white and 16% of which are black or African American. The median household income is \$46,000. (Quickfacts Arkansas. Population Estimates. USA Census. 2019. <https://www.census.gov/quickfacts/AR>, Accessed October 16, 2020). Privately owned forests support 58,511 jobs in Arkansas state (In Your State:Arkansas. NAFO. <https://nafoalliance.org/in-your-state/?state=AR>. Accessed October 16, 2020).

Louisiana has a population of approximately 4.5 million people, 63% of which are white and 33% of which are black or African American. The median household income is \$48,000. (Quickfacts Louisiana. Population Estimates. USA Census. 2019. <https://www.census.gov/quickfacts/fact/table/LA,US/PST045219>, Accessed November 8, 2020).

The Highland Pellets LLC mill at 1.5 million short tons of fiber consumption is on the large side of manufacturers in the general region. Green Bay Packaging, Drax Morehouse, Evergreen Packaging, and Clearwater Paper are comparable in size, however most mills are smaller. Most of the large sawmills are approximately 800,000 short tons usage, with nearby hardwood sawmills approximately 200,000 short tons annually. Although Highland Pellets LLC procure overall a significant volume of feedstock, 70% of those are thinnings and pellets do not drive the harvest. Highland Pellets LLC receives a small percentage of each harvest compared to other companies.

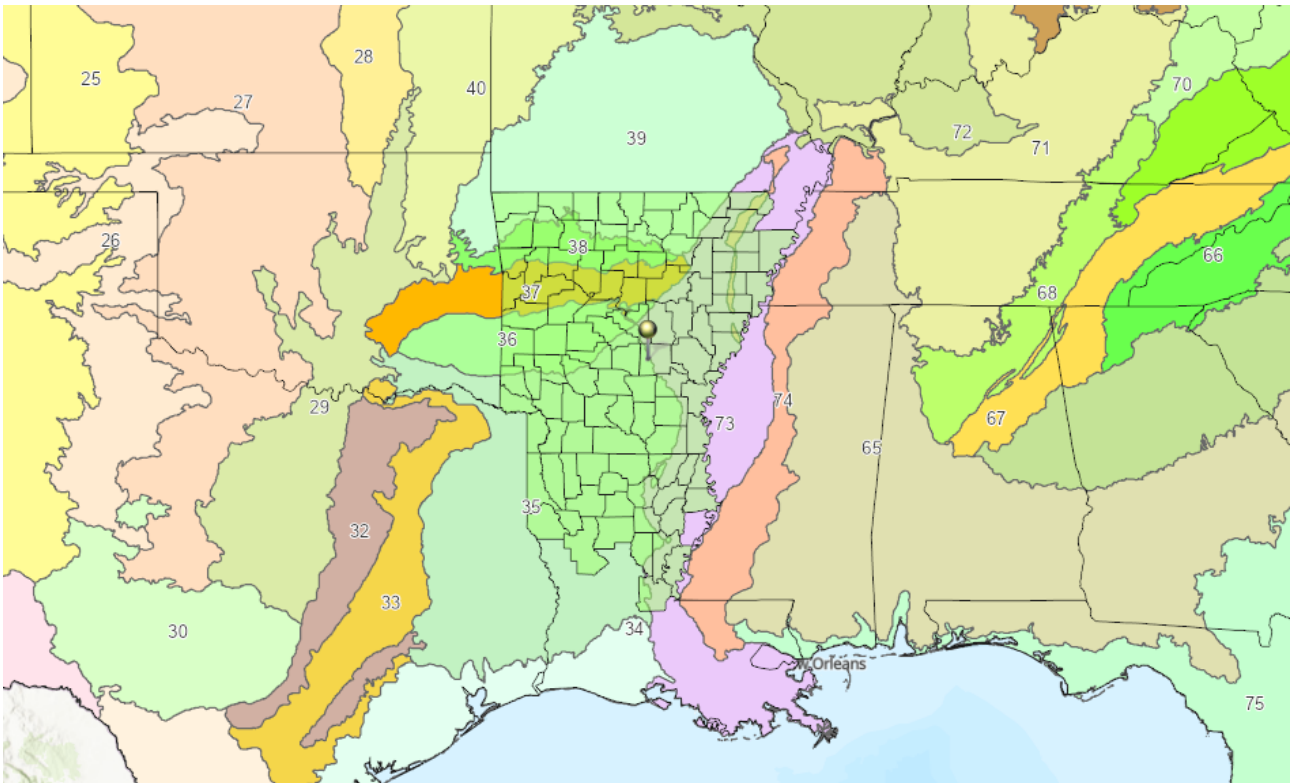
Southeast Arkansas and Louisiana land use is a mosaic of mature pine sawtimber stands, mixed pine hardwood second growth forest, extensive river and creek bottom hardwoods, pine plantations, rural residential, small cattle and poultry operations, gravel mining, and bauxite mining. Arkansas and northern Louisiana have a mix of hardwood and softwood throughout the state. Please see section 2.5 i) for a full list of species Highland Pellets LLC may utilize.

Paper mills have traditionally provided an outlet for low quality wood, or pulpwood, which allows the higher quality roundwood to be sold for lumber. Many paper mills have closed down across the USA ("The Current State of the Paper Industry: Rising Prices, Mill Closings, and Tariffs". General Marketing Services. <https://www.2gms.com/blog-post/paper-industry/>. (Accessed: Dec 30, 2019)), including in Arkansas and Louisiana. Highland Pellets LLC purchases only this low-quality wood from Arkansas' and Northern Louisiana's privately managed forests.

Forests cover 56% of Arkansas, or 19 million acres. Of that 19 million acres, 15.3 million acres (80%) are privately held compared to 3.7 million acres owned publicly. Privately held land can be owned by families, corporations, or Real Estate Investment Trusts (REITs). In Arkansas families own 58% of the privately owned forests (2017 Economic Contributions of Forestry in Arkansas. Arkansas Forest Resources Center, 2018). Forests cover 48% of Louisiana, or 13.8 million acres. 62% of the state's forestland is owned by private, non-industrial landowners, forest products industries own 29%, and the general public own 9% (State of Louisiana Forestry. Louisiana Department of Agriculture and Forestry).

<https://www.idaf.state.la.us/forestry/>. Accessed November 8, 2020). A high percentage of family ownership is an identifying feature of United States Southeast forestry. Land management and harvesting decisions are made by private industrial and family forest owners in the context of U.S. Federal and State laws, regulations and State administered Best Management Practices for water quality and beneficial use protection.

The Pine Bluff facility sources from a largely rural area where forestry and agriculture are the primary sources of income for workers, the local communities and the tax base. Arkansas and Louisiana has a large supply of mixed pine forests. In the low land, such as Mississippi Valley Loess Plains (see map below), there are wetlands with primarily hardwoods. A map of the procurement area is included below.



The below map shows forest types in Arkansas and northern Louisiana. Red hues are softwoods and blue and green hues are hardwoods. (2002 and 2003 Growing Seasons. USFS Forest Inventory and Analysis and Forest Health Monitoring programs and the USFS Remote Sensing Applications Center. 2003. <https://highlandpellets.maps.arcgis.com/home/item.html?id=3f6068f9712a441bbd14ec6af74576ca>. Accessed October 12, 2020).

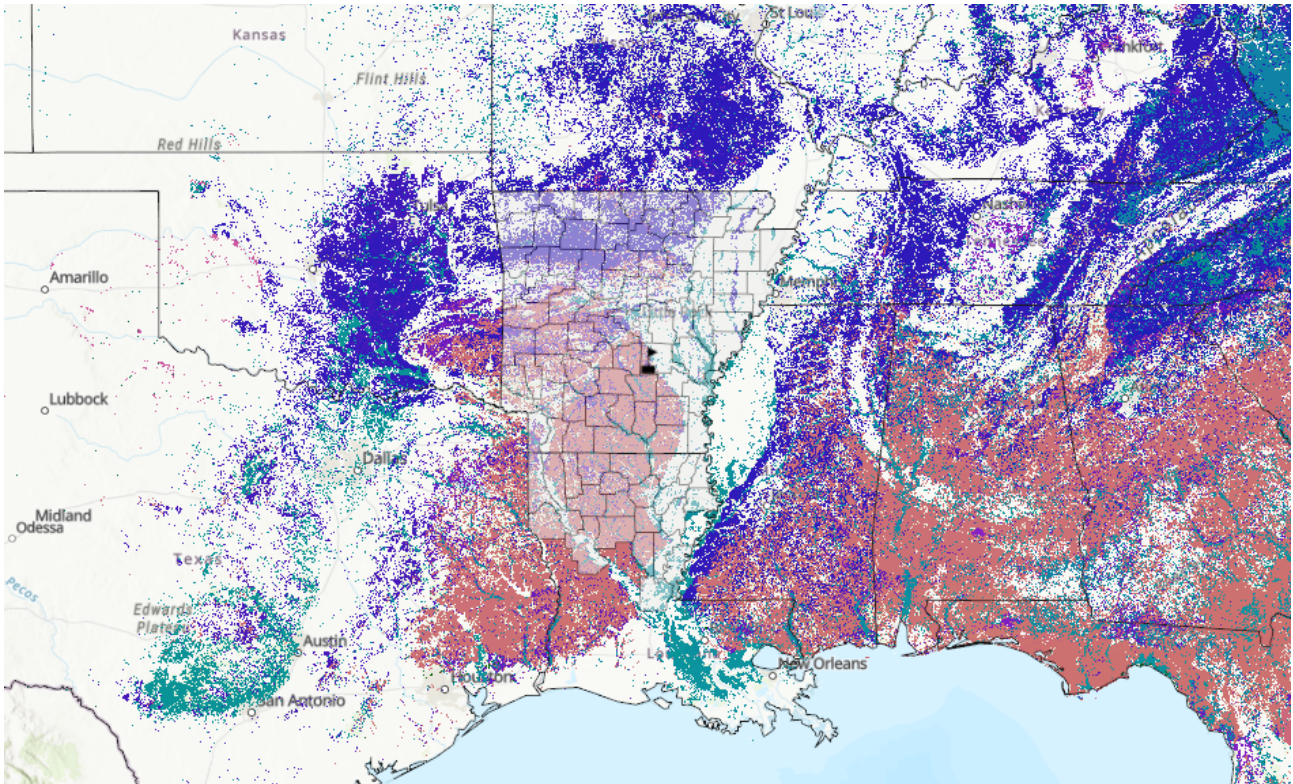


Figure 1 USFS Forest Inventory and Analysis and Forest Health Monitoring programs and the USFS Remote Sensing Applications Center. 2003

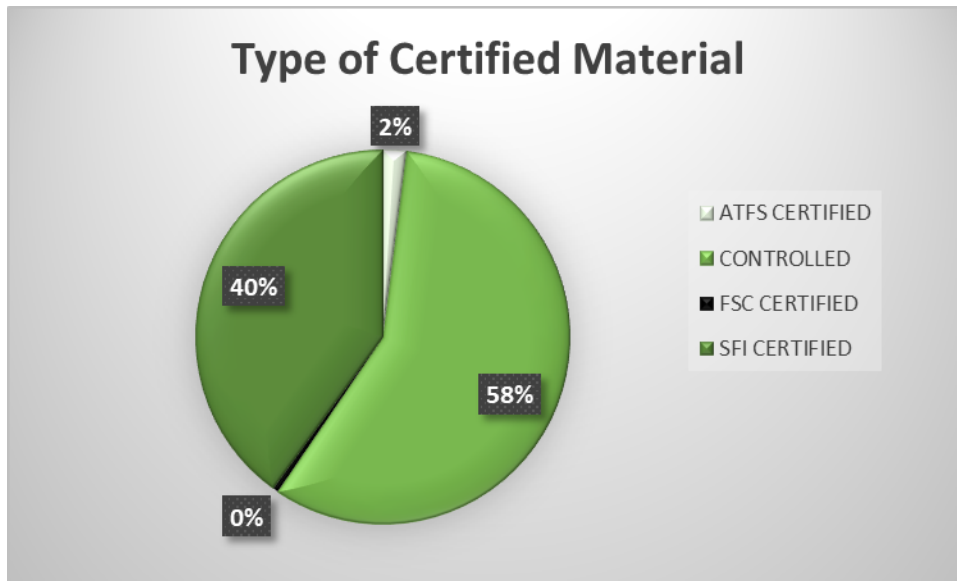
The SBE and RA encompass Arkansas and 25 parishes in Northern Louisiana for hardwood and softwood roundwood and residual sawmill inputs. Highland Pellets LLC pellet mill is an important market for low grade and low valued wood and fiber products. This otherwise low valued and marginal material contributes to the increased use of renewable energy and serves to mitigate greenhouse gas emissions and potential climate change.

Forest management practices in Arkansas and Northern Louisiana are characterized by a predominance of even aged forestry with up to two thinnings conducted approximately every 15 years prior to final harvest. The thinnings reduce over-crowding of the tract and allow more nutrients for the remaining trees. Approximately 70% of primary feedstock that is received by Highland Pellets is from thinnings with 30% coming from tops and rejected trees during final harvests. Thinnings are a practice which improves the health of the forest. Without these thinnings, forest health will decline, become more susceptible to disease, pest, and wildfire. Thinnings also build habitat diversity for non-game and game. Highland Pellets LLC only received low-grade roundwood that is unacceptable for a higher use. Highland Pellets LLC does not use saw logs.

Highland Pellets LLC has approximately 40 suppliers, with approximately 50% of them being primary suppliers (such as landowners) who supply a large amount of the volume received by Highland Pellets LLC. 50% of suppliers deliver sawmill or chipmill residuals at lower volumes.

Highland Pellets LLC does not own forest land and does not have decision making authority over which forest tracts the landowner harvests. Highland Pellets LLC can indirectly encourage best forest management practice, but cannot directly control landowner decisions, how the forests are managed, nor how the trees are harvested.

Land management and harvesting decisions are made by private industrial and family forest owners in the context of U.S. Federal and State laws, regulations and State administered Best Management Practices for water quality and beneficial use protection. Approximately 40% of the current wood inputs originate from SFI Forest Management certified forests. The SFI Forest Management Standard is recognized by the SBP as an acceptable and endorsed Standard and those inputs are considered SBP-Compliant Feedstock. All uncertified material is covered by the Highland Pellets LLC SBE and are considered SBP-Compliant Feedstock. There is approximately 20% of SBP-Compliant Residual Feedstock purchased under the Highland Pellets LLC SBE and no tertiary feedstock. Residual feedstock is generally not certified to FSC nor PEFC, and falls entirely under the SBE.



The States of Arkansas and Louisiana has large and well-funded State Forestry Commission and Dept. of Agriculture & Forestry that administer a comprehensive set of programs including: landowner outreach and extension, forest inventory and analysis, forest fire and pest prevention, BMP implementation and monitoring, smoke management planning and scheduling, forest resource and wildlife assessments and action plans, and other forest sustainability programs. State and Federal programs and regulations provide a safety-net of policies and procedures that help ensure the sustainability of the forest resource.

Highland Pellets LLC's primary influence is through supply agreements and periodic monitoring of suppliers. Wood pellets provide an important market for low valued wood products that improves forest health conditions, minimizes fuels that contribute to wildfire, reduces site preparation costs, facilitates prompt reforestation and establishment of forest cover and provides the landowner and investors with an economic incentive to keep their land in forest production.

The State-wide forest resource assessments have identified development pressure as one of the major threats to the forest resource. A viable forest products industry and demand for wood products is the best defence against the loss of forest cover.

All fiber material is sourced according to the Sustainable Forestry Initiative (SFI), Forest Stewardship Council (FSC) and PEFC Chain of Custody & Controlled Wood. Additional and more specific requirements represent Locally Applicable Verifiers (LAVs) under the SBP scheme. The additional SBE addresses each of the Biomass Feedstock Indicators contained in Standard # 1, documents the Objective Evidence of Conformance, and assigns each Indicator with the appropriate "Risk" rating. All material is covered by Highland Pellets LLC's Supply Base Evaluation and are SBP Compliant.

Highland Pellets LLC has not modified or adjusted the SBP Indicators contained in Standard # 1. Highland Pellets LLC is, in all cases, one or more contracts removed from the Forest Management Unit (FMU). The Locally Applicable Verifiers or evidence of conformance have been developed to meet the requirements of Federal and State laws, State BMPs, and the requirements of the SFI, FSC and PEFC Standards. The verifiers contained in the SBE represent objective evidence of conformance that can be audited by an independent Certification Bodies accredited to conduct audits to the above Standards. Independent audits involve stakeholder consultations and provide feedback that the verifiers are appropriate and acceptable evidence of conformance to the SFI, FSC, PEFC and SBP Standards.

In addition to the SBP Standards, certification has been achieved to the SFI Fiber Sourcing, Section 3, FSC and PEFC Chain of Custody and Controlled Wood/Due Diligence System Standards. The FSC National Risk Assessment concludes one Specified Risk in the supply base for Highland Pellets LLC. That of Late Successional Bottomland Hardwoods details on the mitigation measures implemented to bring the risk to low are written in the Supply Base Evaluation under the specific indicators. The company's existing Standard Operating Procedures (SOPs) and "Wood Purchase Agreements" contribute to the finding of Low Risk for all Standard # 1 Indicators after mitigation measures are implemented for indicators 2.1.1, 2.1.2, 2.2.3, 2.2.4, and 2.4.1. Thus, all wood pellet outputs are considered "SBP-compliant Biomass" and "EUTR-compliant Biomass."

Highland Pellets LLC does not utilize feedstock from any CITES or IUCN Redlist species within the procurement region. No longleaf pine nor cypress trees that may be considered controversial are sourced. Upland planted forests of loblolly and shortleaf pine thinning, tops and other forest and mill residuals are the majority species sources with hardwoods also purchased. A full list of the procured species is available in section 2.5 Feedstock i) below.

2.2 Actions taken to promote certification amongst feedstock supplier

All of the Highland Pellets LLC's inputs are sourced as wood directly from the forest and as residuals indirectly from local sawmills. All wood and fiber material is sourced according to the SFI Fiber Sourcing and FSC Chain of Custody and Controlled Wood, and PEFC Chain of Custody Standards and is considered at least "controlled material," which provides evidence that it is Low Risk of illegal logging and unsustainability.

A formal procedure contains correspondence that can be sent to suppliers, landowners, wood producers and contract loggers under the SFI Fiber Sourcing Standard with Wood Purchase Agreements/Contract Provisions specifying conditions and requirements to ensure compliance with all applicable laws and regulations, implementation of water quality BMPs and the use of Qualified Logging Professionals.

The SFI Fiber Sourcing Standard requires that certificate holders promote forest certification with landowners and wood producers. Conformance to the SFI Fiber Sourcing Standard is evidence of implementation of this requirement. The SFI Fiber Sourcing Standard has been recognized by PEFC as providing evidence of Legality. Currently, approximately 40% of inputs are from SFI Certified Forests.

Highland Pellets LLC is a member of the Arkansas Forestry Association, the Arkansas SFI Implementation Committee, the Louisiana Forestry Association, and the Louisiana SFI Implementation Committee that promotes forest certification and provides technical information to landowners addressing water quality BMPs, reforestation, visual quality protection, efficient utilization, protection of wildlife and biodiversity, control of invasive species and the identification and protection of forests. Highland Pellets LLC is also a

member of the U.S. Industry Pellet Association (USIPA) that promotes renewable energy and represents the pellet organizations in legislative and regulatory affairs.

2.3 Final harvest sampling programme

This section is not applicable as Highland Pellets LLC does not source biomass from stands with an expected rotation length of more than 40 years.

2.4 Flow diagram of feedstock inputs showing feedstock type

Highland Pellets LLC utilizes softwood pine and hardwood species from the forest and sawmill residuals. The residual sawdust and wood chips are generated by primary sawmills, all of which are located in Arkansas. The pellet facility does not own forest land and does not have responsibility for forest management decisions. The facility also does not use any construction, demolition or post-consumer derived feedstock. The vast majority of feedstock is from primary sources (forest thinnings and tops).

Primary Feedstock



Pine Tree Tops



Pine pulp wood and small round wood from forest thinnings

Secondary Feedstock



Sawmill residuals

Pellet Production



2.5 Quantification of the Supply Base

Supply Base

- a. Total Supply Base area (ha): cumulative area of all forest types within SB: 10,076,672 hectares (USDA data)
- b. Tenure by type (ha): privately owned/public/community concession: All purchases come from private forestland (10,076,672)
- c. Forest by type (ha): boreal/temperate/tropical: All forests temperate
- d. Forest by management type (ha): plantation/managed natural/natural: managed forestland
- e. Certified forest by scheme (ha): (e.g. hectares of FSC or PEFC-certified forest): Approximately 4,030,700 hectares SFI/PEFC certified forest

Feedstock

- f. Total volume of Feedstock: tonnes or m3 - 1,300000 mt
- g. Volume of primary feedstock: 965000 mt
- h. List percentage of primary feedstock (g), by the following categories. - Subdivide by SBP-approved Forest Management Schemes:
 - 50% Certified to an SBP-approved Forest Management Scheme
 - 50% Not certified to an SBP-approved Forest Management Scheme
- i. List all species in primary feedstock, including scientific name

Common Name	Scientific Name
Loblolly pine	Pinus taeda
Shortleaf Pine	Pinus echinata
Ash	Fraxinus Americana
Elm	Ulmus Americana
Eastern Cottonwood	Populus deltoides
Gum	Liquidambar styraciflua
Hickory	Carya tomentosa
Red Maple	Acer rubrum
Oak	Quercus (Q.) laurifolia, Q. coccinea, Q. falcata, Q. nigra, Q. pagoda, Q. phellos, Q. rubra, Q. shumardii, Q. velutina, Q. alba, Q. lyrata, Q. michauxii, Q. stellata
Sycamore	Platanus occidentalis
Yellow Poplar	Liriodendron tulipifera
Sweetgum	Liquidambar Styraciflua
Sycamore	Platanus occidentalis
Pecan	Carya illinoensis
Green Ash	Fraxinus pennsylvanica
White Ash	Fraxinus Americana
American Beech	Fagus Grandifolia
Black Cherry	Prunus serotina
Mockernut Hickory	Carya tomentosa
Shagbark Hickory	Carya ovata
Pignut Hickory	Carya glabra

Sassafras	Sassafras albidum
Black Willow	Salix nigra
Box Elder	Acer negundo
American Hornbeam	Carpinus caroliniana
Eastern Hophornbeam	Ostrya Virginiana

- j. Volume of primary feedstock from primary forest: 0 mt
- k. List percentage of primary feedstock from primary forest (j), by the following categories. Subdivide by SBP-approved Forest Management Schemes:
 - 0% Primary feedstock from primary forest certified to an SBP-approved Forest Management Scheme
 - 0% Primary feedstock from primary forest not certified to an SBP-approved Forest Management Scheme
- l. Volume of secondary feedstock: specify origin and type:
 - Sawdust: 140,000 mt
 - Chips: 100,000 mt
- m. Volume of tertiary feedstock: specify origin and composition – 0 mt

3 Requirement for a Supply Base Evaluation

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

Highland Pelets LLC receives around 50% certified material. However, the remaining are not Chain of Custody certified and do not report Certified Forest Content.

All sources of supply are subject to the SBE/RA and have been determined to be Low Risk of coming from illegal and unsustainable sources after a control measure for Late Successional Bottomland Hardwoods was implemented.

4 Supply Base Evaluation

4.1 Scope

While the SBE & Risk Assessment includes information and evidence from across all 75 Counties in Arkansas, the fiber supply area is significantly smaller than the area covered by these States. The majority of the material comes from approximately 75 highway miles from the mill. A map of the Supply Base is available in section 2.1.

4.2 Justification

The Supply Base Evaluation & Risk Assessment addresses each of the SBP Indicators contained in Standard # 1. Highland Pellets LLC did not attempt to modify or change the Indicators. It has adopted Locally Applicable Verifiers (LAVs) based upon state BMPs, SFI Fiber Sourcing Standard requirements and FSC/PEFC Chain of Custody and Controlled Wood requirements. These verifiers have been developed through open and inclusive public involvement processes. The evidence of conformance to the Indicators in Standard # 1 was drawn from SFI/FSC/PEFC Procedures and Objective Evidence that demonstrate conformance.

Additional objective evidence of conformance was drawn from publicly available sources including: State BMP monitoring; forest inventory & analysis statistics; fire, insect and disease control programs; statewide forest resource assessments; research reports; Draft of the FSC US National Risk Assessment; wildlife action plans and other publicly available sources of information addressing laws, regulations and other safety-net programs.

The Highland Pellets LLC's SFI, FSC, PEFC and SBP Documents and Procedures provide the bulk of the evidence and Locally Applicable Verifiers (LAVs) contained in the Supply Base Evaluation and Risk Assessment.

4.3 Results of Risk Assessment

The Risk Assessment considered all of the Standard Operating Procedures (SOPs) that are being implemented by Highland Pellets LLC as part of its SFI Fiber Sourcing, FSC and PEFC Chain of Custody and Controlled Wood certifications. The SOPs contain existing Wood Purchase Agreements and contract provisions that have been approved and certified by an independent Certification Body to meet the rigorous requirements of the SFI, FSC and PEFC Standards to ensure legality and sustainability.

The findings of the Supply Base Evaluation & Risk Assessment are consistent with the findings of the FSC/PEFC Chain of Custody and Controlled Wood Assessment under FSC-STD-40-005 V3-1, the PEFC Chain of Custody Due Diligence System (PEFC ST 2002:2020) and the SFI Fiber Sourcing Standard.

The FSC US National Risk Assessment did identified Late Sucessional Bottomland Hardwoods as an High Conservation Value Forests (HCVFs) in Highland Pellets LLC's supply base. Any potential water quality impacts are effectively mitigated by the very high rates of water quality BMP Compliance across the two States within the Supply Base. The BMP compliance rates for Arkansas is 93.5% and 97% for Louisiana. State BMP surveys are conducted periodically, with Arkansas completing its most recent survey in the Fall of

2018 by the Arkansas Forestry Commission. Louisiana's BMP survey was conducted in 2019 by the National Association of State Foresters.

Highland Pellets LLC has Wood Purchase Agreements with its wood producers and suppliers including the following requirements: 1) implement water quality BMPs to protect water quality and beneficial aquatic habitats, 2) use qualified logging professionals that have been SFI trained, 3) comply with all applicable laws and regulations and 4) avoid controversial sources in their supply chain. The SOPs also include BMP monitoring for every tract of Forest Management Certified land. Non-Certified delivered sources have internal audits based on a randomly selected sample. Logger training programs in Arkansas include sections on wildlife, biodiversity, endangered species and special places in the forest.

4.4 Results of Supplier Verification Programme

The results of the Supply Base Evaluation and Risk Assessment addressing the requirements in Standard # 1 were Low Risk with the exception of Late Successional Bottomland Hardwood.

Wood Purchase Agreements including contract provisions have been incorporated as part of implementing the FSC and PEFC Chain of Custody and Controlled Wood Standards. For fiber that is purchased directly from the forest, BMP checks are conducted. The forest tracts are chosen based on potential sustainability risks (hardwoods are given more weight than softwoods) and then applied on a random basis. Highland Pellets LLC conducts on-site audits for all residual fiber suppliers to ensure integrity of supply according to Highland Pellets LLC requirements.

4.5 Conclusion

The Supply Base Evaluation & Risk Assessment concluded "Low Risk" for most SBP Indicators with the exception of 2.1.1, 2.1.2, 2.2.3, 2.2.4, and 2.4.1, based upon the Standard Operating Procedures (SOPs) of Highland Pellets LLC. The Specified Risk for those listed indicators is for Late Successional Bottomland Hardwood. The Supply Base Evaluation drew on the experience of the company's implementation and conformance to SFI Fiber Sourcing and FSC/PEFC Chain of Custody and Controlled Wood/Due Diligence certification Standards.

The States of Arkansas and Louisiana document high levels of BMP compliance and have strong legal and regulatory systems in place to ensure legality. Highland Pellets LLC requires its suppliers to use trained loggers, requires compliance with laws and regulations, as well as State Best Management Practices.

Approximately 40% of the feedstock is from SFI Certified Forests. This is documented through the FSC and PEFC Chain of Custody Procedures. Certified Forest Content is considered SBP-Compliant Feedstock and is not subject to the SBP Supply Base Evaluation and Risk Assessment.

100% of the wood and fiber inputs are supplied within the scope of the SFI Fiber Sourcing and FSC/PEFC Controlled Wood/Due Diligence Systems approved by SBP. Thus, all roundwood and residual inputs included in the scope are at least considered "SBP Controlled Feedstock" and, according to the SBE/RA, "SBP-compliant Feedstock."

Feedback from the Stakeholder Consultation process was positive and reinforced the finding that there is a need for markets of low valued softwood sawmill residual material. The Arkansas Forestry Association provided feedback, and it was very positive about the efforts being made by Highland Pellets LLC in its efforts to source sustainable feedstock. Comments from the Arkansas Forestry Association (AFA) include

that the AFA is “confident that [Highland’s] fiber inputs are at Low Risk of coming from controversial sources” and “Highland Pellets LLC is demonstrating a strong commitment to implementing [SBP] standards”. The Arkansas Timber Producers Association also said that it had no concerns regarding Highland pursuing SBP approval and was grateful for Highland locating in the area as it would support increased work opportunities for the logging industry in the State. There were no comments addressing the Locally Applicable Verifiers that are being used to demonstrate Standards conformance. See ‘HP-SBP-02-Stakeholder Input’ for a copy of the responses from Stakeholders.

By virtue of the successive mitigation measures implemented for Late Successional Bottomland Hardwood and the Low Risk rating for other mitigation measures, all wood pellet outputs from Highland Pellets LLC’s pellet mill are considered "SBP-compliant Biomass" and "EUTR-compliant Biomass."

5 Supply Base Evaluation Process

Highland Pellets LLC retained R.S. Berg & Associates, Inc. to prepare and update the SFI Fiber Sourcing, FSC/PEFC Chain of Custody/Controlled Wood and SBP Program and Procedures, including conducting the Supply Base Evaluation & Risk Assessment. R.S. Berg & Associates, Inc. has provided consulting assistance to over two hundred and ninety (290) forestry organizations in North America and has conducted over forty (40) independent and internal audits to the FSC, SFI, PEFC and American Tree Farm System Standards. Resume, Client List and other information is available at the following website: <http://www.rsbergassoc.com/>

Highland Pellets LLC has achieved independent certification to the SFI Fiber Sourcing and FSC/PEFC Chain of Custody and Controlled Wood Standards. Highland Pellets LLC sources all Direct and Indirect inputs from suppliers that are within scope of the FSC/PEFC Chain of Custody and Controlled Wood/Due Diligence Standards.

In 2020, Highland Pellets LLC edited the Supply Base Evaluation with Brenda Hopkins owner of Hopkin Forest Management Consulting. Brenda is an independent consultant specializing in forestry certification. Since 2000, she has been conducting audits of environmental national and international standards, focusing on sustainability and legality requirements. In a consulting role, Brenda has supported the roll-out of sustainable forest management legislation, policy, certification and operational procedures. Brenda has been project manager and/or lead author of a number of Sustainable Forest Management Plans, Risk Assessments and facilitated workshops. In addition, she sits on a 6-person international Technical Committee for SBP, is a registered member in the Economic Chamber of FSC International and is a member of a 12-person Standards Development Group for FSC Canada. She is a Registered Professional Forester in British Columbia.

6 Stakeholder Consultation

A Stakeholder Consultation Procedure (HP-SBP-01) was developed that included correspondence to interested and affected stakeholders across the two State procurement region. A list of relevant Stakeholders was developed based upon several selection criteria including: the geographic scope of the Supply Base, relevant federal and state natural resource agencies, representatives of indigenous people, private conservation organizations, forestry colleges and universities, advocacy organizations, and forest products organizations.

Correspondence was forwarded to all Stakeholders at least 30 days prior to the completion of the SBE/RA. A Summary of Stakeholder input was prepared documenting input and responses by Highland Pellets LLC (HP-SBP-02).

6.1 Response to stakeholder comments

Original Stakeholder Consultation for Certification

Comment from the Arkansas Forestry Association:

The AFA is confident that Highland's fiber inputs are at Low Risk of coming from controversial sources" and "Highland Pellets LLC is demonstrating a strong commitment to implementing SBP standards".

Response from Highland:

Highland thanked the AFA for their support.

Comment from the Arkansas Timber Producers Association:

The Arkansas Timber Producers Association (ATPA) said that it had no concerns regarding Highland pursuing SBP approval and was grateful for Highland locating in the area as it would support increased work opportunities for the logging industry in the State.

Response from Highland:

Highland thanked the ATPA for their support.

2019 – Expansion of Scope Stakeholder Consultation

In 2019 an expansion of scope was conducted to include hardwoods in the Highland Pellets LLC supply. A Stakeholder Consultation Procedure was developed that included correspondence to interested and affected stakeholders across the two State procurement region. A list of relevant Stakeholders was developed based upon several selection criteria including: the geographic scope of the Supply Base, relevant federal and state natural resource agencies, representatives of indigenous people, private conservation organizations, forestry colleges and universities, advocacy organizations, and forest products organizations.

Correspondence was forwarded to all Stakeholders at least 30 days prior to the completion of the SBE/RA. A Summary of Stakeholder input was prepared documenting input and responses by Highland Pellets LLC.

Comment from the Louisiana Forestry Association:

The Louisiana Forestry Association confirmed that the Louisiana woodbasket meets Highland's standards for sourcing and invited Highland to join their Association.

Response from Highland:

Highland clarified that it has not sourced from Louisiana in the past, however it would be delighted to join the Louisiana Forestry Association and joined the Louisiana Forestry Association.

Comment from the Arkansas Historic Preservation Program:

The Arkansas Historic Preservation Program thanked Highland for the opportunity to respond to the stakeholder consultation and indicated they may respond with further thoughts.

Response from Highland:

Highland thanked the Arkansas Historic Preservation Program for their response.

Comment from the Atchafalaya Basinkeepers:

The Environmental Non Governmental organization, the Atchafalaya Basinkeepers wrote to express their fear that Highland Pellets would source Cypress Tupelo from the Atchafalaya region.

Response from Highland:

Highland had several phone calls with the Atchafalaya Basinkeepers to further explain our supply area and our policy to avoid all Cypress Tupelo systems. In addition an in-person meeting on August 12 was held in Louisiana to discuss the Cypress Tupelo systems and how Highland Pellets can best support the efforts of the Atchafalaya Basinkeepers. It was agreed that the Highland Pellets LLC supply base is too far to the north to affect the Atchafalaya Basin, and Highland Pellets LLC further agreed to declare not to source Cypress Tupelo.

7 Overview of Initial Assessment of Risk

Table 1. Overview of results from the risk assessment of all Indicators (prior to SVP)

Indicator	Initial Risk Rating		
	Specified	Low	Unspecified
1.1.1		X	
1.1.2		X	
1.1.3		X	
1.2.1		X	
1.3.1		X	
1.4.1		X	
1.5.1		X	
1.6.1		X	
2.1.1	X		
2.1.2	X		
2.1.3		X	
2.2.1		X	
2.2.2		X	
2.2.3	X		
2.2.4	X		
2.2.5		X	
2.2.6		X	
2.2.7		X	
2.2.8		X	
2.2.9		X	

Indicator	Initial Risk Rating		
	Specified	Low	Unspecified
2.3.1		X	
2.3.2		X	
2.3.3		X	
2.4.1	X		
2.4.2		X	
2.4.3		X	
2.5.1		X	
2.5.2		X	
2.6.1		X	
2.7.1		X	
2.7.2		X	
2.7.3		X	
2.7.4		X	
2.7.5		X	
2.8.1		X	
2.9.1		X	
2.9.2		X	
2.10.1		X	

8 Supplier Verification Programme

8.1 Description of the Supplier Verification Programme

The results of the Supply Base Evaluation and Risk Assessment addressing the requirements in Standard # 1 were Low Risk with the exception of Late Successional Bottomland Hardwood.

Wood Purchase Agreements including contract provisions have been incorporated as part of implementing the FSC and PEFC Chain of Custody and Controlled Wood Standards. For fiber that is purchased directly from the forest, BMP checks are conducted. The forest tracts are chosen based on potential sustainability risks (hardwoods are given more weight than softwoods) and then applied on a random basis. Highland Pellets LLC conducts on-site audits for all residual fiber suppliers to ensure integrity of supply according to Highland Pellets LLC requirements.

8.2 Site visits

Highland Pellets LLC is in regular contact with its suppliers and conducts periodic monitoring of BMPs, documents and records as part of its SFI Fiber Sourcing, FSC/PEFC Controlled Wood, and SBP Procedures. Highland relies of the internal monitoring and independent auditing of the organizations that are SFI Forest Management Certified.

All inputs are confirmed from known "Districts of Origin" and are considered "certified or controlled material." The results of the BMP Monitoring and District of Origin Monitoring is available upon request.

8.3 Conclusions from the Supplier Verification Programme

All current evidence leads to a conclusion that there is Low Risk of sourcing from unacceptable sources as defined by the SBP, SFI, FSC and PEFC after implementing a mitigation measure for Late Successional Bottomland Hardwoods (see section 13.3 for details).

The Wood Purchase Agreements include Policies to avoid potential negative impacts to the environment that may be associated with forestry activities, including harvesting and roads. Such policies have been inserted into Highland Pellets LLC's Sustainable Forestry Policy and have been implemented as part of the SFI Fiber Sourcing and FSC/PEFC Controlled Wood Risk Assessment and Procedures.

Supplier compliance is assessed via monitoring of Highland Pellets LLC's suppliers, state agency on-site inspections, stakeholder feedback, and state agency inspections or reports where relevant and available.

The Contract Provisions adopted by Highland Pellets LLC are contained in the Wood Purchase Agreements.

To date, no stakeholders have documented any concerns regarding unacceptable sources. Overall, Arkansas' BMP implementation is 93.5% and Louisiana's is 97%, thus mitigating potential impacts to Aquatic resources and habitats. Highland Pellets LLC Policies and Contract Provisions are sufficient to justify a finding of Low Risk after implementing mitigation measures.

9 Mitigation Measures

9.1 Mitigation measures

Prior to 2019 Highland Pellets LLC only purchased softwood and no Specified Risks were found.

In 2019 Highland Pellets LLC conducted an expansion of scope to include hardwoods. Specified Risk was found for Late Successional Bottomland Hardwoods. The mitigation measure is described in section 13.3.

9.2 Monitoring and outcomes

Highland Pellets LLC conducts monitoring of its suppliers where it purchases directly from the forest. District of Origin Monitoring is conducted on a sub-sample basis to confirm sources of origin.

Residual sawmill suppliers are monitored to confirm compliance with contract provisions and policies as part of the District of Origin Monitoring and the annual internal audit and management review. The SFI Fiber Sourcing and FSC/PEFC Controlled Wood Standards require periodic monitoring the supply base and suppliers.

See section 13.3 for monitoring related to the mitigation measure directly.

10 Detailed Findings for Indicators

Detailed findings for each Indicator are given in Annex 1.

11 Review of Report

11.1 Peer review

The SFI, SBP, FSC and PEFC Standards program at Highland Pellets LLC has involved the development of detailed written Documents and Procedures to address all relevant requirements. An outside consultant with expertise in forest certification standards was retained to help develop the procedures and conduct the Supply Base Evaluation.

A Readiness Review was conducted with the accredited Certification Body (NSF). Thirty (30) letters and notices were sent to potential stakeholders. The accredited Certification Body has assigned auditors to conduct an independent audit of the SBP Program. The Certification Body is also required to conduct an independent consultation with potential stakeholders.

Approximately 40% of the inputs are from SFI Certified Forests that have been independently audited for the past twenty (20) years. Additionally, the Certification Body's assessment is subject to independent Technical Committee review by SBP. Independent auditors conduct annual surveillance audits of the Highland Pellets LLC's SFI, SBP, FSC and PEFC certification programs.

Highland Pellets LLC believes that sufficient independent reviews of its Programs and Procedures have already taken place and that an additional Peer Review is not warranted or required.

11.2 Public or additional reviews

See the summary response to Section 10.1 above

12 Approval of Report

Approval of Supply Base Report by senior management			
Report Prepared by:	<i>Ellen Kincaid</i>	<i>Sustainability Manager</i>	<i>November 15, 2020</i>
	Name	Title	Date
<p>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.</p>			
Report approved by:	<i>Robert McKenzie</i>	<i>Managing Director</i>	<i>16 Nov 2020</i>
	Name	Title	Date
Report approved by:	<i>[name]</i>	<i>[title]</i>	<i>[date]</i>
	Name	Title	Date
Report approved by:	<i>[name]</i>	<i>[title]</i>	<i>[date]</i>
	Name	Title	Date

13 Updates

13.1 Significant changes in the Supply Base

In 2019 Highland Pellets LLC conducted an expansion of scope to include hardwoods into the mix of its feedstock. These hardwoods will be located from the current supply base area.

13.2 Effectiveness of previous mitigation measures

N/A – prior to the sourcing of hardwoods, there have been no risks and thus no mitigation measures implemented.

13.3 New risk ratings and mitigation measures

Highland Pellets LLC identified the specified risk of Late Successional Bottomland Hardwoods in its procurement area. Control measures to closely monitor BMP implementation and education suppliers and landowners on proper management and avoidance of Late Successional Bottomland Hardwoods have been implemented.

The FSC NRA requires the implementation of one of five listed control measure option from the result of the July 2018 Atlanta meeting. Highland Pellets LLC is will implement a low level of risk mitigation as defined by the FSC NRA V1.0. This is because the Highland Pellets procures from less than 25% of the specified risk area and the AAF level of Highland Pellets is low (level 4. Highland Pellets is implementing the Education and Outreach control measure. Outreach followed by education will be sent to all suppliers annually and encouraged to be passed along to all interested parties and landowners.

Highland Pellets LLC also conducts regular BMP checks and tracts the BMP implementation from all primary feedstock. These BMP checks ensure that all precautions are taken to reduce the negative environmental impacts and that all ecosystems are protected. The contract between Highland Pellet's and its supplier allows the company to reject any material that is not compliant with Highland Pellet's sustainability requirements.

Highland Pellets LLC communicates directly with secondary suppliers who may supply hardwoods a) what Late Successional Bottomland Hardwoods are, b) proper management and harvesting techniques for Late Successional Bottomland Hardwoods, c) What will happen if proper management and harvesting techniques are not followed, i.e. Highland Pellets will reject the material.

Highland Pellets will monitor the effectiveness of the control measure through follow up with suppliers and landowners to understand how the information packet is used; whether they received it, read it, and forwarded it on to their suppliers. The monitoring will be done by receiving confirmation through supplier declaration and a follow up conversation with suppliers.

This Mitigation Measure affects the following Indicators from Standard 1: Feedstock Compliance Standards:

2.1.1, 2.1.2, 2.2.3, 2.2.4, and 2.4.1.

13.4 Actual figures for feedstock over the previous 12 months

*Note – the information provided below is for the year of 2019. No feedstock was purchased in 2020.

- Total volume of Feedstock: 580,524.17tons
- Volume of primary feedstock: 538,242.83tons
- Percentage of primary feedstock by SBP-approved Forest Management Schemes:
 - 52% Certified to an SBP-approved Forest Management Scheme (SFI)
 - 48% Not certified to an SBP-approved Forest Management Scheme (Controlled Wood)
- List all species in primary feedstock, including scientific name:
 - Predominately Southern Yellow Pine, primarily Loblolly Pine, Pinus taeda,
 - smaller component of Shortleaf Pine, Pinus echinata
- Volume of primary feedstock from primary forest - None
- Volume of secondary feedstock:
 - <1% residues from area sawmills
- Volume of tertiary feedstock: None

13.5 Projected figures for feedstock over the next 12 months

- Total volume of Feedstock: 660,000 mt (due to mill ramp up)
- Volume of primary feedstock: 570,000 mt
- Percentage of primary feedstock (g), by SBP-approved Forest Management Schemes:
 - 50% or more Certified to an SBP-approved Forest Management Scheme (SFI)
 - 50% or less Not certified to an SBP-approved Forest Management Scheme (Controlled Wood)
- List all species in primary feedstock, including scientific name:

Common Name	Scientific Name
Loblolly pine	Pinus taeda
Shortleaf Pine	Pinus echinate
Ash	Fraxinus Americana
Elm	Ulmus Americana
Eastern Cottonwood	Populus deltoides
Gum	Liquidambar styraciflua
Hickory	Carya tomentosa
Red Maple	Acer rubrum
Oak	Quercus (Q.) laurifolia, Q. coccinea, Q. falcata, Q. nigra, Q. pagoda, Q. phellos, Q. rubra, Q. shumardii, Q. velutina, Q. alba, Q. lyrate, Q. michauxii, Q. stellata
Sycamore	Platanus occidentalis
Yellow Poplar	Liriodendron tulipifera
Sweetgum	Liquidambar Styraciflua
Sycamore	Platanus occidentalis
Pecan	Carya illinoensis

Green Ash	Fraxinus pennsylvanica
White Ash	Fraxinus Americana
American Beech	Fagus Grandifolia
Black Cherry	Prunus serotina
Mockernut Hickory	Carya tomentosa
Shagbark Hickory	Carya ovata
Pignut Hickory	Carya glabra
Sassafras	Sassafras albidum
Black Willow	Salix nigra
Box Elder	Acer negundo
American Hornbeam	Carpinus caroliniana
Eastern Hophornbeam	Ostrya Virginiana

- Volume of primary feedstock from primary forest - None
- 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 FMS - None
 - Primary feedstock from primary forest not certified to an SBP-approved FMS - None
- Volume of secondary feedstock: 90,000 mt
 - Anticipate 15% residues from area sawmills.
- Volume of tertiary feedstock: None anticipated

Annex 1: Detailed Findings for Supply Base Evaluation Indicators

	Indicator										
1.1.1	The Biomass Producer's Supply Base is defined and mapped.										
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>The supply base area for Highland Pellets LLC are the States of Arkansas and northern parishes of Louisiana. Highland Pellets LLC purchases both softwood and hardwood from private landowners. Currently, approximately 40-60% of inputs by weight are from Certified Forests. Certified material is outside of the scope of Supply Base Evaluation as it is already shown to meet this level of evaluation. Therefore, the Supply Base Evaluation will focus its analysis on uncertified material.</p> <div style="text-align: center;"> <table border="1" style="margin: 10px auto;"> <caption>Type of Certified Material</caption> <thead> <tr> <th>Certified Type</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>ATFS CERTIFIED</td> <td>2%</td> </tr> <tr> <td>CONTROLLED</td> <td>40%</td> </tr> <tr> <td>FSC CERTIFIED</td> <td>0%</td> </tr> <tr> <td>SFI CERTIFIED</td> <td>58%</td> </tr> </tbody> </table> </div> <p><i>Figure 2: Pie chart of 2019 feedstock by certified type and weight</i></p> <p style="text-align: center;">Context</p> <p>Land management and harvesting decisions are made by private industrial and family forest owners in the context of U.S. Federal and State laws, regulations and State administered Best Management Practices for water quality and beneficial use protection.</p> <p>Highland Pellets LLC sources softwood and hardwood from Arkansas and 25 parishes in Northern Louisiana in the form of low-quality pulpwood), and residual material from sawmills or chipmills. The majority of material comes from within a 75 miles radius of Pine Bluff.</p> <p>Paper mills have traditionally provided an outlet for low quality wood, or pulpwood, which allows the higher quality roundwood to be sold for lumber. Many paper mills have closed down across the USA (General Marketing Services), including in Arkansas and Louisiana. Highland Pellets LLC purchases only low-quality wood from Arkansas' and Northern Louisiana's privately managed forests.</p> <p style="text-align: center;">Potential Threat</p> <p>NA</p> <p style="text-align: center;">Regulatory Requirements & Agency of Authorization</p>	Certified Type	Percentage	ATFS CERTIFIED	2%	CONTROLLED	40%	FSC CERTIFIED	0%	SFI CERTIFIED	58%
Certified Type	Percentage										
ATFS CERTIFIED	2%										
CONTROLLED	40%										
FSC CERTIFIED	0%										
SFI CERTIFIED	58%										

There are several agencies and organizations that supply legal and environmental maps which aid in understanding the supply base. An example of these are:

- Arkansas Forest Resources Center (<http://www.afrc.uamont.edu/>)
- Louisiana Department of Agriculture and Forestry (<https://www.ldaf.state.la.us/forestry/>).
- US Department of Agriculture. Forest Inventory and Analysis Nation Program. <https://www.fia.fs.fed.us/tools-data/>.
- Nature Serve (<https://www.natureserve.org/>)
- United States Geological Survey (USGS) (<https://www.usgs.gov/>)
- FSC National Risk Assessment for the Conterminous United States of America

Mechanism & Supporting Evidence

Through using mapping software and information from forest checks and suppliers Highland Pellets LLC is confident of the definition and mapping of the Supply Base.

Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results

Highland Pellets LLC has mapped and defined the Supply Base as demonstrated by figure below.

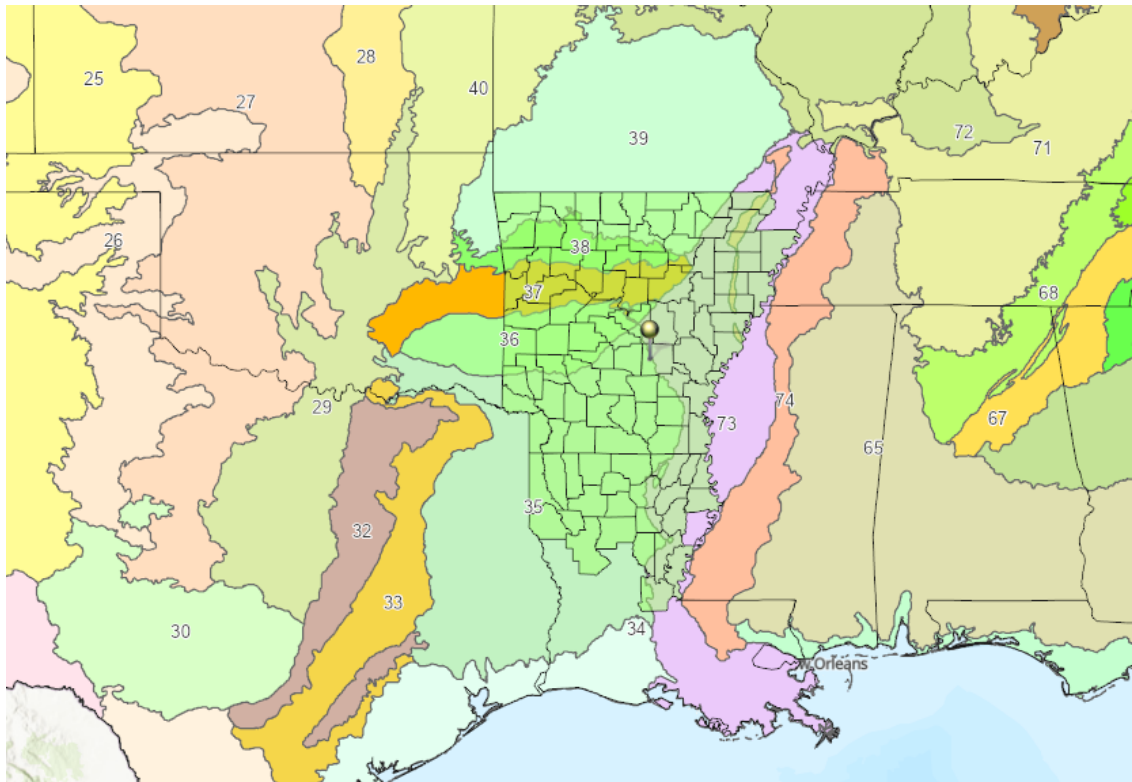


Figure 3 In-house created map of Highland Pellets LLC's Supply Base superimposed with EPA ecosystem data. Created November 11, 2020.

Forests cover 56% of Arkansas, or 19 million acres. Of that 19 million acres, 15.3 million acres (80%) are privately held compared to 3.7 million acres owned publicly. Privately held land can be owned by families, corporations, or Real Estate Investment Trusts (REITs), to name a few possibilities. In Arkansas families own 58% of the privately owned forests (2017 Economic Contributions of Forestry in AR). Forests cover 48% of Louisiana, or 13.8 million acres. 62% of the state's forestland is owned by private, non-industrial landowners, forest products industries own 29%, and the general public

own 9% (State of Louisiana Forestry. Louisiana Department of Agriculture and Forestry. <https://www.ldaf.state.la.us/forestry/>. Accessed November 8, 2020). Forestry is Louisiana’s second largest manufacturing employer, directly employing over 25,000 people. (Louisiana Forestry).

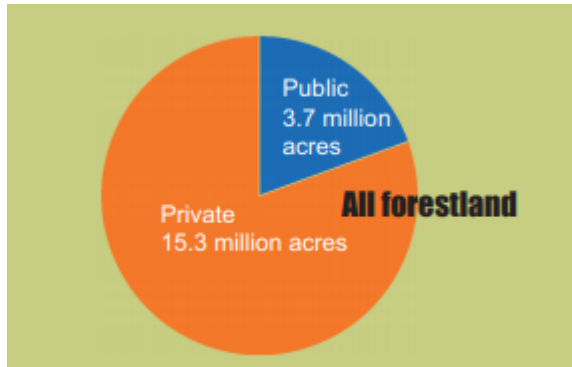


Figure 4 2017 Economic Contributions of Forestry in Arkansas. Arkansas Forest Resources Center, 2018, 2017 Economic Contributions of Forestry in Arkansas. Page 5.

The below map shows forest types in Arkansas. Red hues are softwoods and blue and green hues are hardwoods. (Forest type data from USFS Forest Inventory and Analysis and Forest Health Monitoring programs and the USFS Remote Sensing Applications Center.

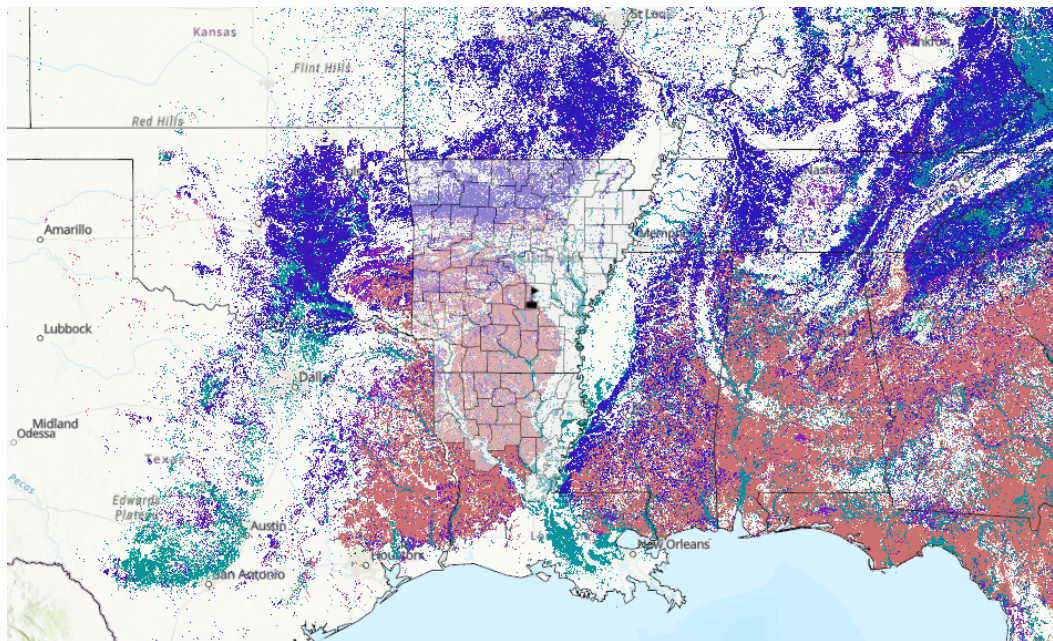


Figure 5 USFS Forest Inventory and Analysis and Forest Health Monitoring programs and the USFS Remote Sensing Applications Center. 2003

Rational of Risk Designation

The conditions for low risk have been met through mapping and defining the Supply Base for Highland Pellets.

Means of Verification

- National and State laws and implementation records
- Mapping organizations
- National and State agencies
- Expert documents (Forest Management Scheme reports)
- Internal documents

	<ul style="list-style-type: none"> • Interviews
Evidence Reviewed	<p><u>Figures and Tables</u></p> <ul style="list-style-type: none"> • Figure 1: Pie chart of 2019 feedstock by certified type. • Figure 2: In-house created map of Highland Pellets LLC’s Supply Base superimposed with EPA ecosystem data. Ecoregion Download Files by State - Region 6. (2017) Environmental Protection Agency. https://www.epa.gov/eco-research/ecoregion-download-files-state-region-6. (Accessed: Dec 20, 2019). • Figure 3: 2017 Economic Contributions of Forestry in Arkansas. Arkansas Forest Resources Center, 2018, 2017 Economic Contributions of Forestry in Arkansas. Page 5. • Figure 4: 2002 and 2003 Growing Seasons. USFS Forest Inventory and Analysis and Forest Health Monitoring programs and the USFS Remote Sensing Applications Center. 2003. https://highlandpellets.maps.arcgis.com/home/item.html?id=3f6068f9712a441bbd14ec6af74576ca. Accessed October 12, 2020. <p><u>Internal Documents</u></p> <ul style="list-style-type: none"> • HP-Suppliers- BMP Monitoring CHK • Highland Pellet’s DDS and RA <p><u>References</u></p> <ul style="list-style-type: none"> • Louisiana Forestry. Louisiana Department of Agriculture and Forestry. https://www.ldaf.state.la.us/forestry/. Accessed November 8, 2020. • 2017 Economic Contributions of Forestry in Arkansas. Arkansas Forest Resources Center, 2018, 2017 Economic Contributions of Forestry in Arkansas. • Chain of Custody of Forest and Tree Based Products – Requirements: PEFC ST 2002:2020. PEFC Council. February 14, 2020. • Danielle Kaeding. “Demand For Paper Mills Decline While Market For Tissue, Sanitary Paper Is Expected To Rise”. WPR. Oct 25, 2017. https://www.wpr.org/demand-paper-mills-decline-while-market-tissue-sanitary-paper-expected-rise. (Accessed: Dec 30, 2019). • Requirements for Sourcing FSC Controlled Wood: FSC-STD-40-005 V3-1. FSC International. 2017. • FSC Chain of Custody Certification: FSC-STD-40-004 V3-0. FSC International. November 2016. • SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard. • “The Current State of the Paper Industry: Rising Prices, Mill Closings, and Tariffs”. General Marketing Services. https://www.2gms.com/blog-post/paper-industry/. (Accessed: Dec 30, 2019). • William Kates. “Paper mills disappearing, many of them from small towns”. The Herald Palladium. Aug 12, 2001. https://www.heraldpalladium.com/paper-mills-disappearing-many-of-them-from-small-towns/article_20d90892-7d91-5f9c-81ac-0cfc373435c1.html. (Accessed: Dec 30, 2019)
Risk Rating	<p><input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA</p>

Comment or Mitigation Measure	NA
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	Indicator									
1.1.2	Feedstock can be traced back to the defined Supply Base.									
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>The supply base area (SBA) is the States of Arkansas and northern parishes of Louisiana. Currently, approximately 40-60% of inputs are from SFI Certified Forests. - Certified material is outside of the scope of Supply Base Evaluation as it is already shown to meet this level of evaluation. Therefore, the Supply Base Evaluation will focus its analysis on uncertified material.</p>									
	<div style="text-align: center;"> <table border="1"> <caption>Data for Figure 6: Type of Certified Material</caption> <thead> <tr> <th>Certification Type</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>ATFS CERTIFIED</td> <td>0%</td> </tr> <tr> <td>CONTROLLED</td> <td>40%</td> </tr> <tr> <td>FSC CERTIFIED</td> <td>2%</td> </tr> <tr> <td>SFI CERTIFIED</td> <td>58%</td> </tr> </tbody> </table> </div> <p style="text-align: center;"><i>Figure 6 Pie chart of 2019 feedstock by certified type</i></p> <p style="text-align: center;">Context</p> <p>Primary purchases from suppliers can be done directly, or through a broker who has contracts with several landowners. In both cases, the exact location of origin of each truckload is easily traceable.</p> <p>Some material, such as in-woods chipping, is altered in appearance (chipped) at the forest site it was harvested from. In these cases, although the look is different from the roundwood deliveries, the tracking of origin is just as easy.</p> <p>Alternatively, feedstock can be purchased after it has been processed at a mill, such as sawdust or chips from a lumber mill. This is called Secondary Material. In this case, wood from several locations have been mixed and it is more difficult to track the wood back to the exact latitude and longitude of origin. In this case, interviews with the supplier on where the wood is purchased and the type of wood purchased is essential.</p>	Certification Type	Percentage	ATFS CERTIFIED	0%	CONTROLLED	40%	FSC CERTIFIED	2%	SFI CERTIFIED
Certification Type	Percentage									
ATFS CERTIFIED	0%									
CONTROLLED	40%									
FSC CERTIFIED	2%									
SFI CERTIFIED	58%									

Potential Threat

The potential threat of not correctly tracking feedstock is that material could then come from high conservation value areas that are not being monitored by Highland Pellets LLC. Highland Pellets monitors the identified ecologically delicate areas in Arkansas and northern Louisiana, so the threat would be for material to come from outside of the identified supply base in a high value conservation area. The threat is greater from secondary feedstock that does not come directly from the forest. The actions taken by Highland Pellets to ensure knowledge of where the material originally comes from are described below in Mechanism & Supporting Evidence.

Regulatory Requirements & Agency of Authorization

- Arkansas 2010 Arkansas Code
- Title 15 - Natural Resources and Economic Development, Subtitle 3 - Forest Resources, Chapter 32 – Logging, Subchapter 3 - Trespass and Unlawful Cutting, § 15-32-301 - Liability for unlawfully cutting, etc.as Timber Tax
- Louisiana Timber Trespass Statute

Mechanism & Supporting Evidence

Highland Pellets receives material both directly from the forest (primary feedstock) and also through mills (secondary feedstock) that process the material prior to selling it to Highland Pellets LLC. Given the different types of feedstock that Highland Pellets LLC, there are different measures required to track the feedstock back to the Supply Base.

Primary Feedstock

There are several ways in which Highland Pellets LLC traces its feedstock, or inputs, back to the Supply Base in the state of Arkansas and northern Louisiana. Every load comes directly from the forest management unit with an associated latitude and longitude. All material that comes to Highland Pellets LLC requires a Purchase Agreement to be allowed on the premises. See below paragraph for further information on Purchase Agreements.

Primary feedstock that comes directly from the forest is easily traced back to its origin as all loads are delivered with the latitude and longitude from whence it came. Visits to randomly selected forest tracts are conducted by Highland Pellets to verify that latitude and longitude information matches on the ground evidence.

Secondary Feedstock

Some material is processed at a mill prior to purchase by Highland Pellets. All secondary material is subject to an on-site visit prior to purchase of any material. Highland Pellets conducts interviews and walkthroughs of the mills to understand where the material comes from. Highland Pellets LLC requires that all suppliers inform the company if any changes to their purchase strategy is made, such as purchasing new species or from different locations.

Internal procedures have further detail on who the suppliers are and the procedures for tracking the feedstock origin. Highland Pellets has sufficient controls to track the location of feedstock procured.

Secondary suppliers are audited on site prior to receiving fiber from them and a declaration of scope is produced stating which counties in Arkansas they source from. Some example evidence that may be reviewed in a secondary supplier audit include interviews and review of delivery tickets to the supplier's mill directly from the forest. In the case of sub-suppliers, the suppliers' suppliers are interviewed for district of origin as well to ensure district of origin is clear.

Purchase Agreements

Highland Pellets LLC's pellet manufacturing facility maintains formal Purchase Agreements with its suppliers that requires clear title and legal ownership of all wood fiber inputs. These Agreements specify the conditions under which inputs can be delivered and include provisions addressing certified and/or controlled wood to ensure conformance to the applicable standards. The Agreements specify that the suppliers are not permitted to deliver uncontrolled/controversial wood and fiber to Highland Pellets LLC.

This is requirement is also stated in the Purchase Agreement with the ability for Highland Pellets LLC to reject any material that does not meet its sustainability requirements. All wood and fiber suppliers are required to have identifying information on file, a signed Purchase Agreement, and a Sustainability Declaration to show their understanding of our sustainability requirements in order to deliver wood and fiber to the Pine Bluff Pellet Plant.

Records of Payments and Delivery Tickets

Highland Pellets LLC keeps records of payments and receipts with all of its suppliers.

Title to the wood material is exchanged as it is delivered at the pellet mill using Delivery Tickets or an equivalent paper trail. These documents and records provide objective evidence of the suppliers' supply base for primary feedstock.

A Delivery Ticket on each load identifies the forest management unit (FMU) or primary wood supplying mill and contains a reference to the Wood Purchase Agreement. The Delivery Ticket contains information about the supplier including their name, contact information, forest management certificate number, quantity of material, latitude and longitude of the FMU (for wood coming directly from the forest), and other relevant information.

Secondary feedstock Delivery Tickets has similar information, however the location is taken back to the supplier's mill, where district of origin has been established prior to material coming onsite.

BMP Checks

Best Management Practices (BMP) as set by Arkansas and northern Louisiana are checked for primary feedstock, or wood coming directly from the forest. This gives objective confirmation that the information on the Delivery Tickets is accurate.

Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results

Through the above actions, Highland Pellets is confident of its ability to track the origin of feedstock. Past third-party audits have agreed with that assessment as auditors have found no issue surrounding district of origin and tracking feedstock.

	Rational of Risk Designation
	Through the above described activities, Highland Pellets is confident of the exact latitude and longitude of origin for all primary material and is confident of the origin to the county level for all secondary material. The controls in place are sufficient for low risk
Means of Verification	<ul style="list-style-type: none"> • Supplier documentation • Maps • Internal documentation
Evidence Reviewed	<p><u>Internal Documents</u></p> <ul style="list-style-type: none"> • Purchase Agreements • Records of payments and receipts with all suppliers • Delivery Tickets • Chain of Custody Procedure Wood Purchase Agreement • Controlled Wood/Due Diligence System Risk Assessment • List of wood and fiber suppliers <p><u>Other References</u></p> <ul style="list-style-type: none"> • Hameister, Arnold; Fox, Joe. Voluntary Implementation of Forestry Best Management Practices for Water Quality Protection in Arkansas: Results of the 2017-2018 Implementation Survey. August 2018. Arkansas Forestry Commission, Arkansas Agriculture Department. • Protecting the Nation's Water: State Forestry Agencies and Best Management Practices. 2019. National Association of State Foresters.
Risk Rating	<input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	NA

	Indicator
1.1.3	The feedstock input profile is described and categorised by the mix of inputs.
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>The scale of assessment is the state of Arkansas and northern Louisiana. There are two subgroups for this indicator, that of primary material coming directly from the forest and that of secondary material that is processed prior to coming to Highland Pellets LLC.</p> <p style="text-align: center;">Context</p> <p>This indicator is used to describe the species and physical mix of the inputs. Arkansas and northern Louisiana has a large percentage of softwood forestry, primarily Loblolly and Shortleaf, however there are also hardwoods available. Material in the supply base can be purchased directly from the forest, either as roundwood or chip form. It can also be purchased from chipmills and sawmills in chip, sawdust, or shaving form.</p> <p style="text-align: center;">Potential Threat</p>

There is no direct threat to sustainability or legality from this indicator. This indicator increases transparency of supply which aids in the assessment of other environmental or legal indicators.

Regulatory Requirements & Agency of Authorization

- Arkansas Timber Tax
- Louisiana Timber Tax
- 2010 Arkansas Code; Title 15 - Natural Resources and Economic Development; Subtitle 3 - Forest Resources; Chapter 32 – Logging; Subchapter 3 - Trespass and Unlawful Cutting; § 15-32-301 - Liability for unlawfully cutting, etc.
- Louisiana Timber Trespass Statute

Mechanism & Supporting Evidence

- Mapping of the supply base
- Forest track checks
- Supplier declarations
- Secondary supplier (saw mills, etc) visits
- Visual inspection upon receipt of material

There are several types of input mixes that Highland Pellets LLC may accept. All of which are treated in the same manner for categorizing the mix of inputs. The majority of the inputs are various softwood types, however Highland Pellets LLC also purchases Hardwood. All inputs are reviewed prior to acceptance to ensure they meet Highland Pellet LLC's sustainability requirements. The potential input forms are:

- Softwood Roundwood
- Softwood Chips
- Softwood In-woods Chips
- Softwood Sawdust
- Softwood Shavings
- Softwood Bark
- Hardwood Roundwood
- Hardwood Chips
- Hardwoods In-woods Chips
- Hardwoods Sawdust
- Hardwoods Shavings
- Hardwood Bark

There are 11 potential species that may be included in the mill as feedstock, though the majority is either Loblolly pine (*Pinus taeda*) or Shortleaf pine (*Pinus echinata*). See below for the complete list of species.

Common Name	Scientific Name
Loblolly pine	<i>Pinus taeda</i>
Shortleaf Pine	<i>Pinus echinata</i>
Ash	<i>Fraxinus Americana</i>
Elm	<i>Ulmus Americana</i>
Eastern Cottonwood	<i>Populus deltoides</i>

Gum	Liquidambar styraciflua
Hickory	Carya tomentosa
Red Maple	Acer rubrum
Oak	Quercus (Q.) laurifolia, Q. coccinea, Q. falcata, Q. nigra, Q. pagoda, Q. phellos, Q. rubra, Q. shumardii, Q. velutina, Q. alba, Q. lyrata, Q. michauxii, Q. stellata
Sycamore	Platanus occidentalis
Yellow Poplar	Liriodendron tulipifera
Sweetgum	Liquidambar Styraciflua
Sycamore	Platanus occidentalis
Pecan	Carya illinoensis
Green Ash	Fraxinus pennsylvanica
White Ash	Fraxinus Americana
American Beech	Fagus Grandifolia
Black Cherry	Prunus serotina
Mockernut Hickory	Carya tomentosa
Shagbark Hickory	Carya ovata
Pignut Hickory	Carya glabra
Sassafras	Sassafras albidum
Black Willow	Salix nigra
Box Elder	Acer negundo
American Hornbeam	Carpinus caroliniana
Eastern Hophornbeam	Ostrya Virginiana

Table 1 Potential species in Highland Pellets LLC feedstock

All incoming material is currently considered at least "controlled material" through FSC and PEFC, or "SBP-Compliant and Controlled Feedstock." All inputs, including those that are purchased as SFI/FSC Certified, are subject to the SBP Supply Base Evaluation/Risk Assessment and are considered SBP-Compliant Feedstock. Once inputs are received at the woodyards, they are mixed together at the pellet manufacturing facility.

The Procurement and Sustainability Staff identifies all known certified organizations and suppliers. The Procurement and Sustainability Staff verifies the validity of applicable certificates and has access to copies of each certified organization's Forest Management certificate.

The certificate numbers are verified against the relevant databases to confirm that they are valid. The Procurement and Sustainability Staff check for accurate and up-to-date information about forest management and chain of custody certified organizations:

- www.info.fsc.org
- www.sfiprogram.org
- www.treefarmssystem.org
- www.pefc.org

Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results

Third-party audits supply objective evidence of the effectiveness of the above actions.

	Rational of Risk Designation
	Highland Pellets LLC is confident that the measures described above are sufficient to track the feedstock type and species that enter the mill.
Means of Verification	<ul style="list-style-type: none"> • Supplier documentation • Supplier Interviews • Internal Documentation • Forestry Schemes websites
Evidence Reviewed	<p><u>Figures and Tables</u></p> <ul style="list-style-type: none"> • Table 1: Potential species in Highland Pellets LLC feedstock <p><u>Internal Documents</u></p> <ul style="list-style-type: none"> • Chain of Custody Procedures Product Group Lists • Forest Management Certificates • Fiber Purchase Agreements • Supplier List and Contract Procedure • Tree Species List Written Agreements • Supplier Contracts <p><u>Other References</u></p> <ul style="list-style-type: none"> • Forest Stewardship Council. https://fsc.org/en. Accessed March 23, 2020. • Sustainable Forestry Initiative. http://www.sfiprogram.org/. Accessed March 23, 2020. • American Tree Farm System. https://www.treefarmssystem.org/. Accessed March 23, 2020. • Programme for the Endorsement for Forest Certification. https://pefc.org/. Accessed March 23, 2020.
Risk Rating	<input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	NA

	Indicator
1.2.1	The Biomass Producer has implemented appropriate control systems and procedures to ensure that legality of ownership and land use can be demonstrated for the Supply Base.
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>There are no sub-scopes for legality of ownership and land use as all direct purchases are from private landowners so have the same legal requirements.</p> <p style="text-align: center;">Context</p> <p>Land in the United States can be owned by the federal government or by private citizens. Learn more about federally-owned land and privately-owned land and how each type of land is used.</p> <p>Property Law is defined by USLegal as; “the law that in the common law legal system governs the various forms of ownership in real property and in personal property. Property is anything that is owned by a person or entity. Property is divided into two types: "real property," which is any interest in land, real estate, growing plants or the improvements on it, and "personal property" (sometimes called</p>

"personalty"), which is everything else. For the most part, states have exclusive jurisdiction over the land within their borders, and their law concerning the kind of interests that can be held and how they are created is not subject to federal law. Property law governs personal interests in property, such as rights of ownership, requirements in sales and transfers of property, and settlement of claims against property." (Property Law Law and Legal Definition, US Legal).

The United States has a very high level of private landownership. Over half of the forestland in the United States is privately owned (Private Land. USDA) . Property Rights allow individuals to accumulate, hold, delegate, rent, or sell their property. (W. Kenton. Property Rights, Investopedia). Private land in the United States includes REITS and TIMOs, family land owners, and large landowners. Public land is land owned by the government, typically at the state or federal level.

The below image from the USDA Forest Service Website shows land ownership in the United States. The image shows a high amount of land owned by corporation, seconded by federal land and forest owned land.

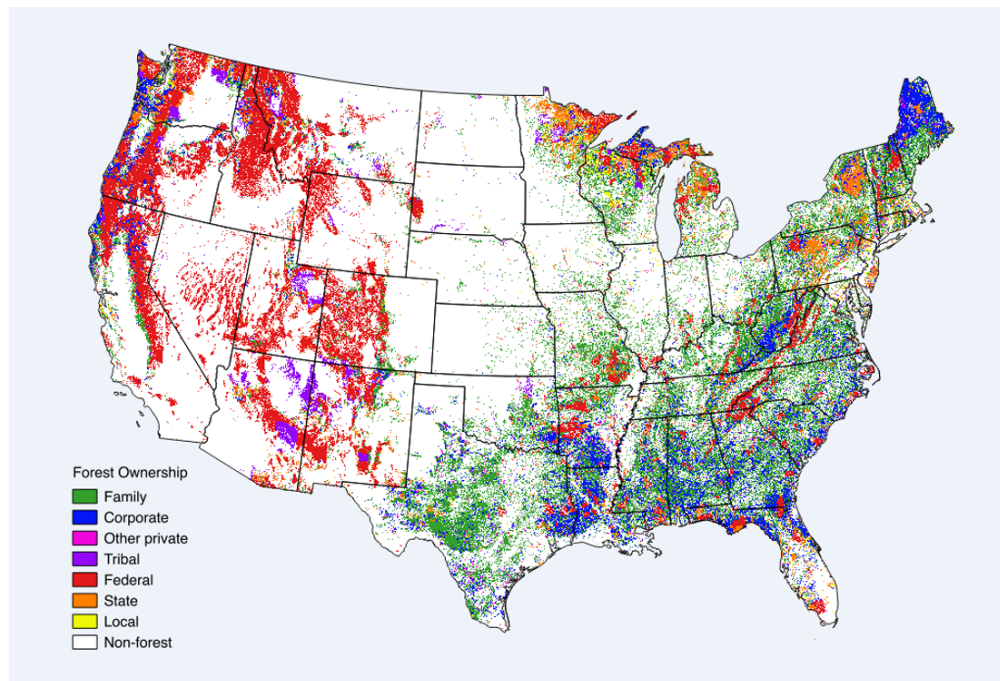


Figure 7 Image from USDA Forest Service Website: Who owns America's forests? Forest ownership in the conterminous United States circa 2014: Distribution of seven ownership types - geospatial dataset. Fort Collins, CO: U.S. Department of Agriculture, Forest Service, Research Data Archive. <https://doi.org/10.2737/RDS-2017-0007>. Source: Hewes, J.H.; Butler, B.J.; Liknes, G.C. 2017.

Arkansas has 33,303 acres of land in the state, of which 18,755 are forests, or 56.3% of the land is covered in forests (American Forest and Paper Association, 2017). Of this land, 82.8% is privately owned, showing the great importance of the private land owner in Arkansas (National Alliance of Forest Owners (NAFO Alliance)).

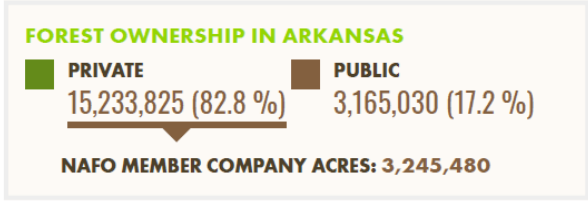


Figure 8 images from NAFO Alliance, <https://nafoalliance.org/>

PRIVATELY OWNED FORESTS IN ARKANSAS SUPPORT:



**58,511
JOBS**

In Arkansas, NAFO member companies support 12,465 jobs.

Figure 9 images from NAFO Alliance, <https://nafoalliance.org/>

Potential Threat

This indicator specifically deals with the threat of timber theft.

Regulatory Requirements & Agency of Authorization

The following three regulations and law specify requirements of information and actions to counter illegal logging.

- 2010 Arkansas Code; Title 15 - Natural Resources and Economic Development; Subtitle 3 - Forest Resources; Chapter 32 – Logging; Subchapter 3 - Trespass and Unlawful Cutting; § 15-32-301 - Liability for unlawfully cutting, etc.: Arkansas code covering illegal logging
- Louisiana Timber Trespass Statute
- The Lacey Act (<https://www.fws.gov/international/laws-treaties-agreements/us-conservation-laws/lacey-act.html>): Covers illegally caught game and illegally harvested plants.
- The Timber Tax (www.TimberTax.org): Tracks that timber taxes are paid at the appropriate level.
- EU Timber Regulation

Mechanism & Supporting Evidence

Active participation in the Arkansas and Louisiana SFI Implementation Committee (SIC) allows Highland Pellets LLC a direct line to updates on current forestry issues. Meeting four times per year, these meetings give an update on non-compliance trends and other forestry related issues. Participation in the SIC ensures that Highland Pellets LLC has the most up-to-date information on legality in the state. Highland Pellets LLC also encourages participation in the Arkansas Forestry Commission’s Witness Reward Program through handing out and posting paraphernalia advertising the program. The Witness Reward Program offers up to

\$5,000 for information leading to the arrest and conviction of persons willfully involved in crimes on AFA members' property.

Highland Pellets LLC requires contracts, Delivery Tickets, a Sustainability Declaration, and other documentation verifying legal ownership of incoming wood material from its mill residual suppliers. The legally binding contract requires compliance with applicable laws and regulations and use of State water quality BMPs for the protection of water quality. Indirectly Highland Pellets LLC monitors potential legality risks by such things as actively participating in the Arkansas SIC, and reviewing third party assessment to judge the risk.

Highland Pellets LLC conducts audits of its suppliers and gathers verifiable data to ensure legality in its Supply Base. This includes conducting forest level Best Management Practices (BMP) inspections of suppliers tracts and conducting mill level audits, reviewing documentation and conducting interviews on the supplier's purchasing practices.

Highland Pellets LLC's Sustainable Forestry Policy specifies a commitment to achieving compliance with applicable laws and regulations. The Company has a system in place to ensure that applicable federal, state or local laws and regulations are implemented and achieved.

The Company has undertaken a comprehensive Due Diligence System and Risk Assessment of its sourcing of all wood material across its wood and fiber supply area and has further references for review upon request. Highland Pellets LLC implements an FSC/PEFC Controlled Wood/Due Diligence Procedure for all of its Supply Areas/Districts of Origin and all inputs are considered FSC "controlled material," PEFC non-controversial and SBP Controlled Feedstock.

Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results

Cross referencing between the Wood Fiber Agreement, Supplier Declaration, and onsite audits of the mill and/or of the exact forest tract being sold to Highland Pellets ensures that all data from suppliers is accurate.

The World Bank has awarded the U.S. a Global Governance Index rating that exceeds 92.31% for Regulatory Quality. This objective evidence demonstrates that laws and regulations in the United States are enforced and of high quality. See the Global Governance Index for the United States (The World Bank).

The "Assessment of Lawful Harvesting & Sustainability: US Hardwood Exports", a large study conducted by several experts in US forestry conducted in 2017 and updated in June 2019, concludes that there is a less than 1% chance of illegal hardwoods entering the US Hardwood supply chain.

No regulatory or compliance notices have been issued to Highland Pellets LLC or any of its suppliers. If a regulatory compliance issue were to be uncovered on a purchased wood producer tract where the wood was delivered to Highland Pellets LLC, the Procurement Staff would work with the contractor, landowner, and or wood producer to take appropriate corrective and preventive measures. Involvement with the SIC has shown that there are no known regulatory or compliance issues.

Additional findings of the Controlled Wood/Due Diligence Risk Assessment (HP-SB-CWRA) include:

- Law enforcement in the Districts of Origin is active and aggressive.

	<ul style="list-style-type: none"> • There is evidence within the district that demonstrates the legality of harvests and wood purchases that includes robust and effective systems for granting licenses and harvest permits. • There is little or no evidence or reporting of illegal harvesting in the district of origin. • There is a low perception of corruption related to the granting or issuing of harvesting permits and other areas of law enforcement related to harvesting and wood trade. <p style="text-align: center;">Rational of Risk Designation</p> <p>Illegal logging is not widespread across the wood supply areas of Highland Pellets. The comprehensive laws and regulations relating to forest management and timber harvesting are aggressively enforced by appropriate regulatory agencies.</p>
Means of Verification	<ul style="list-style-type: none"> • Federal and State laws and regulations • International agencies • Internal Policies
Evidence Reviewed	<p><u>Internal Documents</u></p> <ul style="list-style-type: none"> • Wood Purchase Agreement • Delivery Tickets • Due Diligence System and Risk Assessment • Supply Areas/Districts of Origin • Supplier Contract • Highland Pellets LLC’s Sustainable Forestry Policy • Controlled Wood Risk Assessment <p><u>References</u></p> <ul style="list-style-type: none"> • Louisiana Forestry. Louisiana Department of Agriculture and Forestry. https://www.ldaf.state.la.us/forestry/. Accessed November 8, 2020. • Arkansas Forestry Commission. • “Worldwide Governance Indicators”. The World Bank, U.S.(https://info.worldbank.org/governance/wgi/Home/Reports) (Accessed: Dec 30, 2019). • Goetzl A, Berg, S, Dodge, G, Priskey, S, Varela, J, Cutsinger, T. “Assessment of Lawful Harvesting & Sustainability: US Hardwood Exports”. American Hardwood Export Council. Revised June 2019. (https://www.americanhardwood.org/index.php/en/environmental-profile/legality). (Accessed Dec 30, 2019). • “The CITES Species”. CITES (http://www.cites.org/eng/disc/species.php). Accessed Dec 31, 2019. • Private Land. USDA Forest Service. https://www.fs.usda.gov/managing-land/private-land. Accessed October 12, 2020. • W. Kenton. 2019. Property Rights. Investopedia. https://www.investopedia.com/terms/p/property_rights.asp. Accessed October 12, 2020. • Property Law Law and Legal Definition, US Legal, https://definitions.uslegal.com/p/property-law/, Accessed October 17, 2020).

Risk Rating	<input checked="" type="checkbox"/> Low Risk	<input type="checkbox"/> Specified Risk	<input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	NA		

	Indicator
1.3.1	The BP has implemented appropriate control systems and procedures to ensure that feedstock is legally harvested and supplied and is in compliance with EUTR legality requirements.
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>All material is covered under one scope for all of Arkansas and northern Louisiana. However, Highland Pellets LLC does not sell directly into the European market. All exportation related documents are completed by its customer.</p> <p style="text-align: center;">Context</p> <p>The EU Timber Regulation (EUTR) came into effect in 2013 and prohibits placing illegal wood on the EU market. The actions of Highland Pellets LLC to ensure compliance to EUTR are very similar to those in indicator 1.2.1 “The Biomass Producer has implemented appropriate control systems and procedures to ensure that legality of ownership and land use can be demonstrated for the Supply Base”, above.</p> <p style="text-align: center;">Potential Threat</p> <p>There is no direct environmental threat from not complying with this indicator. The threat is that material would be sold illegally into the European Union. However as Highland Pellets does not sell into the European market itself the risk of not being in compliance with the EUTR is negligible.</p> <p style="text-align: center;">Regulatory Requirements & Agency of Authorization</p> <p>The EU Timber Regulation (EUTR) is the primary regulation that covers this indicator. However the other listed regulations and laws also show rule of law in the United States which support the EUTR.</p> <ul style="list-style-type: none"> • The European Union Timber Regulation (EUTR) • 2010 Arkansas Code; Title 15 - Natural Resources and Economic Development; Subtitle 3 - Forest Resources; Chapter 32 – Logging; Subchapter 3 - Trespass and Unlawful Cutting; § 15-32-301 - Liability for unlawfully cutting, etc.: Arkansas code covering illegal logging • Louisiana Timber Trespass Statute • The Lacey Act (https://www.fws.gov/international/laws-treaties-agreements/us-conservation-laws/lacey-act.html): Covers illegally caught game and illegally harvested plants. • The Timber Tax (www.TimberTax.org): Tracks that timber taxes are paid at the appropriate level

	<p style="text-align: center;">Mechanism & Supporting Evidence</p> <p>Highland Pellets LLC does not sell directly overseas.</p> <p style="text-align: center;">Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results</p> <p>Highland Pellets LLC does not sell directly overseas.</p> <p style="text-align: center;">Rational of Risk Designation</p> <p>Highland Pellets LLC does not sell directly overseas.</p>
Means of Verification	<ul style="list-style-type: none"> • International laws and regulations • National and State laws and regulations • International Agencies • Internal documentation
Evidence Reviewed	<p><u>Internal Documents</u></p> <ul style="list-style-type: none"> • Due Diligence System/ Risk Assessment • FSC/PEFC Controlled Wood/Due Diligence Procedures • BMP Monitoring • Sourcing Area Auditing of suppliers • Product Group List <p><u>References</u></p> <ul style="list-style-type: none"> • EUTR requirements. European Commission. February 2, 2020. http://ec.europa.eu/environment/forests/timber_regulation.htm. Accessed April 21, 2020. • Endangered Species. U.S. Fish and Wildlife Service. February 19, 2020. http://endangered.fws.gov/. Accessed April 21, 2020. • Wetlands. U.S. Fish and Wildlife Service. April 15, 2020. https://www.fws.gov/wetlands/. Accessed April 21, 2020. • U.S. EPA/Wetlands. EPA. August, 2018. http://www.epa.gov/OWOW/wetlands/. Accessed April 21, 2020. • The CITES Species. CITES. http://www.cites.org/eng/disc/species.php. Accessed Dec 31, 2019. • FSC National Risk Assessment: For the Conterminous United States of America. FSC US. April 2019 • Worldwide Governance Indicators. The World Bank. 2019. https://datacatalog.worldbank.org/dataset/worldwide-governance-indicators. Accessed April 21, 2020. • Arkansas. National Association of State Foresters. 2020. https://www.stateforesters.org/districts/arkansas/. Accessed April 21, 2020. • U.S.D.A. Forest Service. http://www.fs.fed.us/. Accessed April 21, 2020.
Risk Rating	<input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	NA

	Indicator
1.4.1	The Biomass Producer has implemented appropriate control systems and procedures to verify that payments for harvest rights and timber, including duties, relevant royalties and taxes related to timber harvesting, are complete and up to date.

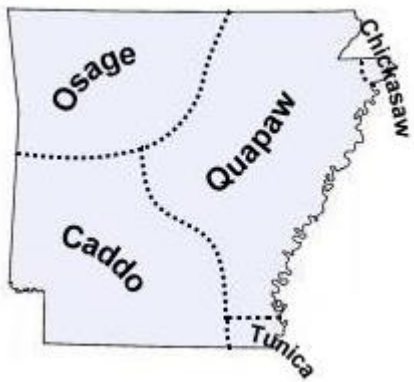
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>Highland Pellets LLC procures from private landowners in Arkansas and northern Louisiana. Public forest land harvests may enter into the Highland Pellet feedstock, however there is a higher level of legislation for that material. Therefore, all material will be treated as private land for the sake of the Supply Base Evaluation.</p> <p style="text-align: center;">Context</p> <p>Arkansas and Louisiana use similar rules to those listed in indicator 1.2.1 in order to show that payments for harvest rights and timbers are complete and up-to-date.</p> <p>Highland Pellets LLC’s wood pellet production plant is located in Pine Bluff, Arkansas, USA. The Pine Bluff facility sources from a largely rural area where forestry and agriculture are the primary sources of income for workers, the local communities, and the tax base.</p> <p style="text-align: center;">Potential Threat</p> <p>The potential risk addressed by this indicator is the potential of skipping on timber tax if not properly monitored. That is very low due to a high-level rule of law in the United States.</p> <p style="text-align: center;">Regulatory Requirements & Agency of Authorization</p> <p>The primary relevant regulation for this indicator is the Arkansas and Louisiana Timber Taxes, which controls the taxation requirements on timber.</p> <ul style="list-style-type: none"> • Timber Tax (www.TimberTax.org)
	<p style="text-align: center;">Mechanism & Supporting Evidence</p> <p>The state of Arkansas requires that the primary processor of the timber pay the timber tax, and it is computed from the weight of the last scaling (Timber Tax). Highland Pellets LLC purchases roundwood, directly from the forest and pays the timber tax on this portion of purchases. Inputs that have been processed prior to entering Highland Pellets LLC are paid for by the primary producer.</p> <p>Delivery Tickets and payment records demonstrate payment of fees and taxes. These documents are confidential and proprietary, but are available to the Certification Body during annual audits and upon request. Highland Pellets pays severance taxes on behalf of the roundwood suppliers. Highland Pellets LLC requires a formal Wood Purchase Agreement/Contract containing all legal and contractual requirements, as well as Due Diligence System record collection and maintenance.</p> <p>The SFI Fiber Sourcing Standard requires legal and regulatory compliance including:</p> <ul style="list-style-type: none"> • <i>2.1.2. Use of written agreements for the purchase of raw material sourced directly from the forest is required and must include provisions requiring the use of best management practices.</i> <p>Highland Pellets LLC requires all suppliers with whom the Company has a contractual relationship to sign a Contract or other agreement for wood sourced directly from the forest. The agreement requires compliance with applicable laws and regulations and use of State water quality BMPs for the protection of water quality.</p> <ul style="list-style-type: none"> • <i>4.1 requires Program Participants to comply with applicable laws and regulations and take steps to avoid illegal logging.</i>

	<p>a. <i>Access to laws and regulations</i></p> <p>b. <i>System to achieve legal compliance</i></p> <p>c. <i>Demonstration of legal compliance</i></p> <p>U.S. Federal and State laws require forestry organizations to pay timber harvesting and other taxes. The U.S. Forest Service provides information on appropriate tax laws and regulations. http://www.timbertax.org/</p> <p>Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results</p> <p>The Rule of Law from the Worldwide Governance Indicators is 89% in the United States, indicating a high level of rule of law (Worldwide Governance Indicators).</p> <p>Highland Pellets LLC only works with legitimate and legal entities and is confident that the relevant taxes are paid. This is legally enforced through a contract with the supplier and agreement upon the input type that Highland Pellets LLC purchases. In addition, delivery Tickets and payment records demonstrate payment of fees and taxes.</p> <p>Rational of Risk Designation</p> <p>Highland Pellets LLC has legal contracts with all suppliers and pays the Timber Tax for primary material as required by the state.</p>
Means of Verification	<ul style="list-style-type: none"> • National laws and legislation • Internal documentation
Evidence Reviewed	<p><u>Internal Documents</u></p> <ul style="list-style-type: none"> • Delivery Tickets • Payment records • Supplier Contracts • Wood Purchase Agreement/Contract • Due Diligence System <p><u>References</u></p> <ul style="list-style-type: none"> • SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard. • “Tax Management for Timberland Owners”. National Timber Tax Website. U.S. Forest Service, National Woodland Owners, The University of Georgia, Southern Regional Extension Forestry. (http://www.timbertax.org/). Accessed Dec 31, 2019. • “Miscellaneous Tax”. 2019. Arkansas Department of Finance and Administration. (https://www.dfa.arkansas.gov/excise-tax/miscellaneous-tax/timber-tax). Accessed Dec 31, 2019. • Rule of Law United States, Worldwide Governance Indicators. World Bank (https://info.worldbank.org/governance/wgi/Home/Reports). Accessed September 15, 2020.
Risk Rating	<p><input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA</p>
Comment or Mitigation Measure	<p>NA</p>

	Indicator
1.5.1	The Biomass Producer has implemented appropriate control systems and procedures to verify that feedstock is supplied in compliance with the requirements of CITES.
Findin g	<p style="text-align: center;">Scale of Assessment</p> <p>The scale of assessment is for the entire state of Arkansas and northern parishes in Louisiana.</p> <p style="text-align: center;">Context</p> <p>In 1975 CITES entered into force. It stands for Convention on International Trade in Endangered Species of Wild Fauna and Flora, and is an international agreement to which 183 parties (or States) have joined.</p> <p>Indicator 1.1.3 describes the species procured by Highland Pellets LLC.</p> <p style="text-align: center;">Potential Threat</p> <p>Procurement of a CITES species without knowledge could inadvertently cause damage to specific species or ecosystems.</p> <p style="text-align: center;">Regulatory Requirements & Agency of Authorization</p> <p>CITES was created to safe-guard certain species from over-exploitation through the use of international cooperation. (What is CITES, www.cites.org). CITES regulates or bans international trade in species under threat. CITES is the primary regulation for this indicator. However, other legislation aid in enforcing CITES through regulating illegal harvesting.</p> <ul style="list-style-type: none"> • CITES: Convention on International Trade in Endangered Species • Lacey Act: (https://www.fws.gov/international/laws-treaties-agreements/us-conservation-laws/lacey-act.html): Covers illegally caught game and illegally harvested plants. • 2010 Arkansas Code; Title 15 - Natural Resources and Economic Development; Subtitle 3 - Forest Resources; Chapter 32 – Logging; Subchapter 3 - Trespass and Unlawful Cutting; § 15-32-301 - Liability for unlawfully cutting, etc.: Arkansas code covering illegal logging • Louisiana Timber Trespass Statute • The Timber Tax (www.TimberTax.org): Tracks that timber taxes are paid at the appropriate level. • EU Timber Regulation: Requires detailed species information in order to trade with the EU, helps add transparency to wood product supply chain. <p style="text-align: center;">Mechanism & Supporting Evidence</p> <p>Highland Pellets ensures that only the listed species (see indicator 1.1.3 for species list) enter as inputs through several processes. A legally binding contract between Highland Pellets LLC and its suppliers is required of all suppliers which specifies the specs and species of material to be bought and sold. In addition, a supplier declaration gives further detail on the species and environmental concerns relevant to the harvest areas.</p> <p>Any roundwood that enters the mill is easily identifiable and material that does not meet Highland Pellets LLC’s requirements are rejected. Suppliers are required to identify the species being sold to Highland Pellets. As an insurance, there is also on the ground checks of veracity of material. The scalehouse operators can identify some differences between</p>

	<p>species, such as hardwood versus softwood, and has the authority to reject material that is unexpected. The Wood Procurement Manager is stationed near the wood yard and regularly sees all roundwood inputs. Anything that was unacceptable would be rejected again at this time.</p> <p>For inputs that are not in their raw form, such as chips and sawdust, a visual inspection may be conducted, but is not as reliable as for roundwood. In addition to suppliers declaring the species being sold to Highland Pellets, regular audits are conducted of the mills supply this material to ensure separation of material that may come into Highland Pellets LLC from unacceptable material.</p> <p>Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results</p> <p>Highland Pellets LLC procures a majority softwood species, but also purchases a certain amount of hardwood species. For a complete list of Highland Pellets LLC input species, refer to indicator 1.1.3. None of these species are CITES listed species (Species+), and all are from Arkansas State.</p> <p>The U.S. Fish and Wildlife has a list of current CITES tree species, none of which are native to Arkansas (Current CITIES Listing of Tree Species, https://www.fws.gov/international/plants/current-cites-listings-of-tree-species.html)</p> <p>As no CITES species are available in Arkansas, Highland Pellets LLC is assured not to procure any.</p> <p>Rational of Risk Designation</p> <p>The risk of Highland Pellets LLC purchasing CITES species is low.</p>
Means of Verification	<ul style="list-style-type: none"> • International agencies • Internal documentation
Evidence Reviewed	<p><u>Tables and Figures</u></p> <ul style="list-style-type: none"> • Table 1: Potential species in Highland Pellets LLC feedstock <p><u>Internal Documents</u></p> <ul style="list-style-type: none"> • Controlled Wood/Due Diligence Procedure (HP-SB-CW Procedure & DDS) • FSC/PEFC Controlled Wood Risk Assessment (HP-SB-CWRA) • The Product Group List • Delivery tickets <p><u>References</u></p> <ul style="list-style-type: none"> • “The CITES Species”. CITES (http://www.cites.org/eng/disc/species.php). Accessed Dec 31, 2019. • “Species+”. CITES, CMS, UN Environmental Programme, EU. https://www.speciesplus.net/. Accessed Dec, 31, 2019. • What is CITES? CITES. https://www.cites.org/eng/disc/what.php#:~:text=CITES%20(the%20Convention%20on%20International,does%20not%20threaten%20their%20survival. Accessed October 13, 2020. • Current CITIES Listing of Tree Species, US Fish and Wildlife. https://www.fws.gov/international/plants/current-cites-listings-of-tree-species.html. Accessed October 13, 2020.
Risk Rating	<p><input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA</p>
Comment or Mitigat	<p style="text-align: center;">NA</p>

ion Measu re	
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	Indicator
1.6.1	<p>The Biomass Producer has implemented appropriate control systems and procedures to ensure that feedstock is not sourced from areas where there are violations of traditional or civil rights.</p>
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>Traditional and civil rights are best assessed at a state level for Arkansas, regardless of ownership type or species mix in the region. There are no specific regions in the state with different traditional or civil rights.</p> <p style="text-align: center;">Context</p> <p>Traditional rights are rights which result from a long series of habitual or customary actions, constantly repeated, which have, by such repetition and by uninterrupted acquiescence, acquired the force of a law within a geographical or sociological unit. An example of a traditional right related to forests is access by local communities to forest areas to visit sacred and ritual sites. (Requirements for Sourcing FSC Controlled Wood, 2017, page 29).</p> <p>Traditional peoples of the United States are the Native Americans. Prior to European settlers there were five tribes that inhabited the area now called Arkansas. These were the Chickasaw, Tunica, Quapaw, Osage, and Caddo. Most of these people were forced to leave Arkansas in the Indian Removals of 1800s, and have not returned to date (Native American Tribes of Arkansas).</p> <div style="text-align: center;">  </div> <p><i>Figure 10 "Native American Tribes of Arkansas". Native Languages of American Non-Profit. (http://www.native-languages.org/arkansas.htm). Accessed Dec 31, 2019.</i></p> <p>Cherokees began to move into Arkansas in the mid to late 1700s and by the early 1800's there were approximately 3000 Cherokees living in the Northeast Arkansas. The Cherokees were removed from Arkansas and are now headquartered in Northeastern Oklahoma (Histories of the Tribes: The Cherokees).</p> <p>The original inhabitants of Louisiana included the Atakapa Indians (including the Opelousas), the Caddo Indians (including the Natchitoches), the Chitimacha</p>

Indians, the Choctaw Indians, the Houma Indians, the Natchez Indians (including the Taensa and Avoyel), and the Tunica Indians. There are four federally listed Indian tribes in Louisiana today, the Chitimacha Tribe of Louisiana, Coushatta Tribe of Louisiana, Jena Band of Choctaw Indians, and Tunica-Biloxi Indian Tribe of Louisiana. (Native American Tribes of Louisiana. Native Languages of American Non-Profit). Of those only the Jena Band of Choctaw Indians is near the supply base of Highland Pellets.



Figure 11 "Native American Tribes of Louisiana". Native Languages of American Non-Profit. (<http://www.native-languages.org/louisiana.htm>). Accessed November 10, 2020.

Potential Threat

The potential threat addressed in this indicator is that civil rights may be infringed upon due to forest industry practices.

Regulatory Requirements & Agency of Authorization

There is legislation in place within Highland Pellets LLC's wood and fiber supply areas that serves to protect the interests and rights of indigenous people. This includes:

- Indian Self Determination and Education Assistance Act of 1975
- Native American Grave Protection and Repatriation Act
- Varied treaties with American Indian Nations, Tribes, and Bands in the United States.
- National Historic Preservation Act, including in relation to American Indian sites (1966)
- Tribes are considered Sovereign Nations (a rough legal equivalent to a US State) and have their own judicial systems
- ILO Principles and Rights
- Civil Rights Act of 1964: prohibits discrimination in places of public accommodation and prohibits discrimination against employment because of race, color, religion, or national origin.
- Fair Housing Act: prohibits discrimination in the sale, financing or rental of housing because of race, color, religion, sex, handicap, familial status, or national origin.
- Voting Rights Act of 1965: prohibits discrimination in voting practices or procedures because of race and color.

- Civil Rights of Institutionalized Persons Act of 1980: ensures that the rights of persons in institutions are protected against unconstitutional conditions
- Americans with Disabilities Act of 1990: prohibits discrimination in employment, in places of public accommodation, including all hotels, restaurants, retail stores, theaters, health care facilities, convention centers, parks, and places of recreation, in transportation services, and in all activities of state and local governments because a person has a disability.

Mechanism & Supporting Evidence

There are several vehicles through which conflicts involving traditional or civil rights may be addressed in the U.S. The most prominent mechanisms are the judicial and legislative system (i.e., lawsuits, lobbying, and legislation). In cases involving federal forests, there are also opportunities to resolve conflicts related to management decisions through the National Environmental Policy Act (NEPA).

The Company has also signed a Self-Declaration of Association with the FSC, which includes a commitment to respect Indigenous Peoples. Highland Pellets LLC has adopted a formal Sustainable Forestry Policy addressing respect for traditional and civil rights, and monitors for any stakeholder involvement to engage.

Finally, Highland Pellets has a written statement of commitment to comply with the law and the SFI Fiber Sourcing Standard as part of its Sustainable Forestry Policy. It is also communicated to forest landowners, wood producers and contract loggers where a contractual relationship exists.

Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results

There are 565 federally recognized Native American tribes in the U.S. There is, furthermore, a process by which native groups that are not federally recognized as distinct tribes may seek that status. Federally recognized Native American tribes with a land base constitute sovereign nations with the authority to manage their own land. There are currently no federally listed tribes in Arkansas either at a State nor Federal level (Federal and State Recognized Tribes), and only the Jena band of Choctaw Indians is near the supply base overall. (Native American Tribes of Louisiana". Native Languages of American Non-Profit.)

Although there are certainly instances of past traditional and civil rights violations in the U.S., there are also myriad examples in which groups and individuals claiming infringement of their rights have won reparations. The relative impartiality of the U.S.' justice system is widely acknowledged, a fact that is underscored by the World Bank good governance indicators presented in indicator 1.2.1.

There are no bans on timber exports from Highland Pellets LLC's wood supply area (Logging and Export Bans, 2018). Nor is Highland Pellets LLC's wood and fiber supply areas designated within a country or district that is a source of conflict timber. There is no evidence of violations of traditional rights within Highland Pellets LLC's wood and fiber supply areas. U.S. laws preclude such violations and there are recognized processes in place to resolve conflicts over traditional rights and cultural interests.

The FSC National Risk Assessment finds low risk wood harvested in violation of traditional and human rights (FSC National Risk Assessment: For the Conterminous United States of America. 2019, page 3).

	Rational of Risk Designation
	The preponderance of evidence above shows a low risk for procuring wood from an area that is violating indigenous rights.
Means of Verification	<ul style="list-style-type: none"> • International agencies and organizations • National laws and legislations • Non-governmental organizations • Internal Documentation
Evidence Reviewed	<p><u>Internal Documents</u></p> <ul style="list-style-type: none"> • Sustainable Forestry Policy • FSC/PEFC Controlled Wood/Due Diligence Risk Assessment <p><u>Tables and Figures</u></p> <ul style="list-style-type: none"> • Figure 3: “Native American Tribes of Arkansas”. Native Languages of American Non-Profit. (http://www.native-languages.org/arkansas.htm). Accessed Dec 31, 2019. <p><u>References</u></p> <ul style="list-style-type: none"> • National Environmental Policy Act (NEPA). EPA. January 21, 2020. https://www.epa.gov/nepa. Accessed April 21, 2020. • Worldwide Governance Indicators. The World Bank. 2019. https://datacatalog.worldbank.org/dataset/worldwide-governance-indicators. Accessed April 21, 2020. • Requirements for Sourcing FSC Controlled Wood: FSC-STD-40-005 V3-1. FSC International. 2017. • Logging and Timber Bans. World Resource Institute. July 2018. https://forestlegality.org/content/logging-and-export-bans. Accessed April 21, 2020. • Independent Studies. American Hardwoods Export Council. 2016. https://www.americanhardwood.org/en/environmental-profile/legality. Accessed April 21, 2020. • SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard. • “Federal and State Recognized Tribes”. National Conference of State Legislatures. (http://www.ncsl.org/research/state-tribal-institute/list-of-federal-and-state-recognized-tribes.aspx#State). Accessed Dec 31, 2019. • “History of the Tribes: The Cherokees”. Arkansas the Natural State. Visit the USA, Travel South USA, TripAdvisor, U.S. Travel Association. (https://www.arkansas.com/native-american-history-heritage/history/chokeee). Accessed Dec 31, 2019. • Goetzl A, Berg, S, Dodge, G, Prisley, S, Varela, J, Cutsinger, T. “Assessment of Lawful Harvesting & Sustainability: US Hardwood Exports”. American Hardwood Export Council. Revised June 2019. • FSC National Risk Assessment: For the Conterminous United States of America. FSC US. April 2019 • “Native American Tribes of Louisiana”. Native Languages of American Non-Profit. (http://www.native-languages.org/louisiana.htm). Accessed November 10, 2020
Risk Rating	<input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk RA <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	NA

	Indicator
2.1.1	The Biomass Producer has implemented appropriate control systems and procedures for verifying that forests and other areas with high conservation values are identified and mapped.
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>Highland Pellets LLC purchases both hardwood and softwood from the states of Arkansas and northern Louisiana. Highland Pellets LLC has a sub-scope identified for hardwoods received. Softwood has no associated environment nor ecological risks associated with it.</p> <p>There is different legislation for private forests versus public forests, with public forests having federal regulation. However, as Highland Pellets LLC procures its material from private forests only information pertaining to private forests will be included.</p> <p style="text-align: center;">Context</p> <p>This indicator specifically identifies the types of information Highland Pellets uses to identify and map areas of high conservation values. There is a large amount of cross over between 2.1.1, 2.1.2, 2.2.3, 2.2.4. Refer to those other indicators for additional information.</p> <p>This indicator is aligned with the FSC definition of High Conservation Values to define High Conservation Values.</p> <p>There are several sources that are relevant for reviewing forests and other areas of high conservation values are mapped. These include:</p> <ul style="list-style-type: none"> • The Forest Stewardship Council (FSC) National Risk Assessment for the Conterminous US • World Wildlife Fund (WWF) Priority Places • Arkansas Natural Heritage database • Critical Ecosystem Partnership Fund • Arkansas Wildlife Action Plans • IUCN Redlist <p>The Procurement and Sustainability Staff have accessed the State Natural Heritage Databases for the wood supply areas where purchased stumpage tracts are located and planned. The Arkansas Natural Heritage Programs can be accessed at the following websites: http://www.naturalheritage.com/</p> <p style="text-align: center;">Potential Threat</p> <p>The threat addressed by this indicator is that if poor identification and mapping of high conservation values in the state are conducted, then material may enter the pellet mill that comes from irresponsibly harvested areas. This could threaten areas of high conservation value.</p> <p style="text-align: center;">Regulatory Requirements & Agency of Authorization</p> <ul style="list-style-type: none"> • The Endangered Species Act (ESA) • The Clean Water Act and subsequent Best Management Practices (BMP) for Arkansas and Louisiana • Arkansas State wide Wildlife Action Plan

- Arkansas Statewide Forest Action Plan
- Louisiana Statewide Wildlife Action Plan
- Louisiana Statewide Forest Action Plan

Mechanism & Supporting Evidence

The key sources of information addressing the conservation of Biodiversity are the State Wildlife Action Plans. This information is reviewed and key components of the Action Plans are part of the communication with landowners and wood producers. Statewide priorities are also considered by the Arkansas and Louisiana SIC in customizing its information to landowners and as part of the logger training program. The Arkansas and Louisiana State Wildlife Action Plans are included as a reference in the landowner and wood producer correspondence. The full Action Plans are available on the internet at:

<http://www.wildlifearkansas.com/strategy.html>

Highland Pellets LLC monitors the feedstock inputs, tracking the rates of hardwood versus softwood. All material that enters the premises has an associate purchase agreement and the supplier has undergone either a site visit for secondary mills, or an interview process for primary material. This vetting process verifies the area the supplier purchases from, what species, and that they only use trained loggers who follow BMPs for harvests.

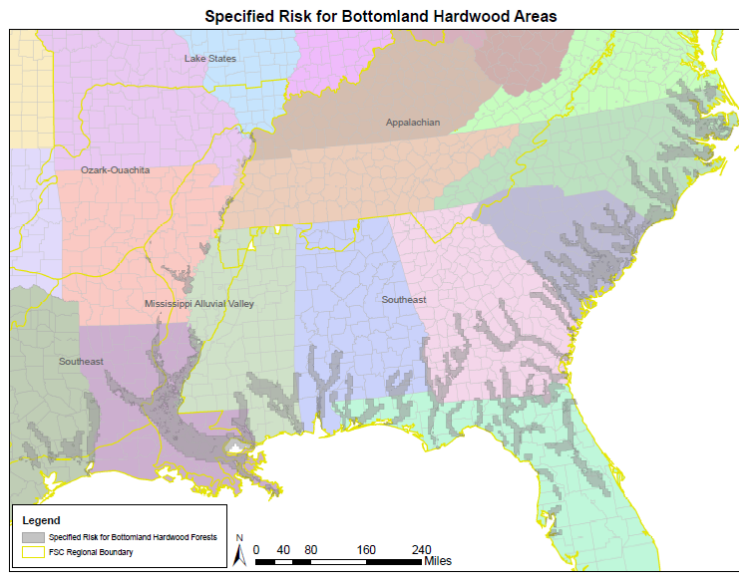
If the landowners request additional information about the species or community and desires to implement active management measures to protect the species or community, the Procurement Staff would provide contact information for the State Natural Heritage Agency or State Department of Natural Resources and/or Wildlife agencies.

Late Successional Bottomland Hardwoods are located in wetlands in Arkansas and northern Louisiana. A majority of Highland Pellet's feedstock consist of two species of Southern Yellow Pine, Loblolly and Shortleaf, however Highland Pellets LLC also purchases hardwood.

Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results

Arkansas and Louisiana has conducted comprehensive statewide forest resource assessments and prepared detailed Action Plans. Those assessments and Action Plans are intended to guide governmental and non-governmental programs and initiatives to achieve sustainable forest management. See Section 7.1.4.

The FSC US National Risk Assessment has identified one HCVs in the region of the Highland Pellets LLC supply area, Late Successional Bottomland Hardwoods. See below image for FSC's risk assessment that includes the States of Arkansas and Louisiana.



Highland Pellets LLC uses Guidance on HCVs provided by the High Conservation Value Network. Natural Heritage databases from Arkansas are utilized to confirm that there are no HCV occurrences.

The World Wildlife Fund (WWF) has identified priority places based on the wealth and variety of life these locations support. There is no such identified location near Arkansas nor northern Louisiana (Priority Places, WWF). This shows that Arkansas and northern Louisiana are not a high-risk locations for ecosystems as defined by the WWF.

The Critical Ecosystem Partnership Fund has identified the Coastal Plains of the United States to be a hotspot of biodiversity (North American Coastal Plain, CEPF). The main threats are from pesticides introduced in converted agricultural land, deforestation, climate change, and fire suppression which leads to overgrown underbrush. (North American Coastal Plain, CEPF). Promoting responsible forest management prevents these issues by providing an economic incentive in keeping the land in forest instead of converting it to other agricultural crops.



Figure 12 North American Coastal Plain, CEPP

Rational of Risk Designation

The evidence shows that there is one risk specified in the Supply Base, that of Late Successional Bottomland Hardwoods. The risk mitigation measure is detailed below.

<p>Means of Verification</p>	<ul style="list-style-type: none"> • State Wildlife Action Plans/ State Forest Action Plans • International Agencies • Non-governmental organizations • National and State laws and legislations • Internal Documentation
<p>Evidence Reviewed</p>	<p>Tables and Figures</p> <ul style="list-style-type: none"> • Table 1: Potential species in Highland Pellets LLC feedstock <p>Internal Documents</p> <ul style="list-style-type: none"> • FSC/PEFC Controlled Wood/Due Diligence Risk Assessment (HP-SB-CWRA) <p>References</p> <ul style="list-style-type: none"> • FSC National Risk Assessment for the Conterminous United States of America. 2019. FSC International. • GAP database (https://www.usgs.gov/core-science-systems/science-analytics-and-synthesis/gap/science/pad-us-data-overview?qt-science_center_objects=0#qt-science_center_objects) • IUCN Redlist • Natural Heritage databases from Arkansas are utilized to confirm that there are no HCV occurrences (http://www.hcvnetwork.org/, http://www.worldwildlife.org/science/ecoregions.cfm, https://www.biodiv.org/world/parties.asp, https://www.biodiv.org/reports/list.aspx?type=for) • Arkansas Wildlife Action Plan. 2015. Arkansas Forestry Commission. http://www.wildlifearkansas.com/strategy.html. Accessed October 23, 2020 • Arkansas Forest Action Plan. 2020. Arkansas Forestry Commission. https://www.agriculture.arkansas.gov/wp-content/uploads/2020/05/Arkansas_Forestry_Comm_Assessment.pdf. Accessed October 23, 2020. • SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard.

	<ul style="list-style-type: none"> Arkansas Natural Heritage Database (http://www.naturalheritage.com/) U.S. Geological Survey (USGS) Gap Analysis Project (GAP). 2018. Protected Areas Database of the United States (PAD-US): U.S. Geological Survey data release, (https://doi.org/10.5066/P955KPLE). Accessed Jan 3, 2020. Natural Areas Registry. Louisiana Wildlife & Fisheries. https://www.wlf.louisiana.gov/page/natural-areas-registry. Accessed November 8, 2020. “FSC-STD-01-002: Glossary of Terms”. 2016. Forest Stewardship Council (FSC). Pg 16. Priority Places. WWF. https://www.worldwildlife.org/places. Accessed March 24, 2020. Species. Center for Biological Diversity. https://www.biologicaldiversity.org/species/. Accessed March 25, 2020. North American Coastal Plain. Critical Ecosystem Partnership Fund. 2020. Conservation International. https://www.cepf.net/our-work/biodiversity-hotspots/north-american-coastal-plain. Accessed March 25, 2020. Species+. CITES, UNEP, CMS, EU. https://speciesplus.net/. Accessed March 27, 2020.
Risk Rating	<input type="checkbox"/> Low Risk <input checked="" type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	<p>The only Specified Risk that falls into the Highland Pellets supply base is for Late Successional Bottomland Hardwoods.</p> <p>The FSC NRA requires the implementation of one of five listed control measure option from the result of the July 2018 Atlanta meeting. Highland Pellets will implement a low level of risk mitigation as defined by the FSC NRA V1.0. This is because the Highland Pellets procures from less than 25% of the specified risk area and the AAF level of Highland Pellets is low (level 4). Highland Pellets is implementing the Education and Outreach control measure. Outreach followed by education will be sent to all suppliers annually and encouraged to be passed along to all interested parties and landowners. The contract between Highland Pellet’s and its supplier allows the company to reject any material that is not compliant with Highland Pellet’s sustainability requirements. Highland Pellets communicates directly with secondary suppliers who may supply hardwoods on several issues: a) what Late Successional Bottomland Hardwoods are, b) proper management and harvesting techniques for Late Successional Bottomland Hardwoods, c) What will happen if proper management and harvesting techniques are not followed, i.e. Highland Pellets will reject the material.</p> <p>Highland Pellets will monitor the effectiveness of the control measure through follow up with suppliers and landowners to understand how the information packet is used; whether they received it, read it, and forwarded it on to their suppliers. The monitoring will be done by receiving confirmation through supplier declaration and a follow up conversation with suppliers.</p>

	Indicator
2.1.2	The Biomass Producer has implemented appropriate control systems and procedures to identify and address potential threats to forests and other areas with high conservation values from forest management activities.
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>Highland Pellets LLC purchases both hardwood and softwood from privately owned forestland in the state of Arkansas. Highland Pellets LLC therefore has a sub-scope identified for hardwoods received. Softwood has no associated environment nor ecological risks associated with it.</p>

Context

The identification and mapping requirements of the HCV Categories are discussed under indicator 2.1.1. This indicator identifies and addresses the potential impacts to HCV Categories as a result of forest management activities.

This indicator is aligned with the FSC definition for High Conservation Value.

Indicators 2.1.1, 2.2.3, and 2.2.4 are closely related to this indicator. Please refer to those other indicators for further information.

Potential Threat

The threat addressed by this indicator is degradation of high conservation values if not properly identified and addressed.

Regulatory Requirements & Agency of Authorization

- The Endangered Species Act (ESA)
- The Clean Water Act and subsequent Best Management Practices (BMP) for Arkansas and Louisiana
- Arkansas State wide Wildlife Action Plan
- Louisiana Statewide Wildlife Action Plan
- Arkansas Statewide Forest Action Plan
- Louisiana Statewide Forest Action Plan

Mechanism & Supporting Evidence

Highland Pellets LLC monitors the feedstock inputs, tracking the rates of hardwood versus softwood. All material that enters the premises has an associate purchase agreement and the supplier has undergone either a site visit for secondary mills, or an interview process for primary material. This vetting process verifies the area the supplier purchases from, what species, and that they only use trained loggers who follow BMPs for harvests.

To date, no stakeholders have documented any substantiated concerns regarding the Critical Biodiversity Areas identified in the FSC US NRA.

Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results

The WWF Global 200 has determined that aquatic habitats in SE US rivers and streams are potentially at risk. If adequate BMP's are installed during harvesting, this risk is adequately mitigated. Supply Agreements require the use of BMP's The Arkansas Forestry Commission monitor BMP compliance. BMP compliance rates for Arkansas is 93%. (Voluntary Implementation of Forestry Best Management Practices for Water Quality. 2018). BMP compliance rates for Louisiana is 97% (Protecting the Nation's Water: State Forestry Agencies and Best Management Practices. National Association of State Foresters).

The FSC National Risk Assessment for the Conterminous United States of America finds Specified Risk for Late Successional Bottomland Hardwoods in Arkansas.

Rational of Risk Designation

This indicator is considered Specified Risk due to the risk identified by the FSC National Risk Assessment for Late Successional Bottomland Hardwoods.

	The CB approved Risk Assessment concludes "Low Risk" after implementation of the recommended control measure for Late Successional Bottomland Hardwoods. (See section 2.1.1 for further information on control measure).
Means of Verification	<ul style="list-style-type: none"> • Internal Documentation • State Laws • Environmental Organizations
Evidence Reviewed	<p><u>Internal Documents</u></p> <ul style="list-style-type: none"> • PEFC Controlled Wood/Due Diligence Risk Assessment (HP-SB-CW Procedure & DDS) <p><u>References</u></p> <ul style="list-style-type: none"> • FSC National Risk Assessment for the Conterminous United States of America. 2019. FSC International. • GAP database (https://www.usgs.gov/core-science-systems/science-analytics-and-synthesis/gap/science/pad-us-data-overview?qt-science_center_objects=0#qt-science_center_objects) • IUCN Redlist • Natural Areas Registry. Louisiana Wildlife & Fisheries. https://www.wlf.louisiana.gov/page/natural-areas-registry. Accessed November 8, 2020. • Protecting the Nation's Water: State Forestry Agencies and Best management Practices. 2019. National Association of State Foresters. • Natural Heritage databases from Arkansas are utilized to confirm that there are no HCV occurrences • SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard. • Arkansas Natural Heritage Database (http://www.naturalheritage.com/) • U.S. Geological Survey (USGS) Gap Analysis Project (GAP). 2018. Protected Areas Database of the United States (PAD-US): U.S. Geological Survey data release, (https://doi.org/10.5066/P955KPLE). Accessed Jan 3, 2020. • "FSC-STD-01-002: Glossary of Terms". 2016. Forest Stewardship Council (FSC). Pg 16. • Priority Places. WWF. https://www.worldwildlife.org/places. Accessed March 24, 2020. • Species. Center for Biological Diversity. https://www.biologicaldiversity.org/species/. Accessed March 25, 2020. • North American Coastal Plain. Critical Ecosystem Partnership Fund. 2020. https://www.cepf.net/our-work/biodiversity-hotspots/north-american-coastal-plain. Accessed March 25, 2020. • Species+. CITES, UNEP, CMS, EU. https://speciesplus.net/. Accessed March 27, 2020. • Arkansas Wildlife Action Plan. 2015. Arkansas Game and Fisheries Commission. https://www.agfc.com/en/wildlife-management/awap/the-plan/. Accessed March 30, 2020. • Arkansas Forest Action Plan. 2020. Arkansas Forestry Commission. https://www.agriculture.arkansas.gov/wp-content/uploads/2020/05/Arkansas_Forestry_Comm_Assessment.pdf. Accessed October 23, 2020. • S.R. Holcomb, A.A. Bass, C.S. Reid, M.A.Seymour, N.F. Lorenz, B.B. Gregory, S.M. Javed, K.F. Balkum. Louisiana Wildlife Action Plan. October 2015. Louisiana Wildlife & Fisheries. • Louisiana Statewide Forest Resource Assessment and Strategy: A Comprehensive Analysis fo Forest-Related Conditions, Trends, Threats, Opportunities, and Management Strategies. July 2010. Louisiana Department of Agriculture and Forestry and National Association of State Foresters. • National Priorities Louisiana Forest Action Plan 2015 Addendum. 2015. Louisiana Department of Agriculture and Forestry and National Association of State Foresters. • Voluntary Implementation of Forestry Best Management Practices for Water Quality Protection in Arkansas. 2018. Arkansas Forestry Commission and

	Arkansas Agriculture Department. https://www.agriculture.arkansas.gov/wp-content/uploads/2020/05/2017_Monitoring_Report.pdf . Accessed October 23, 2020.
Risk Rating	<input type="checkbox"/> Low Risk <input checked="" type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	<p>The only Specified Risk that falls into the Highland Pellets supply base is for Late Successional Bottomland Hardwoods.</p> <p>The FSC NRA requires the implementation of one of five listed control measure option from the result of the July 2018 Atlanta meeting. Highland Pellets will implement a low level of risk mitigation as defined by the FSC NRA V1.0. This is because the Highland Pellets procures from less than 25% of the specified risk area and the AAF level of Highland Pellets is low (level 4). Highland Pellets is implementing the Education and Outreach control measure. Outreach followed by education will be sent to all suppliers annually and encouraged to be passed along to all interested parties and landowners. The contract between Highland Pellet's and its supplier allows the company to reject any material that is not compliant with Highland Pellet's sustainability requirements. Highland Pellets communicates directly with secondary suppliers who may supply hardwoods on several issues: a) what Late Successional Bottomland Hardwoods are, b) proper management and harvesting techniques for Late Successional Bottomland Hardwoods, c) What will happen if proper management and harvesting techniques are not followed, i.e. Highland Pellets will reject the material.</p> <p>Highland Pellets will monitor the effectiveness of the control measure through follow up with suppliers and landowners to understand how the information packet is used; whether they received it, read it, and forwarded it on to their suppliers. The monitoring will be done by receiving confirmation through supplier declaration and a follow up conversation with suppliers.</p>

	Indicator
2.1.3	The Biomass Producer has implemented appropriate control systems and procedures for verifying that feedstock is not sourced from forests converted to production plantation forest or non-forest lands after January 2008.
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>The scale of assessment is for private forestland in the states of Arkansas and northern parishes of Louisiana.</p> <p style="text-align: center;">Context</p> <p>Highland Pellets LLC uses the definition of "plantations" as contained in the FSC U.S. Forest Management Standard for purposes of its FSC/PEFC and other certification programs.</p> <p>Intensively managed plantations involving exotic species, clones and heavy use of forest chemicals are not being harvested and sourced by any suppliers in the states of Arkansas and northern parishes of Louisiana.</p> <p>Prior to the 1800s written records of forests in Arkansas are extremely limited. The native population of Arkansas was devastated prior to that due to disease and other factors from the introduction of European settlers. By the Louisiana Purchase in 1803, there were only a few native peoples left in the area, who were relocated in the 1830s. From the early 1800s until the Civil War, 1861, there was a high demand for forest products such as bald cypress. The rate of forestry picked up</p>

after 1900 as infrastructure allowed better access to forests and by 1909 the government became concerned about a timber famine. By 1920 much of the timber had been harvested. The forest cover which once had been estimated at 32 million acres (12.95 million hectares) declined steadily until it stabilized at 18 to 20 million acres (7.2 to 8.1 million hectares) in the mid-1900s (see below figure). (Bragg, D, 2012).

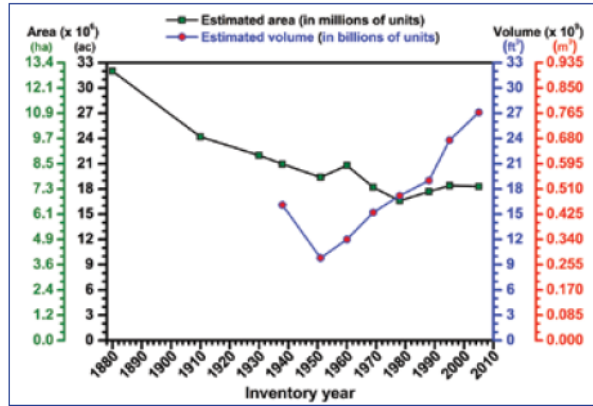


Figure 5. Forest area (1880 to 2005) and live tree volume (1938 to 2005) estimates for Arkansas. (Data sources: Record 1910; Cruikshank 1937, 1938; Winters 1938, 1939; Duerr 1948; Conner and Hartsell 2002; Rosson and Rose 2010).

Since the 1950s upland hardwood area has remained fairly constant, and planted pine (primarily Loblolly) has increased substantially (see below figure).

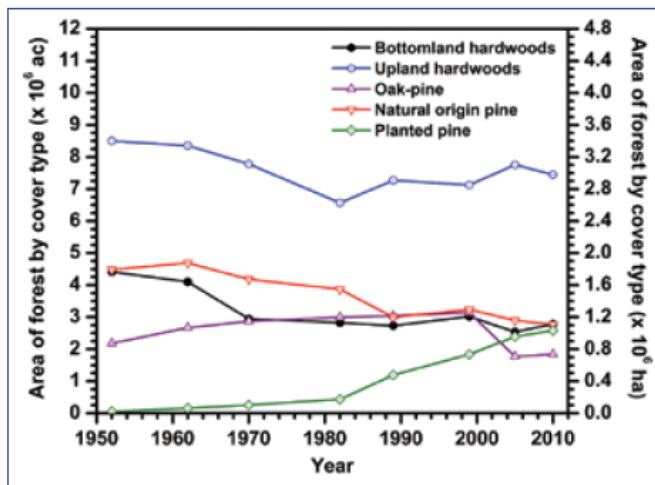


Figure 7. Change in Arkansas forest area by cover type from 1952 until 2010. (Data sources: Conner and Hartsell 2002; Rosson and Rose 2010; USDA Forest Service FIA 2011).

The first mill opened in Louisiana in 1716, but it wasn't until rail lines became available in the late 1800s that forestry became a major industry. In 1904 Louisiana began to focus on protecting and promoting forests and forestry by passing Act 113 which was charged with preserving the forests, suppression and prevention of forest fire, reforestation of denuded forest, proper instruction relative to forestry, and to provide penalties for violations. (Louisiana Statewide Rofest Resource Assessment and Strategy, 2010, page 11).

Potential Threat

The potential threat addressed by this indicator is conversion away from forestland which can cause fragmentation of natural areas used by many species for habitat.

Regulatory Requirements & Agency of Authorization

- The USDA Forests Inventory and Database: Tracks forest inventory in the USA
- Arkansas Forestry Commission: has identified a priority against urbanization of forests in the Forest Action Plan
- Louisiana Forestry Commission: has identified a priority against urbanization of forests in the Forest Action Plan (2015 addendum)

Mechanism & Supporting Evidence

The Company has a written statement of commitment to comply with the law and the SFI Fiber Sourcing Standard as part of its Sustainable Forestry Policy. The Policy is formally communicated to Company personnel via annual correspondence and training. It is also communicated to forest landowners, wood producers and contract loggers where a contractual relationship exists.

Highland Pellets LLC's Purchase Agreement includes reference to conversion and the company retains the right to reject any material that is found to be not in compliance with its sustainability requirements.

Through random checks on forest tracts Highland Pellets LLC gets observable evidence that wood from conversion forest are not purchased. If it became known to Highland Pellets LLC that conversion was purchased, Highland Pellets LLC would reject the material.

Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results

The general trend of increasing forest volume continues as can be seen from the Forest Inventory and Analysis data the Southern Group of State Foresters analyzed for the US Southeastern Region. The Arkansas report from private land published November 8, 2019 shows that overall there is a growth to drain ratio on Arkansas privately owned forests of 1.49 for softwood and 1.67 for hardwoods (see below chart) per year. ("Southern Timber Supply Analysis". Timber Supply Analysis. November 9, 2019. Arkansas Forestry Commission and Southern Group of State Foresters. Page 13.) This means that for every 1 cubic foot of softwood harvested, there is 1.49 cubic feet growing. This number also takes disease into account. A report from the Southern Timber Analysis shows a growth to drain ratio in Louisiana of 1.6.1 overall, 1.60 for softwood and 1.98 for hardwood. ("Southern Timber Supply Analysis". Louisiana. September 4, 2020. Southern Group of State Foresters. Page 13).

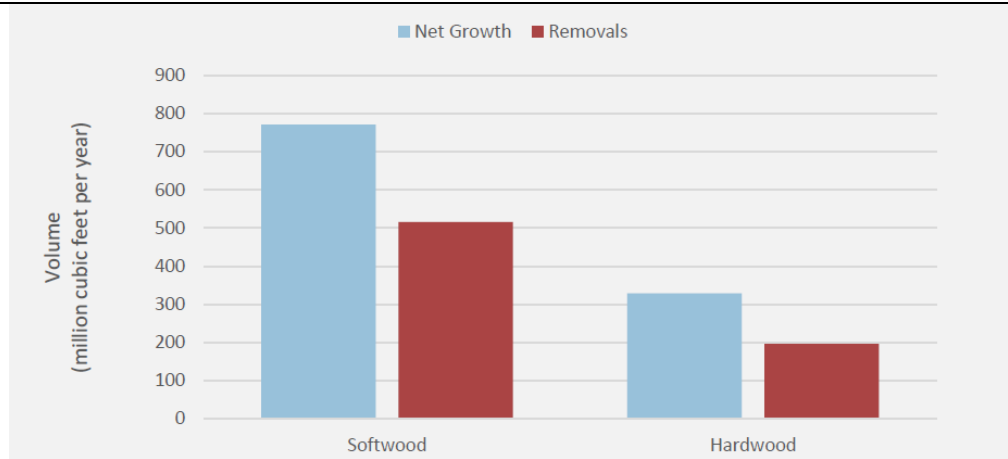


Figure 13

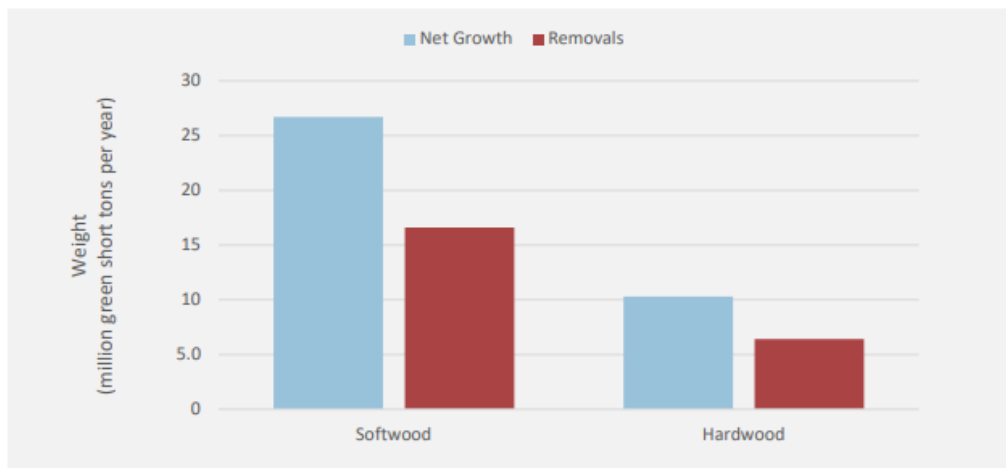


Figure 14 “Southern Timber Supply Analysis”. Louisiana. September 4, 2020. Southern Group of State Foresters. Page 13

A multi-year environmental risk assessment conducted by the Forest Stewardship Council (FSC) US and utilizing hundreds of experts has concluded “low risk” to conversion for the Highland Pellets LLC supply base area. (FSC National Risk Assessment, 2019).

Rational of Risk Designation

The above evidence is sufficient to show Low Risk for conversion in Arkansas and northern Louisiana.

Means of Verification	<ul style="list-style-type: none"> • Internal Documentation • State Laws and Agencies • Forestry Standards • National Laws and Agencies
Evidence Reviewed	<p><u>Figures</u></p> <ul style="list-style-type: none"> • Figure 1 and 2: Bragg, Don. “A Brief History of Forests and Tree Planting in Arkansas.” Volume 55, No. 1 (2012). Tree Planters’ Notes. • Figure 3: “Southern Timber Supply Analysis”. Timber Supply Analysis. November 9, 2019. Arkansas Forestry Commission and Southern Group of State Foresters. Page 13. <p><u>Internal Document</u></p> <ul style="list-style-type: none"> • Purchase Agreement

	<ul style="list-style-type: none"> • Sustainable Forestry Policy • Self-Declaration of Association with the FSC • Appendix A Sourcing Area Auditing Form <p><u>References</u></p> <ul style="list-style-type: none"> • FSC National Risk Assessment: For the Conterminous United States of America. FSC US. April 2019 • “State Inventory Data Status”. Forest Inventory and Analysis - Southern Research State. May 15, 2019. USDA Forest Service. (https://www.fs.usda.gov/srsfia/states/arkansas.shtml). Accessed January 15, 2020. • Arkansas Forest Inventory and Analysis Fact Sheets (http://www.srs.fs.fed.us/pubs/su/su_srs055.pdf) • SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard. • SFI Guidance to 2015-2019 Standards and Rules • U.S. Forest Service Forest Inventory & Analysis Program (http://www.fia.fs.fed.us/) • Bragg, Don. “A Brief History of Forests and Tree Planting in Arkansas.” Volume 55, No. 1 (2012). Tree Planters’ Notes. • “2017 Economic Contributions of Forestry in Arkansas”. Arkansas Forest Resources Center. 2017. University of Arkansas Division of Agriculture: Research and Extension. • David Theobald. “The risk of residential development by 2030”. Natural Resource Ecology Lab, Colorado State University. 2007. • Arkansas Forest Action Plan. 2020. Arkansas Forestry Commission. https://www.agriculture.arkansas.gov/wp-content/uploads/2020/05/Arkansas_Forestry_Comm_Assessment.pdf. Accessed October 23, 2020. • Louisiana Statewide Forest Resource Assessment and Strategy: A Comprehensive Analysis fo Forest-Related Conditions, Trends, Threats, Opportunities, and Management Strategies. July 2010. Louisiana Department of Agriculture and Forestry and National Association of State Foresters. • National Priorities Louisiana Forest Action Plan 2015 Addendum. 2015. Louisiana Department of Agriculture and Forestry and National Association of State Foresters. • S.R. Holcomb, A.A. Bass, C.S. Reid, M.A.Seymour, N.F. Lorenz, B.B. Gregory, S.M. Javed, K.F. Balkum. Louisiana Wildlife Action Plan. October2015. Louisiana Wlidlife & Fisheries. • Natural Areas Registry. Louisiana Wildlife & Fisheries. https://www.wlf.louisiana.gov/page/natural-areas-registry. Accessed November 8, 2020. • Protecting the Nation’s Water: State Forestry Agencies and Best management Practices. 2019. National Association of State Foresters.
Risk Rating	<input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	NA

	Indicator
2.2.1	The Biomass Producer has implemented appropriate control systems and procedures to verify that feedstock is sourced from forests where there is appropriate assessment of impacts, and planning, implementation and monitoring to minimise them.

Finding	<p style="text-align: center;">Scale of Assessment</p> <p>The scale of assessment for this indicator is privately owned forestland in Arkansas state and northern parishes of Louisiana. Public forestland has a higher regulation standard that can be enforced than private land.</p> <p style="text-align: center;">Context</p> <p>Highland Pellets purchases its wood primarily from privately owned forestland in Arkansas and northern Louisiana. This indicator states that the forestland must be assessed prior to harvesting to ensure a sustainable harvest is conducted.</p> <p style="text-align: center;">Potential Threat</p> <p>The potential threat addressed by this indicator is that without proper assessment and planning of forest tracks the forest area may be damaged due to lack of understanding of the area.</p> <p style="text-align: center;">Regulatory Requirements & Agency of Authorization</p> <ul style="list-style-type: none"> • The Clean Water Act and subsequent Best Management Practices <p style="text-align: center;">Mechanism & Supporting Evidence</p> <p>Highland Pellets LLC has a Sustainable Forestry Policy that defines its fiber sourcing policies, makes commitments to comply with applicable laws and regulations and commits to independent certification to the SFI Fiber Sourcing Standard, PEFC Chain of Custody Standard, FSC Chain of Custody standard, and the SBP standards. The Sustainable Forestry Policy is communicated internally to responsible personnel via correspondence and annual training. The Policy is also communicated to purchased-stumpage landowners, contract loggers and wood producers via formal correspondence.</p> <p>In order to verify that Highland Pellets LLC's sustainability requirements are being met by its suppliers, the company conducts annual checks and maintains strong communication with all suppliers. Secondary suppliers, such as chip mills, are reviewed at their mill to ensure that they, in turn, monitor their suppliers to ensure the impacts of forestry are minimized. Primary material, such as roundwood coming directly from the forest, is checked randomly at the forest level to ensure that forestry impacts are minimized. Any material that is deemed to be a sustainability risk will be rejected.</p> <p>Purchased Stumpage and Wood Producer Contracts contain or reference the Sustainable Forestry Policy and require compliance with laws and regulations, implementation of State water quality BMPs and the use of Qualified Logging Professionals. State BMPs require a forest management plan.</p> <ul style="list-style-type: none"> • <i>2.2 Program Participants shall conduct and use BMP monitoring information to maintain high rates of conformance to best management practices and to identify areas for improved performance.</i> <p style="text-align: center;">Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results</p> <p>Each State in the United States has a Forestry Agency/Commission which conducts periodic monitoring to assess the rates of forestry Best Management Practices (BMP) implementation. BMP implementation assesses such things as properly installed waterbars to prevent erosion, and keeping streams clear of debris to</p>
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maintain strong streams. The Arkansas Forestry Best Management Practices for Water Quality Protection, page 6-7, identifies essentials for forest management planning with a list of resources to help with forest management plans. (Arkansas Forestry Best Management Practices for Water Quality Protection. 2002).

The Recommended Best Management Practices for Louisiana page 3 discusses forest management plans, page 34 discusses forest management planning in wetlands, specifically.

The most recent monitoring for Arkansas occurred in 2017 to 2018 and is titled Voluntary Implementation of Forestry Best Management Practices for Water Quality Protection in Arkansas: Results of the 2017-2018 BMP Implementation Survey. According to that document the overall Arkansas statewide rate of forestry BMP implementation was 93%. Statewide, implementation of forestry BMPs related to harvesting and regeneration practices scored highest with a rate of 96%. Implementation of forestry BMPs related to roads scored 92%, while SMZ BMP implementation scored 89%. Harvesting and Regeneration BMP implementation was 98%. These results show that BMP implementation is conducted at a high level across the state.

The most recent monitoring for Louisiana occurred in 2019 conducted by the National Association of State Foresters. Louisiana scored 97% overall. Implementation of forestry BMPs related to harvesting and regeneration practices scored 98%, BMPs related to roads scored 97%, and SMZ BMP implementation scored 98%. (Protecting the Nation's Water: State Forestry Agencies and Best Management Practices. National Association of State Foresters).

Forest are also assessed from a numerical perspective to show growth the drain ratios. When this number is over 1.0 it indicates that forests are growing faster than they are being harvested or dying from other causes, such as the pine beetle. The general trend of forest volume is to increase as can be seen from the Forest Inventory and Analysis data the Southern Group of State Foresters analyzed for the US Southeastern Region. The Arkansas report from private land published November 8, 2019 shows that overall there is a growth to drain ration on Arkansas privately owned forests of 1.49 for softwood and 1.67 for hardwoods (see below chart) per year. ("Southern Timber Supply Analysis". Timber Supply Analysis. November 9, 2019. Arkansas Forestry Commission and Southern Group of State Foresters. Page 13.) This means that for every 1 cubic foot of softwood harvested, there is 1.49 cubic feet growing. A report from the Southern Timber Analysis shows a growth to drain ratio in Louisiana of 1.6.1 overall, 1.60 for softwood and 1.98 for hardwood. ("Southern Timber Supply Analysis". September 4, 2020. Southern Group of State Foresters. Page 13).

The responsible forestry standard, FSC, published a National Risk Assessment for the conterminous United States in 2019 (FSC National Risk Assessment, 2019). This document utilized hundreds of experts, from government employees to academic researchers to find environmental risks associated with forestry in the United States. The results of this assessment is another example of the large body of research to assess impacts to the forest through harvesting. The clarity of the FSC National Risk Assessment document and the means to mitigate any risk designated in the document encourages appropriate implementation and monitoring of those risks.

	Rational of Risk Designation
	Based on the implementation rates of BMPs in Arkansas and Louisiana, which have include a requirement to create a forest management plan, this indicator is low risk.
Means of Verification	<ul style="list-style-type: none"> • State Agencies • Internal Documentation
Evidence Reviewed	<p><u>Internal Documents</u></p> <ul style="list-style-type: none"> • Sustainable Forestry Policy • Wood Producer Contracts • Self-Declaration of Association with the FSC Appendix A Sourcing Area Auditing Form <p><u>References</u></p> <ul style="list-style-type: none"> • FSC National Risk Assessment: For the Conterminous United States of America. FSC US. April 2019 • “State Inventory Data Status”. Forest Inventory and Analysis - Southern Research State. May 15, 2019. USDA Forest Service. (https://www.fs.usda.gov/srsfia/states/arkansas.shtml). Accessed January 15, 2020. • Arkansas Forestry Agency/Commission • Voluntary Implementation of Forestry Best Management Practices for Water Quality Protection in Arkansas: Results of the 2017-2018 BMP Implementation Survey • FSC/PEFC Controlled Wood/Due Diligence Procedures (HP-SB-CW Procedure & DDS) • Voluntary Implementation of Forestry Best Management Practices for Water Quality Protection in Arkansas. 2018. Arkansas Forestry Commission and Arkansas Agricultural Department. • SFI Fiber Sourcing Standard • Arkansas Forestry Best Management Practices for Water Quality Protection. 2002. EPA, Arkansas Natural Resource Commission, Arkansas Forestry Commission. https://www.agriculture.arkansas.gov/wp-content/uploads/2020/05/bmpbookreviseddea.pdf. Accessed October 19, 2020. • Louisiana Statewide Forest Resource Assessment and Strategy: A Comprehensive Analysis fo Forest-Related Conditions, Trends, Threats, Opportunities, and Management Strategies. July 2010. Louisiana Department of Agriculture and Forestry and National Association of State Foresters. • National Priorities Louisiana Forest Action Plan 2015 Addendum. 2015. Louisiana Department of Agriculture and Forestry and National Association of State Foresters. • S.R. Holcomb, A.A. Bass, C.S. Reid, M.A.Seymour, N.F. Lorenz, B.B. Gregory, S.M. Javed, K.F. Balkum. Louisiana Wildlife Action Plan. October2015. Louisiana Wlildlife & Fisheries. • Natural Areas Registry. Louisiana Wildlife & Fisheries. https://www.wlf.louisiana.gov/page/natural-areas-registry. Accessed November 8, 2020. • Protecting the Nation’s Water: State Forestry Agencies and Best management Practices. 2019. National Association of State Foresters. • Recommended Forestry Best Managemnet Practices for Louisiana. Louisiana Forestry Association, the Louisiana Department of Environmental Quality, and the Louisiana Department of Agriculture and Forestry. 2000
Risk Rating	<input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk RA <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	NA

	Indicator
2.2.2	The Biomass Producer has implemented appropriate control systems and procedures for verifying that feedstock is sourced from forests where management maintains or improves soil quality (CPET S5b).
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>There are no sub-scopes for this indicator. Arkansas and northern Louisiana has a range of soil types, however proper maintenance of them is emphasized equally.</p> <p style="text-align: center;">Context</p> <p>Soil is an extremely important aspect of forest and land health.</p> <p style="text-align: center;">Potential Threat</p> <p>The degradation of the topsoil through poor farming practices was one of the causes of the Dust Bowl in the US Great Plains during the 1930s (Dust Bowl. 2009). Proper care of soil-microbes and general topsoil is essential to ensure soil is a carbon sink rather than emission, and to prevent desertification.</p> <p style="text-align: center;">Regulatory Requirements & Agency of Authorization</p> <ul style="list-style-type: none"> • The Clean Water Act and supporting documentation (Arkansas Best Management Practices) <p style="text-align: center;">Mechanism & Supporting Evidence</p> <p>Highland Pellets LLC conducts BMP Monitoring that includes consideration of: Minimize Rutting/Soil Disturbance. If a nonconformance is identified, corrective and preventive actions are required at the bottom of the report form.</p> <p>Loggers are trained in BMP implementation through the logger training program. Of the 40 hour curriculum, approximately 35 hours are spent on BMP. This preventative items as well such as waterbars which slow water on a steep hill, spreading debris to prevent erosion, and other similar actions. After the initial training, loggers are required to do annual Continuing Education which reenforces BMPs which prevent soil erosion.</p> <p>The Management Review Process as outlined in Objective 10 is to evaluate the effectiveness of promoting the use of BMPs and to set goals for continual improvement and maintaining high rates of BMP compliance.</p> <p>Forest practices activities that are not in compliance with applicable BMPs will be identified and the Company BMP promotion program may be adjusted to improve effectiveness. Any changes to the SFI Promotion Program and/or BMP Monitoring Reports would be communicated to responsible personnel by the Sustainability Manager.</p> <p>Highland Pellets LLC requires all suppliers with whom the Company has a contractual relationship to sign a Contract or other agreement for wood sourced directly from the forest. The agreement requires compliance with applicable laws and regulations and use of State water quality BMPs for the protection of water quality.</p>

Copies of the contracts with logging contractors and wood producers are maintained by the Procurement Staff.

Highland Pellets LLC has a comprehensive program to address adverse weather conditions and ensure that soil and water quality is protected on its primary material. The Procurement Staff take appropriate steps to plan their procurement activities and operations to avoid adverse weather conditions and to implement measures to protect water quality, consistent with State water quality BMPs.

Highland Pellets LLC's Procurement Staff is authorized to suspend operations on purchased tracts if, in their opinions, continuation of operations would result in excessive rutting or soil disturbance would compromise adherence to State BMP guidelines.

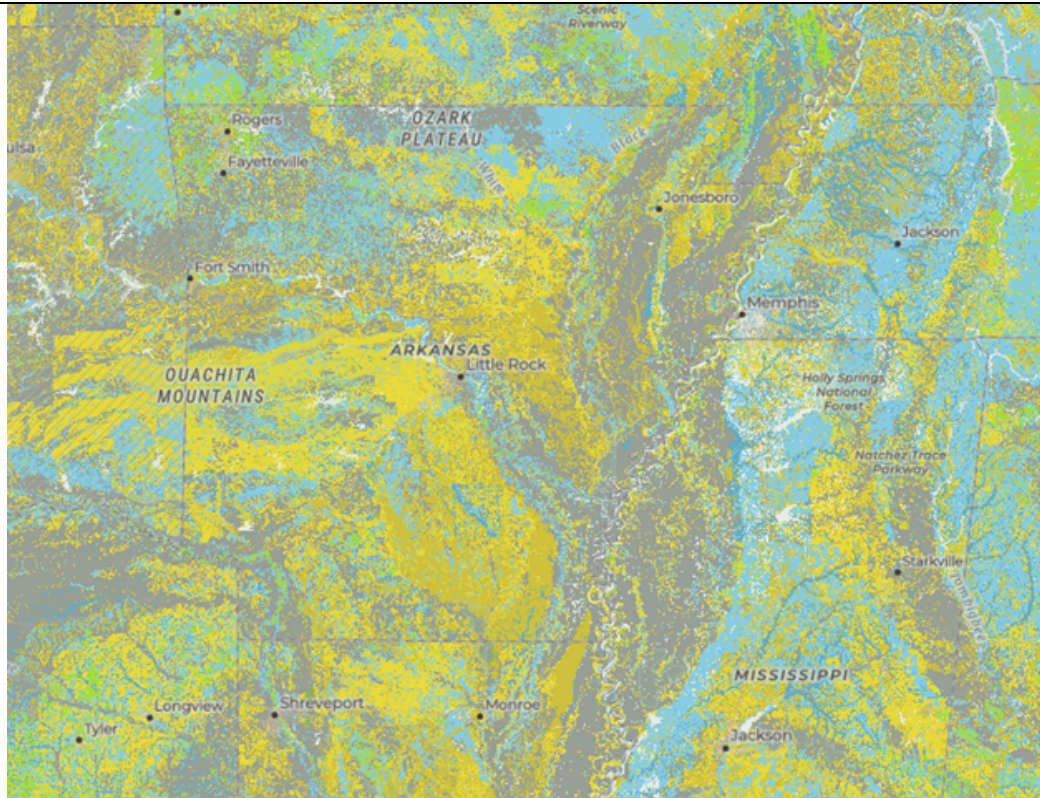
All wood fiber in the supply area is harvested by trained loggers as a result of the SFI Fiber Sourcing Standard and American Forest Foundation Standards of Sustainability requirements implemented by major segments of the forest and paper industry in Arkansas and Louisiana. Highland Pellets LLC is a beneficiary of the near universal use of trained loggers across the region.

Compliance with BMPs is required in contracts with suppliers through the Wood Purchase Agreement/Contract.








Soil erosion check information from the BMP Monitoring Reports on purchased tracts, State BMP Compliance Monitoring Reports and the certification status of wood producers are collected and utilized by the SFI Team during the annual Management Review Process. The Management Review meeting how to continuous improve the system, going over the issues with staff forest tract sustainability checks and how to encourage suppliers to improve in the future. BMPs also address soil erosion, soil compaction and disturbance and protection of long-term site productivity.

Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results

The University of Arkansas Department of Agriculture (Best Management Practices for Forestry) identifies sediment as the primary risk to water quality. Through proper implementation of BMPs, soil is stabilized instead of eroded and the risk of sediment getting into the water stream is reduced significantly.



USA Soils Hydrologic Group

	Group A: Group A soils consist of deep, well drained sands or gravelly sands with high infiltration and low runoff rates
	Group B: Group B soils consist of deep well drained soils with a moderately fine to moderately coarse texture and a moderate rate of infiltration and runoff
	Group C: Group C consists of soils with a layer that impedes the downward movement of water or fine textured soils and a slow rate of infiltration
	Group D: Group D consists of soils with a very slow infiltration rate and high runoff potential. This group is composed of clays that have a high shrink-swell potential, soils with a high water table, soils that have a clay pan or clay layer at or near the surface, and soils that are shallow over nearly impervious material
	Group A/D: Group A/D soils naturally have a very slow infiltration rate due to a high water table but will have high infiltration and low runoff rates if drained
	Group B/D: Group B/D soils naturally have a very slow infiltration rate due to a high water table but will have a moderate rate of infiltration and runoff if drained
	Group C/D: Group C/D soils naturally have a very slow infiltration rate due to a high water table but will have a slow rate of infiltration if drained.

Best Management Practices address the protection of soils from erosion, compaction and disturbance. Arkansas' BMP implementation rate is 93% (Voluntary Implementation of Forestry Best Management Practices for Water Quality Protection. Arkansas Forestry Commission and Arkansas Agriculture Department) and Louisiana's is 97% (Protecting the Nation's Water: State Forestry Agencies and Best Management Practices. National Association of States Foresters).

A study conducted by the US Forest Service concludes that no detrimental impacts can be directly attributed to harvesting (Forest Soil Biology – Timber Harvesting Relationships 1979. USDA Forest Service).

Rational of Risk Designation

The evidence from the high level of implementation of BMPs in Arkansas and Louisiana show that there is no risk of soil degradation through forestry practices.

Means of Verification	<ul style="list-style-type: none"> • State Agencies • Forestry Standards • Internal Documentation
Evidence Reviewed	<p><u>Internal Documentation</u></p> <ul style="list-style-type: none"> • Wood Purchase Agreement/Contract • BMP Monitoring (HP-Suppliers- BMP Monitoring CHK) <p><u>Reference</u></p> <ul style="list-style-type: none"> • American Forest Foundation Standards of Sustainability • SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard. • Best Management Practices for Forestry. University of Arkansas Division of Agriculture Research and Extension. https://www.uaex.edu/environment-nature/water/quality/forest-bmps.aspx. Accessed October 12, 2020. • Forest Soil Biology – Timber Harvesting Relationships: A Perspective. M.F. Jurgensen, M.J. Larsen, and A.E. Harvey. 1979. USDA Forest Services. https://www.fs.usda.gov/treearch/pubs/39720. Accessed October 12, 2020. • Dust Bowl. 2009. History Channel. https://www.history.com/topics/great-depression/dust-bowl. Accessed October 12, 2020. • Voluntary Implementation of Forestry Best Management Practices for Water Quality Protection. 2018. Arkansas Forestry Commission and Arkansas Agriculture Department. https://www.agriculture.arkansas.gov/wp-content/uploads/2020/05/2017_Monitoring_Report.pdf. Accessed October 23, 2020. • Protecting the Nation’s Water: State Forestry Agencies and Best management Practices. 2019. National Association of State Foresters. • Recommended Best Management Practices for Louisiana. 2014. Louisiana Forestry Association (LFA), the Louisiana Department of Environment Quality, and the Louisiana Department of Agriculture and Forestry.
Risk Rating	<input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	NA

	Indicator
2.2.3	The Biomass Producer has implemented appropriate control systems and procedures to ensure that key ecosystems and habitats are conserved or set aside in their natural state (CPET S8b).
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>Highland Pellets LLC purchases both hardwood and softwood from the state of Arkansas and northern parishes in Louisiana. The only identified area with high conservation value is Late Successionally Bottomland Hardwoods. Highland Pellets LLC therefore has a sub-scope identified for hardwoods received. Softwood has no associated environment nor ecological risks associated with it.</p> <p style="text-align: center;">Context</p> <p>This indicator strongly resembles indicator 2.1.1, 2.1.2, and 2.2.4. Information that may be truncated here is represented more fully in these other indicators.</p>

Arkansas has 10.01% of its land protected through public ownership. (Arkansas Conservation Summary, Landscape). Louisiana has 7.06% of its land protected through public ownership (Louisiana Conservation Summary, Landscape). Setting aside sufficient landmass as protected is important for the overall protection of key ecosystems in the state.

Potential Threat

The threat addressed by this indicator is that key ecosystems may be degraded if not sufficiently set aside and protected.

Regulatory Requirements & Agency of Authorization

- The Endangered Species Act (ESA)
- The Clean Water Act and subsequent Best Management Practices (BMP) for Arkansas and Louisiana
- Arkansas State wide Wildlife Action Plan
- Louisiana Statewide Wildlife Action Plan
- Arkansas Statewide Forest Action Plan
- Louisiana Statewide Forest Action Plan

Mechanism & Supporting Evidence

The US Protected Area Database contains information about protected lands that was published in April 2009: (<http://protectedlands.net/padus/>).

The key sources of information addressing the conservation of Biodiversity are the State Wildlife Action Plans. This information is reviewed and key components of the Action Plans are part of the communication with landowners and wood producers. Statewide priorities are also considered by the state SICs in customizing its information to landowners and as part of the logger training program. The Arkansas and Louisiana State Wildlife Action Plan is included as a reference in the landowner and wood producer correspondence.

The Procurement Staff have accessed the State Natural Heritage Databases for the wood supply areas where purchased stumpage tracts are located and planned.

Highland Pellets LLC has an active program to provide information to non-certified forest landowners and wood producers, in order to promote the objectives of the SFI Standard (hereafter referred to as "SFI Information Packets"). This program involves supplying information and, upon request, forestry advice directly to landowners where the Company purchases stumpage and has direct influence over the harvesting operation. Where the company purchases wood from outside wood producers, the company encourages those wood producers to pass the SFI Information Packets or brochures on to landowners from whom they purchase wood.

Highland Pellets LLC is focusing its SFI Fiber Sourcing Program on those in the forestry community that would not otherwise receive information about sustainable forestry practices and plan to keep their land in long-term forest production. For 2019, around 50% of wood inputs are expected to come from SFI Forest Management certified landowners.

The Company actively participates in the Arkansas and Louisiana Forestry Associations and SFI Implementation Committees to use available resource information and

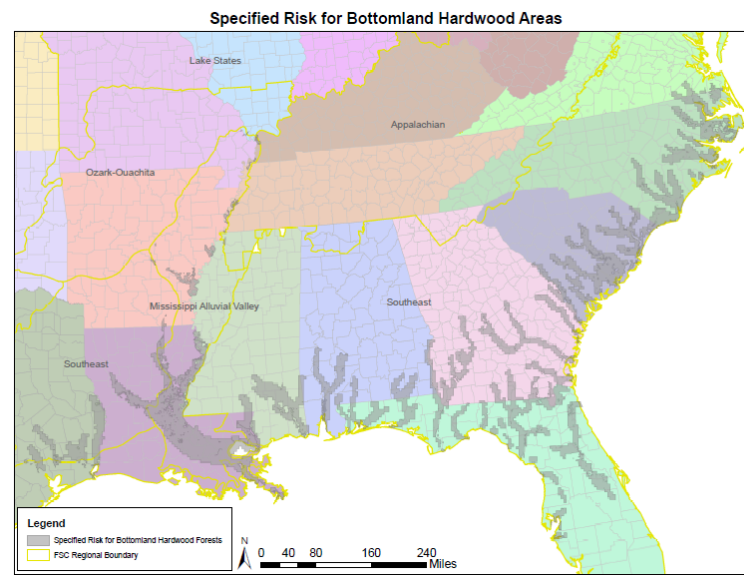
cooperate with BMP monitoring studies. The SICs actively work with the state forestry agencies to improve BMP monitoring efforts and to report findings.

The Company supports other state and county organizations that are active in broadening the practice of sustainable forestry with private forest owners, conducting training sessions, and sponsoring forestry field days and other events with landowners and loggers.

Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results

The World Bank has awarded the U.S. and Canada a Global Governance Index rating that exceeds 90% for Regulatory Quality. See the Global Governance Indexes: (http://info.worldbank.org/governance/wqi/sc_chart.asp). This shows that regulation implemented by the United States is followed.

The FSC US National Risk Assessment has identified one HCVs in the region of the Highland Pellets LLC supply area, Late Successional Bottomland Hardwoods. See below image for FSC’s risk assessment of Arkansas and northern Louisiana.



Supply Base Protected Areas:



Figure 15 The World Database on Protected Areas (WDPA) is the most comprehensive global database on terrestrial and marine protected areas. Update: September 2020.

Currently there are protected areas in Arkansas specifically covering bottomland hardwood areas, including, the Cache River, Wapanocca and Dale Bumpers White River National Wildlife Refuges. (Conservation in Arkansas. 2019. US Fish and Wildlife Services). Arkansas Natural Heritage Commission has a map of areas protected within Arkansas Natural Heritage Commission's System of Natural Areas. Within these areas, removal of plants and animals is strictly forbidden, with the exception of legally taken game and fish. Travel within natural areas is limited to foot traffic in order to minimize erosion and disturbance to sensitive habitats. No motorized vehicles nor horses are permitted. Other prohibited uses are camping and construction of permanent hunting stands. (Find a Natural Area. ANHC).

The 2019 State and Private Forestry Fact Sheet from the US Department of Agriculture shows that in 2018 6257 acres were covered by new or revised forest stewardship plans, 4299 acres in important forest resource areas were covered by new or revised stewardship plans, and 20 Coop Forest Health acres were protected (State and Private Forestry Fact Sheet Louisiana 2019. USDA).

In the most recent Arkansas Forest Action Plan, Priorities, 2015, 26 counties were identified with Forest Legacy Areas of very high priority. Of these, six projects proposals were created. The State acquired two that were funded in part by the Forest Legacy program. The State acquired two tracts, using non-federal funds. In addition, one tract of 937 acres is ranked in a position on the FY 2016 President's List that will likely result in Congress approving Forest Legacy funds for acquisition. The project locations are shown on the map below.

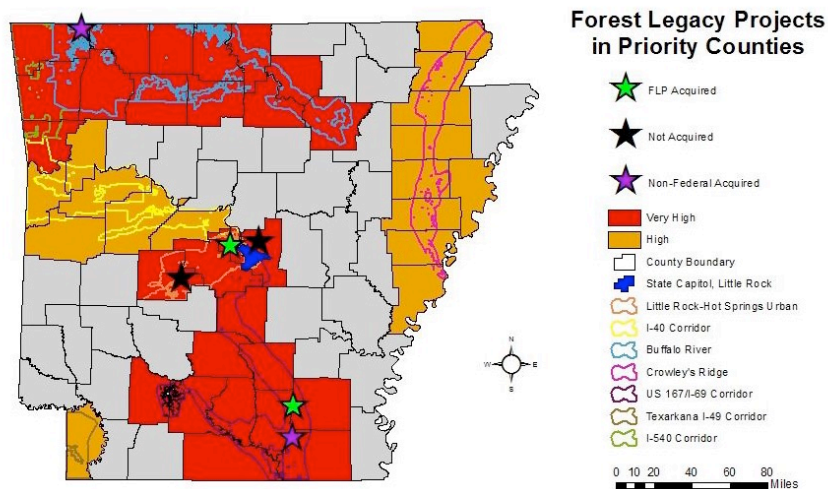


Figure 16 Arkansas Forest Action Plan Priorities, page 11

Louisiana’s updated Forest Action Plan from 2015 identifies education as a primary means to promote forest stewardship. With over 80% of the forests privately owned, there is a great opportunity to educate, encourage, and assist landowners in multi-use forestry practices (National Priorities Louisiana Forest Action Plan 2015 Addendum, page 1). In 2018 over 10,000 acres were protected through either new or revised stewardship plans, showing the state’s progress. (State and Private Forestry Fact Sheet Louisiana 2019, USDA Forest Service).

Highland Pellets LLC uses Guidance on HCVs provided by the High Conservation Value Network. Natural Heritage databases from Arkansas are utilized to confirm that there are no HCV occurrences.

The World Wildlife Fund (WWF) has identified priority places based on the wealth and variety of life these locations support. There is no such identified location near Arkansas nor Louisiana (Priority Places, WWF). This shows that Arkansas nor Louisiana are not a high-risk location for ecosystems as defined by the WWF.

The Critical Ecosystem Partnership Fund has identified the Coastal Plains of the United States to be a hotspot of biodiversity (North American Coastal Plain, CEPF). The main threats are from pesticides introduced in converted agricultural land, deforestation, climate change, and fire suppression which leads to overgrown underbrush. (North American Coastal Plain, CEPF). Promoting responsible forest management prevents these issues by providing an economic incentive in keeping the land in forest instead of converting it to other agricultural crops.



Figure 17 North American Coastal Plain, CEPPF

Rational of Risk Designation

The evidence shows that there is one risk specified in the Supply Base, that of Late Successional Bottomland Hardwoods. The risk mitigation measure is detailed below.

<p>Means of Verification</p>	<ul style="list-style-type: none"> • Internal Documentation • Forestry Standards • State Agencies • National Agencies • SFI Implementation Committee
<p>Evidence Reviewed</p>	<p><u>Internal Documentation</u></p> <ul style="list-style-type: none"> • Controlled Wood/Due Diligence Procedure • Risk Assessment • Supplier Correspondence Procedure • Landowner Information Packets <p><u>References</u></p> <ul style="list-style-type: none"> • US Protected Area Database (http://protectedlands.net/padus/) • SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard. • Arkansas Wildlife Action Plans (http://www.wildlifearkansas.com/strategy.html) • Arkansas Forest Action Plan. 2015. National Association of State Foresters. https://www.stateforesters.org/districts/arkansas/. Accessed October 13, 2020. • Arkansas Natural Heritage Programs (http://www.naturalheritage.com/) • Arkansas Forestry Association • The World Database on Protected Areas (WDPA) is the most comprehensive global database on terrestrial and marine protected areas. Update: September 2020. • Louisiana Statewide Forest Resource Assessment and Strategy: A Comprehensive Analysis fo Forest-Related Conditions, Trends, Threats, Opportunities, and Management Strategies. July 2010. Louisiana Department of Agriculture and Forestry and National Association of State Foresters.

	<ul style="list-style-type: none"> • National Priorities Louisiana Forest Action Plan 2015 Addendum. 2015. Louisiana Department of Agriculture and Forestry and National Association of State Foresters. • S.R. Holcomb, A.A. Bass, C.S. Reid, M.A.Seymour, N.F. Lorenz, B.B. Gregory, S.M. Javed, K.F. Balkum. Louisiana Wildlife Action Plan. October 2015. Louisiana Wildlife & Fisheries. • Natural Areas Registry. Louisiana Wildlife & Fisheries. https://www.wlf.louisiana.gov/page/natural-areas-registry. Accessed November 8, 2020. • Protecting the Nation's Water: State Forestry Agencies and Best management Practices. 2019. National Association of State Foresters. • Forestry Association (LFA), the Louisiana Department of Environment Quality, and the Louisiana Department of Agriculture and Forestry. • United States of America. Protected Planet. https://www.protectedplanet.net/country/US. Accessed October 13, 2020. • World Bank Global Governance Indexes (http://info.worldbank.org/governance/wgi/sc_chart.asp) • Protect Areas; About. IUCN. https://www.iucn.org/theme/protected-areas/about. Accessed October 13, 2020. • Conservation in Arkansas. Updated March 2019. US Fish and Wildlife Services. https://www.fws.gov/southeast/arkansas/. Accessed October 13, 2020. • Find a Natural Area. Arkansas Natural Heritage Commission (ANHC). https://www.naturalheritage.com/Natural_Areas/find-a-natural-area. Accessed October 13, 2020. • Arkansas Conservation Summary. Landscape. http://www.landscape.org/arkansas/overview/. Accessed October 23, 2020. • Louisiana Conservation Summary. Landscape. http://www.landscape.org/louisiana/overview/. Accessed November 9, 2020. • State and Private Forestry Fact Sheet Louisiana 2019. USDA Forest Service. • State and Private Forestry Fact Sheet Louisiana 2019. USDA Forest Service.
Risk Rating	<input type="checkbox"/> Low Risk <input checked="" type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	<p>The Specified Risk that falls into the Highland Pellets supply base for ecosystems is for Late Successional Bottomland Hardwoods.</p> <p>The FSC NRA requires the implementation of one of five listed control measure option from the result of the July 2018 Atlanta meeting. Highland Pellets will implement a low level of risk mitigation as defined by the FSC NRA V1.0. This is because the Highland Pellets procures from less than 25% of the specified risk area and the AAF level of Highland Pellets is low (level 4). Highland Pellets is implementing the Education and Outreach control measure. Outreach followed by education will be sent to all suppliers annually and encouraged to be passed along to all interested parties and landowners.</p> <p>The contract between Highland Pellet's and its supplier allows the company to reject any material that is not compliant with Highland Pellet's sustainability requirements. Highland Pellets communicates directly with secondary suppliers who may supply hardwoods on several issues: a) what Late Successional Bottomland Hardwoods are, b) proper management and harvesting techniques for Late Successional Bottomland Hardwoods, c) What will happen if proper management and harvesting techniques are not followed, i.e. Highland Pellets will reject the material.</p> <p>Highland Pellets will monitor the effectiveness of the control measure through follow up with suppliers and landowners to understand how the information packet is used; whether they received it, read it, and forwarded it on to their suppliers. The monitoring will be done by receiving confirmation through supplier declaration and a follow up conversation with suppliers.</p>

	Indicator
2.2.4	The Biomass Producer has implemented appropriate control systems and procedures to ensure that biodiversity is protected (CPET S5b).
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>Highland Pellets LLC purchases both hardwood and softwood from privately owned forestland in the state of Arkansas and northern parishes of Louisiana. Highland Pellets LLC therefore has a sub-scope identified for hardwoods received. Softwood has no associated environment nor ecological risks associated with it.</p> <p style="text-align: center;">Context</p> <p>This indicator has much overlap with 2.1.1., 2.1.2, and 2.2.3. Please review this indicator in conjunction with the others mentioned.</p> <p>This indicator speaks to general biodiversity, that is the species mix in a region. Indicators 2.1.1, 2.1.2, and 2.2.3 are closely related to this indicator. Please refer to those other indicators for further information</p> <p style="text-align: center;">Potential Threat</p> <p>The threat addressed by this indicator is that harvesting could negatively affect biodiversity.</p> <p style="text-align: center;">Regulatory Requirements & Agency of Authorization</p> <ul style="list-style-type: none"> • The Endangered Species Act (ESA) • The Clean Water Act and subsequent Best Management Practices (BMP) for Arkansas and Louisiana • Arkansas State wide Wildlife Action Plan • Louisiana Statewide Wildlife Action Plan <p style="text-align: center;">Mechanism & Supporting Evidence</p> <p>Key sources of information addressing the conservation of Biodiversity are the State Wildlife Action Plans. This information is reviewed and key components of the Action Plans are part of the communication with landowners and wood producers. Statewide priorities are also considered by the Arkansas and Louisiana SIC in customizing its information to landowners and as part of the logger training program. The Arkansas and Louisiana State Wildlife Action Plans are included as a reference in the landowner and wood producer correspondence.</p> <p>Highland Pellets LLC promotes the State Wildlife Action Plans that are focused on wildlife species and habitats that have declined and need concerted effort by Federal and State agencies, conservation organizations and the private sector.</p> <p>The FSC/PEFC Chain of Custody Program contains a Controlled Wood/Due Diligence Procedure and Supplier Correspondence Procedure and Wood Purchase Agreement addressing conservation of High Conservation Value Forests to address Critical Biodiversity Areas.</p> <p>Highland Pellets LLC has an active program to provide information to non-certified forest landowners and wood producers, in order to promote the objectives of the SFI Standard (hereafter referred to as “Landowner Information Packets”). This program involves supplying information and, upon request, forestry advice directly</p>

to landowners where the company purchases stumpage and has direct influence over the harvesting operation. Where the company purchases wood from outside wood producers, the company encourages those wood producers to pass the Landowner Information Packets or brochures on to landowners from whom they purchase wood.

If the landowners request additional information about the species or community and desires to implement active management measures to protect the species or community, the Procurement Staff would provide contact information for the State Natural Heritage Agency or State Department of Natural Resources and/or Wildlife agencies.

Highland Pellets LLC forwards information to Landowner and Wood Producers promoting biological diversity. The Supplier Correspondence addressing biodiversity is captured below.

Highland Pellets LLC wants to ensure that appropriate State Best Management Practices (BMPs) are implemented to protect water quality and take steps to manage wildlife habitat and biodiversity. We also encourage you to promote landowner recognition and certification programs. Please see the attached information packet and visit the following sites for more information regarding sustainable forestry practices and certification programs:

- <http://www.arkforests.org>
- <http://www.aad.arkansas.gov/arkansas-forestry-commission>
- <http://www.sfiprogram.org>
- <https://www.treefarmsystem.org>

We are also requiring you to ensure that the on-site supervisor of each logging crew with responsibility for operations has successfully completed the SFI sponsored logger training or equivalent program. We are committed to expanding the use of professional foresters and loggers that have been trained and understand sustainable forestry practices.

In addition, please see your latest Wood Purchase Agreement that contains a number of requirements including: use of State BMPs and Qualified Logging Professionals, avoidance of controversial sources and compliance with applicable laws and regulations. Please maintain records of your wood supply area, suppliers, species of trees sourced and be prepared to provide those records to our Procurement Staff upon request.

The SFI Fiber Sourcing Standard include further requirements including:

- *5.2.1 Participation in the development of information addressing biodiversity conservation information for family forest owners.*
 - *The Company actively participates in the Arkansas Forestry Association and SFI Implementation Committee to use available resource information and cooperate with BMP monitoring studies. The Arkansas SIC actively works with the state forestry agencies to improve BMP monitoring efforts and to report findings.*

- 5.3.2 *Program Participants are knowledgeable about climate change impacts on wildlife, wildlife habitat and conservation of biological diversity.*
 - *The Company participates in cooperative efforts through the State SFI Implementation Committee to broaden awareness about the impacts of global climate change on forests, wildlife and biodiversity.*

Highland Pellets LLC has also researched the State Forest Resource Assessments and Action Plans to ensure that its certification programs and procedures are consistent with the direction of federal and state agencies.

Further SFI Fiber Sourcing Program requirements state:

Where the Natural Heritage Database indicates that a G-1 or G-2 species or community is known to exist in close proximity to the purchased stumpage tract, Procurement Staff shall assess whether the species or community is actually present on the tract or associated with the habitat type present. This may involve assessing the forest and habitat type prior to harvesting and notifying the landowner of its presence. If it is likely that the G-1 or G-2 species or community is present on a purchased stumpage tract, the Procurement Staff would conduct an on-site visit to look for the presence of the species or community. If the G-1 or G-2 species or community is not present, no further action would be taken. As appropriate to the situation, the Procurement Staff may contact the natural heritage program staff to suggest an update to their database.

If a G-1 or G-2 species or community is present and represents a viable population on a purchased stumpage tract, the Procurement Staff would contact the landowner and notify him/her of the location of the species or community and provide information from the natural heritage database. The Procurement Staff would encourage the landowner to manage the tract so as to protect and maintain habitat conditions conducive to the long-term survival of the G-1 or G-2 species or community.

Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results

Highland Pellets LLC has reviewed many sources to ensure that biodiversity is protected.

Among these are:

- Forest Stewardship Council (FSC) National Risk Assessment for the Conterminous USA
- Arkansas Natural Heritage Program
- Arkansas Wildlife Action Plan
- Louisiana Wildlife Action Plan
- IUCN Redlist

Late Successional Bottomland Hardwoods have been identified as a Specified Risk (see indicators 2.1.1, 2.1.2, and 2.2.3 for further information).

Highland Pellets LLC uses Guidance on HCVs provided by the High Conservation Value Network. Natural Heritage databases from Arkansas and Louisiana are utilized to confirm that there are no HCV occurrences. The Procurement and Sustainability Staff have accessed the State Natural Heritage Databases for the wood supply areas where purchased stumpage tracts are located and planned. The Arkansas

and Louisiana Natural Heritage Programs can be accessed at the following websites: <http://www.naturalheritage.com/>

Two specific species were identified as Specified Risk in this indicator, The Ozark Hellbender (*Cryptobranchus alleganiensis bishop*) and the Spectaclecase (*Cumberlandia monodonta*). Both of these species are protected through proper Best Management Practices for Forestry around wetland areas.

The Ozark Hellbender (*Cryptobranchus alleganiensis bishop*)

The Center for Biological Diversity lists the Hellbender, the largest amphibian in North America as endangered (Species, Center for Biological Diversity). The Arkansas Wildlife Action Plan has the Ozark Hellbender (*Cryptobranchus alleganiensis bishop*) as Critically imperiled in Arkansas, though less imperiled for their overall population (Arkansas Wildlife Action Plan, 2015, pg 45-47). The Ozark Hellbender occurs in the far Northern side of Arkansas in the Ozark Highland and outside of the primary supply base of Highland Pellets. Below see comparison of distribution occurrence records from the Arkansas Wildlife Action Plan to Highland Pellets location and primary supply area (black dot and arc).

Distribution

Occurrence Records

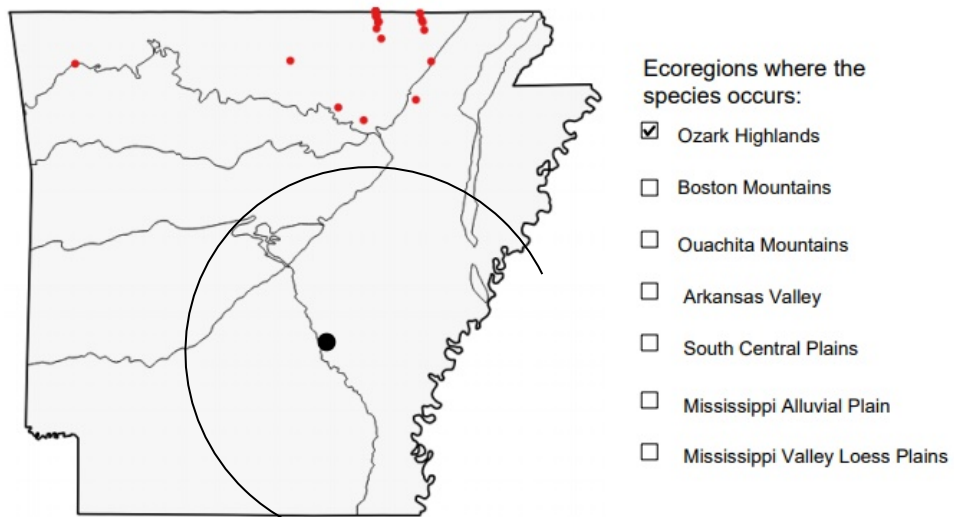


Figure 18: Arkansas Wildlife Action Plan, 2015

The Arkansas Wildlife Action Plan identifies sedimentation from forestry as one of several threats to the Hellbender. Through proper implementation of BMPs in Arkansas, Highland Pellets LLC can mitigate the risk to the Spectaclecase. The mitigation measure to emphasize proper harvest from wetlands is applicable to this species.

Spectaclecase (*Cumberlandia monodonta*)

The IUCN Redlist has one species listed for Arkansas at risk from sedimentation from intensive timber harvest. Spectaclecase (*Cumberlandia monodonta*) is a freshwater mussel that can grow up to 9 inches in length.

The Spectaclecase is found in streams off of the Mississippi, Ohio, and Missouri Rivers in the states of Alabama, Arkansas, Illinois, Iowa, Kentucky, Minnesota, Missouri, Tennessee, Virginia, West Virginia, and Wisconsin. This species is at risk from dams, small population size and fragmentation, sedimentation, pollution, channelization, and nonnative species.

	<p>Of these risks, sedimentation from intensive timber harvests is the only forestry related risk. Through proper implementation of BMPs in Arkansas, Highland Pellets LLC can mitigate the risk to the Specataclecase. The mitigation measure to emphasize proper harvest from wetlands is applicable to this species.</p> <p style="text-align: center;">Rational of Risk Designation</p> <p>Late Successional Bottomland Hardwoods species represents a Specified Risk in the supply base. Please refer to the mitigation measure below.</p>
Means of Verification	<ul style="list-style-type: none"> • International Agencies • State Agencies • Internal Documentation • State Forest Resource Assessments
Evidence Reviewed	<p><u>Internal Documentations</u></p> <ul style="list-style-type: none"> • Controlled Wood/Due Diligence Procedure (HP-SB- CW Procedure & DDS) • Supplier Correspondence Procedure • Wood Purchase Agreement (HP-COC-Supplier List) • SFI Fiber Sourcing Program • Landowner Information Packets <p><u>References</u></p> <ul style="list-style-type: none"> • Fowler, Allison (Ed) 2015. Arkansas Wildlife Action Plan. Arkansas Game and Fish Commission, Little Rock, Arkansas. 1678 pp. • Intergovernmental Panel on Climate Change (http://www.ipcc.ch/pdf/assessment-report/ar4/wg3/ar4-wg3-chapter9.pdf) • High Conservation Value Network. https://hcvnetwork.org/. Accessed October 13, 200. • Arkansas Natural Heritage Commission. 2020. https://www.naturalheritage.com/Research-and-Data/arkansas-heritage-program. Accessed October 13, 2020. • Priority Places. 2020. World Wildlife Fund. https://www.worldwildlife.org/places. Accessed October 13, 2020. • North American Coastal Plain. The Critical Ecosystem Partnership Fund. 2020. Conservation International. https://www.cepf.net/our-work/biodiversity-hotspots/north-american-coastal-plain. Accessed October 13, 2020 • The IUCN Redlist of Threatened Species. 2020. International Union for Conservation of Nature and Natural Resources. https://www.iucnredlist.org/. Accessed October 13, 2020. • Hellbender. The Center for Biological Diversity. https://www.biologicaldiversity.org/species/amphibians/hellbender/. Accessed October 13, 2020. • Louisiana Statewide Forest Resource Assessment and Strategy: A Comprehensive Analysis fo Forest-Related Conditions, Trends, Threats, Opportunities, and Management Strategies. July 2010. Louisiana Department of Agriculture and Forestry and National Association of State Foresters. • National Priorities Louisiana Forest Action Plan 2015 Addendum. 2015. Louisiana Department of Agriculture and Forestry and National Association of State Foresters. • S.R. Holcomb, A.A. Bass, C.S. Reid, M.A.Seymour, N.F. Lorenz, B.B. Gregory, S.M. Javed, K.F. Balkum. Louisiana Wildlife Action Plan. October2015. Louisiana Wldlife & Fisheries. • Natural Areas Registry. Louisiana Wildlife & Fisheries. https://www.wlf.louisiana.gov/page/natural-areas-registry. Accessed November 8, 2020. • Protecting the Nation’s Water: State Forestry Agencies and Best management Practices. 2019. National Association of State Foresters. • Forestry Association (LFA), the Louisiana Department of Environment Quality, and the Louisiana Department of Agriculture and Forestry.

Risk Rating	<input type="checkbox"/> Low Risk <input checked="" type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	<p>As related to the Specified Risk of Late Successional Bottomland Hardwoods, two marine species have been identified as at risk from intensive timber harvests (the Ozark Hellbender (<i>Cryptobranchus alleganiensis bishop</i>) and the Spectaclecase (<i>Cumberlandia monodonta</i>)). Through the mitigation below these two species will be protected as well.</p> <p>The FSC NRA requires the implementation of one of five listed control measure option from the result of the July 2018 Atlanta meeting. Highland Pellets will implement a low level of risk mitigation as defined by the FSC NRA V1.0. This is because the Highland Pellets procures from less than 25% of the specified risk area and the AAF level of Highland Pellets is low (level 4). Highland Pellets is implementing the Education and Outreach control measure. Outreach followed by education will be sent to all suppliers annually and encouraged to be passed along to all interested parties and landowners.</p> <p>The contract between Highland Pellet’s and its supplier allows the company to reject any material that is not compliant with Highland Pellet’s sustainability requirements. Highland Pellets communicates directly with secondary suppliers who may supply hardwoods on several issues: a) what Late Successional Bottomland Hardwoods are, b) proper management and harvesting techniques for Late Successional Bottomland Hardwoods, c) What will happen if proper management and harvesting techniques are not followed, i.e. Highland Pellets will reject the material.</p> <p>Highland Pellets will monitor the effectiveness of the control measure through follow up with suppliers and landowners to understand how the information packet is used; whether they received it, read it, and forwarded it on to their suppliers. The monitoring will be done by receiving confirmation through supplier declaration and a follow up conversation with suppliers.</p>

	Indicator
2.2.5	The Biomass Producer has implemented appropriate control systems and procedures for verifying that the process of residue removal minimises harm to ecosystems.
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>The scale of assessment is privately owned forestland in the state of Arkansas and northern Louisiana.</p> <p style="text-align: center;">Context</p> <p>In addition to State water quality BMPs, there are Federal BMPs addressing road construction in jurisdictional wetlands. Road Construction for Silvicultural purposes in jurisdictional wetlands does not require a Section 404 dredge and fill permit, due to the silvicultural exemption under the Clean Water Act. However, to qualify for the silvicultural exemption, the road construction must comply with the following BMPs (from Clean Water Section 404 Program Definition and Permit Exemption, Part 232.3).</p> <p>The BMP Monitoring Programs in Arkansas address all relevant regions of the states and accurately characterize BMP implementation, as well as identify areas for improvement. Highland Pellets LLC reviews the regionally specific information contained in the State BMP Reports to gather information from its wood and fiber supply area.</p>

Potential Threat

The potential threat addressed by this indicator is that removing residue from forest tracks does not harm the ecosystem.

Regulatory Requirements & Agency of Authorization

- The Clean Water Act through BMP implementation and requirements

Mechanism & Supporting Evidence

Adverse weather conditions can harm the ecosystem of a forest tract by causing deep rutting where machinery runs. It is required by BMPs to prevent deep rutting such as this and return to the site under more favourable conditions to finish harvesting or to close out the site.

Highland Pellets LLC has a comprehensive program to address adverse weather conditions and ensure that soil and water quality is protected on its purchased stumpage tracts. The Procurement Staff take appropriate steps to plan their procurement activities and operations to avoid adverse weather conditions and to implement measures to protect water quality, consistent with State water quality BMPs. Highland Pellets LLC's Procurement Staff is authorized to suspend operations on purchased tracts if, in their opinions, continuation of operations would result in excessive rutting or soil disturbance.

The Company also monitors the Statewide Forest Resource Assessments and Action Plans that have been developed as a result of the Farm Bill. The Statewide Resource Assessments have involved a wide range of Stakeholders at the State and regional level. The Executive Summaries of the Assessments and Action Plans are taken into consideration during the annual Management Review. The Forest Action Plan identifies the highest priorities to protect forestland. The biggest priority to conserve forestland identified in 2020 is to promote the forest market. Proper forest management promotes good forest health, decreasing wildfire risk, and risk from pests (State and Private Forestry Fact Sheet, US Forest Service Southern Region and Arkansas Forestry Commission, 2020).

Highland Pellets LLC requires all suppliers with whom the company has a contractual relationship to sign a contract or other agreement for wood sourced directly from the forest. The agreement requires compliance with applicable laws and regulations and use of State water quality BMPs for the protection of water quality. Copies of the contracts with logging contractors and wood producers are maintained by the Procurement Staff.

Wood Producer Contracts contain or reference the Sustainable Forestry Policy and require compliance with laws and regulations, implementation of State water quality BMPs and the use of Qualified Logging Professionals.

Highland Pellets LLC monitors its logging contractors on purchased stumpage tracts using a BMP Monitoring Form). Loggers are required to following applicable BMPs containing control systems and procedures.

The effectiveness of the purchase program is checked by the Procurement Staff who conduct internal monitoring to assess logger training and implementation of BMPs using a "BMP Monitoring Checklist." The Procurement Staff use the BMP Monitoring Checklist to document meetings with contract loggers and the findings

of the final close-out inspection and any appropriate follow-up or corrective action. The Contract Logging Supervisor is required to sign the BMP Monitoring Checklist, in situations where Corrective Actions are issued to ensure understanding and compliance. The Procurement Staff conducts periodic and ongoing monitoring of purchased primary feedstock to identify any BMP related problems and to take immediate corrective action, but do not document those inspections unless there is an unsatisfactory situation that needs to be resolved.

The Procurement Staff periodically review the BMP Monitoring Checklists to identify any patterns or trends in BMP implementation/compliance. The information is used to evaluate the effectiveness of the SFI promotion program, determine whether any changes or improvements are necessary, and to set overall goals for maintaining high rates of BMP compliance over time.

Highland Pellets LLC also works to develop and maintain a diverse wood supplier network throughout its wood supply area to offset localized supply interruptions due to adverse weather. This diverse wood supplier network allows Highland Pellets LLC to procure from areas less affected by wet weather than others. Due to the diversity of soil types and terrain in the state, there are areas that can be harvested sustainably in wet weather, such as hills and sandy soil, that drains quickly and well and does not compact as other soils do. The Company encourages its suppliers to curtail their fiber sourcing in certain areas during times of saturated soil conditions and during periods of adverse weather conditions, and shift procurement to unaffected areas.

The company has a Sustainable Forestry Policy that defines its fiber sourcing policies, makes commitments to comply with applicable laws and regulations and commits to independent certification to the SFI Fiber Sourcing Standard. The Sustainable Forestry Policy is communicated internally to responsible personnel via correspondence and annual training. The Policy is also communicated to purchased-stumpage landowners, contract loggers and wood producers via formal correspondence.

The Company requires contract loggers to attend SFI sponsored Professional Logger or equivalent training, and to maintain their continuing education. SFI Logger Training or equivalent training is documented in the Logging Contract. The Procurement Staff also check the contractor's logging supervisor against the SFI Logger Training websites in the respective States.

The Procurement Staff also provide direct contractors with information on available training. In addition to the state logger training programs, the Company's Procurement Staff provide on-the-job instruction or training, as appropriate to the situation.

The Company also requires its wood producers to employ contract loggers that are Qualified Logging Professionals. This is communicated to the wood producers through a variety of communications, including Supplier Contracts.

The Company actively participates in the Arkansas and Louisiana Forestry Association and SFI Implementation Committees to use available resource information, cooperate with BMP monitoring studies, support the American Tree Farm Program and promote the conservation of working forests. Highland Pellets LLC supports the Witness Reward Program in Arkansas, encouraging forest workers to call the hotline (501-225-1598) if any illegal forestry activities have been noticed.

	<p>The Witness Reward Program will provide up to \$5000 in reward for any information leading to the arrest and conviction of persons involved in forestry related crimes.</p> <p>The Company works through the SIC to develop information for private forest owners addressing the advantages of providing wildlife biodiversity at the stand and landscape levels. This information has been incorporated into the SFI Implementation Committee information packets and/or brochures for distribution to forest landowners and wood producers.</p> <p>Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results</p> <p>Arkansas has a BMP rate of 93%, according to the Voluntary Implementation of Best Management Practices for Water Quality Implementation Survey. Louisiana has a BMP rate of 97%, according to the National Association of State Foresters. The monitoring programs is conducted by trained inspectors, working for the State Forestry Commissions or other regulatory agency.</p> <p style="text-align: center;">Rational of Risk Designation</p> <p>The requirements of BMP implementation to stop working on a tract if it causes ecosystem damage and the high rates of BMP implementation in Arkansas and Louisiana show low risk for this indicator.</p>
Means of Verification	<ul style="list-style-type: none"> • Internal Documentation • National Laws and Regulations • State Agencies
Evidence Reviewed	<p><u>Internal Documentation</u></p> <ul style="list-style-type: none"> • BMP Monitoring Form (HP-Supplier-BMP Monitoring CHK) • Sustainable Forestry Policy • Wood Producer Contracts • Highland Pellets Adverse Weather Policy <p><u>References</u></p> <ul style="list-style-type: none"> • SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard. • Clean Water Section 404 Program Definition and Permit Exemption, Part 232.3 • Arkansas Best Management Practices for Water Quality Protection. 2002. Arkansas Forestry Commission. https://www.agriculture.arkansas.gov/wp-content/uploads/2020/05/bmpbookreviseddea.pdf. Accessed October 23, 2020. • Voluntary Implementation of Best Management Practices for Water Quality Implementation Survey. 2018. Arkansas Forestry Commission and Arkansas Agriculture Department. https://www.agriculture.arkansas.gov/wp-content/uploads/2020/05/2017_Monitoring_Report.pdf. Accessed October 23, 2020. • Louisiana Statewide Forest Resource Assessment and Strategy: A Comprehensive Analysis fo Forest-Related Conditions, Trends, Threats, Opportunities, and Management Strategies. July 2010. Louisiana Department of Agriculture and Forestry and National Association of State Foresters. • National Priorities Louisiana Forest Action Plan 2015 Addendum. 2015. Louisiana Department of Agriculture and Forestry and National Association of State Foresters. • S.R. Holcomb, A.A. Bass, C.S. Reid, M.A.Seymour, N.F. Lorenz, B.B. Gregory, S.M. Javed, K.F. Balkum. Louisiana Wildlife Action Plan. October2015. Louisiana Wlildlife & Fisheries. • Natural Areas Registry. Louisiana Wildlife & Fisheries. https://www.wlf.louisiana.gov/page/natural-areas-registry. Accessed November 8, 2020.

	<ul style="list-style-type: none"> Protecting the Nation's Water: State Forestry Agencies and Best management Practices. 2019. National Association of State Foresters. Forestry Association (LFA), the Louisiana Department of Environment Quality, and the Louisiana Department of Agriculture and Forestry. State and Private Forestry Fact Sheet, US Forest Service Southern Region and Arkansas Forestry Commission. 2020. https://apps.fs.usda.gov/nicportal/temp/pdf/sfs/naweb/AR_std.pdf
Risk Rating	<input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	NA

	Indicator
2.2.6	<p>The Biomass Producer has implemented appropriate control systems and procedures to verify that negative impacts on ground water, surface water and water downstream from forest management are minimised (CPET S5b).</p>
Findi ng	<p style="text-align: center;">Scale of Assessment</p> <p>The scale of assessment for this indicator is the entire state of Arkansas and 25 parishes in Louisiana. The Federal Clean Water Act is the primary piece of legislation for this indicator and it covers forestry in the state equally.</p> <p style="text-align: center;">Context</p> <p>The World Health Organization recognizes that water safety and quality are fundamental to human health and well-being. Access to safe water is one of the most effective ways to promote human health and reducing poverty (Water Safety and Quality. WHO). State BMP Manuals prescribe best practices to avoid water quality impacts.</p> <p style="text-align: center;">Potential Threat</p> <p>The potential threat that this indicator addresses is that poor quality water resulting from harvest could harm both the ecosystem and human health.</p> <p style="text-align: center;">Regulatory Requirements & Agency of Authorization</p> <ul style="list-style-type: none"> The Clean Water Act, specifically through the use of Best Management Practices Arkansas Department of Environmental Quality Louisiana Department of Environmental Quality <ul style="list-style-type: none"> Clean Water Act (Section 303 d) <p style="text-align: center;">Mechanism & Supporting Evidence</p> <p>In addition to State water quality BMPs, there are Federal BMPs addressing road construction in jurisdictional wetlands. Road Construction for Silvicultural purposes in jurisdictional wetlands does not require a Section 404 dredge and fill permit, due to the silvicultural exemption under the Clean Water Act. However, to qualify for the silvicultural exemption, the road construction must comply with the following BMPs (from Clean Water Section 404 Program Definition and Permit Exemption, Part 232.3).</p> <p>The BMP Monitoring Programs in Arkansas and Louisiana address all relevant regions of the states and accurately characterize BMP implementation, as well as identify areas for</p>

improvement. Highland Pellets LLC reviews the regionally specific information contained in the State BMP Reports to gather information from its wood and fiber supply area.

The BMP implementation rate for Arkansas is 93% (Voluntary Implementation of Best Management Practices for Water Quality. Arkansas Forestry Commission) and 97% for Louisiana (National Association for State Foresters). These monitoring programs are conducted by trained water quality inspectors, working for the State Forestry Commissions or other regulatory agency.

Highland Pellets LLC requires all contract loggers operating on purchased stumpage tracts to complete and maintain their SFI Logger Training and comply with applicable laws and regulations, including State BMPs. A formal Timber Harvest Agreement is signed with each independent contract logger that harvests purchased stumpage.

The effectiveness of the purchase program is checked by the Procurement Staff who conduct internal monitoring to assess logger training and implementation of BMPs using a "BMP Monitoring Checklist." The Procurement Staff use the BMP Monitoring Checklist to document meetings with contract loggers and the findings of the final close-out inspection and any appropriate follow-up or corrective action. The Contract Logging Supervisor is required to sign the BMP Monitoring Checklist, in situations where Corrective Actions are issued to ensure understanding and compliance. The Procurement Staff conducts periodic and ongoing monitoring of purchased primary feedstock to identify any BMP related problems and to take immediate corrective action, but do not document those inspections unless there is an unsatisfactory situation that needs to be resolved.

Purchased stumpage tracts are closed-out and the final inspection date is noted on the BMP Monitoring Report by the Procurement Staff. Highland Pellets LLC encourages landowners to maintain the BMPs, but cannot take long-term responsibility for maintaining BMPs once the logging contractor has left the site and the tract is closed-out.

The Procurement Staff periodically review the BMP Monitoring Reports to identify any patterns or trends in BMP implementation/compliance. The information is used to evaluate the effectiveness of the SFI promotion program, determine whether any changes or improvements are necessary, and to set overall goals for maintaining high rates of BMP compliance over time.

Highland Pellets LLC has a verifiable monitoring system to evaluate the effectiveness of its promotion of the use of BMPs across its wood supply system, and uses that information to set goals for continual improvement and maintaining high rates of BMP compliance. Where forest landowners are SFI or Tree Farm certified, that certification is evidence of compliance with State BMPs.

For wood producers operating within Highland Pellets LLC's wood supply area, the SFI Certification Team reviews available State BMP Compliance Monitoring Reports to assess the use of BMPs of Wood Producers. The State Forestry Commission and water quality agency conduct periodic state-wide monitoring of BMP implementation and use that information to improve the programs and to refocus the logger training programs.

Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results

Highland Pellets LLC procures 40-60% certified material from the region, ensuring that a large portion of the feedstock is audited by a third party to ensure compliance with responsible forestry management.

Best Management Practices refer to state wide guidelines on how to follow the Clean Water Act. Through proper forest management, streams and other bodies of water remain clear of

	<p>sediment and from tree debris, both of which can reduce the water quality. While Best Management Practices are voluntary, breaches to the Clean Water Act are not. It is a crime if Best Management Practices are not upheld and the water quality is degraded. This measure is the best and most easily enforced way to protect water quality.</p> <p>A Technical Bulletin 966 (September, 2009) issued by the National Council for Air and Stream Improvement (NCASI) has reported high levels of compliance with water quality laws and BMP requirements across the U.S: http://www.ncasi.org/Publications/Detail.aspx?id=3204).</p> <p>The State of Arkansas and northern Louisiana which are included in the Highland Pellets LLC Supply Base/Districts of Origin have active and aggressive programs for the protection of water quality. In 2020 the EPA awarded Louisiana \$176,000 to help protect the waters in Louisiana (J. Hubbard, J. Durant. August 2020). The Arkansas Department of Health states that Arkansas has clean water coming from rivers, lakes, and wells. (V. Carter. 2016).</p> <p style="text-align: center;">Rational of Risk Designation</p> <p>The evidence above shows sufficient control of water quality to promote health and well-being. This risk indicator is low.</p>
Means of Verification	<ul style="list-style-type: none"> • Internal Documentation • State Agencies • National Agencies • Forestry Standards
Evidence Reviewed	<p><u>Internal Documentation</u></p> <ul style="list-style-type: none"> • Timber Harvest Agreement <p><u>References</u></p> <ul style="list-style-type: none"> • Voluntary Implementation of Forestry Best Management Practices for Water Quality Protection in Arkansas. 2018. Arkansas Forestry Commission and Arkansas Agriculture Department. https://www.agriculture.arkansas.gov/wp-content/uploads/2020/05/2017_Monitoring_Report.pdf. Accessed October 21, 2020. • National Council for Air and Stream Improvement (NCASI) (http://www.ncasi.org/Publications/Detail.aspx?id=3204) • Arkansas Best Management Practices for Water Quality. 2002. Arkansas Forestry Commission. http://forestry.arkansas.gov/Services/ManageYourForests/Documents/bmpbookrevise.pdf. Accessed October 23, 2020 • Louisiana Statewide Forest Resource Assessment and Strategy: A Comprehensive Analysis fo Forest-Related Conditions, Trends, Threats, Opportunities, and Management Strategies. July 2010. Louisiana Department of Agriculture and Forestry and National Association of State Foresters. • National Priorities Louisiana Forest Action Plan 2015 Addendum. 2015. Louisiana Department of Agriculture and Forestry and National Association of State Foresters. • S.R. Holcomb, A.A. Bass, C.S. Reid, M.A.Seymour, N.F. Lorenz, B.B. Gregory, S.M. Javed, K.F. Balkum. Louisiana Wildlife Action Plan. October2015. Louisiana Wldlflie & Fisheries. • Natural Areas Registry. Louisiana Wildlife & Fisheries. https://www.wlf.louisiana.gov/page/natural-areas-registry. Accessed November 8, 2020. • Protecting the Nation’s Water: State Forestry Agencies and Best management Practices. 2019. National Association of State Foresters. • Forestry Association (LFA), the Louisiana Department of Environment Quality, and the Louisiana Department of Agriculture and Forestry. • SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard.

	<ul style="list-style-type: none"> Water Safety and Quality. World Health Organization (WHO). https://www.who.int/water_sanitation_health/water-quality/en/. Accessed October 14, 2020. V. Carter. Health Department: Drinking Water in Arkansas is Safe. April 26, 2016. Public News Service. https://www.publicnewsservice.org/2016-04-26/water/health-department-drinking-water-in-arkansas-is-safe/a51603-1#:~:text=LITTLE%20ROCK%2C%20Ark.,to%20water%20quality%20in%20Arkansas.&text=Jeff%20Stone%2C%20director%20of%20the,from%20rivers%2C%20lakes%20and%20wells. Accessed October 23, 2020. J. Hubbard, J Durant. News Releases from Region 06: EPA provides Louisiana \$176,000 to improve and protect waters across the state. August 2020. Environmental Protection Agency. https://www.epa.gov/newsreleases/epa-provides-louisiana-176000-improve-and-protect-waters-across-state. Accessed November 10, 2020.
Risk Rating	<input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	NA

	Indicator
2.2.7	The Biomass Producer has implemented appropriate control systems and procedures for verifying that air quality is not adversely affected by forest management activities.
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>The scale of assessment is the state of Arkansas and northern Louisiana. The basic harvesting practice conducted in Arkansas and Louisiana uses the same equipment, so there is no sub-scope for different types of harvesting that may affect air quality.</p> <p style="text-align: center;">Context</p> <p>The Clean Air Act is the primary source of regulation for clean air. The law regulates six pollutants, carbon monoxide, lead, nitrogen dioxide, ozone, particulate matter, sulfur dioxide.</p> <p>Forestland increases air quality through intercepting particulate matter on plant surfaces and through absorption of gaseous pollutants through leaf stomata (D.J. Nowak, S. Hirabayashi, A. Bodine, E Greenfield. Tree and forest effects on air quality and human health in the United States).</p> <p>The only potential adverse impact to air quality from forestry activities would be from prescribed burning. Air quality and smoke management concerns are reported to be factors in limiting the ability to apply prescribed fire, which is critical to maintaining a healthy forest. Prescribed burns help to balance the biodiversity in forestland by keeping shade tolerant plants in check and allowing sunlight to reach species such as oaks, grasses, and wildflowers that require more sun to grow. (Smoke Management and Prescribed Burns in Arkansas. University of Arkansas).</p> <p>Prescribed burns also reduce the risk of uncontrollable wildfires such as are seen in the United States Western states over the past several years. These uncontrollable</p>

wildfires cause terrible air quality and much environmental destruction. (P Neill. California Faces Record Level of Air Pollutants due to Wildfires).

Air quality and smoke management is regulated by the State Forestry Commissions and Agencies. State and local smoke management results in the protection of air quality that may be impacted by forest management. Smoke management regulations are available on-line, <http://www.bugwood.org/pfire/smoke.html>.

Potential Threat

The potential threat addressed by this indicator is having procurement of feedstock negatively affect air quality. Poor air quality is associated with health risks that could affect sensitive groups near the procurement practices, if strong.

Regulatory Requirements & Agency of Authorization

- The Clean Air Act
- Arkansas Department of Environmental Quality (ADEQ)
- Louisiana Department of Environmental Quality
 - Title 33 Environmental Quality Part II Air
- Prescribed fire is regulated by the Arkansas State Forestry Commission:
<https://www.agriculture.arkansas.gov/>
- 2014 Louisiana Laws Revised Statutes, TITLE 3 - Agriculture and Forestry, RS 3:17 - Prescribed burning; intent and purpose; authorization; definitions
- Louisiana Department of Agriculture & Forestry (LDAF): Forestry Protection Programs regulate and train people on prescribed burns
- Environmental Protection Agency (EPA) regulates federal air quality

Mechanism & Supporting Evidence

Highland Pellets LLC does not control forest management activities and has no involvement in decisions to conduct prescribed burning. State prescribed burning requirements are sufficient to address any air quality related concerns. Exceptionally high levels of SFI Certified Forest Content also ensures protection of air quality. The Highland Pellets LLC Purchase Agreements cover all applicable legislation.

The SFI Fiber Sourcing Standard is focused on wood procurement, recognizing that SFI Program Participants do not have direct responsibility or control for how private landowners manage their forests. Air quality and smoke management is regulated by the State Forestry Commissions and Agencies. State and local smoke management results in the protection of air quality that may be impacted by forest management. Smoke management regulations are available on-line, <http://www.bugwood.org/pfire/smoke.html>.

The SFI Fiber Sourcing Standard requires control systems and procedures that result in the protection of air quality that may be influenced by forest management. The Objective Evidence is provided in the preceding SBP Indicators.

- *2.1 Program Participants to clearly define and implement policies to ensure that facility inventories and fiber sourcing activities do not compromise adherence to the principles of sustainable forestry.*
- *2.1.2 Written agreements for the purchase of raw material sourced directly from the forest including provisions requiring the use of best management practices.*

	<ul style="list-style-type: none"> • 2.1.4 Clearly define fiber sourcing polities in writing and make them available to wood producers. • 3.1.1 Promote the use of qualified logging professionals. • 7.1.2 Support education and outreach to forest landowners addressing management of harvest residues and other utilization needs. • 6.1.5 Written agreement for the use of Qualified Logging Professionals • 7.1.2 Support education and outreach to forest landowners addressing reduction of wildfire risk. <p>Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results</p> <p>Arkansas has a high air quality, currently and consistently meeting all federal air quality standards for criteria pollutants. (Arkansas Air Quality Standards. University of Arkansas).</p> <p>Louisiana meets all federal air quality standards with the exception of Saint Bernard Parish. Stain Bernard Parish is on the coast near New Orleans and well outside of Highland Pellets' Supply Base. (National Ambient Standards. Louisiana DEQ).</p> <p style="text-align: center;">Rational of Risk Designation</p> <p>Reviewing the evidence above, it is clear that air quality is not an area of concern for Arkansas nor northern Louisiana. This indicator is low risk.</p>
Means of Verification	<ul style="list-style-type: none"> • Federal and State Agencies • Forestry Standards • Internal Documentation
Evidence Reviewed	<p><u>Internal Documentation</u></p> <ul style="list-style-type: none"> • Purchase Agreements <p><u>References</u></p> <ul style="list-style-type: none"> • Arkansas Air Quality Standards. University of Arkansas: Division of Agriculture, Research and Extension. https://www.uaex.edu/environment-nature/air-quality/standards.aspx. Accessed October 20, 2020. • Louisiana General Environmental Air Regulations. Louisiana Department of Environmental Quality. https://www.deq.louisiana.gov/index.cfm?md=pagebuilder&tmp=home&pid=general-environmental-air-regulations. Accessed November 9, 2020. • Arkansas State Forestry Commission (https://www.agriculture.arkansas.gov/) • SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard. • Smoke management regulations (http://www.bugwood.org/pfire/smoke.html) • D.J. Nowak, S. Hirabayashi, A. Bodine, E Greenfield. Tree and forest effects on air quality and human health in the United States. May 26, 2014. Environmental Pollution. https://www.fs.fed.us/nrs/pubs/jrnl/2014/nrs_2014_nowak_001.pdf. Accessed October 20, 2020. • Smoke Management and Prescribed Burns in Arkansas. University of Arkansas: Division of Agriculture, Research and Extension. uaex.edu/environment-nature/air-quality/smoke-management.aspx. Accessed October 20, 2020. • P Neill. California Faces Record Level of Air Pollutants due to Wildfires. October 9, 2020. Air Quality News. https://airqualitynews.com/2020/09/10/california-faces-record-levels-of-air-pollution-due-to-wildfires/. Accessed October 20, 2020. • National Ambient Standards. Louisiana Department of Environmental Quality. https://www.deq.louisiana.gov/page/national-ambient-standands. Accessed November 10, 2020.
Risk Rating	<p><input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA</p>

Comment or Mitigation Measure	NA
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	Indicator
2.2.8	The Biomass Producer has implemented appropriate control systems and procedures for verifying that there is controlled and appropriate use of chemicals, and that Integrated Pest Management (IPM) is implemented wherever possible in forest management activities (CPET S5c).
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>This indicator is assessed at the state level for privately owned forestland.</p> <p style="text-align: center;">Context</p> <p>Chemicals have been used in agriculture to reduce weeds and help plants grow faster for decades. However, the chemicals used in agriculture and forestry also cause algae blooms in standing water and can affect drinking water (M Brantley. Arkansas Times. 2017.).</p> <p style="text-align: center;">Potential Threat</p> <p>Inappropriate use of chemicals can negatively impact the environment, particularly water quality.</p> <p style="text-align: center;">Regulatory Requirements & Agency of Authorization</p> <p>Chemical applications are regulated by the U.S. EPA and trained and licensed applicators must be used. See EPA website for regulation of forest chemicals under the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA). http://www.epa.gov/agriculture/lfra.html</p> <ul style="list-style-type: none"> • EPA • The Clean Water Act • Federal Insecticide, Fungicide and Rodenticide Act (FIFRA). • Arkansas Forestry Commission regulates pest management programs • Arkansas State Plant Board regulates commercial pesticide use • Louisiana Department of Agriculture and Forestry regulates pesticide use <p style="text-align: center;">Mechanism & Supporting Evidence</p> <p>State BMP Manuals address the application of chemicals and prescribe best practices to avoid water quality impacts.</p> <p>The SFI Fiber Sourcing Standard requires control systems and procedures that address integrated pest management and the appropriate use chemicals.</p> <p>Chemicals applied commercially are strictly regulated and trained and licensed applicators must be used.</p> <p>Highland Pellets LLC contributes to Integrated Pest Management (IPM) through its utilization of low valued and low-quality mill residues that may otherwise contribute to fire, insect and disease problems. Utilization of low valued wood fiber also contributes to more effective site preparation and reforestation of young and healthy trees.</p>

	<p>Highland Pellets LLC requires its wood producers to employ contract loggers that are Qualified Logging Professionals. This is communicated to the wood producers through a variety of communications, including Supplier Contracts.</p> <p>Highland Pellets LLC works through the SIC to stay abreast of any environmental degradation involving forestry.</p> <p>Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results</p> <p>Arkansas has a BMP implementation rate of 93% (Voluntary Implementation of Best Management Practices for Water Quality Implementation Survey, Arkansas Forestry Commission). Louisiana has a BMP implementation rate of 97% according to the National Association of State Foresters.</p> <p>Rational of Risk Designation</p> <p>The evidence above shows that there is low risk for inappropriate use of chemicals in forestry in Arkansas and northern Louisiana.</p>
Means of Verification	<ul style="list-style-type: none"> • National Agencies • Voluntary Forestry Standards • State Agencies
Evidence Reviewed	<p><u>Internal Documentation</u></p> <ul style="list-style-type: none"> • Wood purchase agreements <p><u>References</u></p> <ul style="list-style-type: none"> • EPA, Federal Insecticide, Fungicide and Rodenticide Act (FIFRA) (http://www.epa.gov/agriculture/lfra.html) • Arkansas State Forestry Commission (http://forestry.arkansas.gov/Services/ManageYourForests/Pages/forestHealth.aspx) • SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard. • Louisiana Statewide Forest Resource Assessment and Strategy: A Comprehensive Analysis fo Forest-Related Conditions, Trends, Threats, Opportunities, and Management Strategies. July 2010. Louisiana Department of Agriculture and Forestry and National Association of State Foresters. • National Priorities Louisiana Forest Action Plan 2015 Addendum. 2015. Louisiana Department of Agriculture and Forestry and National Association of State Foresters. • S.R. Holcomb, A.A. Bass, C.S. Reid, M.A.Seymour, N.F. Lorenz, B.B. Gregory, S.M. Javed, K.F. Balkum. Louisiana Wildlife Action Plan. October 2015. Louisiana Wildlife & Fisheries. • Natural Areas Registry. Louisiana Wildlife & Fisheries. https://www.wlf.louisiana.gov/page/natural-areas-registry. Accessed November 8, 2020. • Protecting the Nation’s Water: State Forestry Agencies and Best management Practices. 2019. National Association of State Foresters. • Forestry Association (LFA), the Louisiana Department of Environment Quality, and the Louisiana Department of Agriculture and Forestry. • M Brantley. Environmental group finds agricultural chemicals in Arkansas drinking water. 2017. Arkansas Times. https://arktimes.com/arkansas-blog/2017/10/18/environmental-group-finds-agricultural-chemicals-in-arkansas-drinking-water. Accessed October 20, 2020. • Arkansas Best Management Practices for Water Quality Protection. 2002. Arkansas Forestry Commission. https://www.agriculture.arkansas.gov/wp-content/uploads/2020/05/bmpbookreviseddea.pdf. Accessed October 23, 2020. • Voluntary Implementation of Best Management Practices for Water Quality Implementation Survey. 2018. Arkansas Forestry Commission and Arkansas Agriculture Department. https://www.agriculture.arkansas.gov/wp-content/uploads/2020/05/2017_Monitoring_Report.pdf. Accessed October 23, 2020.

Risk Rating	<input checked="" type="checkbox"/> Low Risk	<input type="checkbox"/> Specified Risk	<input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	NA		

	Indicator
2.2.9	The Biomass Producer has implemented appropriate control systems and procedures for verifying that methods of waste disposal minimise negative impacts on forest ecosystems (CPET S5d).
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>The scale of assessment is private forestland in Arkansas and northern Louisiana.</p> <p style="text-align: center;">Context</p> <p>This indicator will discuss two specific types of waste, hazardous material and debris from logging sites. The most likely legal and regulatory issues on purchased tracts involve timber theft, a Federally listed Threatened or Endangered Species, fuel or hydraulic oil spills, Federal Clean Water Act water quality standards and state laws addressing the protection of cemeteries.</p> <p>The disposal of waste and residue is regulated by the State Forestry Commissions and Agencies. The National Association of State Foresters publishes additional information on State BMP including: http://stateforesters.org/sites/default/files/issues-and-policies-document-attachments/Protecting_Water_Quality_through_State_Forestry_BMPs_FINAL.pdf</p> <p style="text-align: center;">Potential Threat</p> <p>The potential threat addressed by this indicator is that waste will not be properly disposed of, which can cause environmental damage. For example, through spilling hazardous waste or through issues through debris in streams causing water quality issues.</p> <p style="text-align: center;">Regulatory Requirements & Agency of Authorization</p> <ul style="list-style-type: none"> • The Clean Water Act • Arkansas Department of Energy and Environment <ul style="list-style-type: none"> ○ DEQ's Uniform Penalty Policy ○ APC&EC Regulation 7 • Louisiana Department of Environmental Quality <ul style="list-style-type: none"> ○ Louisiana Administrative Code (LAC 33:V.Subpart 1) <p style="text-align: center;">Mechanism & Supporting Evidence</p> <p>The Arkansas Department of Energy and Environment, Compliance Inspections Branch monitors and enforces adherence to laws and regulations around hazardous waste and spills. Arkansas Department of Environmental Quality publishes a quarterly update on waste to share important news on waste. (What's new with Solid Waste? ADEQ).</p>

The Louisiana Department of Environmental Quality monitors and enforces laws around hazardous waste and spills. The Louisiana DEQ publishes updates and applications on their website (LAND. Louisiana DEQ).

The Clean Water Act requires that any discharges of oil based products in quantities that may be harmful to public health and welfare are required to be reported if they violate water quality standards by: causing a sheen upon or discoloration of the surface of the water or adjoining shorelines and cause a sludge or emulsion to be deposited beneath the surface of the water or adjoining shorelines. Oil reporting does not depend upon the specific amount of oil spilled. The EPA regulations are contained in 40 CFR 110. If any of the above occur, an immediate telephone report to the National Response Center is required: 800-424-8802.

Arkansas Best Management Practices has requirements on waste removal off of logging sites under section 5.60 Harvest Site Closeout. The same requirement is located on page 21 under Equipment Maintenance & Litter for Louisiana. These requirements include removing debris and significant logging residue from the site. Forestry operations involving mechanical equipment run the small risk of discharges of fuel and hydraulic fluid. State BMPs require that refueling tanks are to be located outside of wetland and streamside management areas and all used containers are to be cleaned up during closeout of the harvesting operations. Highland Pellets LLC requires that its suppliers implement BMPs to minimize negative impacts on forest ecosystems.

The Company requires its wood producers to employ contract loggers that are Qualified Logging Professionals. This is communicated to the wood producers through a variety of communications, including Supplier Contracts. The Procurement Staff also provide direct contractors with information on available training. In addition to the state logger training programs, the Company's Procurement Staff provide on-the-job instruction or training, as appropriate to the situation.

The Company requires contract loggers to attend SFI sponsored Professional Logger or equivalent training, and to maintain their continuing education. SFI Logger Training or equivalent training is documented in the Logging Contract. The Procurement Staff also check the contractor's logging supervisor against the SFI Logger Training websites in the respective States.

The Procurement Staff are responsible for tracking compliance with the Company's logger training program. Documentation of training is kept on the State Trained Logger websites for loggers contracting directly with the Company. In cases where websites are not kept up-to-date, copies of logger training certificates are kept by Highland Pellets LLC.

Highland Pellets LLC's system to achieve regulatory compliance is based upon environmental management system elements, similar to those contained in ISO 14001. The management system elements include:

- a policy commitment to achieve continuing regulatory compliance;
- contract provisions with landowners and loggers requiring regulatory compliance;
- ready access to applicable laws and regulations through the internet;
- SFI Logger training of appropriate staff and contractors in applicable regulations;
- monitoring of BMP compliance on all purchased stumpage tracts;
- corrective and preventive action where compliance is unsatisfactory; and

	<ul style="list-style-type: none"> • annual management review and continual improvement by the SFI Team. <p>Highland Pellets LLC's Sustainable Forestry Policy specifies a commitment to achieving compliance with applicable laws and regulations. The Company has a system in place to ensure that applicable federal, state or local laws and regulations are implemented and achieved.</p> <p>If a regulatory compliance issue were to be uncovered on a purchased stumpage tract, the Procurement Staff would work with the contractor and/or landowner to take appropriate corrective and preventive measures. Highland Pellets LLC is required by the SFI Standard to ensure BMP implementation.</p> <p>Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results</p> <p>The Voluntary Implementation of Forestry Best Management Practices for Water Quality Protection in Arkansas published in 2018 shows an overall BMP implementation rate of 93% for Arkansas. The National Association of State Foresters published BMP implementation rates for Louisiana in 2019 as 97%.</p> <p>The United States Environmental Protection Agency (EPA) enforces environmental compliance in Arkansas. Evidence of enforcement of the rules is available online at https://www.epa.gov/ar/enforcement-and-compliance-assurance-documents-arkansas.</p> <p>Rational of Risk Designation</p> <p>The federal and state laws and regulations coupled with high BMP implementation rates show low risk for this indicator.</p>
Means of Verification	<ul style="list-style-type: none"> • State Agencies • Internal Documentation • Federal Laws and Regulations
Evidence Reviewed	<p><u>Internal Documentation</u></p> <ul style="list-style-type: none"> • Sustainable Forestry Policy • Purchase Agreements <p><u>References</u></p> <ul style="list-style-type: none"> • Voluntary Implementation of Forestry Best Management Practices for Water Quality Protection in Arkansas. 2018. Arkansas Forestry Commission and Arkansas Agriculture Department. https://www.agriculture.arkansas.gov/wp-content/uploads/2020/05/2017_Monitoring_Report.pdf. Accessed October 21, 2020. • Arkansas BMP Manual (http://forestry.arkansas.gov/Services/ManageYourForests/Documents/bmpbookreview.pdf) • Recommended Forestry Best Management Practices for Louisiana. Louisiana Forestry Association, the Louisiana Department of Environment Quality, and the Louisiana Department of Agriculture and Forestry. • SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard. • Louisiana Statewide Forest Resource Assessment and Strategy: A Comprehensive Analysis fo Forest-Related Conditions, Trends, Threats, Opportunities, and Management Strategies. July 2010. Louisiana Department of Agriculture and Forestry and National Association of State Foresters. • National Priorities Louisiana Forest Action Plan 2015 Addendum. 2015. Louisiana Department of Agriculture and Forestry and National Association of State Foresters. • S.R. Holcomb, A.A. Bass, C.S. Reid, M.A.Seymour, N.F. Lorenz, B.B. Gregory, S.M. Javed, K.F. Balkum. Louisiana Wildlife Action Plan. October2015. Louisiana Wldlife & Fisheries.

	<ul style="list-style-type: none"> Natural Areas Registry. Louisiana Wildlife & Fisheries. https://www.wlf.louisiana.gov/page/natural-areas-registry. Accessed November 8, 2020. Protecting the Nation’s Water: State Forestry Agencies and Best management Practices. 2019. National Association of State Foresters. Forestry Association (LFA), the Louisiana Department of Environment Quality, and the Louisiana Department of Agriculture and Forestry. Federally listed Threatened or Endangered Species Federal Clean Water Act The National Association of State Foresters (http://stateforesters.org/sites/default/files/issues-and-policies-document-attachments/Protecting_Water_Quality_through_State_Forestry_BMPs_FINAL.pdf) Compliance Inspections. Arkansas Department of Energy and Environment. https://www.adeg.state.ar.us/hazwaste/enforcement/. Accessed October 21, 2020. What’s New With Solid Waste? Arkansas Department of Environmental Quality (ADEQ). https://www.adeg.state.ar.us/sw/. Accessed October 21, 2020. Enforcement and Compliance Assurance Documents for Arkansas. EPA in Arkansas. EPA. https://www.epa.gov/ar/enforcement-and-compliance-assurance-documents-arkansas. Accessed October 21, 2020. LAND. Louisiana Department of Environmental Quality. https://deq.louisiana.gov/subhome/land. Accessed November 10, 2020.
Risk Rating	<input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	NA

	Indicator
2.3.1	<p>Analysis shows that feedstock harvesting does not exceed the long-term production capacity of the forest, avoids significant negative impacts on forest productivity and ensures long-term economic viability. Harvest levels are justified by inventory and growth data.</p>
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>The scale of assessment is private land in the state of Arkansas and northern Louisiana. Hardwoods and softwoods both are discussed, but there is not a significant difference between the growth rates between them as it pertains to this indicator.</p> <p style="text-align: center;">Context</p> <p>Economically, the forest industry is very important to Arkansas with every forestry job creating 2.4 jobs in Arkansas. Forestry is 5.1% of Arkansas’ economy, the greatest of the US Southern States and contributes 66,433 jobs. (Economic Contributions of Forestry in Arkansas, 2017). Louisiana’s forestry economics are a bit different, though it is still an important industry. Forestry employes 19,294 jobs in Louisiana, according to the State Impact Economic Report, 2018.</p> <p>It is important to Highland Pellets LLC that the forestland in the supply base remains stable and well management. To that end, Highland Pellets LLC procures only low grade roundwood and residual material, which allow for more efficient and cost-effective site preparation and reforestation.</p>

Prior to the 1800s written records of forests in Arkansas are extremely limited. The native population of Arkansas was devastated prior to that due to disease and other factors from the introduction of European settlers. By the Louisiana Purchase in 1803, there were only a few native peoples left in the area, who were relocated in the 1830s. From the early 1800s until the Civil War, 1861, there was a high demand for forest products such as bald cypress. The rate of forestry increased after 1900 as infrastructure allowed better access to forests and by 1909 the government became concerned about a timber famine. By 1920 much of the timber had been harvested. The forest cover which once had been estimated at 32 million acres (12.95 million hectares) declined steadily until it stabilized at 18 to 20 million acres (7.2 to 8.1 million hectares) in the mid-1900s (see below figure). (Bragg, D, 2012).

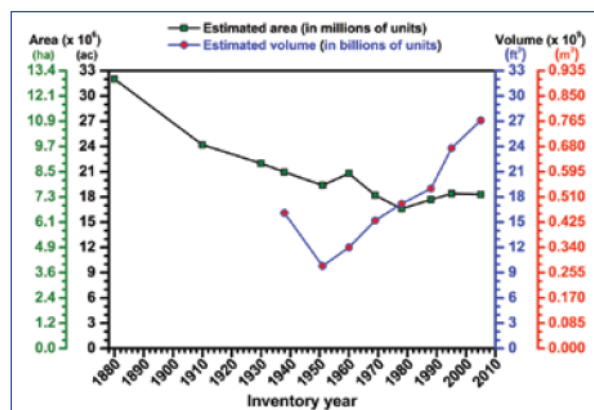


Figure 5. Forest area (1880 to 2005) and live tree volume (1938 to 2005) estimates for Arkansas. (Data sources: Record 1910; Cruikshank 1937, 1938; Winters 1938, 1939; Duerr 1948; Conner and Hartsell 2002; Rosson and Rose 2010).

Figure 19

After the virtual disappearance of Arkansas' virgin forests attitudes began to change.

Timber restoration programs helped lead to several decades of reforestation with even-aged forest management practices and natural pine regeneration the primary systems in place. (Bragg, 2012).

Since the 1950s upland hardwood area has remained fairly constant, and planted pine (primarily Loblolly) has increased substantially (see below figure).

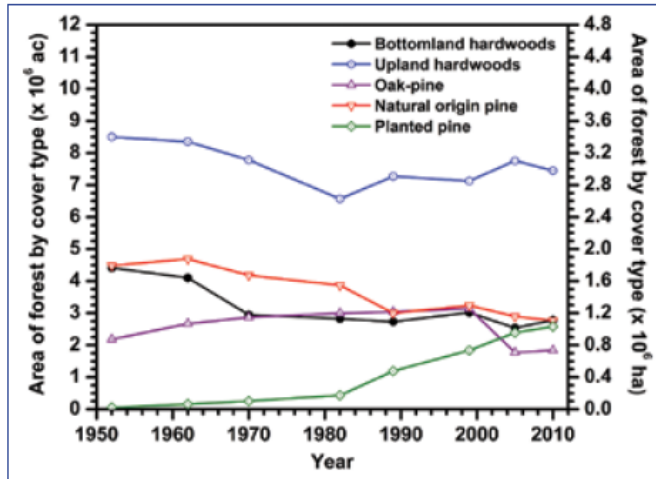


Figure 7. Change in Arkansas forest area by cover type from 1952 until 2010. (Data sources: Conner and Hartsell 2002; Rosson and Rose 2010; USDA Forest Service FIA 2011).

Figure 20

Potential Threat

The potential threat addressed by this indicator is that a pellet mill's procurement strategy would decrease the long-term viability of forests in the area.

Regulatory Requirements & Agency of Authorization

There is no specific legislation nor regulation regarding private land forest management. Public lands are required to have a forest management plan under the National Forest Management Act (NFMA), however there is very little public forest fiber that enters Highland Pellets LLC feedstock. The Southeast United States relies on market factors to ensure the long-term viability of forests.

Mechanism & Supporting Evidence

Regular communication with suppliers and landowners gives Highland Pellets LLC an on-the-ground view of the overall effect of purchasing wood in the region. Forest tract visits of primary wood supplies gives a triangulation of data from suppliers and expert documentation (such as state or federal information). Where direct visits of forestland is unavailable, audits of secondary materials, such as from chip mills or sawmills allow Highland Pellets LLC to review harvest information.

Highland Pellets LLC has communicated its commitment to only purchase from sites where trees will be replanted and to avoid virgin forestland. There has been widespread support of this requirement from suppliers. Many of Highland Pellets LLC suppliers have similar requirements, which gives additional weight to the need for landowners to replant.

Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results

The general trend of increasing forest volume continues as can be seen from the Forest Inventory and Analysis data the Southern Group of State Foresters analyzed for the US Southeastern Region. The Arkansas report from private land published November 8, 2019 shows that overall, there is a growth to drain ration on Arkansas privately owned forests of 1.49 for softwood and 1.67 for hardwoods

(see below chart) per year. (“Southern Timber Supply Analysis”. Timber Supply Analysis. November 9, 2019. Arkansas Forestry Commission and Southern Group of State Foresters. Page 13.) This means that for every 1 cubic foot of softwood harvested, there is 1.49 cubic feet growing. This number also takes disease into account. A report from the Southern Timber Analysis shows a growth to drain ratio in Louisiana of 1.6:1 overall, 1.60 for softwood and 1.98 for hardwood. (“Southern Timber Supply Analysis”. September 4, 2020. Southern Group of State Foresters. Page 13).

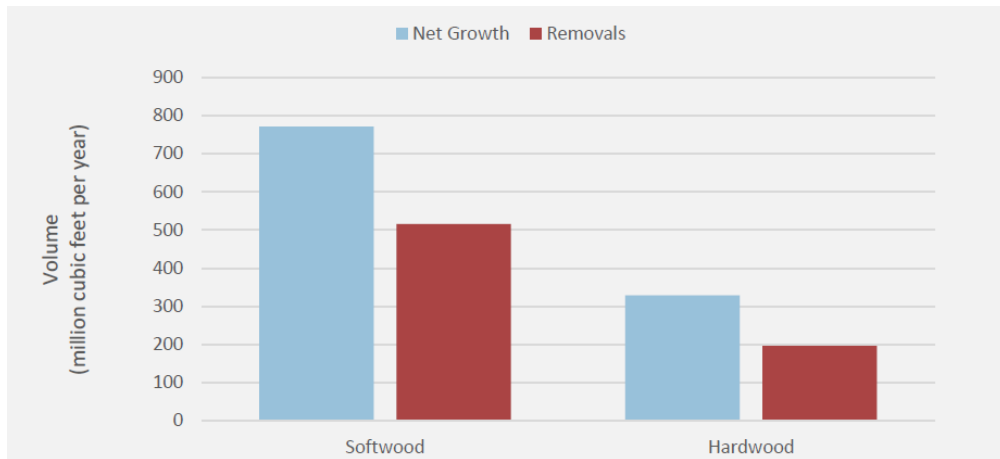


Figure 21 “Southern Timber Supply Analysis”. Timber Supply Analysis. November 9, 2019. Arkansas Forestry Commission and Southern Group of State Foresters. Page 13

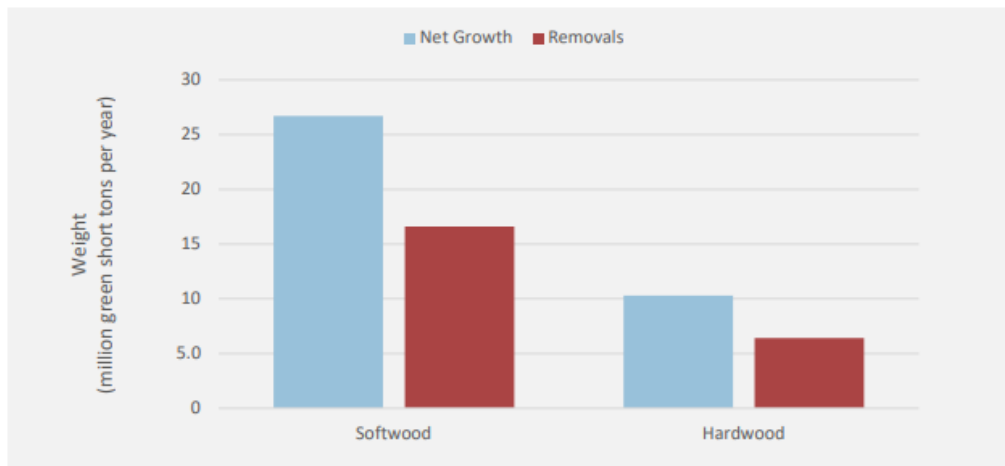


Figure 22 “Southern Timber Supply Analysis”. Louisiana. September 4, 2020. Southern Group of State Foresters. Page 13

The long-term growth of Arkansas forests is shown in Figure 9 and Figure 10 shows a snapshot of recent changes to the forest. Given the consistency between the two graphs it is clear that Arkansas forests have a positive growth to drain ratio.

Rational of Risk Designation

The evidence above shows that growth to drain rates are positive for forests in Arkansas and Louisiana. The risk is low for this indicator.

Means of Verification

- National Agencies
- Non-governmental agencies
- State Agencies

Evidence Reviewed	<p><u>Figures and Tables</u></p> <ul style="list-style-type: none"> Figure 4: “Southern Timber Supply Analysis”. Timber Supply Analysis. November 9, 2019. Arkansas Forestry Commission and Southern Group of State Foresters. Page 13. Figure 4: Bragg, Don. “A Brief History of Forests and Tree Planting in Arkansas.” Volume 55, No. 1 (2012). Tree Planters’ Notes. <p><u>References</u></p> <ul style="list-style-type: none"> “State Inventory Data Status”. Forest Inventory and Analysis - Southern Research State. May 15, 2019. USDA Forest Service. (https://www.fs.usda.gov/srsfia/states/arkansas.shtml). Accessed January 15, 2020. National Alliance of Forest Land Owners (http://www.nafoalliance.org/images/issues/carbon/resources/A-Developing-Bioenergy-Market-and-Its-Implications-on-Forests-and-Forest-Products-Markets-in-the-US-4-2010-Clutter-et-al.pdf) SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard. Arkansas Forestry Commission Bragg, Don. “A Brief History of Forests and Tree Planting in Arkansas.” Volume 55, No. 1 (2012). Tree Planters’ Notes. “2017 Economic Contributions of Forestry in Arkansas”. Arkansas Forest Resources Center. 2017. University of Arkansas Division of Agriculture: Research and Extension. “Future of America’s Forest and Rangelands”. Forest Service 2010 Resource Planning Act Assessment. United States Department of Agriculture (USDA). 2010. https://www.fs.fed.us/research/publications/gtr/gtr_wo87.pdf. Accessed April 22, 2020. National Forest Management Act (NFMA). Sierra Forest Legacy. https://www.sierraforestlegacy.org/ForestConservation.php. Accessed October 14, 2020. State Industry Economic Impact: Louisiana. 2018. American Forest & Paper Association. https://www.forestryimpacts.net/reports/louisiana/state-industry-economic-impact-statement. Accessed November 10, 2020. 			
	Risk Rating	<input checked="" type="checkbox"/> Low Risk	<input type="checkbox"/> Specified Risk	<input type="checkbox"/> Unspecified Risk at RA
	Comment or Mitigation Measure	NA		

	Indicator
2.3.2	Adequate training is provided for all personnel, including employees and contractors (CPET S6d).
Finding	Scale of Assessment
	The scale of this assessment is to the state level.
	Context
	This indicator is reflective of Highland Pellets LLC internal requirements and practices on training. There are many different types of training that is essential for employees and contractors. These include job-skill training and safety training. The below discusses logging and sustainability related training. Safety training is covered in indicator 2.8.1.

Potential Threat

Poor training can result in safety violations and poor logging harvesting practices and ecological results.

Regulatory Requirements & Agency of Authorization

There is no specific regulation requirement for this indicator, however training on Occupational Health and Safety is required (see indicator 2.8.1 for further information). The other responsible wood procurement schemes Highland Pellets LLC is certified to offers some requirements. These are:

- SFI Fiber Sourcing
- PEFC Chain of Custody
- FSC Chain of Custody and
- FSC Controlled Wood

Mechanism & Supporting Evidence

Every state has a logger training designed to ensure that knowledge on safe and sustainable logging practices are upheld. The homepage for logger training for Arkansas is on the Arkansas Timber Producers Association (ATPA) website under Ark Pro Logger (<http://arkloggers.com/>). The ATPA publishes a document listing all graduates from the Ark Pro Logger Training which, Highland Pellets LLC compares to each supplier's listed loggers. Louisiana has information regarding the state's Master Logger Program under the Louisiana Forestry Association website (<https://www.laforestry.com/training-program>).

Highland Pellets LLC conducts in-depth internal training for all responsible personnel. When new hires begin, they first must go through a training, both on safety within the plant, and on their new position. The training varies by the position. Further details may be provided as requested. Training Sign-in Sheets and records are maintained and are available upon request.

In addition to Highland Pellets LLC's internal training, it also requires wood suppliers to be properly trained. In accordance with the Highland Pellets LLC contract and follow up conversations with suppliers, all wood suppliers must utilize trained loggers.

There are some cases, such as secondary suppliers who cannot legally share information on their supplier's logger training status, where a different tactic is necessary. In addition to the signed contract confirming the use of trained loggers, an annual inspection of their mill gives objective evidence of logger training.

Highland Pellets LLC requires its wood producers to work with qualified logging professionals. The Company encourages others in the forestry community to promote logger training. This is communicated directly to wood producers through a formal letter of correspondence from the Procurement Staff, as well as through ongoing discussions and communication.

The Company requires contract loggers to attend SFI sponsored Professional Logger or equivalent training, and to maintain their continuing education. SFI Logger Training or equivalent training is documented in the Logging Contract. The Procurement Staff also check the contractor's logging supervisor against the SFI Logger Training websites in the respective States.

	<p>The Procurement Staff are responsible for tracking compliance with the Company's logger training program. Documentation of training is kept on the State Trained Logger websites for loggers contracting directly with the Company.</p> <p>The Procurement Staff also provide direct contractors with information on available training. In addition to the state logger training programs, the Company's Procurement Staff provide on-the-job instruction or training, as appropriate to the situation. The Company also requires its wood producers to employ contract loggers that are Qualified Logging Professionals. This is communicated to the wood producers through a variety of communications, including Supplier Contracts.</p> <p>Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results</p> <p>Third-party audits are conducted annually to ensure that training occurs as stated by Highland Pellets LLC. To date, third party audits show no training concerns.</p> <p style="text-align: center;">Rational of Risk Designation</p> <p>This indicator is low risk due to the practices of Highland Pellets LLC and the independent third-party audits that are conducted annually to ensure training occurs.</p>
Means of Verification	<ul style="list-style-type: none"> • Internal Documentation • State Agencies • Logging Training Agencies • Forestry Standards
Evidence Reviewed	<p><u>Internal Documentation</u></p> <ul style="list-style-type: none"> • Training Sign-in Sheets and records (HP-IAMR-TMP-Training) • Supplier Contracts • BMP Monitoring Report • Training Documentation • Training Session Agenda <p><u>References</u></p> <ul style="list-style-type: none"> • Ark Pro Logger. Arkansas Timber Producers Association. 2020. http://arkloggers.com/. Accessed March 16, 2020. • Louisiana Master Logger. Louisiana Forestry Association. https://www.laforestry.com/training-program. Accessed November 10, 2020.
Risk Rating	<input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	NA

	Indicator
2.3.3	Analysis shows that feedstock harvesting and biomass production positively contribute to the local economy, including employment.
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>The assessment takes place on a regional level within the state, as affected by the pellet mill.</p> <p style="text-align: center;">Context</p>

Highland Pellets LLC's wood pellet production plant is located in Pine Bluff, Arkansas, USA. The Pine Bluff facility sources from a largely rural area where forestry and agriculture are the primary sources of income for workers, the local communities, and the tax base.

Harvesting for low valued biomass fuel makes a significant contribution to employment by loggers, harvesters and processors, trucking companies and income to landowners. Local harvesting contractors are always used. Improved utilization results in other economic benefits to landowners in reducing site preparation costs and making reforestation more affordable.

Potential Threat

The potential threat from this indicator that having a pellet mill in a certain region would negatively affect job creation and quality of life for the people living near the pellet mill.

Regulatory Requirements & Agency of Authorization

NA

Mechanism & Supporting Evidence

Highland Pellets LLC has also adopted a Sustainable Forestry Policy that promotes biomass production that supports the local economy and employment. The Policy states:

The responsible thinning and harvesting of working forests ensures that local land owners have a stake in the growth and sustainability of their holdings. It provides a needed incentive for these owners to reinvest into growing their working forests. This in turn supports a much needed 'in-woods' industry that many families rely on for their livelihoods and is an economic driver for rural areas. Highland has heard time and again from a cross section of local citizens who have delayed thinning their working forests for many years because there are insufficient markets to sell their wood. Forests that are not thinned will become over-crowded so that the value and quality of the holdings will deteriorate over time.

Summary:

Highland's wood pellet business is environmentally friendly and sustainable in several ways:

- 1. Wood pellets directly replaces coal burned in European power stations, reducing the emission of GHG emissions by up to 80%;*
- 2. Contributes to protecting the commercial viability of the forestry sector, thereby helping forests to remain as forest rather than be converted to alternative land uses;*
- 3. Highland will use a large volume of wood thinnings which will enable the local forests to become healthier and so better able to absorb harmful carbon dioxide from the atmosphere, compared to if the forests were left over-grown and unmanaged.*
- 4. Our wood pellets are sourced from thinnings, tops, branches, non-merchantable trees (e.g. diseased) and waste material from mills. This ensures that a greater portion of the whole tree which has been harvested for other markets, or which*

would not otherwise be sold because it is poor quality, will be used as a renewable resource to produce energy.

5. *Our fiber demand creates an additional local market which helps the livelihood of local rural communities*

Highland Pellets LLC is committed to sourcing wood and residual fiber from renewable, legal and sustainable sources and to promote the principles of sustainable development and use of renewable resources. It also strives to broaden the practice of sustainable forestry and improve the professionalism of forest workers and the forestry community.

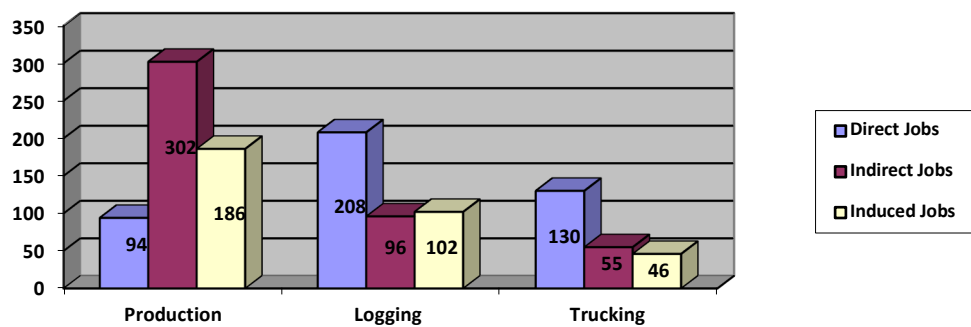
Highland Pellets LLC has set an overall goal of increasing the use of renewable wood energy, reducing wood waste and decreasing greenhouse gas emissions. The use of woody biomass as a replacement for fossil fuels is a proven way to improve forest utilization, facilitate regeneration of the forest, reduce the risk of wildfire, reduce carbon emissions, and improve the international trade in forest based products. It will also provide a market incentive for landowners to keep their lands in forest cover.

Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results

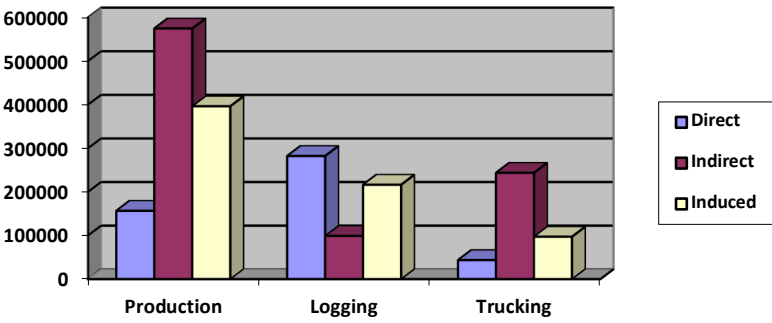
The economic contribution of forestry to the Arkansas economy is substantial. Forestry is either # 1 or #2 in the States in terms of economic impact.

<http://forestryimpacts.net/reports/arkansas>. Forestry is 3rd in Louisiana economics impact (State and Private Forestry Fact Sheet: Louisiana 2019. USDA Forest Service).

Highland Pellets LLC hired an independent consultant to do an economic impact analysis from mill. The results show that several hundred jobs will be created directly, indirectly, or induced. See tables below for details. (Implan Analysis: Highland Pellets, page 5, July 2020).



The study also shows the local tax impact from operation (Implan Analysis: Highland Pellets, page 7, July 2020):

	 <p>From the study, it is apparent that there will be a positive affect on local jobs and on the local economy from Highland Pellets LLC.</p> <p style="text-align: center;">Rational of Risk Designation</p> <p>The study shows that there is low risk of negatively affecting the local economy nor employment.</p>
Means of Verification	<ul style="list-style-type: none"> • Internal Documentation • Non-governmental organizations • Independent Consultants
Evidence Reviewed	<p><u>Internal Documentation</u></p> <ul style="list-style-type: none"> • Sustainable Forestry Policy (HP-COC-Policy) <p><u>References</u></p> <ul style="list-style-type: none"> • A collaboration between The Southern Group of State Foresters (SGSF) and Southern Regional Extension Forestry (SREF) Economic Reports. http://forestryimpacts.net/reports/arkansas. Accessed October 13, 2020. • Implan Analysis: Highland Pellets. Novogradac. July 2020
Risk Rating	<p><input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA</p>
Comment or Mitigation Measure	<p>NA</p>

	Indicator
2.4.1	<p>The Biomass Producer has implemented appropriate control systems and procedures for verifying that the health, vitality and other services provided by forest ecosystems are maintained or improved (CPET S7a).</p>
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>The scale of assessment for this indicator is privately owned forests in Arkansas and northern Louisiana.</p> <p style="text-align: center;">Context</p> <p>This indicator corresponds closely with 2.1.1, 2.1.2, 2.2.3, and 2.2.4. Refer to those indicators for further information.</p> <p style="text-align: center;">Potential Threat</p>

	<p>The potential threat addressed by this indicator is degradation of environmental and economic benefits that forests provide, such as clean water.</p> <p style="text-align: center;">Regulatory Requirements & Agency of Authorization</p> <ul style="list-style-type: none"> Arkansas Forestry Commission and the Louisiana Forestry Association is the primary agency monitoring forest health and risks <p style="text-align: center;">Mechanism & Supporting Evidence</p> <p>Highland Pellets LLC has reviewed the Arkansas Statewide Forest Resource Assessments, inventory updates and supports the State Action Plans addressing forest health. The forest resource assessments conducted under the 2010 Farm Bill are some of the most comprehensive and geographic specific assessments conducted in the world.</p> <p>The Arkansas and Louisiana Forest Action Plan identifies priority areas in order to improve the health, vitality and other services the forests provide.</p> <p>Being active in the SFI Implementation Committee allow Highland Pellets LLC direct access to the most up-to-date information on forest health and vitality. The Committee actively works with other agencies to increase awareness of the ecosystem-based services provide, such as by bringing in Arkansas Utility groups to interact.</p> <p>Highland Pellets Purchase Agreements stipulate that trained loggers must be used. Trained loggers ensure the application of BMPs which are made to specifically address water quality as an ecosystem based service.</p> <p style="text-align: center;">Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results</p> <p>Strong demand for wood fiber products provides landowners an incentive to keep their lands in forest cover. Highland Pellets LLC directly and indirectly contributes to the health and vitality of the forest resource and dependent communities.</p> <p>The latest forest inventory data for the States of Arkansas and Louisiana indicate that forest inventories are increasing over the long term, with some yearly fluctuations. Arkansas BMP implementation rate is 93% and Louisiana's is 97%, showing a high adherence to practices that ensure ecosystem-based services are protected. (Voluntary Implementation of Best Management Practices for Water Quality Implementation Survey, 2018; Protecting the Nation's Water, 2019.)</p> <p style="text-align: center;">Rational of Risk Designation</p> <p>See below for Mitigation Measure for Specified Risk regarding Late Successional Bottomland Hardwoods.</p>
Means of Verification	<ul style="list-style-type: none"> Internal Documents State government assessments Non-governmental organizations
Evidence Reviewed	<p><u>Internal Documentation</u></p> <ul style="list-style-type: none"> Purchase Agreements <p><u>References</u></p> <ul style="list-style-type: none"> Arkansas Forestry Assessment https://www.agriculture.arkansas.gov/wp-content/uploads/2020/05/Arkansas_Forestry_Comm_Assessment.pdf https://www.agriculture.arkansas.gov/Websites/aad/files/Content/5945006/2017_Forest_Facts_of_Arkansas.pdf Arkansas Wildlife Action Plans (http://www.wildlifearkansas.com/strategy.html)

	<ul style="list-style-type: none"> Arkansas Forest Action Plan. 2015. National Association of State Foresters. https://www.stateforesters.org/districts/arkansas/. Accessed October 13, 2020. Voluntary Implementation of Best Management Practices for Water Quality Implementation Survey. 2018. Arkansas Forestry Commission and Arkansas Agriculture Department. https://www.agriculture.arkansas.gov/wp-content/uploads/2020/05/2017_Monitoring_Report.pdf. Accessed October 23, 2020. Louisiana Statewide Forest Resource Assessment and Strategy: A Comprehensive Analysis fo Forest-Related Conditions, Trends, Threats, Opportunities, and Management Strategies. July 2010. Louisiana Department of Agriculture and Forestry and National Association of State Foresters. National Priorities Louisiana Forest Action Plan 2015 Addendum. 2015. Louisiana Department of Agriculture and Forestry and National Association of State Foresters. S.R. Holcomb, A.A. Bass, C.S. Reid, M.A.Seymour, N.F. Lorenz, B.B. Gregory, S.M. Javed, K.F. Balkum. Louisiana Wildlife Action Plan. October2015. Louisiana Wldlife & Fisheries. Natural Areas Registry. Louisiana Wildlife & Fisheries. https://www.wlf.louisiana.gov/page/natural-areas-registry. Accessed November 8, 2020. Protecting the Nation’s Water: State Forestry Agencies and Best management Practices. 2019. National Association of State Foresters. Forestry Association (LFA), the Louisiana Department of Environment Quality, and the Louisiana Department of Agriculture and Forestry. State and Private Forestry Fact Sheet: Louisiana 2019. USDA Forest Service.
Risk Rating	<input type="checkbox"/> Low Risk <input checked="" type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	<p>The Specified Risk that falls into the Highland Pellets supply base is Late Successional Bottomland Hardwoods.</p> <p>The FSC NRA requires the implementation of one of five listed control measure option from the result of the July 2018 Atlanta meeting. Highland Pellets will implement a low level of risk mitigation as defined by the FSC NRA V1.0. This is because the Highland Pellets procures from less than 25% of the specified risk area and the AAF level of Highland Pellets is low (level 4). Highland Pellets is implementing the Education and Outreach control measure. Outreach followed by education will be sent to all suppliers annually and encouraged to be passed along to all interested parties and landowners. The contract between Highland Pellet’s and its supplier allows the company to reject any material that is not compliant with Highland Pellet’s sustainability requirements. Highland Pellets communicates directly with secondary suppliers who may supply hardwoods on several issues: a) what Late Successional Bottomland Hardwoods are, b) proper management and harvesting techniques for Late Successional Bottomland Hardwoods, c) What will happen if proper management and harvesting techniques are not followed, i.e. Highland Pellets will reject the material.</p> <p>Highland Pellets will monitor the effectiveness of the control measure through follow up with suppliers and landowners to understand how the information packet is used; whether they received it, read it, and forwarded it on to their suppliers. The monitoring will be done by receiving confirmation through supplier declaration and a follow up conversation with suppliers.</p>

	Indicator
2.4.2	<p>The Biomass Producer has implemented appropriate control systems and procedures for verifying that natural processes, such as fires, pests and diseases are managed appropriately (CPET S7b).</p>
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>The scale of assessment is for all managed forests in the state of Arkansas and northern Louisiana. There are different types of harvest that Highland Pellets LLC purchases from. The majority of these are thinnings, with final harvests being the other significant harvest type. Highland Pellets also receives fiber from harvests designed for aesthetics and for biodiversity, among others, however they will be treated the same as thinning and final harvests for the purpose of this indicator.</p> <p style="text-align: center;">Context</p> <p>Highland Pellets LLC sources fiber from thinnings, non-merchantable low-grade round wood and tree tops from the surrounding private forests, as well as ‘mill residual’ products such as chips, bark and dust from local sawmills. This provides a route for saw mills to dispose of their waste products and ensures that less waste is produced from the timber supply chain.</p> <p style="text-align: center;">Potential Threat</p> <p>The potential threat addressed by this indicator is that poorly planned harvests could affect forestland’s ability to stay healthy through natural processes.</p> <p style="text-align: center;">Regulatory Requirements & Agency of Authorization</p> <ul style="list-style-type: none"> • Arkansas Forestry Commission • Louisiana Forestry Association • United States Forest Service <p style="text-align: center;">Mechanism & Supporting Evidence</p> <p>There are several methods of commercial thinning, whether it is selecting every other tree, removal of a row, or a combination of both. The type of thinning performed is determined by the initial stocking and the desired volume and design of the remaining stand.</p> <p>Forest thinnings are young smaller trees, typically around 10 inches in diameter at the base, which must be removed from the commercial forest to allow more light and nutrition for the remaining trees to grow to full size. Trees removed during thinning are too small to be used as quality saw logs and yet stands without a market outlet for thinnings are often left to struggle to grow.</p> <p>The practice of thinning has multiple benefits:</p> <ul style="list-style-type: none"> • Improving forest health by removing poor quality, deformed trees and strategic portions of the stand of fiber, allowing the remaining stand greater access to light, water and nutrients so as to increase productivity and growth into higher value products • Capturing fiber from trees that would otherwise die from overcrowding • Lowering fire hazard and susceptibility to insects and disease • Allowing the landowner access to another source of revenue

	<ul style="list-style-type: none"> • Allowing for visual and volume variety in an otherwise similar age group of timber • Modifying the stand structure for the benefit of wildlife habitat or biodiversity <p>A comprehensive forest health program at the Federal and State levels focuses on protecting the forests from fires, pests and diseases. The National Association of State Foresters website contains details on those cooperative efforts. http://www.stateforesters.org/current-issues-and-policy/other-priorities/forest-health-and-sustainability</p> <p>Highland Pellets LLC works with, and supports through taxes, the Arkansas Forestry Commission/Forest Service and the Louisiana Forestry Association to monitor and manage to prevent forest fires, pest and diseases.</p> <p>Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results</p> <p>The SFI Fiber Sourcing Standard is focused on wood procurement, recognizing that SFI Program Participants do not have direct responsibility or control for how private landowners manage their forests. Fire, pests and diseases are addressed by Federal and State Forestry Commissions and Agencies.</p> <p>The fact that 40% of inputs are Certified to the SFI Forest Management Standard is clear evidence that natural processes are managed appropriately. Note that SBP recognizes PEFC endorsed forest management standards (SFI Forest Management) as SBP Compliant Feedstock.</p> <p>The Arkansas Forest Resource Assessments document that forest health is not significantly threatened by forest pests. http://forestry.arkansas.gov/SiteCollectionDocuments/ArkansasForestryCommAssessment.pdf. The updated Forest Action Plan of National Priorities in Louisiana states that pests are managed through aerial surveys trapping programs, and imaging. Training opportunities and coordinated response effects allow areas of interest to handled from a greater perspective. (National priorities Louisiana Forest Action Plan 2015 Addendum).</p> <p>Rational of Risk Designation</p> <p>Increased wood fiber utilization directly results in a reduction in fires, pests and diseases.</p>
Means of Verification	<ul style="list-style-type: none"> • State Agencies • National Agencies • Non-governmental agencies
Evidence Reviewed	<ul style="list-style-type: none"> • Arkansas Forest Resource Assessments http://forestry.arkansas.gov/SiteCollectionDocuments/ArkansasForestryCommAssessment.pdf • The National Association of State Foresters website contains details on those cooperative efforts. • http://www.stateforesters.org/current-issues-and-policy/other-priorities/forest-health-and-sustainability • SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard. • Louisiana Statewide Forest Resource Assessment and Strategy: A Comprehensive Analysis fo Forest-Related Conditions, Trends, Threats, Opportunities, and Management Strategies. July 2010. Louisiana Department of Agriculture and Forestry and National Association of State Foresters. • National Priorities Louisiana Forest Action Plan 2015 Addendum. 2015. Louisiana Department of Agriculture and Forestry and National Association of State Foresters.

	<ul style="list-style-type: none"> S.R. Holcomb, A.A. Bass, C.S. Reid, M.A.Seymour, N.F. Lorenz, B.B. Gregory, S.M. Javed, K.F. Balkum. Louisiana Wildlife Action Plan. October2015. Louisiana Wildlife & Fisheries. Natural Areas Registry. Louisiana Wildlife & Fisheries. https://www.wlf.louisiana.gov/page/natural-areas-registry. Accessed November 8, 2020.
Risk Rating	<input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	NA

	Indicator
2.4.3	<p>The Biomass Producer has implemented appropriate control systems and procedures for verifying that there is adequate protection of the forest from unauthorised activities, such as illegal logging, mining and encroachment (CPETS7c).</p>
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>The scale of assessment for this indicator is private land in Arkansas and Louisiana. State laws regulate mineral extraction on private land.</p> <p style="text-align: center;">Context</p> <p>This indicator addresses unauthorized extraction activities of private forestland, specifically geared toward mining and encroachment. Illegal logging is discussed further in indicator 1.2.1</p> <p style="text-align: center;">Potential Threat</p> <p>The potential threat addressed by this indicator is that forestland may be used to illegally extract products without proper authority. This could cause environmental harm from the extraction techniques.</p> <p style="text-align: center;">Regulatory Requirements & Agency of Authorization</p> <ul style="list-style-type: none"> There are federal laws and regulations on illegal logging such as the Lacey Act. The Arkansas Forestry Commission and Louisiana Dept. of Agriculture & Forestry have law enforcement divisions that address illegal trespass, timber theft, forest arson and illegal encroachment on private lands. Local law enforcement is active and takes immediate action against illegal forest activities. <ul style="list-style-type: none"> Arkansas Act 1166 of 1997 provides for regulation of stone quarries Arkansas Act 827 of 1991, provides non-coal mining operations with performance standards to be followed during mining and during the process of reclaiming the land to a beneficial use. 2010 Arkansas Code; Title 15 - Natural Resources and Economic Development; Subtitle 3 - Forest Resources; Chapter 32 – Logging; Subchapter 3 - Trespass and Unlawful Cutting; § 15-32-301 - Liability for unlawfully cutting, etc.: Arkansas code covering illegal logging Louisiana laws:

- Timber Trespass Statute
- 2012 Louisiana Laws, Revised Statutes, TITLE 3 — Agriculture and forestry

Mechanism & Supporting Evidence

There are multiple state and federal rules and laws that govern how logging and other forestry activities must be conducted in order to protect the quality of State water and other forest related resources.

The State forestry commissions/agencies have the responsibility to inspect logging jobs; this includes public lands and privately-owned lands. Some State agencies/commissions inspect logging jobs within their designated work areas and document if the logging job is in compliance with water quality and other regulations. Any unauthorized activities are noted when relevant.

The Arkansas Forestry Commission and Louisiana Dept. of Agriculture & Forestry have law enforcement divisions that address illegal trespass, timber theft, forest arson and illegal encroachment on private lands. Local law enforcement is active and takes immediate action against illegal forest activities.

The SFI Fiber Sourcing Standard requires control systems and procedures to protect the forest from unauthorized and illegal activities including:

- *4.1 Program Participants comply with applicable laws and regulations and take steps to avoid illegal logging.*
 - Highland Pellets LLC’s Sustainable Forestry Policy specifies a commitment to achieving compliance with applicable laws and regulations. The Company has a system in place to ensure that applicable federal, state or local laws and regulations are implemented and achieved.
 - Highland Pellets LLC’s system to achieve regulatory compliance is based upon environmental management system elements, similar to those contained in ISO 14001. The management system elements include:
 1. a policy commitment to achieve continuing regulatory compliance;
 2. contract provisions with landowners and loggers requiring regulatory compliance;
 3. ready access to applicable laws and regulations through the internet;
 4. SFI Logger training of appropriate staff and contractors in applicable regulations;
 5. monitoring of BMP compliance on all purchased stumpage tracts;
 6. corrective and preventive action where compliance is unsatisfactory; and
 7. annual management review and continual improvement by the SFI Team.
- *4.1.4 Program to assess the risk of sourcing material from illegal logging*
 - Highland Pellets LLC has a high level of confidence that illegal logging is not widespread across its wood supply areas, including violations of Federal and State laws and regulations. The comprehensive laws and regulations relating to forest management and timber harvesting are aggressively enforced by appropriate regulatory agencies.

	<ul style="list-style-type: none"> ○ The Company has undertaken a comprehensive Due Diligence System and Risk Assessment of its sourcing of all wood material across its wood and fiber supply area, sufficient to fulfill the SFI Fiber Sourcing requirements. The assessment is also required by the PEFC and FSC Chain of Custody and Controlled Wood Standards, as well as the Sustainable Biomass Partnership. The Controlled Wood Risk Assessment (HP-SB-CWRA) supports the conclusion that there is a negligible risk of illegal logging and activity. Highland Pellets LLC helps to increase awareness of the Arkansas Forestry Commission’s Reward Program, which offers rewards for information on illegal logging, by placing paraphernalia regarding the program in the scale house where it can be viewed by incoming trucks. <p>Highland Pellets LLC’s Sustainable Forestry Policy (HP-COC-03) addresses legality and compliance with applicable laws and regulations.</p> <p>Loggers may notify State agencies before starting their work and many loggers voluntarily request assistance or advice from Company Procurement Staff and State Forestry Commission experts. Procurement Staff maintain good working knowledge of what’s going on in their area of operations and have good relationships within the logging community and forestry agencies.</p> <p>Also see the Sourcing Area Monitoring Form that specifically addresses timber theft/trespass/illegal logging. The Monitoring Form is contained in SBP Indicator 1.2.1.</p> <p>Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results</p> <p>State forestry commissions also monitor BMP compliance. BMP implementation compliance rates for Arkansas are 93% and Louisiana 97%.</p> <p>The “Assessment of Lawful Harvesting & Sustainability of US Hardwood Exports” (AHEC Legality Study) available at: http://www.ahec-europe.org/ concluded that: “We come to the conclusion that wood procured in the study area can be considered Conformance to threat to legality. This conclusion is based on the determination that there is no reported systematic illegal logging, as we interpret the term, reported in the study area and regulatory processes in the study area have been found to be highly effective.”</p> <p>The World Bank has awarded the U.S. and Canada a Global Governance Index rating that exceeds 90% for Regulatory Quality. See the Global Governance Indexes: (http://info.worldbank.org/governance/wgi/sc_chart.asp)</p> <p style="text-align: center;">Rational of Risk Designation</p> <p>The above evidence shows strong laws and legislations around unauthorized activities on forestland in Arkansas and Louisiana. In conjunction with internal policies is sufficient to show low risk for this indicator.</p>
Means of Verification	<ul style="list-style-type: none"> • Internal Documentation • Global Agencies • State Agencies
Evidence Reviewed	<p><u>Internal Documentation</u></p> <ul style="list-style-type: none"> • Sustainable Forestry Policy <p><u>References</u></p>

	<ul style="list-style-type: none"> Arkansas Forestry Commission and Louisiana Dept. of Agriculture & Forestry SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard. Controlled Wood Risk Assessment (HP-SB- CW Procedures & DDS) Arkansas and Louisiana State Best Management Practices for Water Quality Protection State Forestry Commission Experts World Bank Global Governance Indexes (http://info.worldbank.org/governance/wgi/sc_chart.asp) “Assessment of Lawful Harvesting & Sustainability of US Hardwood Exports” (AHEC Legality Study) available at: http://www.ahec-europe.org/ Non-Coal. Arkansas Department of Environmental Quality. https://www.adeg.state.ar.us/mining/noncoal.aspx. Accessed October 20, 2020. Surface Mining and Reclamation. Arkansas Department of Environmental Quality. https://www.adeg.state.ar.us/mining/. Accessed October 20, 2020.
Risk Rating	<input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	NA

	Indicator
2.5.1	The Biomass Producer has implemented appropriate control systems and procedures for verifying that legal, customary and traditional tenure and use rights of indigenous people and local communities related to the forest are identified, documented and respected (CPET S9).
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>The strongest level of legislation and enforcement for customary and traditional rights is at the country level. Thus, this indicator is assessed at a country level.</p> <p style="text-align: center;">Context</p> <p>Traditional rights are rights which result from a long series of habitual or customary actions, constantly repeated, which have, by such repetition and by uninterrupted acquiescence, acquired the force of a law within a geographical or sociological unit. An example of a traditional right related to forests is access by local communities to forest areas to visit sacred and ritual sites. (Requirements for Sourcing FSC Controlled Wood, 2017, page 29).</p> <p style="text-align: center;">Potential Threat</p> <p>The potential threat addressed by this indicator is that position of a pellet mill in a region would pose a threat to indigenous people and local communities’ rights as they relate to the forest.</p> <p style="text-align: center;">Regulatory Requirements & Agency of Authorization</p> <ul style="list-style-type: none"> Universal Declaration of Human Rights (UDHR) International Covenant on Civil and Political Rights (ICCPR) International Covenant on Economic, Social, and Cultural Rights (ICESCR) Declaration on the Rights of Indigenous Peoples (UNDRIP)

Mechanism & Supporting Evidence

The SFI Fiber Sourcing Standard partially addresses the identification of traditional use rights of indigenous peoples and local communities. See below 4.2.1 and 7.1.

- **4.2.1 Written policy demonstrating commitment to comply with social laws, Indigenous Peoples' rights:**
 - The Company has a written statement of commitment to comply with the law and the SFI Fiber Sourcing Standard as part of its Sustainable Forestry Policy. The Policy includes respect for Indigenous Peoples and is formally communicated to Company personnel via annual correspondence and training. It is also communicated to forest landowners, wood producers and contract loggers where a contractual relationship exists.
- **7.1 Program Participants shall support and promote efforts by conservation organizations, Indigenous Peoples and governments, community groups, etc. to apply principles of sustainable forest management:**
 - The Company actively participates in the Arkansas SFI Implementation Committee to address the full range of SFI Standard requirements contained in the above Sections including: developing and coordinating logger education and training programs, supporting research, participation in state BMP monitoring programs, development of sustainable forestry information for landowners, development of public outreach and education materials, promoting the conservation of working forests, respect for Indigenous Peoples and addressing inconsistent forest practices.

Arkansas and Louisiana SIC is active in a number of landowner outreach and education initiatives, including sponsorship of the American Tree Farm System State Committees. The SIC has also developed educational materials for landowners addressing BMPs, regeneration of the forest, aesthetics, wildlife and biodiversity, invasive species and other required elements of the SFI Standard.

Any feedback from a Federally recognized tribe would be documented and a response provided to any concerns received. The Public Complaints Procedure would be used to address any Indigenous Peoples' inquiries and concerns.

Highland Pellets LLC also conducts Sourcing Area Monitoring that includes a checklist for violations of traditional and civil rights. This is addressed in Indicator 1.2.1. and is not repeated here.

Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results

The FSC National Risk Assessment for the Conterminous United States of America concludes low risk for wood harvested in violation of traditional and human rights. Highland Pellets LLC relies on the PEFC Controlled Wood Risk Assessment that concludes that: "There are recognized and equitable processes in place to resolve conflicts of substantial magnitude pertaining to traditional rights including use rights, cultural interests or traditional cultural identity in the district concerned."

There are no Federally recognized indigenous peoples tribes located within the Fiber Supply Area. See the Bureau of Indian Affairs website for the Eastern Region:
<http://www.bia.gov/WhoWeAre/RegionalOffices/Eastern/index.htm>

Rational of Risk Designation

	FSC/PEFC Chain of Custody and Controlled Wood Certificates provide sufficient objective evidence of conformance to the Indicator. There are no identified indigenous peoples with legal use rights within the wood fiber supply areas. There are no indigenous people in Arkansas, therefore this indicator is low risk.
Means of Verification	<ul style="list-style-type: none"> • Government Agencies • Non-government organizations • Internal Documentation
Evidence Reviewed	<p><u>Internal Documentation</u></p> <ul style="list-style-type: none"> • Sourcing Area Monitoring • PEFC Controlled Wood Risk Assessment • The Public Complaints Procedure <p><u>References</u></p> <ul style="list-style-type: none"> • FSC National Risk Assessment for the Conterminous U.S V1-0. 2019. FSC International. • Bureau of Indian Affairs website for the Eastern Region: http://www.bia.gov/WhoWeAre/RegionalOffices/Eastern/index.htm • SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard. • The Arkansas and Louisiana SIC • American Tree Farm System • Indigenous People’s Rights in the United States. The Advocates for Human Rights. http://www.theadvocatesforhumanrights.org/uploads/indigenous_rights_fact_sheet_2013_2.pdf. Accessed October 14, 2020. • “Federal and State Recognized Tribes”. National Conference of State Legislatures. (http://www.ncsl.org/research/state-tribal-institute/list-of-federal-and-state-recognized-tribes.aspx#State). Accessed Dec 31, 2019. • Requirements for Sourcing FSC Controlled Wood: FSC-STD-40-005 V3-1. FSC International. 2017.
Risk Rating	<input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	NA

	Indicator
2.5.2	The Biomass Producer has implemented appropriate control systems and procedures for verifying that production of feedstock does not endanger food, water supply or subsistence means of communities, where the use of this specific feedstock or water is essential for the fulfilment of basic needs.
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>The state of Arkansas and northern Louisiana is the scale of assessment. There are no sub-scopes for this indicator.</p> <p style="text-align: center;">Context</p> <p>Britannica defines subsistence farming as a “form of farming in which nearly all of the crops or livestock raised are used to maintain the farmer and the farmer’s family, leaving little, if any, surplus for sale or trade.” (Subsistence Farming. Britannica). No subsistence level communities are present across the supply base where the use of the wood fiber feedstock is essential to fulfill basic human needs. Therefore, this</p>

Indicator is not applicable and is outside the scope of Highland Pellets LLC's SBP Program. As such, it is considered Low Risk.

Potential Threat

The potential threat from this indicator is that position of a pellet mill in a region would pose a threat to a community feeding themselves.

Regulatory Requirements & Agency of Authorization

- The US Department of Agriculture tracks food security in the United States

Mechanism & Supporting Evidence

All incoming wood and fiber material used in the manufacture of the identified Industrial Wood Pellet product groups is appropriately categorized in the Product Group List (HP-COC-Product Group List).

All incoming material is currently considered at least "controlled material" or "SBP-Compliant and Controlled Feedstock." All inputs, including those that are SFI Certified, are subject to the SBP Supply Base Evaluation/Risk Assessment and are considered SBP-Compliant Feedstock. Once inputs are received at the woodyards, they are mixed together at the pellet manufacturing facility.

Highland Pellets LLC has developed an approved list of suppliers that have current Forest Management Certificates and Fiber Purchase Agreements that are contained in the Supplier List and Contract Procedure (HP-COC-Supplier List). The List of Suppliers includes the suppliers' SFI Forest Management certificate number. If Chain of Custody certified material inputs are sourced in the future, the FSC/PEFC Chain of Custody/Controlled Wood certificate number would be validated.

The Procurement Staff identifies all known certified organizations and suppliers (HP-COC-Supplier List). The Procurement Staff verifies the validity of applicable certificates and has access to copies of each certified organization's Forest Management certificate.

The certificate numbers are verified against the relevant databases to confirm that they are valid. The Procurement Staff checks www.info.fsc.org, www.sfiprogram.org, www.treefarmssystem.org and www.pefc.org for accurate and up-to-date information about forest management and chain of custody certified organizations. Currently, very few primary sawmills are delivering residuals and none are expected to be Chain of Custody certified.

Upon receipt of incoming material at the scale house, Highland Pellets LLC staff to take over the chain of custody process from the Procurement Staff.

A Delivery Ticket on each load identifies the forest management unit (FMU) or primary wood supplying mill and contains a reference to the Wood Purchase or other Agreement. This information is entered into the internal database by the Scale House Operator and recorded. All green tons of wood and fiber, purchased under a specific Wood Purchase Agreement, are entered into the appropriate Accounting Database and could be identified as FSC/PEFC/SBP certified forest content and/or controlled material.

The Delivery Ticket contains information about the supplier including their name, contact information, forest management certificate number, quantity of material and other

	<p>relevant information. This information can be checked against the list of approved organizations that are in possession of valid forest management or Chain of Custody certificates to confirm receipt of certified forest content (PEFC/FSC).</p> <p>The Sustainability Manager confirms that incoming non-certified wood fiber is considered “controlled material” according to the Controlled Wood Procedure (HP-SB-CW Procedures & DDS), the Controlled Wood Risk Assessment (HP-SB-CWRA) and the Supply Base Evaluation and Risk Assessment. Non-certified, but controlled wood inputs, can then be mixed with any certified and other controlled material inputs.</p> <p>Each load of wood and fiber is identifiable by supplier, which ensures that the wood fiber inputs are coming from suppliers that have Wood Purchase Agreements. The supplier list is derived from the formal Wood Purchase Agreements (HP-COC-Supplier List) that contain required FSC and PEFC Chain of Custody & Controlled Wood provisions. Wood deliveries that do not have a Wood Purchase Agreement are rejected.</p> <p>Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results</p> <p>The FSC National Risk Assessment for the Conterminous United States of America concludes low risk for wood harvested in violation of traditional and human rights. Highland Pellets LLC relies on the PEFC Controlled Wood Risk Assessment that concludes that: “There are recognized and equitable processes in place to resolve conflicts of substantial magnitude pertaining to traditional rights including use rights, cultural interests or traditional cultural identity in the district concerned.”</p> <p>There are no Federally recognized indigenous peoples tribes located within the Fiber Supply Area. See the Bureau of Indian Affairs website for the Eastern Region: http://www.bia.gov/WhoWeAre/RegionalOffices/Eastern/index.htm</p> <p style="text-align: center;">Rational of Risk Designation</p> <p>Highland Pellets LLC’s location in Arkansas does not negatively impact food security in the region.</p>
Means of Verification	<ul style="list-style-type: none"> • Non-governmental organizations • Governmental Agencies • Internal Documentation
Evidence Reviewed	<p><u>Internal Documentation</u></p> <ul style="list-style-type: none"> • FSC/PEFC Chain of Custody and Controlled Wood Certificates • Product Group List • Supplier List and Contract Procedure • Delivery Tickets • Controlled Wood Risk Assessment (HP-SB-CWRA) • Supply Base Evaluation and Risk Assessment <p><u>References</u></p> <ul style="list-style-type: none"> • Forest sustainability certificate holder checks: www.info.fsc.org, www.sfiprogram.org, www.treefarmssystem.org and www.pefc.org • Food Security Status of US Households in 2019. Economic Research Service. US Department of Agriculture. https://www.ers.usda.gov/topics/food-nutrition-assistance/food-security-in-the-us/key-statistics-graphics.aspx. Accessed October 13, 2020. • Subsistence Farming. Britannica. https://www.britannica.com/topic/subsistence-farming. Accessed October 23, 2020.
Risk Rating	<p><input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA</p>

Comment or Mitigation Measure	NA
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	Indicator
2.6.1	The Biomass Producer has implemented appropriate control systems and procedures for verifying that appropriate mechanisms are in place for resolving grievances and disputes, including those relating to tenure and use rights, to forest management practices and to work conditions.
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>The scale of assessment for this indicator is country-wide. Labour laws, including resolving grievances and disputes are enacted and enforced at the federal level.</p> <p style="text-align: center;">Context</p> <p>This indicator addresses grievances and disputes on two independent issues. That of forest management practices and that of work conditions.</p> <p>Issues specifically surrounding illegal logging and verifying legality of claims is covered in section 1.2.1. Highland Pellets requires a contract for all wood fiber that enters the mill.</p> <p style="text-align: center;">Potential Threat</p> <p>The potential threat this indicator addresses is that work conditions may be poor or that forest management practices may be subpar and there would be no venue for an individual to dispute the practice.</p> <p style="text-align: center;">Regulatory Requirements & Agency of Authorization</p> <p>OSHA is a strong resource for workers in the United States. Further discussed in section 2.8.1, workers may file a complaint to have OSHA inspect their workplace if they believe that their employer is not following OSHA standards or that there are serious hazards. Employees can file a complaint with OSHA by calling 1-800-321-OSHA (6742), online via Compliant Form, or by printing the complaint form and mailing or faxing it to your local OSHA area office. Complaints that are signed by an employee are more likely to result in an inspection.</p> <p>Other laws and regulations at the National scale are relevant to this indicator as well. Including:</p> <ul style="list-style-type: none"> • National Labor Relations Act (NLRA) or Wagner Act • The Fair Labor Standards Act (FLSA) • Equal Employment Opportunity Commission (EEOC) • Family and Medical Leave Act (FMLA) • Immigration and Nationality Act <p>The Clean Water Act is a powerful tool for the use of grievances on forest management. Any practices that result in potential sedimentation or other debris in waterways is subject to federal law.</p> <p style="text-align: center;">Mechanism & Supporting Evidence</p>

The SFI Fiber Sourcing Standard is focused on wood procurement, recognizing that SFI Program Participants do not have direct responsibility or control for how private landowners manage their forests and address use rights and working conditions. However, the health and safety of workers and mechanisms for resolving disputes are addressed by Federal and State Forestry Commissions and Agencies. FSC/PEFC Chain of Custody and Controlled Wood Certificates provide objective evidence of conformance related to having systems in place to resolve grievances and disputes.

Participation in the Arkansas and Louisiana SIC gives a venue for hearing of any occurring forest related grievances in the state. These meetings occur several times a year and cover any relevant forestry related activities that come up in the state.

Highland Pellets LLC has procedures in place to receive and address inquiries and complaints from stakeholders that are supported by substantiated objective evidence regarding:

- FSC/PEFC Chain of Custody & Controlled Wood; and
- SFI Inconsistent Practices under the Fiber Sourcing Standard
- SFI Inconsistent Practices and ILO Core Conventions.

Highland Pellets LLC has a formal process for receiving and responding to public inquiries, particularly those that potentially relate to practices that may be inconsistent with the FSC/PEFC and SBP Standards. Highland Pellets LLC has a formal Complaints Procedure for addressing substantiated public concerns related to Controlled/Controversial Wood.

The Highland Pellets LLC Complaints Procedure is required not only by SBP, but also by other forest management and chain of custody standards used by Highland Pellets LLC. These other standards include SFI Fiber Sourcing standard, Forest Stewardship Council (FSC), and the Programme for the Endorsement of Forest Certification (PEFC).

Highland Pellets LLC may receive inquiries through mail/e-mail, telephone and through the company website. If the complaint is specific to the Company's SFI/FSC/PEFC/SBP certifications, and is substantiated, it will be directed to the appropriate staff and will follow the procedures as outlined below. In case of substantiated concerns for material/supply area originally excluded from the risk assessment, such material/supply area shall undergo a risk assessment.

1. *Acknowledge receipt of the complaint within two (2) weeks of receiving the complaint;*
2. *Assess and investigate the evidence provided in the written complaint;*
3. *For documented cases considered relevant and potentially accurate, specify a proposed action in response to the complaint within three (3) months;*
4. *If a non-compliance with the procedures is uncovered, document the non-conformance on a Corrective Preventive Action Request (CAR) Form according to the corrective action process.*
5. *Once the CAR Form has been completed and the Corrective Action Plan has been "Closed," confirm and sign-off that the Corrective Action has been completed;*

	<p>6. <i>The CAR Forms are maintained as a record of all corrective actions that have been taken; and</i></p> <p>7. <i>Make these records available to the complainant and the Certification Body when the complaint is successfully addressed and closed. (Internal Document: HP-COC-COC Procedure, section 6)</i></p> <p>Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results There is a plethora of opportunities to seek legal guidance against any grievance or dispute in the United States, as seen by the above evidence.</p> <p style="text-align: center;">Rational of Risk Designation</p> <p>The combination of federal level laws and regulations and the policies in place with Highland Pellets LLC show low risk for this indicator.</p>
Means of Verification	<ul style="list-style-type: none"> • Internal Documentation • Non-government organizations • Federal Laws
Evidence Reviewed	<p><u>Internal Documentation</u></p> <ul style="list-style-type: none"> • HP-COC-COC Procedures section 6 <p><u>References</u></p> <ul style="list-style-type: none"> • FSC Chain of Custody Certification: FSC-STD-40-003 V3-0. FSC International. November 2016. • Chain of Custody of Forest and Tree Based Products – Requirements. PEFC ST 2002:2020. PEFC Council. 2020. • SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard. January 2015. • Occupational Safety and Health Administration. United States Department of Labor. www.osha.gov. Accessed April 27, 2020.
Risk Rating	<input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	NA

	Indicator
2.7.1	The Biomass Producer has implemented appropriate control systems and procedures for verifying that Freedom of Association and the effective recognition of the right to collective bargaining are respected.
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>The scale of assessment for this indicator is country-wide. Labour laws are enacted and enforced at the federal level.</p> <p style="text-align: center;">Context</p> <p>The Cornell Law School defines collective bargaining as, “the negotiation process between an employer and a union comprised of workers to create an agreement that will govern the terms and conditions of the workers' employment.” (Collective Bargaining. Legal Information Institute)</p> <p style="text-align: center;">Potential Threat</p>

The potential threat this indicator address is that the biomass producer would prevent its employees from collective bargaining, reducing their ability to fight for equal pay and other work quality measures.

Regulatory Requirements & Agency of Authorization

- National Labor Relations Act (NLRA) or Wagner Act
- The Fair Labor Standards Act (FLSA)
- ILO Core Conventions
- Occupational Safety and Health Administration (OSHA) Standards
- Equal Employment Opportunity Commission (EEOC)
- Family and Medical Leave Act (FMLA)
- Immigration and Nationality Act
- The U.S. Department of Labor enforces laws and regulations addressing compulsory labor. <http://www.dol.gov/ilab/child-forced-labor/What-are-Child-Labor-and-Forced-Labor.htm>

Mechanism & Supporting Evidence

PEFC Chain of Custody and Controlled Wood Certification provides objective evidence of conformance addressing Freedom of Association.

The FSC Self-Declaration Policy addresses the ILO Principles (HP-COC-Policy). The FSC ILO Policy recognizes the preeminence of U.S. and State laws and regulations in meeting the intent of the ILO Core Conventions.

The SFI Fiber Sourcing Standard requires control systems and procedures to address social laws and regulations addressing workers' rights. SFI Public Inquiries and Official Complaints, Section 11, 3. Public Inquiries regarding inconsistent practices and the ILO Core Conventions (87, 98, 11).

SFI Inconsistent Practices & ILO Core Conventions: The following procedure will be implemented for sources of wood supply suspected of being inconsistent with the ILO Core Conventions as defined in the SFI Standards, respectively:

- a) The complainant shall present specific claims of inconsistent practice in writing and in sufficient detail to the Company;*
- b) The Sustainability Manager shall respond in writing to any formal complainant within 45 days and forward the complaint and written response to its SFI accredited certification body;*
- c) The Sustainability Manager shall coordinate with the SFI accredited certification body as part of its annual surveillance audit and procedures;*
- d) A complainant who believes the issue has not been satisfactorily resolved, may provide the relevant information to the SFI ILO Task Force, which shall investigate and provide copies of its findings to the SFI Board of Directors; and*
- e) Formal complaints and their resolution shall be reviewed and recorded as part of the annual SFI Management Review.*

Wood Purchase Agreements/Contracts specify compliance with applicable U.S. and state labor laws and regulations.

Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results

The United States has an active National Labour Relations Board that monitors and supports labour rights and collective bargaining rights. (Collective Bargaining Rights. National Labour Relations Board). Investigators placed around the United States enforce the Fair

	<p>Labor Standards Act and may convict or fine violators (Enforcement. U.S. Department of Labor).</p> <p>The National Risk Assessment conducted by FSC concludes that labor rights are respected including rights as specified in ILO (FSC National Risk Assessment for the Conterminous USA, FSC International. Page 72).</p> <p style="text-align: center;">Rational of Risk Designation</p> <p>The above shows that there is sufficient laws and regulations which are enforced at the mill level to protect employees' rights of Freedom of Association and right to collective bargaining. This indicator is low risk.</p>
Means of Verification	<ul style="list-style-type: none"> • Internal Documentation • Federal Law • International Law
Evidence Reviewed	<p><u>Internal Documentation</u></p> <ul style="list-style-type: none"> • FSC Self-Declaration Policy addresses the ILO Principles • Wood Purchase Agreements/Contracts <p><u>References</u></p> <ul style="list-style-type: none"> • Collective Bargaining. Legal Information Institute. Cornell Law School. https://www.law.cornell.edu/wex/collective_bargaining. Accessed October 14, 2020. • SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard. • SFI Public Inquiries and Official Complaints, Section 11 • U.S. law http://www.dol.gov/dol/aboutdol/history/amworkerconclusion.htm • Collective Bargaining Rights. National Labour Relations Board (NLRB). https://www.nlr.gov/about-nlr/rights-we-protect/the-law/employees/collective-bargaining-rights. Accessed October 14, 2020. • Enforcement. US Department of Labor. https://www.dol.gov/general/topic/youthlabor/enforcement#:~:text=The%20Wage%20and%20Hour%20Division's,determine%20compliance%20with%20the%20law. Accessed October 21, 2020. • FSC National Risk Assessment for the Conterminous United States of America V1-0. 2019. FSC International.
Risk Rating	<p><input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA</p>
Comment or Mitigation Measure	NA

	Indicator
2.7.2	The Biomass Producer has implemented appropriate control systems and procedures for verifying that feedstock is not supplied using any form of compulsory labour.
Finding	Scale of Assessment
	The scale of assessment for this indicator is country-wide. Compulsory labour laws are enacted and enforced at the federal level and applicable to all citizens.

Context

The ILO Forced Labor Convention defines forced or compulsory labour as: "all work or service which is exacted from any person under the threat of a penalty and for which the person has not offered himself or herself voluntarily." (What is forced labour, modern slavery and human trafficking. ILO).

Potential Threat

The potential threat from this indicator is that slave labor will be used.

Regulatory Requirements & Agency of Authorization

- The Fair Labor Standards Act (FLSA)
- ILO Core Conventions
- Occupational Safety and Health Administration (OSHA) Standards
- Equal Employment Opportunity Commission (EEOC)
- Family and Medical Leave Act (FMLA)
- Immigration and Nationality Act
- The U.S. Department of Labor enforces laws and regulations addressing compulsory labor. <http://www.dol.gov/ilab/child-forced-labor/What-are-Child-Labor-and-Forced-Labor.htm>

Mechanism & Supporting Evidence

PEFC Chain of Custody and Controlled Wood Certification provides objective evidence of conformance addressing the elimination of compulsory labor.

Highland Pellets LLC has conducted a Controlled Wood Risk Assessment covering this issue and concluded that: "There is no evidence of child labor or violation of ILO Fundamental Principles and Rights at work taking place in forest areas in the district concerned."

FSC requires a signed Self-Declaration of Association. The section of the Self-Declaration states that:

The signing Organization recognizes that the principles established by the International Labor Organization through the 1998 Declaration on Fundamental Principles and Rights at Work (the "Principles") serve to guide governments in the protection of the basic rights of workers without defining a uniform path for every nation to follow. Based upon these Principles, and consistent with applicable national law, rights, regulations, and administrative/judicial rules and procedures, the signing Organization shall respect:

- a) freedom of association and the effective recognition of the right to collective bargaining;*
- b) the elimination of all forms of forces or compulsory labor;*
- c) the effective abolition of child labor; and*
- d) the elimination of discrimination in respect of employment and occupation.*

The SFI Fiber Sourcing Standard requires control systems and procedures to address social laws and regulations addressing compulsory labor. SFI Public Inquiries and Official Complaints, Section 11, 3. Public Inquiries regarding inconsistent practices and the ILO Core Conventions (87, 98, 11):

SFI Inconsistent Practices & ILO Core Conventions: The following procedure will be implemented for sources of wood supply suspected of being inconsistent with the ILO Core Conventions as defined in the SFI Standards, respectively:

- a) The complainant shall present specific claims of inconsistent practice in writing and in sufficient detail to the Company;*

	<p>b) <i>The Sustainability Coordinator shall respond in writing to any formal complainant within 45 days and forward the complaint and written response to its SFI accredited certification body;</i></p> <p>c) <i>The Sustainability Coordinator shall coordinate with the SFI accredited certification body as part of its annual surveillance audit and procedures;</i></p> <p>d) <i>A complainant who believes the issue has not been satisfactorily resolved, may provide the relevant information to the SFI ILO Task Force, which shall investigate and provide copies of its findings to the SFI Board of Directors; and</i></p> <p>e) <i>Formal complaints and their resolution shall be reviewed and recorded as part of the annual SFI Management Review.</i></p> <p>Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results</p> <p>The American Hardwoods Export Council's independent studies (Independent Studies, page 264) concluded that: "There is no evidence of child labor or violation of ILO Fundamental Principles and Rights at work taking place in forest areas in the U.S. Hardwood sector."</p> <p>The International Labor Organization (ILO) recognizes the United States is a key partner to eliminate forced labor throughout the world. (Elimination of Forced Labor, ILO).</p> <p style="text-align: center;">Rational of Risk Designation</p> <p>The evidence shows there are sufficient protections against forced labor in the United States. Therefore the risk is low for this indicator.</p>
Means of Verification	<ul style="list-style-type: none"> • Internal Documentation • International Agencies • Federal Agencies • Voluntary Forestry Standards
Evidence Reviewed	<p><u>Internal Documentation</u></p> <ul style="list-style-type: none"> • Controlled Wood Risk Assessment (HP-SB-CWRA) • Self-Declaration of Association <p><u>References</u></p> <ul style="list-style-type: none"> • ILO Fundamental Principles and Rights • SFI Public Inquiries and Official Complaints, Section 11 • Independent Studies. American Hardwoods Export Council. 2016. https://www.americanhardwood.org/en/environmental-profile/legality. Accessed April 21, 2020 • U.S. Department of Labor enforces laws and regulations addressing compulsory labor. http://www.dol.gov/ilab/child-forced-labor/What-are-Child-Labor-and-Forced-Labor.htm • What is forced labour, modern slavery and human trafficking. ILO. https://www.ilo.org/global/topics/forced-labour/definition/lang-en/index.htm#:~:text=According%20to%20the%20ILO%20Forced,offered%20himself%20or%20herself%20voluntarily.%22. Accessed October 14, 2020. • Elimination of Forced Labor. International Labor Organization (ILO). https://www.ilo.org/washington/areas/elimination-of-forced-labor/lang-en/index.htm. Accessed October 21, 2020.
Risk Rating	<p><input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA</p>
Comment or Mitigation Measure	<p style="text-align: center;">NA</p>

	Indicator
2.7.3	The Biomass Producer has implemented appropriate control systems and procedures to verify that feedstock is not supplied using child labour.
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>The scale of assessment is at the federal level.</p> <p style="text-align: center;">Context</p> <p>The International Labour Organization (ILO) defines child labour as “work that deprives children of their childhood, their potential and their dignity, and that is harmful to physical and mental development. It refers to work that:</p> <ul style="list-style-type: none"> • is mentally, physically, socially or morally dangerous and harmful to children; and/or • interferes with their schooling by: depriving them of the opportunity to attend school; obliging them to leave school prematurely; or requiring them to attempt to combine school attendance with excessively long and heavy work.” (What is Child Labour. ILO). <p style="text-align: center;">Potential Threat</p> <p>The potential threat from this indicator is that underaged children will be used in labour.</p> <p style="text-align: center;">Regulatory Requirements & Agency of Authorization</p> <ul style="list-style-type: none"> • The Fair Labor Standards Act (FLSA) • ILO Core Conventions • Occupational Safety and Health Administration (OSHA) Standards • Equal Employment Opportunity Commission (EEOC) • Family and Medical Leave Act (FMLA) • Immigration and Nationality Act • The U.S. Department of Labor enforces laws and regulations addressing compulsory labor. http://www.dol.gov/ilab/child-forced-labor/What-are-Child-Labor-and-Forced-Labor.htm <p style="text-align: center;">Mechanism & Supporting Evidence</p> <p>The standards that Highland Pellets LLC is certified to also have requirements to avoid the use of child labor, requirements which are audited annually by a third party. These standards include FSC, PEFC, and SFI Fiber Sourcing.</p> <p>Highland Pellets LLC has a signed Self-Declaration of Association. The section of the Self-Declaration states that:</p> <p><i>The signing Organization recognizes that the principles established by the International Labor Organization through the 1998 Declaration on Fundamental Principles and Rights at Work (the “Principles”) serve to guide governments in the protection of the basic rights of workers without defining a uniform path for every nation to follow. Based upon these Principles, and consistent with applicable national law,</i></p>

	<p><i>rights, regulations, and administrative/judicial rules and procedures, the signing Organization shall respect:</i></p> <ol style="list-style-type: none"> a) <i>freedom of association and the effective recognition of the right to collective bargaining;</i> b) <i>the elimination of all forms of forced or compulsory labor;</i> c) <i>the effective abolition of child labor; and</i> d) <i>the elimination of discrimination in respect of employment and occupation.</i> <p>Finally, Highland Pellets LLC requires a contract with all suppliers to ensure that all applicable laws and regulations are complied with. If any supplier failed to comply with all applicable laws and legislations, action may be taken to correct the issue.</p> <p>Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results</p> <p>The American Hardwoods Export Council's independent studies concluded that there is no evidence of child labor violations of the ILO Fundamental Principles and Rights at work in the U.S.A. hardwoods sector. (Independent Studies, page 264).</p> <p>The FSC National Risk Assessment finds "low risk" for legal employment, which includes child labor prevention (FSC National Risk Assessment, 2019).</p> <p style="text-align: center;">Rational of Risk Designation</p> <p>The evidence above shows that there are sufficient laws in place with evidence of effective implementation and resulting in a low risk designation.</p>
Means of Verification	<ul style="list-style-type: none"> • Voluntary Forestry Standards • Internal Documentation • International Agencies • National Agencies
Evidence Reviewed	<p><u>Internal Documentation</u></p> <ul style="list-style-type: none"> • Self-Declaration of Association • Supplier Contracts <p><u>Reference</u></p> <ul style="list-style-type: none"> • Chain of Custody of Forest and Tree Based Products – Requirements. PEFC ST 2002:2020. PEFC Council. 2020. • SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard. • FSC Chain of Custody Certification: FSC-STD-40-004 V3-0. FSC International. November 2016. • Independent Studies. American Hardwoods Export Council. 2016. https://www.americanhardwood.org/en/environmental-profile/legality. Accessed April 21, 2020. • Child Labor. U.S. Department of Labor. https://www.dol.gov/agencies/whd/child-labor. Accessed April 28, 2020. • Youth Labor. U.S. Department of Labor. https://www.dol.gov/general/topic/youthlabor. Accessed April 28, 2020. • FSC National Risk Assessment: For the Conterminous United States of America. FSC US. April 2019 • Child Labor. ILO Fundamental Principles and Rights. https://www.ilo.org/global/topics/child-labour/lang--en/index.htm. Accessed April 28, 2020. • What is Child Labour. International Labour Organization (ILO). https://www.ilo.org/ipecc/facts/lang--en/index.htm. Accessed October 13, 2020.
Risk Rating	<p><input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA</p>

Comment or Mitigation Measure	NA
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	Indicator
2.7.4	The Biomass Producer has implemented appropriate control systems and procedures for verifying that feedstock is not supplied using labour which is discriminated against in respect of employment and occupation.
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>The scale of assessment for this indicator is country-wide. Labour laws are enacted and enforced at the federal level.</p> <p style="text-align: center;">Context</p> <p>The Cornell Law School states that discriminatory practices include bias in hiring, promotion, job assignment, termination, compensation, retaliation, and various types of harassment based on race, sex, sexual orientation, religion, national origin, physical disability, and age. (Employment Discrimination. Legal Information Institute.)</p> <p style="text-align: center;">Potential Threat</p> <p>The potential threat addressed by this indicator is discrimination in the workplace.</p> <p style="text-align: center;">Regulatory Requirements & Agency of Authorization</p> <p>The USA has many laws and regulations to protect against discrimination, such as the Fair Labor Standards Act (FLSA) and Migrant and Seasonal Worker Protection Act. Additional laws and legislations include the Civil Rights Act of 1964, the Equal Pay Act of 1963, Age Discrimination in Employment Act of 1967, and several others. These types of laws are enforced through the Equal Employment Opportunity Commission (Federal Laws Prohibiting Job Discrimination Questions And Answers, 2009).</p> <ul style="list-style-type: none"> • National Labor Relations Act (NLRA) or Wagner Act • The Fair Labor Standards Act (FLSA) • ILO Core Conventions • Occupational Safety and Health Administration (OSHA) Standards • Equal Employment Opportunity Commission (EEOC) • Family and Medical Leave Act (FMLA) • Immigration and Nationality Act • ILO Core Conventions <p style="text-align: center;">Mechanism & Supporting Evidence</p> <p>The standards that Highland Pellets LLC is certified to also have requirements to avoid the use of workers' rights, requirements which are audited annually by a third party. These standards include FSC, PEFC, and SFI Fiber Sourcing.</p> <p>Highland Pellets LLC has a signed Self-Declaration of Association. The section of the Self-Declaration states that:</p>

	<p><i>The signing Organization recognizes that the principles established by the International Labor Organization through the 1998 Declaration on Fundamental Principles and Rights at Work (the “Principles”) serve to guide governments in the protection of the basic rights of workers without defining a uniform path for every nation to follow. Based upon these Principles, and consistent with applicable national law, rights, regulations, and administrative/judicial rules and procedures, the signing Organization shall respect:</i></p> <ul style="list-style-type: none"> <i>a) freedom of association and the effective recognition of the right to collective bargaining;</i> <i>b) the elimination of all forms of forced or compulsory labor;</i> <i>c) the effective abolition of child labor; and</i> <i>d) the elimination of discrimination in respect of employment and occupation.</i> <p>Finally, Highland Pellets LLC requires a contract with all suppliers to ensure that all applicable laws and regulations are complied with. If any supplier failed to comply with all applicable laws and legislations, action may be taken to correct the issue.</p> <p>Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results</p> <p>The Fourth and Fifteenth Amendments to the constitute both limit the power of state and federal governments to discriminate (Employment Discrimination. Legal Information Institute.). The Equal Employment Opportunity Commission protects against discrimination and has a portal for individuals to file complaints if they have one (What is Employment Discrimination? US Equal Employment Opportunity Commission).</p> <p>The FSC National Risk Assessment finds “low risk” for legal employment (FSC National Risk Assessment, 2019). The American Hardwoods Export Council’s independent studies concluded that there is no evidence of workers’ rights violations of the ILO Fundamental Principles and Rights at work in the U.S.A. hardwoods sector. (Independent Studies, page 264).</p> <p style="text-align: center;">Rational of Risk Designation</p> <p>The evidence above shows there is sufficient controls in place to halt discrimination in the workplace. The risk for this indicator is low.</p>
<p>Means of Verification</p>	<ul style="list-style-type: none"> • Voluntary Forestry Standards • Internal Documentation • National and International Agencies
<p>Evidence Reviewed</p>	<p><u>Internal Documentation</u></p> <ul style="list-style-type: none"> • Self-Declaration of Association • Supplier Contracts <p><u>References</u></p> <ul style="list-style-type: none"> • Chain of Custody of Forest and Tree Based Products – Requirements. PEFC ST 2002:2020. PEFC Council. 2020. • SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard. • FSC Chain of Custody Certification: FSC-STD-40-004 V3-0. FSC International. November 2016. • Independent Studies. American Hardwoods Export Council. 2016. https://www.americanhardwood.org/en/environmental-profile/legality. Accessed April 21, 2020.

	<ul style="list-style-type: none"> • What are Workers' Rights? U.S. Department of Labor. https://www.dol.gov/agencies/ilab/our-work/workers-rights. Accessed April 29, 2020. • Federal Laws Prohibiting Job Discrimination Questions And Answers. U.S. Equal Employment Opportunity Commission. https://www.eeoc.gov/facts/qanda.html. Accessed April 29, 2020. • FSC National Risk Assessment: For the Conterminous United States of America. FSC US. April 2019 • Employment Discrimination. Legal Information Institute. Cornell Law School. https://www.law.cornell.edu/wex/employment_discrimination. Accessed October 14, 2020. • What is Employment Discrimination? US Equal Employment Opportunity Commission. https://www.eeoc.gov/youth/what-employment-discrimination. Accessed October 14, 2020.
Risk Rating	<input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	NA

	Indicator
2.7.5	The Biomass Producer has implemented appropriate control systems and procedures for verifying that feedstock is supplied using labour where the pay and employment conditions are fair and meet, or exceed, minimum requirements.
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>The scale of assessment for this indicator is the state of Arkansas and northern Louisiana. Although the majority of relevant laws and legislation is at a federal level, there are some laws that are state specific.</p> <p style="text-align: center;">Context</p> <p>In 1908, the Federal Employers Liability Act was enacted. This became the foundation for state worker's compensations laws. The United Auto Workers was created in 1930, one of the most important labor unions in the United States. They successfully lobbied for health insurance plans for industrial workers. 1938 saw the enactment of The Fair Labor Standards Act, which put in place minimum wage, required employers to pay overtime, and made it illegal to employ children under the age of 14. The Equal Pay Act came into being in 1963, a time when women were earning 60 cents to every dollar men earned. (Inc Staff. The 200-Year History of American Employee Rights. 2011). In 2019 the Equal Pay Act was amended to strengthen the regulation (E. Raphan and L.C. Stone. 2019. Sheppard Mullins).</p> <p>Arkansas and Louisiana, similar to the federal government, has some laws and legislation that affects fair treatment of employees.</p> <p style="text-align: center;">Potential Threat</p> <p>The potential threat addressed by this indicator is the plant's location in the region would be supplied by labour who are not being paid a living wage or where employment conditions are unsafe.</p>

Regulatory Requirements & Agency of Authorization

- The Fair Labor Standards Act (FLSA)
- ILO Core Conventions
- Occupational Safety and Health Administration (OSHA) Standards
- Equal Employment Opportunity Commission (EEOC)
- Family and Medical Leave Act (FMLA)
- Immigration and Nationality Act
- Arkansas Civil Rights Act
- Louisiana Commission on Human Rights
- The minimum wage in Arkansas is \$10/hour and \$7.25/hour in Louisiana

Mechanism & Supporting Evidence

The SFI Fiber Sourcing Standard addresses compliance with social laws and regulations address fair labor practices and prevailing wages. SFI Public Inquiries and Official Complaints, Section 11, 3. Public Inquiries regarding inconsistent practices and the ILO Core Conventions (87, 98, 11). See FSC Self-Declaration statement in the above Indicators.

The following procedure will be implemented for sources of wood supply suspected of being inconsistent with the ILO Core Conventions as defined in the SFI Standards, respectively:

- a) The complainant shall present specific claims of inconsistent practice in writing and in sufficient detail to the Company;*
- b) The Sustainability Coordinator shall respond in writing to any formal complainant within 45 days and forward the complaint and written response to its SFI accredited certification body;*
- c) The Sustainability Coordinator shall coordinate with the SFI accredited certification body as part of its annual surveillance audit and procedures;*
- d) A complainant who believes the issue has not been satisfactorily resolved, may provide the relevant information to the SFI ILO Task Force, which shall investigate and provide copies of its findings to the SFI Board of Directors; and*
- e) Formal complaints and their resolution shall be reviewed and recorded as part of the annual SFI Management Review.*

Highland Pellets LLC contracts with its suppliers to supply wood fiber for use in wood pellets. Contractors can attest to the fact that pay and employment conditions meet or exceed minimum requirements.

The Wood Purchase Agreement specifies contract conditions and compliance with Department of Labor regulations.

Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results

The U.S. Department of Labor enforces U.S. fair labor laws. The Fair Labor Standards Act (FLSA), which prescribes standards for the basic minimum wage and overtime pay, affects most private and public employment. It requires employers to pay covered employees who are not otherwise exempt at least the federal minimum wage and overtime pay.

<http://www.dol.gov/compliance/laws/comp-flsa.htm>

The United States has a myriad of laws and regulations pertaining to labour (see below for example list). These laws are enforced by investigators stationed across the United States. They gather data on wages, hours, and other employment conditions or practices, in order to determine compliance with the law. (Enforcement. US Department of Labor)

	Rational of Risk Designation
	The number of laws and enforcement practices of those laws clearly show the risk for this indicator is low.
Means of Verification	<ul style="list-style-type: none"> • Voluntary Forestry Standards • Internal Documentation • National Agencies
Evidence Reviewed	<p><u>Internal Documentation</u></p> <ul style="list-style-type: none"> • Supplier contracts • FSC Self-Declaration • Wood Purchase Agreement (HP-COC-Supplier List) <p><u>References</u></p> <ul style="list-style-type: none"> • SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard. • SFI Public Inquiries and Official Complaints, Section 11 • The Fair Labor Standards Act (FLSA) http://www.dol.gov/compliance/laws/comp-flsa.htm • Enforcement. US Department of Labor. https://www.dol.gov/general/topic/youthlabor/enforcement#:~:text=The%20Wage%20and%20Hour%20Division's,determine%20compliance%20with%20the%20law. Accessed October 14, 2020. • Inc. Staff. The 200-Year History of American Employee Rights. September 26 2011. Business Insider. https://www.businessinsider.com/the-200-year-history-of-american-employee-rights-2011-9#the-right-to-strike-1. Accessed October 14, 2020. • E. Raphan and L.C. Stone. Equal Pay Act Amendment Passes House of Representatives. March 28, 2019. Sheppard Mullin. https://www.laboremploymentlawblog.com/2019/03/articles/discrimination/paycheck-fairness-act/. Accessed October 14, 2020.
Risk Rating	<input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	NA

	Indicator
2.8.1	The Biomass Producer has implemented appropriate control systems and procedures for verifying that appropriate safeguards are put in place to protect the health and safety of forest workers (CPET S12).
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>The scale of assessment is for forest workers health and safety is primarily regulated at the federal level.</p> <p style="text-align: center;">Context</p> <p>The first and foremost safety regulation in the United States is through the Occupational Safety and Health Administration (OSHA). Created in 1970, OSHA enforces safe working conditions and acts on the principle that no one should have to choose</p>

between their life and their job. OSHA applies to all individuals working in the United States and has helped decrease the accident rate from 10.9 per 100 people in 1972 to 2.9 per 100 people in 2016 (All About OSHA, 2018) and covers all private sector and most federal employees.

The Arkansas OSHA Office is located at:

Little Rock Area Office

10810 Executive Center Dr Danville Bldg #2; Ste 206

Little Rock, AR 72211

(501) 224-1841

(501) 224-4431

Louisiana's OSHA Office is located at:

Baton Rouge Area Office

9100 Bluebonnet Centre Blvd, Suite 201

Baton Rouge, LA 70809

(225) 298-5458

(225) 298-5457

Potential Threat

The potential threat from this indicator is that forest workers will not be given or be able to follow proper safety measures to care for others and themselves. Due to the heavy machinery involved in forestry, it is important that forest workers take care not to hurt themselves or others.

Regulatory Requirements & Agency of Authorization

- ILO Core Conventions
- Occupational Health and Safety Standards
- Occupational Safety and Health Administration (OSHA)

Mechanism & Supporting Evidence

The Company actively participates in the Arkansas SFI Implementation Committee to address the full range of SFI Standard requirements contained in the above Sections including logger training, protection of worker health and safety and addressing inconsistent forest practices.

Highland Pellets LLC is certified to several standards, such as FSC, PEFC, and SFI, which provide objective evidence of conformance with health and safety laws and regulations. Highland Pellets LLC has a signed Self-Declaration with FSC.

The SFI Fiber Sourcing Standard requires control systems and procedures to comply with social laws and regulations addressing worker health and safety.

- *6.2.1 Participation in support of wood producer training courses addressing U.S. Occupational Safety and Health Administration (OSHA) and Canadian Centre for Occupational Health and Safety (CCOHS) regulations, wage and hour rules, and other laws.*

See SFI Evidence provided in 2.7.2 and 2.7.3. SFI Public Inquiries and Official Complaints, Section 11, 3. Public Inquiries regarding inconsistent practices and the ILO Core Conventions (87, 98, 11)

	<p>In addition to the nationally required safety measures, Highland Pellets LLC has several requirements in place to ensure that forest workers are well protected in their employment. These measures include the Wood Purchase Agreement which stipulates that all suppliers must use trained loggers, active participation in the Arkansas SFI Implementation Committee, and provisions to address worker compensation insurance coverage. Highland Pellets LLC's Wood Purchase Agreement/Contract (HP-COC-Supplier List) provisions address worker compensation insurance coverage. Also see the Sourcing Area Monitoring Form that includes checking for health and safety issues. This is contained in SBP Indicator 1.2.1.</p> <p>Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results</p> <p>The Arkansas and Louisiana SIC is active in a number of landowner outreach and education initiatives, including sponsorship of the American Tree Farm System State Committees. The SIC has developed educational materials for landowners addressing health and safety.</p> <p>OSHA recognizes that logging is an especially dangerous activity and has requirements designed especially for this type of employment (OSHA Logging Overview) along with Hazard Recognition and Possible Solutions.</p> <p>Since OSHA was enacted in 1970, workplace injuries have fallen drastically (All about OSHA. 2020).</p> <p style="text-align: center;">Rational of Risk Designation</p> <p>The effectiveness of OSHA and its enforcement, coupled with the requirements to use trained loggers show that this indicator is low risk.</p>
Means of Verification	<ul style="list-style-type: none"> • Voluntary Forestry Standards • Internal Documentation • State Agencies • National Agencies
Evidence Reviewed	<p><u>Internal Documentation</u></p> <ul style="list-style-type: none"> • Highland Pellets LLC's Wood Purchase Agreement/Contract (HP-COC-11) • FSC/PEFC Certificates • FSC Self-Declaration • SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard. <p><u>References</u></p> <ul style="list-style-type: none"> • Arkansas Best Management Practices • Louisiana Best Management Practices • SFI Public Inquiries and Official Complaints, Section 11 • OSHA Logging Overview. United States Department of Labor. https://www.osha.gov/SLTC/logging/. Accessed March 11, 2020. • All About OSHA. United States Department of Labor. 2020. https://www.osha.gov/Publications/all_about_OSHA.pdf. Accessed October 20, 2020.
Risk Rating	<p><input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA</p>
Comment or Mitigation Measure	<p style="text-align: center;">NA</p>


	Indicator
2.9.1	Biomass is not sourced from areas that had high carbon stocks in January 2008 and no longer have those high carbon stocks.
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>Highland Pellets procures both softwood and hardwood fiber in the state of Arkansas and northern Louisiana. Softwood does not grow in high carbon stock wetlands so is not applicable to this indicator. Hardwoods do have the capacity to grow in high carbon stock forestland. Therefore, much of this indicator will focus on hardwood in Arkansas and northern Louisiana.</p> <p style="text-align: center;">Context</p> <p>SBP identifies wetlands and peatlands as ecosystems with high carbon stocks that cannot be drained or converted. Wetlands are defined as “land that is covered with or saturated by water, permanently or for a significant part of the year”. (SBP Framework Standard 1: Feedstock Compliance Standard, page 27). Peatlands are defined as: “land where compacted deposits of partially decomposed organic debris accumulate to a depth greater than 30 cm (1 foot), usually saturated with water” (SBP Glossary of Terms and Definitions, page 4).</p> <p>Highland Pellets LLC procures a majority of its feedstock as short rotation planted southern yellow pine species of Shortleaf and Loblolly. These species are not considered to be high carbon stocks, so there is no risk of decreasing high carbon stocks from these species. Highland Pellets LLC does procure some hardwoods and residual hardwoods, which have the ability to grow in wetlands and are considered to be a high carbon stock source.</p> <p>Wetlands that are usually saturated with water are not common in Highland Pellets’ supply base, however wetlands with a seasonal water saturation occur in Highland Pellet’s supply base (FSC National Risk Assessment, page 145). There are no peatlands within the supply area of Highland Pellets. The majority of peatlands on the continent occur in the Northeast of the North America (GRID Arendal, Distribution of Global Peatlands).</p> <p style="text-align: center;">Global distribution of peatlands</p> 

Figure 23 Distribution of Global Peatlands. GRID-Arendal. UN Environmental Programme. 2020. <https://www.grida.no/resources/12546>. Accessed July 13, 2020.

The following map shows wetlands as identified by the National Wetland Inventory, a dataset created by the Fish and Wildlife Service, overlaid with the highest rates of Highland Pellets procurement by weight for 2019.

Peatland and Wetlands sequester a greater amount of carbon than other types of forestland. According to the IPCC (Intergovernmental Panel on Climate Change), there is no margin for error to keep the world under the dangerous threshold of 1.5-degree Celsius temperate increase above pre-industrial level resulting from carbon emissions (IPCC, 2019). Due to this, it is especially important that forests of high carbon stocks retain those carbon stocks.

Until further data is available that can more clearly identify wetlands of high carbon stocks in Arkansas, all wetlands must be treated with care to ensure that any harvesting that occurs does not damage the ecosystem which would reduce the wetland's ability to regrow after harvesting. In addition care must be given to ensure that conversion to other forms of agriculture, to another forest type, or to urban development is not conducted. See more on conversion issues in indicator 2.1.3.

Potential Threat

The potential threat is that poor harvesting techniques of certain types of forest can result in a net increase in carbon being released in the air.

Regulatory Requirements & Agency of Authorization

- Federal Clean Water Act, section 404 Where wetlands occur the Clean Water Act protect against them being drained or converted without permission from the Army Corps of Engineers. The Clean Water Act has been in force since 1972, thereby protecting against draining or converting high carbon stocks from January 2008.
- Arkansas Best Management Practices

Mechanism & Supporting Evidence

Each state has Best Management Practices (BMPs) to best enforce the Clean Water Act. BMP implementation is monitored by the state to see how well it does.

Highland Pellets LLC requires all suppliers to fulfil BMP logger training requirements to ensure that BMPs are practiced on the ground. Suppliers must fill out additional evidence that BMPs are followed on all harvest sites through the Supplier Declaration.

The Wood Purchase Agreement states that any material not found to be in compliance with BMPs or other Highland Pellets sustainability requirements may be rejected. Any material found to be harvested outside of BMPs will be rejected.

Material delivered directly from the forest is subject to random forest level audits verifying all sustainability requirements are met. In cases where it is impossible to trace the material back to the exact forest tract, such as material coming from chip mills or saw mills, the procurement team conducts annual on-site checks to discuss sustainability requirements, special ecoregion protections, and security of the supply chain.

Education plays a large role in encouraging land owners to manage their forests carefully and increasing the carbon sequestration and storage in forests. To this end, Highland Pellets LLC participates in cooperative efforts through the State SFI Implementation Committee to broaden awareness about the impacts of global climate change and

best land management practices for carbon sequestration. The Procurement Staff periodically review available literature and web sites for available information on regional climate models and the potential impacts on wildlife and conservation of biodiversity.

Highland Pellets LLC procures approximately 70% of its material from thinnings. Thinnings are a practice which improves the health of the forest. Without these thinnings, forest health will decline, become more susceptible to disease, pest, and wildfire. Protecting forest health also protects areas of high carbon stock.

Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results

Highland Pellets LLC procures 40-60% certified material from the region, ensuring that a large portion of the feedstock is audited by a third party to ensure compliance with responsible forestry management.

The most recent monitoring for Arkansas occurred in 2017 to 2018 and is titled Voluntary Implementation of Forestry Best Management Practices for Water Quality Protection in Arkansas: Results of the 2017-2018 BMP Implementation Survey. According to that document the overall Arkansas statewide rate of forestry BMP implementation was 93%. Statewide SMZ BMP implementation scored 89% and Harvesting and Regeneration BMP implementation was 98%. In 2019 the National Association of State Foresters assessed Louisiana's BMP implementation rates. Overall Louisiana scores 97%. Statewide SMZ BMP Implementation scored 98.6% and Harvesting and Regeneration BMP implementation was 98% (Protecting the Nation's Water: State Forestry Agencies and Best management Practices. 2019). High BMP rates show accordance with the Clean Water Act, and specifically section 404 of the clean water act that pertains to wetlands.

An Arkansas report from the Southern Timber Analysis on private land published November 8, 2019 shows that overall, there is a growth to drain ratio on Arkansas privately owned forests of 1.49 for softwood and 1.67 for hardwoods (see below chart) per year. ("Southern Timber Supply Analysis". Timber Supply Analysis. November 9, 2019. Arkansas Forestry Commission and Southern Group of State Foresters. Page 13.) This year over year growth shows that forests in Arkansas are growing their carbon stocks rather than decreasing them. A report from the Southern Timber Analysis shows a growth to drain ratio in Louisiana of 1.6.1 overall, 1.60 for softwood and 1.98 for hardwood. ("Southern Timber Supply Analysis". September 4, 2020. Southern Group of State Foresters. Page 13).

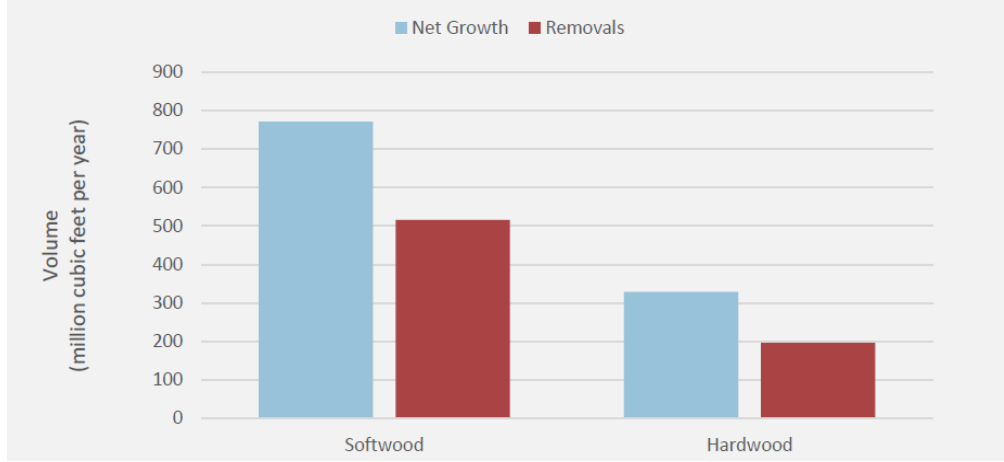


Figure 24 “Southern Timber Supply Analysis”. Timber Supply Analysis. November 9, 2019. Arkansas Forestry Commission and Southern Group of State Foresters. Page 13.

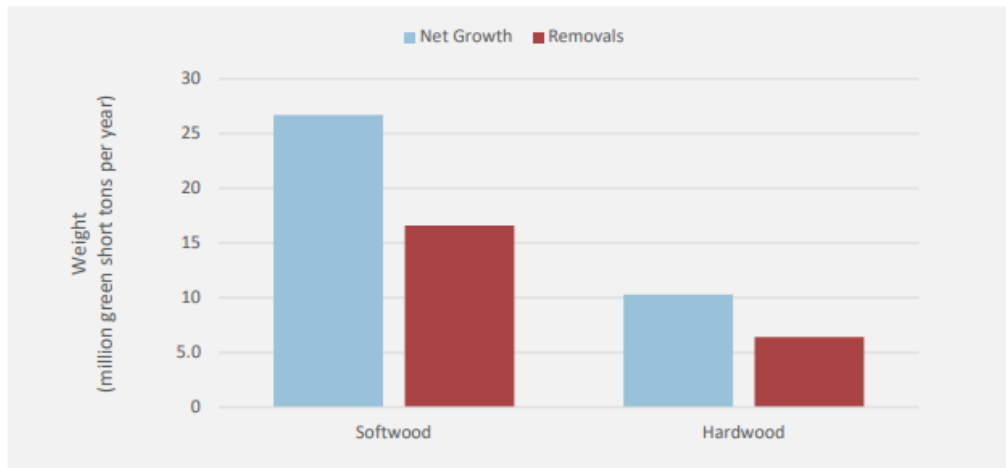


Figure 25 “Southern Timber Supply Analysis”. Louisiana. September 4, 2020. Southern Group of State Foresters. Page 13

The FSC National Risk Assessment for the Conterminous United States of America finds low risk for conversion of forestland in Arkansas and northern Louisiana.

The US Forest Service states that in 2008 there were 18.8 million acres of forestland in Arkansas. In 2019 there are 18.9 million acres of forestland in the state, showing that forest cover has increased since 2008. (Arkansas Forest Health Highland 2008, US Forest Service. Forests of Arkansas 2019, US Forest Service)

Rational of Risk Designation

Highland Pellets LLC’s wood fiber procurement activities do not result in significant impacts on carbon stocks and resources, do not drain wetlands and are considered “normal silviculture” under the Federal Clean Water Act. Strong legislation and monitoring of BMPs add further evidence that carbon stocks and resources do not drain wetlands.

Means of Verification

- Voluntary Forestry Standards
- Internal Documentation
- International Agencies
- National Agencies
- State Agencies

Evidence Reviewed

Figures and Tables

- Figure 1: Distribution of Global Peatlands. GRID-Arendal. UN Environmental Programme. 2020. <https://www.grida.no/resources/12546>. Accessed July 13, 2020.
- Figure 2: “Southern Timber Supply Analysis”. Timber Supply Analysis. November 9, 2019. Arkansas Forestry Commission and Southern Group of State Foresters. Page 13.

Internal Documents

- Wood Purchase Agreement (HP-COC-Supplier List).
- SFI Fiber Sourcing Program (HP-COC-Program)
- Supplier Declaration

References

- Arkansas Forest Inventory and Analysis Fact Sheets (http://www.srs.fs.fed.us/pubs/su/su_srs055.pdf)
- Distribution of Global Peatlands. GRID-Arendal. UN Environmental Programme. 2020. <https://www.grida.no/resources/12546>. Accessed July 13, 2020.
- FSC National Risk Assessment: For the Conterminous United States of America. FSC US. April 2019
- “Global Warming of 1.5 degrees Celsius”. IPPC. 2019. (https://www.ipcc.ch/site/assets/uploads/sites/2/2019/06/SR15_Full_Report_High_Res.pdf). Accessed September 21, 2020.
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- SBP Framework Standard 1: Feedstock Compliance Standard. SBP. March 2015.
- SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard.
- SFI Implementation Committee
- “State Inventory Data Status”. Forest Inventory and Analysis - Southern Research State. USDA Forest Service. May 15, 2019. (<https://www.fs.usda.gov/srsfia/states/arkansas.shtml>). Accessed January 15, 2020.
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- Louisiana Statewide Forest Resource Assessment and Strategy: A Comprehensive Analysis fo Forest-Related Conditions, Trends, Threats, Opportunities, and Management Strategies. July 2010. Louisiana Department of Agriculture and Forestry and National Association of State Foresters.
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- S.R. Holcomb, A.A. Bass, C.S. Reid, M.A.Seymour, N.F. Lorenz, B.B. Gregory, S.M. Javed, K.F. Balkum. Louisiana Wildlife Action Plan. October2015. Louisiana Wlildlife & Fisheries.
- Natural Areas Registry. Louisiana Wildlife & Fisheries. (<https://www.wlf.louisiana.gov/page/natural-areas-registry>). Accessed November 8, 2020.
- Protecting the Nation’s Water: State Forestry Agencies and Best management Practices. 2019. National Association of State Foresters.
- Forestry Association (LFA), the Louisiana Department of Environment Quality, and the Louisiana Department of Agriculture and Forestry.
- Louisiana Statewide Forest Resource Assessment and Strategy: A Comprehensive Analysis fo Forest-Related Conditions, Trends, Threats, Opportunities, and Management Strategies. July 2010. Louisiana Department of Agriculture and Forestry and National Association of State Foresters.
- National Priorities Louisiana Forest Action Plan 2015 Addendum. 2015. Louisiana Department of Agriculture and Forestry and National Association of State Foresters.
- S.R. Holcomb, A.A. Bass, C.S. Reid, M.A.Seymour, N.F. Lorenz, B.B. Gregory, S.M. Javed, K.F. Balkum. Louisiana Wildlife Action Plan. October2015. Louisiana Wlildlife & Fisheries.

	<ul style="list-style-type: none"> Natural Areas Registry. Louisiana Wildlife & Fisheries. https://www.wlf.louisiana.gov/page/natural-areas-registry. Accessed November 8, 2020. Protecting the Nation's Water: State Forestry Agencies and Best management Practices. 2019. National Association of State Foresters. Forestry Association (LFA), the Louisiana Department of Environment Quality, and the Louisiana Department of Agriculture and Forestry. Arkansas Forest Health Highland 2008. US Forest Service. https://www.fs.fed.us/foresthealth/docs/fhh/AR_FHH_2008.pdf. Accessed December 10, 2020. Forests of Arkansas 2019. US Forest Service. https://public.tableau.com/views/FIA_OneClick_V1_2/Factsheet?%3AshowVizHome=no. Accessed December 10, 2020
Risk Rating	<input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	NA

	Indicator
2.9.2	Analysis demonstrates that feedstock harvesting does not diminish the capability of the forest to act as an effective sink or store of carbon over the long term.
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>The scale of assessment for this indicator is at the state level. Carbon stocks vary from location to location, so although they are monitored on a national level, it is more appropriate to look at them at a state level. Reducing the scale of assessment beyond the state level would be nonsensical because at a small scale the carbon stocks can swing greatly from year to year due to fires or other management practices, that don't show a wholistic picture of the situation.</p> <p style="text-align: center;">Context</p> <p>Forests have a high capacity for storing carbon, more than any other land use. In fact, US forests currently store 25 years of US fossil fuel CO2 emissions (USDA Forest Atlas of the United States).</p> <p>According to the USDA Department of Agriculture Forest, Forest Atlas of the United States, carbon stocks in the US are stable at a national scale, though there is some variability on a more local scale. Like many places in the United States, Arkansas is still recovering from the logging boom of the late 19th and early 20th centuries (Bragg, D. 2012). High forest carbon stocks are most commonly associated with old growth or slow decay forests, such as can be found in the Pacific Northwest.</p> <p style="text-align: center;">Potential Threat</p> <p>The potential threat addressed by this indicator is that of climate change. Forest store a large amount of carbon. If those carbon sinks are not maintained then the amount of carbon dioxide released into the atmosphere would increase despite the attempts to curb them through reducing our reliance on fossil fuels.</p>

Regulatory Requirements & Agency of Authorization

The Environmental Protection Agency (EPA) monitors the inventory of US greenhouse gas emissions and sinks. (Inventory of US Greenhouse Gas Emissions and Sinks, EPA). There are no specific regulation requirements around greenhouse gas emissions in privately owned forestland.

Mechanism & Supporting Evidence

The SFI Fiber Sourcing Standard addresses forest productivity and the ability to serve as carbon sinks. The Highland Pellets LLC Sustainable Forestry Policy (HP-COC-Policy) states that: "Highland Pellets LLC is committed to sourcing wood and residual fiber from renewable, legal and sustainable sources and to promote the principles of sustainable development and use of renewable resources. It also strives to broaden the practice of sustainable forestry and improve the professionalism of forest workers and the forestry community."

Highland Pellets LLC has set an overall goal of increasing the use of renewable wood energy, reducing wood waste and decreasing greenhouse gas emissions. The use of woody biomass as a replacement for fossil fuels is a proven way to improve forest utilization, facilitate regeneration of the forest, reduce the risk of wildfire, reduce carbon emissions, and improve the international trade in forest based products. It will also provide a market incentive for landowners to keep their lands in forest cover.

To help implement and achieve the above sustainability, renewability and greenhouse gas reduction objectives, Highland Pellets LLC has developed and adopted appropriate programs and documented procedures to guide its wood and fiber procurement and sustainable forestry practices and certification claims.

In addition, high level of logger training requirements from suppliers, as evidenced by the Supplier Declaration suppliers must fill out offer additional evidence that BMPs are followed on all harvest sites. Where wetlands occur in the supply area, they are strongly protected by the Clean Water Act.

Wood Purchase Agreement provisions requiring BMPs ensure that Peat areas and high carbon stocks are not negatively impacted. The SFI Fiber Sourcing Standard, the Sustainable Forestry Policy and the Highland Pellets LLC SFI Fiber Sourcing Program addresses carbon sequestration and climate change.

Education plays a large role in encouraging land owners to manage their forests carefully and increasing the carbon sequestration and storage in forests. To this end, Highland Pellets LLC participates in cooperative efforts through the State SFI Implementation Committee to broaden awareness about the impacts of global climate change and best land management practices for carbon sequestration. The Procurement Staff periodically review available literature and web sites for available information on regional climate models and the potential impacts on wildlife and conservation of biodiversity.

Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results

Arkansas and northern Louisiana forests are mixed planted and naturally regenerated forests (Economic Contributions of Forestry in Arkansas, 2017). The Southeast United States is gaining stocks on year over year. See below Figure.

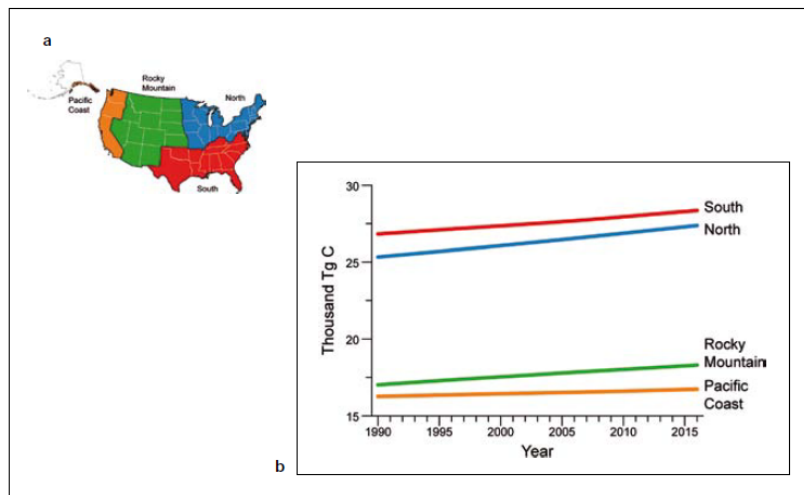


Figure 9.—Regional disaggregation of forest carbon analysis, 1990-2016: (a) regional delineations, (b) U.S. forest carbon stocks, and (c) annual forest carbon flux delineated by forests remaining forest (net forest carbon accretion) and land use change (net carbon transfer into forest land use) by region.

The net carbon stocks in the national forest regions in the South have increased from 704 Tg in 1990 to approximately 912 Tg in 2013 according to the USDA Forest Service “Baseline Estimates of Carbon Stocks in Forests and Harvested Wood Products for National Forest System Units” Showing that carbon loss in Arkansas is not a concern on the state level.

An Arkansas report from the Southern Timber Analysis on private land published November 8, 2019 shows that overall, there is a growth to drain ratio on Arkansas privately owned forests of 1.49 for softwood and 1.67 for hardwoods (see below chart) per year. (“Southern Timber Supply Analysis”. Timber Supply Analysis. November 9, 2019. Arkansas Forestry Commission and Southern Group of State Foresters. Page 13.) This means that for every 1 cubic foot of softwood harvested, there is 1.49 cubic feet growing. A report from the Southern Timber Analysis shows a growth to drain ratio in Louisiana of 1.6.1 overall, 1.60 for softwood and 1.98 for hardwood. (“Southern Timber Supply Analysis”. September 4, 2020. Southern Group of State Foresters. Page 13).

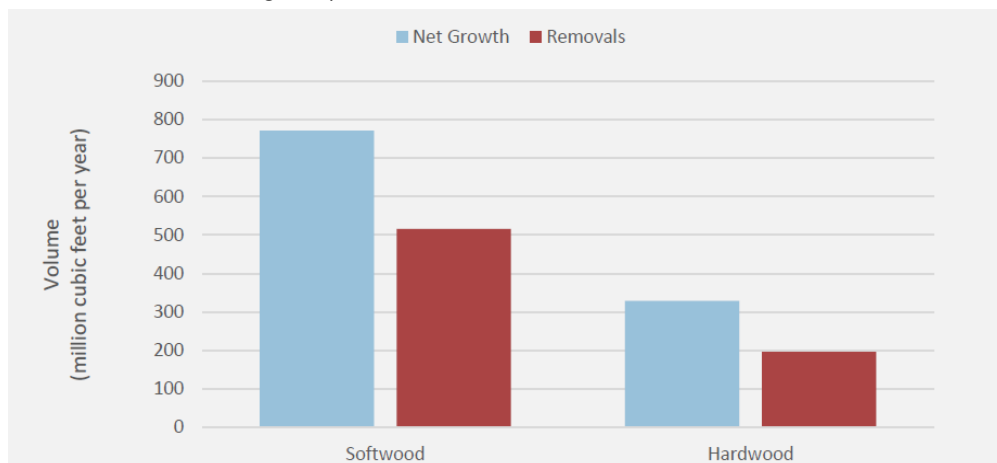


Figure 26 “Southern Timber Supply Analysis”. Timber Supply Analysis. November 9, 2019. Arkansas Forestry Commission and Southern Group of State Foresters. Page 13.

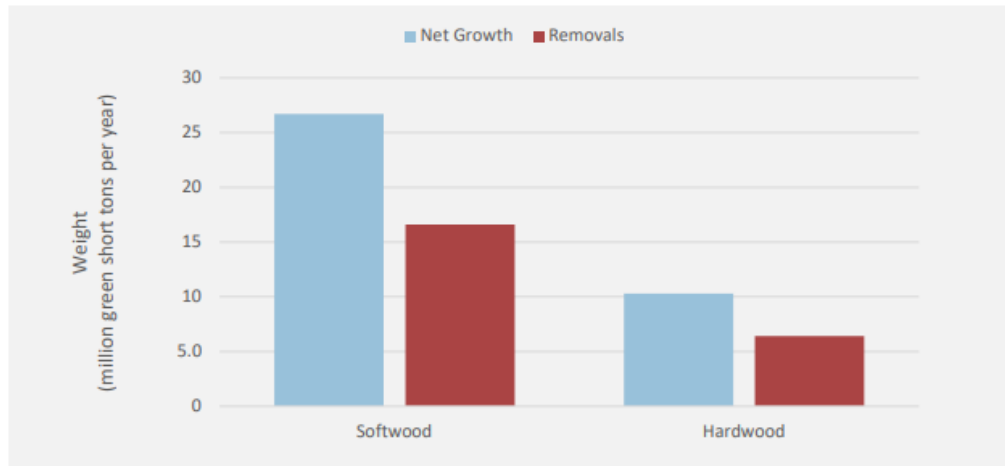


Figure 27 “Southern Timber Supply Analysis”. Louisiana. September 4, 2020. Southern Group of State Foresters. Page 13

Research is available that demonstrates that forest management in the U.S. does not diminish the capability of the forest to serve as carbon sinks. Forests are shown to serve as a carbon sink and offset 13% of carbon emissions from the burning of fossil fuel. See U.S. Forest Service website: <http://www.fs.usda.gov/ccrc/topics/forest-carbon>

According to the U.S. Environmental Protection Agency (EPA) in 2007, forest bioenergy does not increase carbon dioxide in the atmosphere when it is used sustainably.

Research addressing harvest impacts on soil carbon storage in temperate forests indicates that there are no significant impacts on mineral soils and their capacity to serve as carbon sinks. See Forest Ecology and Management research article: http://www.nrs.fs.fed.us/pubs/jrnl/2010/nrs_2010_nave_001.pdf

According to the U.S. Environmental Protection Agency (EPA), carbon dioxide storage in U.S. forests continues to increase, sequestering more than 900 million metric tons of carbon dioxide equivalents annually and offsetting about 12% of U.S. CO2 emissions. <http://www3.epa.gov/climatechange/Downloads/ghgemissions/US-GHG-Inventory-2013-Chapter-7-LULUCF.pdf>

State BMPs monitoring shows very high levels of BMP compliance and the avoidance of impacts to water quality and quantity that wetlands containing carbon depend upon. State forestry commissions also monitor BMP compliance. BMP compliance rates for Arkansas are 93%, and 97% for Louisiana.

Rational of Risk Designation

It can be concluded that Highland Pellets LLC’s wood fiber procurement activities do not result in significant impacts on carbon stocks and resources, do not drain wetlands and are considered “normal silviculture” under the Federal Clean Water Act.

Means of Verification	<ul style="list-style-type: none"> • Voluntary Forestry Standards • Internal Documentation • International Agencies • National Agencies
Evidence Reviewed	<p><u>Internal Documentation</u></p> <ul style="list-style-type: none"> • Highland Pellets LLC Sustainable Forestry Policy (HP-COC-03) <p><u>References</u></p>

	<ul style="list-style-type: none"> BMP Arkansas: http://forestry.arkansas.gov/Services/ManageYourForests/Documents/2010-11%20BMP%20Imp.%20Report_CORRECTED.pdf Louisiana BMPs U.S. Forest Service website: http://www.fs.usda.gov/ccrc/topics/forest-carbon Forest Ecology and Management research article: http://www.nrs.fs.fed.us/pubs/jrnl/2010/nrs_2010_nave_001.pdf U.S. Environmental Protection Agency (EPA) Forest Atlas of the United States. United States Department of Agriculture (USDA) and United States Forest Service. https://forest-atlas.fs.fed.us/benefits-carbon-stocks.html. Accessed March 10, 2020. Bragg, Don. "A Brief History of Forests and Tree Planting in Arkansas." Volume 55, No. 1 (2012). Tree Planters' Notes. Figure 10, 11, & 12: Forest Atlas of the United States. United States Department of Agriculture (USDA) and United States Forest Service. https://forest-atlas.fs.fed.us/benefits-carbon-stocks.html. Accessed March 10, 2020. Economic Contributions of Forestry in Arkansas. University of Arkansas, Division of Agriculture Research and Extension. 2017. State Industry Economic Report: Louisiana. 2018. American Forest & Paper Association. https://www.forestryimpacts.net/reports/louisiana/state-industry-economic-impact-statement. Accessed November 10, 2020. Figure 13: The US Forest Carbon Accounting Framework: Stocks and Stocks Change 1990- 2016. United States Department of Agriculture. November 2015. Page 12. SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard. Inventory of US Greenhouse Gas Emissions and Sinks. EPA. https://www.epa.gov/ghgemissions/inventory-us-greenhouse-gas-emissions-and-sinks. Accessed October 14, 2020. Baseline Estimates of Carbon Stocks in Forests and Harvested Wood Products for National Forest System Units: Southern Region. 2015. USDA Forest Service. https://www.fs.usda.gov/Internet/FSE_DOCUMENTS/stelprd3841801.pdf. Accessed November 10, 2020. Southern Timber Supply Analysis: An analysis of timberland area, standing timber, growth, and removals. September 2020. Southern Group of State Foresters. https://texasforestinfo.tamu.edu/tsa/StandardReports/TimberSupply_Louisiana_all_wt.pdf. Accessed November 10, 2020.
Risk Rating	<input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	NA

	Indicator
2.10.1	Genetically modified trees are not used.
Finding	<p style="text-align: center;">Scale of Assessment</p> <p>The scale of assessment for this indicator is country-wide as there no commercially available GMOs for trees in the United States (FSC National Risk Assessment, 2019).</p> <p style="text-align: center;">Context</p>

The definition of Genetically Modified Tree used for this indicator is from the Forest Stewardship Council, which defines Genetically Modified Organisms (GMO) as “an organism in which the genetic material has been altered in a way that does not occur naturally by mating and/or natural recombination.” (FSC Glossary of Terms, 2016).

Potential Threat

The potential threat addressed by this indicator is based around the precautionary principle. Although Genetically Modified Organisms (GMOs) have many shown benefits, there is much unknown about the future effects of GMOs. Some potential effects are cross pollinating of GMOs with other crops and plants in the system, and the development of “super weeds”. (S. Wellness. Understanding the Controversy and Science of GMOs.).

Regulatory Requirements & Agency of Authorization

- Coordinated Framework for the Regulation of Biotechnology
- USDA Animal and Plant Health Inspection Service (APHIS)
- Biotechnology Regulatory Services

These three regulations work together to monitor and regulate GMOs in the United States.

Mechanism & Supporting Evidence

Attendance at the Arkansas SFI Implementation Committee would also alert Highland Pellets LLC to any change in genetically modified tree use in the Supply Base. However, as stated above, there is no current use of genetically modified trees in the United States.

Highland Pellets LLC has several policies covering genetically modified trees. These include a Sustainable Forestry Policy, which goes out annually to all suppliers, and a signed Self-Declaration of Association in accordance with FSC requirements. The section of the Self-Declaration states that:

The Organization explicitly agrees currently and in the future, as long as the relationship with FSC exists, not to be directly or indirectly involved in the following unacceptable activities:

- a) Illegal logging or the trade in illegal wood or forest products;*
- b) Violation of traditional and human rights in forestry operations;*
- c) Destruction of high conservation values in forestry operations;*
- d) Significant conversion of forests to plantations or non-forest use;*
- e) Introduction of genetically modified organisms in forestry operations*

In addition to the above evidence, Highland Pellets LLC has policies in place to prevent the use of genetically modified trees at the mill level. For example, every supplier must sign a contract which specifies that genetically modified trees are not permitted. Annual interviews with suppliers cover questions regarding genetically modified tree use and that they are not permitted to be sent to Highland Pellets LLC. Regular communication with our suppliers and with land owners in the Highland Pellets LLC Supply Base helps keep informal tabs on the forest management situation in Arkansas.

	<p>Current Condition / Situation: Compliance, Enforcement and/or Monitoring Results</p> <p>The United States does not currently have any commercially available GMOs for trees (FSC National Risk Assessment, 2019). The FSC National Risk Assessment, an assessment that conferred with hundreds of experts and took over five years to complete rates the risk of Genetically Modified Trees to enter the supply chain to be low for the United States.</p> <p>Highland Pellets LLC did not find its wood fiber supply areas on any lists contained in the FAO preliminary review of biotechnology in forestry: http://www.fao.org/docrep/008/ae574e/AE574E00.HTM.</p> <p style="text-align: center;">Rational of Risk Designation</p> <p>Due to the evidence above, this indicator is low risk.</p>
Means of Verification	<ul style="list-style-type: none"> • Voluntary Forestry Standards • Internal Documentation • International Agencies • National Agencies
Evidence Reviewed	<p><u>Internal Documentation</u></p> <ul style="list-style-type: none"> • FSC/PEFC Controlled Wood Risk Assessment (HP-SB-CWRA) • Self-Declaration of Association • Sustainable Forestry Policy in HP-COC-Policy • Sourcing Area Monitoring Form (HP-SB-CW Procedures & DDS, Appendix A) <p><u>References</u></p> <ul style="list-style-type: none"> • FSC Glossary of Terms: FSC-STD-01-002. FSC International. April 2016. • FAO preliminary review of biotechnology in forestry: http://www.fao.org/docrep/008/ae574e/AE574E00.HTM. Accessed March 3, 2020 • SFI 2015-2019 Standards and Rules. Section 3- SFI 2015-2019 Fiber Sourcing Standard. • How the Federal Government Regulates Biotech Plants. US Department of Agriculture (USDA). https://www.usda.gov/topics/biotechnology/how-federal-government-regulates-biotech-plants. Accessed October 14, 2020. • S Wellness. Understanding the Controversy and Science of GMOs. July 28, 2015. Huffpost. https://www.huffpost.com/entry/gmos_b_7880026. Accessed October 19, 2020. • FSC National Risk Assessment for the Conterminous U.S V1-0. 2019. FSC International.
Risk Rating	<input checked="" type="checkbox"/> Low Risk <input type="checkbox"/> Specified Risk <input type="checkbox"/> Unspecified Risk at RA
Comment or Mitigation Measure	NA