

Supply Base Report - Huntsville Pellets LLC

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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: Huntsville Pellets LLC (“HP”)

Producer location: 1405 Southwood Dr., Huntsville, Texas 77340, USA

Geographic position: 30.6808260 North latitude / -95.4972669 West longitude

Primary contact: Mr. Todd G. Bush, CM Biomass

Company website: *[Pending]*

Date report finalised: 01/NOV/2019

Close of last CB audit: NA

Name of CB: SCS Global Services

Translations from English: NA

SBP Standard(s) used: Standard 1 version 1.0, Standard 2 version 1.0

Weblink to Standard(s) used: <http://www.sustainablebiomasspartnership.org/documents>

SBP-Endorsed Regional Risk Assessment: Not applicable

Weblink to SBE on Company website: *[Pending]*

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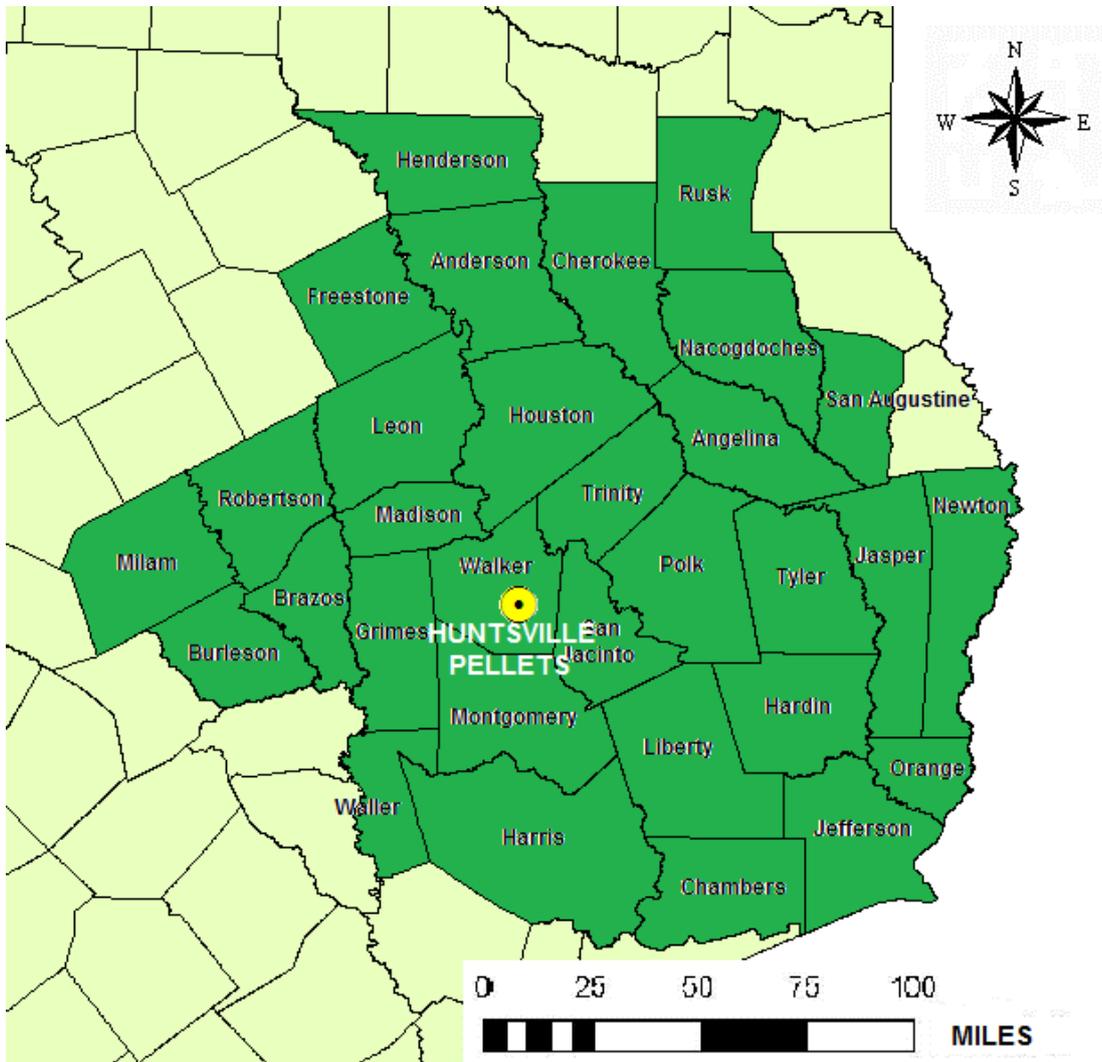
2 Description of the Supply Base

2.1 General description

HP operates a pellet mill located in the town of Huntsville, Texas. Huntsville is situated in East Texas, in a rural area with both agriculture and forestry present on the landscape. The mill, which is not yet commissioned at the time of publication of the initial Supply Base Report, has a name-plate capacity of approximately 40,000 metric tons per annum. Huntsville is located in a region with an active forest products industry, and in addition to primary sources of raw material (i.e. forest harvesting), there are secondary sources of fiber locally available to the mill, such as sawmill residuals. It is anticipated that 100% of the pellet mill's supply will originate in just one source; Steely Lumber, a sawmill and one of two owners of the new pellet mill. The present Supply Base Evaluation is therefore based on the fiber basket from which the Steely Lumber sawmill (hereafter 'Steely') draws. The only raw material to be supplied to the pellet mill is dry shavings from the sawmill.

HP has determined its Supply Base to consist of 31 counties in East Texas, with the vast majority of fiber originating within a 100-mile radius from Huntsville, within Texas.

Figure 1. HP's Supply Base – based on the fiber basket of the mill's sole supplier, Steely Lumber



The greater part of the forested landbase upon which the mill draws consists of pine plantations, rather than natural forestry operations, and Southern Yellow Pine as an industry-accepted group of species is the primary (if not exclusive) source of fiber for the mill. This means in practice a very large proportion of Loblolly Pine (*Pinus taeda*), although minor amounts of Shortleaf Pine (*Pinus echinata*), and Slash Pine (*Pinus elliottii*) may be included in the species mix, as well as a very small amount of Longleaf Pine (*Pinus palustris*).

In terms of tenure, the vast majority of forestry operations in the region are located on private land, whether in the holdings of large corporate entities (principally TIMOs, or Timber Investment Management Organizations), or Non-Industrial Private Forests (NIPFs), the latter often being family-owned.

Forestry practices in the region are dictated to a great extent by the management priorities of landowners, whether (for example) there is a focus on hunting, and provision of habitat for game species, or primary emphasis on timber production. Forestry is the responsibility of the State of Texas, although there is Federal oversight particularly in the area of Rare, Threatened, and Endangered species (US Fish and Wildlife Service), and navigable waters (Environmental Protection Agency). The Texas Forest Service provides

support to landowners through tax incentives or cost-sharing for conservation projects and also by providing access to forest management decision-making tools (thinning scheduler, timber investment calculator), and other resources publicly available on their website.¹

Forest harvesting in the region is almost entirely mechanized at this juncture, certainly for industrial operations (as opposed to manual harvesting using a chainsaw), and silviculture is typically based on even-aged systems of plantation management, with several interventions culminating in a final harvest and subsequent reforestation, with supplementary planting (artificial regeneration) a common practice.

The conservation of forest soils and water resources, as well as wildlife values including nesting sites and the like are protected by both federal and state-level legislation in the US. Management regimes that go 'beyond compliance' are promoted by voluntary certification systems present in the region, such as the Sustainable Forestry Initiative® (SFI), American Tree Farm System® (ATFS), and the Forest Stewardship Council® (FSC®); the former two are by far the most prevalent. Best Management Practices, or BMPs, even in the absence of third-party certification, are promoted by SFI State Level Implementation Committee (SIC) training, as well as by state-level forestry bodies; the Texas Pro Logger Program is a key element.

The Texas Forest Service (TFS) provides assistance and incentives to landowners to manage their properties for the protection of Threatened and Endangered (T&E) species. These programs range from simply providing landowners with technical assistance to take action on their property to improve and/or protect habitat, to financial and tax incentives to implement conservation plans. The TFS has developed guidelines for the protection of habitat (available on the TFS website). Most of the activities for landowners in forested landscapes focus on leaving buffer zones around identified T&E habitat, protecting late successional bottomland woodlands and natural regeneration, restoring Longleaf pine, and implementing prescribed burning with professional support, etc. These activities can be part of a conservation plan and be eligible for financial support or tax incentives.²

Company Overview

Huntsville Pellets LLC (known throughout this document as HP) operates a pellet mill located in Huntsville, Texas. The pellet plant is situated directly adjacent to the Steely Lumber sawmill operation. The plant will initially produce approximately 40,000 metric tons of pellets, which will be transported by truck to be loaded onto ships at ports on the Gulf of Mexico (primarily Houston). HP has a contract with Steely to conduct all direct procurement activities. Steely's owners manage around 16,000 acres of timberland, from which fiber is sourced by the in-house procurement team. The company also purchases roundwood directly from landowners for delivery into the sawmill, and executes contracts with gateway supplier. Steely is currently seeking PEFC Chain of Custody certification, to enable the company to pass along valid certification claims to HP, where applicable.

HP has a number of SFI-certified landowners within its procurement basin, and several large landowners included in group tree farm programs are also located in the region. These landowners are expected to provide a considerable portion of roundwood to the pellet mill, via Steely.

¹ <http://tfsfrd.tamu.edu/tdss/>

² <http://tfsweb.tamu.edu/wildlifemanagement/non-game/>

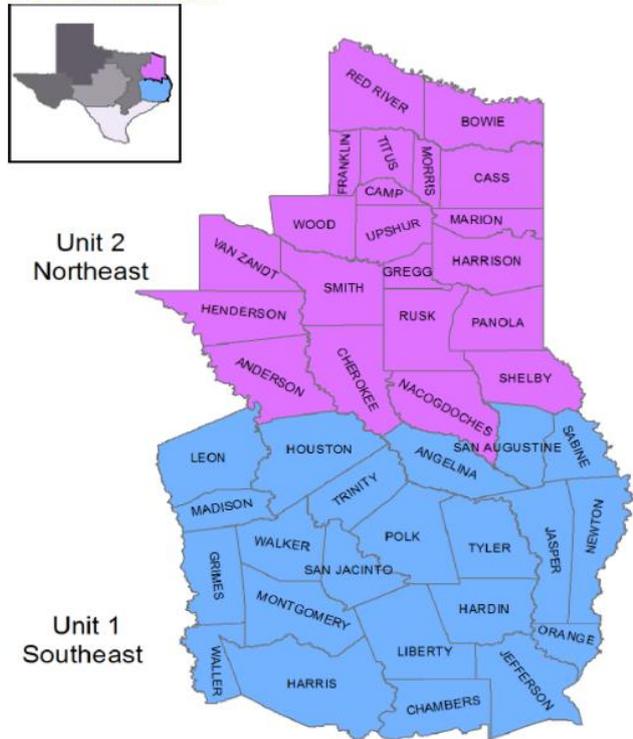
Forest Resources

East Texas is the principal forest region in Texas extending from Bowie and Red River counties in northeast Texas to Jefferson, Harris, and Waller counties in southeast Texas. There are 12.1 million acres of forestland of which 11.9 million acres are classified as productive timberland, and produce nearly all of the state’s commercial timber.³

Ninety-two percent of East Texas timberland is owned by approximately 210,000 private individuals, families, partnerships, corporations, forest-products companies, and timber investment groups. The remaining 8 percent is owned by federal, state, and local governments.

Figure 2. Counties in East Texas⁴

Forest Area



Loblolly-shortleaf pine is the most dominant forest-type group on timberland covering 5.4 million acres, about 45% of the timberland in East Texas (see fig. 3 above) and 52% of all artificially regenerated areas (about 2.8 million acres). About 26% (3.1 million acres) of the timberland area was artificially regenerated, with softwood forest types being more heavily represented.

³ Texas Almanac – Forest Resources. <https://texasalmanac.com/topics/environment/forest-resources>

⁴ Source: United States Department of Agriculture (USDA) – Forest Service. 2018. Forests of East Texas 2016. Resource Update FS 151

Figure 3. Distribution of Timberland by Forest Type Group in East Texas⁵

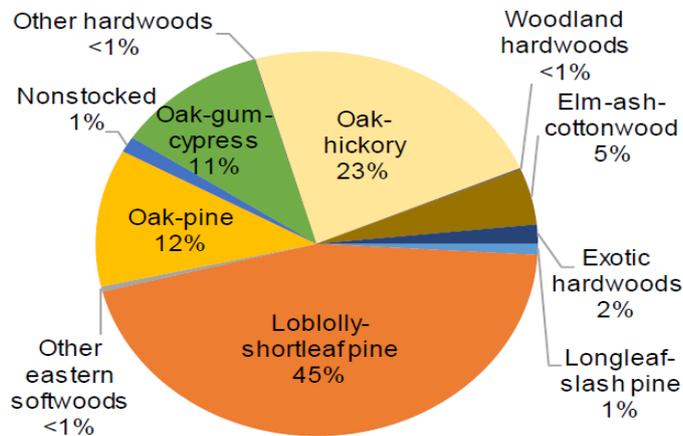


Figure 3—Distribution of timberland by forest-type group, east Texas, 2016. Total area = 11.9 million acres.

Growth - Drain Ratio

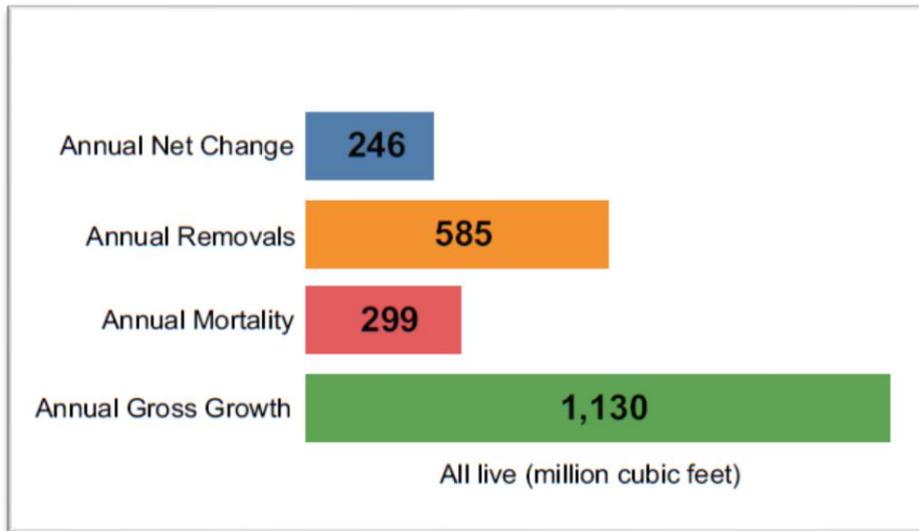
From 2015 to 2016 the growth of softwoods and hardwoods increased, however mortality rates and removals also increased impacting the net growth and net change, to varying degrees. In the case of softwoods, the mortality has increased each of the 5 years to 2018. This resulted in reduced net growth (growth less mortality) as well as reduced net change (net growth less removals). Despite the reduction in net change, the growth-drain ratio is still positive for softwoods. At the macro level, productivity for softwood is increasing. Recent Forest Inventory and Analysis (FIA) for East Texas shows a net growth of softwood (i.e. growth is greater than removals and mortality combined)⁶. A recent Resource Update confirms that there is net growth in the forests of East Texas, as illustrated in the Figure below:

Figure 4. Annual Net Change in cubic feet 2018-2019 ⁷

⁵ United States Department of Agriculture (USDA) – Forest Service. 2018. Forests of East Texas 2016. Resource Update FS-151.

⁶ United States Department of Agriculture (USDA) – Forest Service. 2018. Forests of East Texas 2016. Resource Update FS-151.

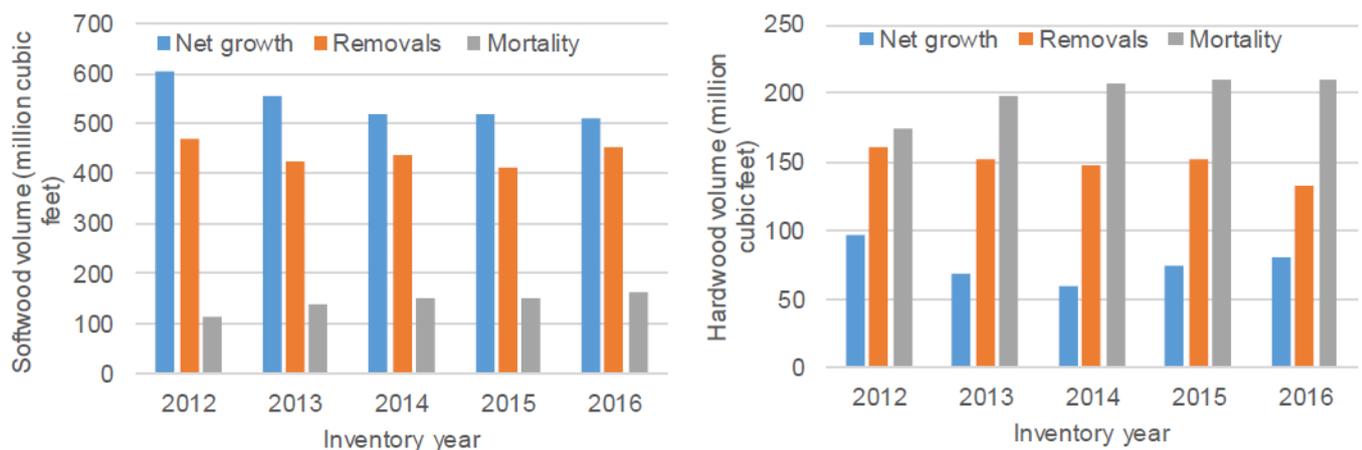
⁷ USDA Forest Service. 2019. Forests of Texas, 2018. Resource Update FS-223. Asheville, NC: U.S. Department of Agriculture, Forest Service. 2p.



In conclusion, there is net growth of the main species group (softwood, i.e. Southern Yellow Pine) utilized by HP.

The situation is different for hardwood species. For these species, mortality and removals have been higher than net growth each of the 5 years in the period of study, and the net change was negative for all 5 years. However, mortality, and associated reduced net volumes, did appear to be levelling off and heading in a positive direction. In 2015 mortality was at 209.7 million cubic feet with net growth at 73.4 million cubic feet, while in 2016 mortality was at 209.2 and net growth at 80.3 million cubic feet as illustrated below.⁸

Figure 4. Net Growth, Removals and Mortality of softwood and hardwood species⁹



Forest Management Practices

⁸ United States Department of Agriculture (USDA) – Forest Service. 2018. Forests of East Texas 2016. Resource Update FS-151

⁹ United States Department of Agriculture (USDA) – Forest Service. 2018. Forests of East Texas 2016. Resource Update FS-151

Texas forests include 2.6 million acres of pine plantations, 62% of which are on industrially-managed land, 34% on non-industrial private land, and 4% on public land. Typically, pine plantations are planted at a density of 622 trees/acre. In order to maximize return on investment and as a control measure for the Southern Pine Beetle, thinning (a partial harvest of trees) is carried out when trees achieve 6 inches diameter at breast height (dbh) and are about 40 feet tall. Usually southern pines are thinned between the ages of 12-15 years with a final cut approximately at age 25 or more. This regime allows for a better return on investment by producing pulpwood from thinning, and high quality sawlogs or veneer at final cut¹⁰.

In terms of actual harvest operations, the Texas Forestry Association in conjunction with the Texas Forest Service has published the Texas Forestry Best Management Practices (BMPs). The Texas Forestry Association runs a training program for loggers called the Pro-Logger Program and issues a certificate to those who complete the training. Training includes coverage of basic silviculture, and health and safety, as well as the Forestry BMPs, such as harvest design, road construction, installation of culverts, Streamside Management Zones (SMZs), etc..

HP (via Steely) sources raw material from southern pine plantations in accordance with its purchasing policy and procedures. The company gives preference, where possible, to the purchase of woody raw material coming from forest tracts that are independently certified under internationally-recognized sustainability standards (FSC® and SFI® Forest Management standards). For non-certified woody raw material, both Steely and HP are in the process of obtaining PEFC chain of Custody certified, and operate Due Diligence Systems to avoid procuring fiber from controversial sources.

The FSC US National Risk Assessment

In the United States, a National Risk Assessment (US-NRA) consistent with the FSC Controlled Wood Standard has been carried out. On April 5th, 2019, the FSC US NRA received final approval.¹¹ In this context, HP has adopted the results of this Risk Assessment for use as a coarse filter in screening of supply chain risk in its Supply Base, i.e. through its sole source of procurement, namely Steely Lumber.

The FSC US National Risk Assessment (NRA) covers the following categories of risk:

- Illegally harvested wood;
- Wood harvested in violation of traditional and human rights;
- Wood from forests where high conservation values are threatened by management activities;
- Wood from forests being converted to plantations or non-forest use; and
- Wood from forests in which genetically modified trees are planted.

The US-NRA makes risk designations for each of these categories. HP applies these results to its Supply Base. It should be noted that the US-NRA provides good baseline information, yet the supply chain Due Diligence is not restricted to the use of the US-NRA; other resources have been drawn upon, as deemed necessary to provide an adequate level of detail, and at an appropriate scale.

¹⁰ Ronal Billings. Texas Forest Service. Thinning Workshop 2008: Thinning Pine Plantations: Why, When and How.

¹¹ FSC US website: <https://us.fsc.org/en-us/certification/controlled-wood/fsc-us-controlled-wood-national-risk-assessment-us-nra>

Rare, Threatened, and Endangered Species (RTE), and Vulnerable Ecosystems

The FSC US-NRA Specified Risk designations that affect HP's Supply Base include:

- Category 3 - High Conservation Values:
 - Houston Toad Critical Habitat (HCV1);
 - Late Successional Bottomland Hardwood Areas (HCV3);
 - Native Longleaf Pine Systems (HCV3).
- Category 4 - Conversion to non-forest use or plantations: There are two counties in Texas that have been identified by the US-NRA process as being at risk for conversion: Liberty and Montgomery counties.

In addition to the results of the FSC US-NRA, the SBE makes use of additional data from a number of sources to further refine the identification of biodiversity and other values at the landscape level, and to facilitate the mitigation of potential impacts of fiber procurement on these. The main source of information used is the US Fish & Wildlife Service' Endangered Species database, including the Information for Planning and Conservation (IPaC) tool. Each county within HP's SBE was scanned to identify RTE critical habitat. Through the scan it was determined that six counties had critical habitat for endangered species. The SBE process also identified ten counties where there is habitat for Red Cockaded Woodpecker, an endangered species that favours natural, mature pine stands. Finally, and as determined by the FSC US NRA, there are two counties where there is risk of conversion. This information is documented in HP's "SBP-SB - List of Counties_Huntsville Pellets_Oct 29 2019" and corresponding map. Hence, there is a risk that some of the woody raw material may come from tracts in Texas with a specified-risk designation. HP implements procedures to ensure that all woody raw material comes from forest tracts assessed as low-risk for all categories. HP's "Operating Checklist for Raw Material Purchases" includes the mitigation measures taken by HP to reduce the risk when purchasing raw material from counties with critical habitat for endangered species. This means that the woody raw material comes from counties assessed as low-risk in the SBE or that through a desk audit to screen all purchases and a field verification it can be determined that a specific tract does not threaten the values identified.

Regional Socio-Economic Conditions¹²

Texas has more than 63.4 million acres of forests and East Texas accounts for just 19.4% (12.3 million acres) of this total. However, in terms of productive timberlands Texas has only 14.3 million acres and East Texas accounts for 85% of this area. The forest sector is an important contributor to the regional economy and is ranked in the top 10 manufacturing sectors in Texas. Texas has the largest forest sector of all 13 southern states in terms of total employment, economic output, and labor income between 2004 and 2009. The value of harvested timber ranked ninth among Texas top agricultural commodities in 2015. The Texas forest sector includes the following sub-industries: forestry, logging, primary solid wood products, secondary solid wood products, primary paper and paperboard products, and secondary paper and paperboard products. The Texas forest sector contributed \$36.7 billion in industry output to the state economy in 2017.

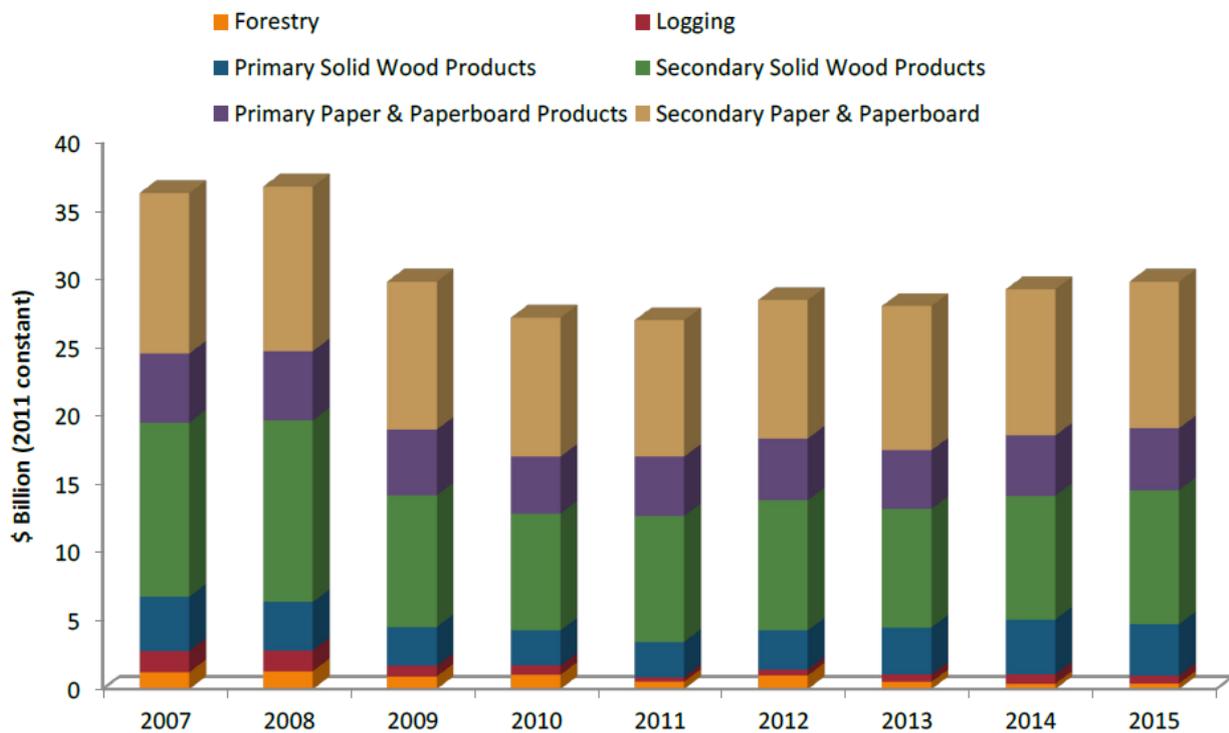
¹² This section was prepared based on the following document and statistics: Parajuli, R., R. Zehnder, and A Burl Carraway. 2017. Economic Impact of the Texas Forest Sector 2015. Sustainable Forestry Department, College Station, Texas A&M Forest Service & Texas A&M Forest Service. 2019 Impact of Texas Forest Sector 2019 (2017 data).

Value-added was \$14.9 billion, 40 percent of the total industry output. The Texas forest sector generated 168,194 jobs and created \$9.6 billion in labor income in the same period.

Figure 5. Direct and Total Economic Contributions of the Texas Forest Sector

	Industry Output (million \$)	Value Added (million \$)	Employment (jobs)	Labor Income (million \$)
Direct Impact				
Forestry	103.01	76.62	2,156	35.07
Logging	220.85	129.09	4,334	83.80
Primary solid wood products	2,492.82	601.70	6,739	416.89
Secondary solid wood products	6,328.19	2,073.98	36,321	1,777.35
Primary paper and paperboard products	2,595.29	595.18	3,131	348.00
Secondary paper and paperboard products	7,142.62	1,717.01	14,820	1,129.48
Total	18,882.77	5,193.57	67,501	3,790.59
Total Impact				
Forestry	182.60	127.22	2,990	70.43
Logging	432.91	248.92	6,550	157.44
Primary solid wood products	5,193.68	2,080.55	23,143	1,291.23
Secondary solid wood products	12,821.01	5,631.16	73,572	3,933.52
Primary paper and paperboard products	5,311.17	2,094.43	17,483	1,224.38
Secondary paper and paperboard products	12,769.75	4,787.97	44,457	2,956.00
Total	36,711.12	14,970.24	168,194	9,633.00
SAM Multiplier				
Forestry	1.77	1.66	1.39	2.01
Logging	1.96	1.93	1.51	1.88
Primary solid wood products	2.08	3.46	3.43	3.10
Secondary solid wood products	2.03	2.72	2.03	2.21
Primary paper and paperboard products	2.05	3.52	5.58	3.52
Secondary paper and paperboard products	1.79	2.79	3.00	2.62
Total	1.94	2.88	2.49	2.54

Figure 6. Total Economic Output by Sub-industry 2007-2015



The largest outputs were from secondary forest products (wood windows/doors and mill work, wood containers, wood buildings, other wood products, furniture, paperboard containers, coated and treated paper and packaging materials, etc.). Most of the secondary forest products manufacturing facilities are located in North Central Texas. Nearly three-quarters of all forestry and logging industries and the majority of the primary forest products industries reside in East Texas.

In terms of ownership, family forest landowners account for about 53% of all timberland. In the last decade a new trend emerged whereby timberlands held by corporations that owned wood processing facilities have been transferred, to entities that do not own wood processing facilities such as TIMOs (Timberland Investment Management Organizations) and REITs (Real Estate Investment Trusts). These corporations account for 24% of timberland in East Texas. Other private ownership classes (i.e. non-industrial corporate excluding TIMOs and REITs, unincorporated, Native American, and non-governmental organizations) account for slightly more than 15% of all timberland. About eight% of timberland is publicly-owned.

HP’s Feedstock

HP purchases only one type of raw material from Steely; dry shavings. Steely, meanwhile, purchases exclusively roundwood (sawlogs). Steely has long-standing business relationship and contracts with a number of suppliers, above and beyond the timberlands that are owned by Steely itself. Steely, as the sole supplier of woody raw material to the pellet mill, operates (acting on HP’s behalf) in strict compliance with HP’s Procurement Policy and Procedures. HP is in the process of obtaining PEFC CoC certification, and therefore is required to operate a Due Diligence System (DDS); the same applies to Steely, in turn, as a PEFC CoC-certified entity.

The table below illustrates the expected mix of products, once the pellet mill is commissioned, anticipated to occur in the near future..

Feedstock	Biomass %	Certification	Sustainability %	Legal %	List of Species in raw material
Sawmill residue (timber processing residue)	100%	N/A	100%	100%	See below

Species mix:

Loblolly pine (*Pinus taeda*), Shortleaf pine (*Pinus echinata*), Slash pine (*Pinus elliotti*), and Longleaf pine (*Pinus palustris*).

Commitment to Responsible Sourcing

HP’s Procurement Policy is designed to ensure that the forest product process residues (just shavings, initially, but likely other inputs such as sawdust, off-cuts and chips in the medium- to long-term) utilized in the manufacturing process at the mill are sourced from forests where actual and potential environmental, social and economic impacts are taken into consideration. The company’s intent is to manage and mitigate any potential negative impacts to the greatest extent possible, based on the risk-based evaluation of what these impacts may be. HP, through its purchasing practices, aims to encourage and contribute (albeit indirectly, given that all supply flows through the Steely sawmill) to the sustainable management of the forested landbase from which raw material is sourced. HP will operate as a PEFC-certified entity, and as such operate a Due Diligence System (DDS) for the procurement of woody raw material. In addition, Steely, the pellet mill’s supplier, will also be PEFC-certified, and also operate a DDS for fiber procurement.

Any and all activity related to the purchase of raw material must be consistent with HP’s Procurement Policy and its Guiding Criteria, and this is reflected in the company’s internal documentation.

2.2 Actions taken to promote certification amongst feedstock suppliers

Steely, as exclusive fiber procurement entity for the HP mill, will provide information regarding SFI certification to all entities from whom fiber is procured.

2.3 Final harvest sampling programme

Primary suppliers (i.e. of roundwood) that enter into an agreement with Steely for the supply of fiber are subject to an inspection program utilizing HP’s Field Inspection Form. A final harvest sampling program will be undertaken to determine the proportion of final felling which ends up in biomass compared to other end uses.

HP will furthermore monitor the proportion of clear-felled tracts which ultimately are reforested, as far as is reasonably possible.

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

2.5 Quantification of the Supply Base

Provide metrics for the Supply Base including the following. Where estimates are provided these shall be justified.

Supply Base

a. Total area of HP's Supply Base (in hectares): 7,166,324 ha (the surface area of all counties).

b. Forest Tenure by type (ha): (for East Texas):

Type of Ownership	Hectares	Percentage
Private	4,420,867	91.8%
Federal	298,577	6.2%
State	52,973	1.1%
County/Municipal	43,342	0.9%
Total	4,815,759	100%

c. Forest by type (ha):

Forest type	Hectares
Pine	2,215,249
Oak-hickory	1,107,625
Oak-pine	577,891
Oak-gum-cypress	529,733
Elm-ash, cottonwood	240,788
others	144473
Total	4,815,759

d. Forest by management type (ha): plantation/managed natural:
52% of pine stands (1,157,400 hectares) are managed under a plantation regime. The rest of the pine-producing areas are managed under a natural regeneration regime.

e. Certified forest by scheme (ha): (e.g. hectares of FSC or PEFC-certified forest).

An estimated 50% of raw material will come from PEFC/SFI certified forests, as supplied to Steely.

Feedstock

The pellet mill is not yet commissioned, at the time of writing (November 2019). However, Steely's procurement is well-established, since the sawmill has been in business for many years.

f. Total volume of Feedstock: tons or m³: It is anticipated that approximately 48,000 metric tons of dry shavings will be consumed as of commissioning.

g. Volume of primary feedstock: tons or m³: 0 metric tons.

h.

- ~50% Certified to an SBP-approved Forest Management Scheme (SFI/PEFC)
- ~50% Not certified to an SBP-approved Forest Management Scheme

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

j. Loblolly pine (*Pinus taeda*), Shortleaf pine (*Pinus echinata*), Slash pine (*Pinus elliotti*), and Longleaf pine (*Pinus palustris*).

k. Volume of primary feedstock from primary forest: 0.0 (Not applicable).

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

- 0% Certified to an SBP-approved Forest Management Scheme (SFI/PEFC)
- 0% Not certified to an SBP-approved Forest Management Scheme

m. Volume of secondary feedstock: specify origin and type - the volume may be shown as a % of the figure in (f) and percentages may be shown in a banding between XX% to YY% if a compelling justification is provided*.

Secondary feedstock:

- An estimated volume of 48,000 metric tons of shavings

No tertiary material is purchased by HP.

3 Requirement for a Supply Base Evaluation

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

In the absence of an SBP-endorsed Regional Risk Assessment for the southeast US, it was determined that an SBE should be completed. In a context of relatively low availability of fiber originating in third-party certified Forest Management Units (FMUs), the completion of an SBE is a key tool in supply chain risk mitigation.

4 Supply Base Evaluation

4.1 Scope

HP is in the process of obtaining PEFC Chain of Custody certification and operates a Due Diligence System (DDS) as per PEFC requirements. This provides the necessary level of confidence needed to claim all of its feedstock is SBP-Controlled at a minimum. HP has completed a Supply Base Evaluation (SBE) to ensure that a sufficient volume of woody raw material is SBP-compliant. While HP’s direct fiber supply includes only secondary feedstock (shavings from the company’s sole supplier, the Steely Lumber sawmill), HP’s SBE includes primary and secondary feedstock and no indicator was excluded. The company’s policies and procedures are designed to ensure that the primary forest material (roundwood, principally sawlogs) and process residues (shavings, and subsequently likely to include other inputs such as sawdust, off-cuts and chips) utilized in the manufacturing process at the mill are SBP-Compliant or SBP-Controlled. The definitions of legal and sustainable as used in Standard 1 have been reviewed and met, as substantiated in the SBE (See Annex 1).

Because there is no SBP-approved risk assessment in the US, HP developed a set of Locally Applicable Verifiers (LAVs), which include a number of references to publicly-available sources, and programs to monitor primary suppliers to Steely (field inspections, reconciliation and verification of data). Details on LAVs are included in the sections below.

4.2 Justification

Since only a certain proportion of feedstock is sourced from SBP-approved certification programs, HP conducted an SBE to meet its goals of delivering SBP-Compliant products. Indicators were not modified but

specific verifiers were added (See Annex 1). In developing LAVs, HP took into consideration the results of the FSC US Controlled Wood National Risk Assessment, as well as applicable laws and regulations, US Fish and Wildlife's Endangered Species information, the Texas Forest Service Best Management Practices (BMPs), and other sources, to determine risk and/or mitigation measures.

4.3 Results of Risk Assessment

All criteria were evaluated and while some criteria were determined to be specified-risk, through the implementation of mitigation measures (screening of purchases through a desk study and field inspection under the Supplier Verification Program), all criteria were determined to be low-risk.

4.4 Results of Supplier Verification Programme

Field-testing of procurement screening will be guided ongoing by RFS, HP's consultant on SBP implementation. A new Field Inspection Form was developed, to be used during visits to primary suppliers conducted. Field Inspection Forms are kept on file and the results of the inspections are included in the General Suppliers List spreadsheet. Steely has a pre-existing system in place for conducting field inspections; the roll-out of SBP-compliant procedures has slightly modified the information scrutinized and recorded through such inspections.

4.5 Conclusion

At this stage, HP has completed a draft SBE that was sent out for public consultation on November 5th, 2019. HP is in the process of undergoing PEFC Chain of Custody certification that includes the requirement to operate a DDS, or Due Diligence System. Through the ongoing implementation of the SBE, the monitoring of suppliers, the use of supplier declarations and with backstopping from the high level of law enforcement (and legal compliance) existing in Texas, HP is confident that it will be able to supply SBP-compliant products to its clients.

5 Supply Base Evaluation Process

The Supply Base Evaluation (SBE) process for HP was performed by Responsible Forestry Solutions (RFS), an international forestry consulting company established in 2005, as part of work undertaken to support the implementation of SBP certification for the Huntsville Pellets mill.

RFS' core expertise centres on sustainable forestry, FSC/PEFC forest management certification, Chain of Custody, and the verification of the Legal Origin/Compliance of forest products. RFS has substantial experience in using forestry supply chain auditing tools to verify conformity with global best practice benchmarks such as FSC/PEFC certification, Controlled Wood and other risk-based approaches, High Conservation Value assessment, and Due Diligence Systems, and provide assurance to clients. RFS is managed by its two founding partners and Principals; Nick Moss Gillespie and Marcelo Levy, and utilizes a wide network of associates in North America and further afield. RFS' Principals are both experienced Lead Assessors (qualified with SGS) for: FSC/PEFC Forest Management certification, Chain of Custody

(FSC/SFI/PEFC systems) including Controlled Wood FM/CoC, and Legality Verification (Legal Origin / Legal Compliance) of wood products, as well as ISO14001, and GHG Emissions Verification. Most recently, RFS has embarked on the implementation of a sustainable procurement system on behalf of a major US power generator, working on a project in the US southeast. The firm has also successfully completed the implementation of SBP certification for a wood pellet mill, also located in Texas. RFS undertakes both desk-based and in-field assignments, providing expert feedback on risk analysis, and recommending process improvements where necessary, to help to minimize supply-chain risk.

Stakeholder consultation with relevant parties will be undertaken in November-December 2019, by RFS, on behalf of HP.

In the United States, a National Risk Assessment (US-NRA) consistent with the current FSC Controlled Wood Standard has been carried out. On April 5th, 2019, the FSC US NRA received final approval.¹³ In this context, HP has adopted the results of this Risk Assessment for use as a coarse filter in the screening of supply chain risk in its Supply Base.

The FSC US National Risk Assessment (NRA) covers the following categories of risk:

- Illegally harvested wood;
- Wood harvested in violation of traditional and human rights;
- Wood from forests where high conservation values are threatened by management activities;
- Wood from forests being converted to plantations or non-forest use; and
- Wood from forests in which genetically modified trees are planted.

The US-NRA makes risk designations for each of these categories, and HP applies these results to its Supply Base. It should be noted that the US-NRA provides good baseline information, yet supply chain due diligence is not restricted to the use of the US-NRA; other resources have been drawn upon, as deemed necessary.

Based on the results and outputs of the US-NRA, it was determined that HP's Supply Base is low risk for the following (FSC) Controlled Wood Categories:

- Category 1- Illegally Harvested Wood: Legal Timber may come from forests on Public Lands (e.g. State Forests), or Private Lands. The US-NRA points out that the United States has comprehensive laws regulating forest management and the necessary enforcement capacity is in place. State Forest Services have the capacity to engage private landowners and provide training resources for forest management. Texas has a Bill of Sale law¹⁴ that requires every load of wood coming from the forest to be accompanied by documentation identifying its origin. Receiving mills are not allowed to accept incoming material that is not accompanied by a Bill of Sale. Hence the low-risk designation for illegal harvesting.
- Category 2 – Wood Harvested in violation of Traditional and Human Rights: The forest sector is not associated with violent armed conflict, labour rights are respected (including rights as specified in ILO fundamental Principles and Rights at work), and the rights of Indigenous and Traditional Peoples are upheld, resulting in a low risk designation for this category (US-NRA);

¹³ FSC US website: <https://us.fsc.org/en-us/certification/controlled-wood/fsc-us-controlled-wood-national-risk-assessment-us-nra>

¹⁴ Texas Natural Resources Code 151.001 Effective since 2001.

- Category 5 – Wood from Forests in which genetically modified trees are planted: The US-NRA reached a low-risk designation. In addition, none of the tree species used by HP are commercially available as genetically modified organisms, so the likelihood of procuring genetically modified trees is negligible at this point.

The Specified Risk designations that affect HP's Supply Base include:

- Category 3 - High Conservation Values:
 - Houston Toad Critical Habitat (HCV1);
 - Late Successional Bottomland Hardwood Areas (HCV3);
 - Native Longleaf Pine Systems (HCV3).
- Category 4 - Conversion to non-forest use or plantations: There are two counties in Texas that have been identified by the US-NRA process as being at risk for conversion: Liberty and Montgomery counties.

In addition to the results of the FSC US-NRA, the SBE makes use of additional data from a number of sources to further refine the identification of biodiversity and other values at the landscape level, and to facilitate the mitigation of potential impacts of fiber procurement on these. The sources scrutinized include: NatureServe datasets; CEPF Biodiversity Hotspots; The Nature Conservancy's Priority Conservation Areas; searches on the IUCN Red List of Threatened Species; and on the US Fish & Wildlife Service' Endangered Species database, including the Information for Planning and Conservation (IPaC) tool. RFS utilized IPaC to search for presence of Rare, Threatened or Endangered species and their critical habitat in each of the counties within HP's supply base. NatureServe datasets were also reviewed and the list of endangered species in each county was confirmed. NatureServe has a mapping tool by county, but the maps do not identify critical habitat within the county. The IPaC application also provides maps which include known critical habitat for RTE species, making the maps more useful for planning forest operations and identifying critical areas. Six counties were found to have critical habitat for endangered species, and another ten counties have habitat suitable for Red Cockaded Woodpecker. Wood purchased from these counties will be further inspected through the Supplier Verification Program. HP has also developed and implemented an "Operating Checklist for Raw Material Purchases". This procedure outlines how to screen all purchases, determine the level of risk, and whether Field Inspections are required. HP implements these procedures to ensure that all woody raw material comes from forest tracts assessed as low-risk for all categories. This means either that the woody raw material comes from counties assessed as low-risk in the SBE, or that through field verification it can be determined that a specific tract (Forest Management Unit, or FMU) does not threaten the values identified.

6 Stakeholder Consultation

The Stakeholder Consultation process will be completed prior to the on-site external audit by an SBP-accredited Certification Body, as required by the SBP. A list of stakeholders has been compiled with contact information kept on file. HP released the Supply Base Evaluation Report including Annex 1 for stakeholder review and comment (including the indicators and means of verification) on November 5th, 2019. Subsequently the Certification Body will conduct its own consultation process; any comments received by HP directly, by RFS as the company's consultant, or by the Certification Body will be duly addressed.

6.1 Response to stakeholder comments

Pending

7 Overview of Initial Assessment of Risk

HP is in the process of obtaining of PEFC Chain of Custody certification, which is a key component in demonstrating compliance with SBP certification requirements. The company’s operations are located in Texas, where there is a strong regulatory framework and effective legal compliance, across the board. HP has implemented a management system that builds on global best practice in terms of forest product supply chain due diligence, starting from PEFC requirements, but including elements of other certification systems, such as the FSC Controlled Wood standards, and the FSC’ National Risk Assessment process currently being completed worldwide. All of the company’s procurement of wood fiber is performed by one of the parent companies, Steely Lumber, an entity with very extensive experience of working with both TIMOs and other corporate landowners, as well as Non-Industrial Private Forestland owners throughout the region. There is some fiber available that originates in operations certified to international third-party voluntary standards, such as SFI Forest Management standards, or the American Tree Farm System. HP has furthermore contracted with Responsible Forestry Solutions, a consulting company with extensive experience in the use of High Conservation Value (HCV) assessment to evaluate the potential risk of impacts of fiber procurement on HCVs present in the fiber basket of the mill. Mitigation measures will be deployed as required, as detailed elsewhere in this report.

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	

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	

2.2.2		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	

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 Supplier Verification Program focuses on field visits to tracts within counties with a “Specified-Risk” designation. The key to the SVP is to verify that the values identified as potentially present for the specific county/ies are not affected by actual forestry operations, notably harvesting. This means that operators are aware of said values and how to identify them in the field; BMPs are implemented to mitigate any potential damage to those values; and that Health and Safety Requirements are met. HP develops a sampling plan based on the level of risk for the counties, harvesting schedule, upcoming contracts with landowners and/or suppliers, and tracts where wood was purchased in the past.

Suppliers must provide information regarding:

- Workers qualifications, licenses and certificates as required;
- Records of accidents/incidents;
- Appropriate insurance coverage;
- Health & Safety training records.

Using the Field Inspection Form, the field visit must verify and record the following:

- There is evidence of legal ownership of the forest tract (Bill of Sale, contract, or equivalent);
- Type of harvesting carried out (thinning, clearcut);
- Any values observed;
- Classification of streams and other water bodies;
- BMPs are used (e.g. SMZs meet width requirements with good retention, skid trails are properly located, stream crossings are minimized, no evidence of spills, etc.);
- Health and Safety requirements are met in active operations (required Personal Protective Equipment, spill kits, First Aid kits, fire extinguishers, appropriate communication devices, etc.);
- Values identified for the particular tract are not threatened (i.e. Threatened or Endangered Species or other HCVs identified);
- The forest tract is to be maintained as a forest tract and not converted to non-forest use;
- In the event that natural Longleaf Pine stands are harvested, these operations are part of thinning and/or stand improvement practices.

8.2 Site visits

Site visits are to be completed (on a sampling basis) prior to the external audit by HP’s SBP-accredited Certification Body. The use of the Field Inspection Form will be confirmed and calibrated, and the results of these audits included in the General Suppliers’ List spreadsheet. All these documents are to be kept on file and available for review by the Certification Body.

8.3 Conclusions from the Supplier Verification Programme

Pending

9 Mitigation Measures

9.1 Mitigation measures

Five indicators were identified that had specified risk, requiring mitigation measures. These measures are laid out below. Their implementation resulted in arrival at a 'low-risk' designation for all four indicators.

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.

Mitigation measure: In order to lower the risk, a desk audit and if necessary the Supplier Verification Program will be used to verify that values identified as potentially present are not harmed by forest operations. The Desk Audit screens all purchases against the results of the SBE. Counties with known critical habitat for endangered species are further scrutinized based on location of critical habitat and location of the forest tract. Other criteria refer to the type of operation (thinning or final cut), age and type of stand (natural or plantation) to assess against risk for conversion or to natural southern yellow pine stands which are also suitable habitat for the Red Cockaded Woodpecker.

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.

Mitigation measure: Steely, as HP's sole supplier, sources primary material based either on the purchase of timber on the stump or the purchase of volume offered for purchase as part of the off-take of a harvesting operation managed by another entity. In this scenario, there are no difficulties in identifying the tract (FMU) of origin and conducting a verification audit under the Supplier Verification Program. Steely's fiber procurement staff, on behalf of HP, performs a Desk Audit of all tracts from which purchases may originate to assess the risk to the values identified. If necessary, a field visit focusing on the implementation of Texas' BMPs, Health & Safety, proper training for logging crews (Pro-Logger certification in Texas) is carried out. In addition, all suppliers are required to sign a Supplier Declaration Form committing to meet HP's requirements. HP evaluates suppliers and keep records of their performance. Suppliers are required to identify the tracts of origin of their supply and internal audits of Bills of Sale are conducted.

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.

Mitigation Measures: HP's Procurement Procedures require that primary suppliers provide a Bill of Sale that allows the identification of the forest tract for inspection purposes. During the Desk Audit, all purchases are scrutinized to assess risk of conversion (amongst others). The study includes criteria such as age and type of the forest and type of harvesting method, to determine risk of conversion and the potential need to carry out field inspections. Field inspections are carried out as part of a Supplier Verification Program, used in Specified Risk counties to re-categorize suppliers' risk profile, where possible, through mitigation measures. Suppliers are required to identify the tracts of origin of their supply and internal audits of Bills of Sale are conducted to assess the risk of conversion based on the profile of the forest tracts.

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).

Mitigation measure: All Suppliers are subject to a desk audit where values of concern can be identified in relation to the specific tract using the US Fish and Wildlife Service's IPaC tool or by checking the Texas Forest Service website identifying habitats of concern for the Federal T&E species list. The Desk Audit screens all purchases against the results of the SBE. Counties with known critical habitats for endangered species are further scrutinized based on location of critical habitat and location of the forest tract. Other criteria refer to the type of operation (thinning or final cut), age and type of stand (natural or plantation) to assess against risk for conversion or risk to natural southern yellow pine stands which are also suitable habitat for the Red Cockaded Woodpecker

HP requires suppliers to comply with laws and regulations, to use trained logging crews and implement BMPs. In addition, HP verifies and evaluates suppliers through field inspections, as necessary.

Indicator 2.2.4: The Biomass Producer has implemented appropriate control systems and procedures to ensure that biodiversity is protected (CPET S5b).

Mitigation measure: All Suppliers are subject to a desk audit where values of concern can be identified in relation to the specific tract using the US Fish and Wildlife Service's IPaC tool, or by checking the Texas Forest Service website identifying habitats of concern for the Federal T&E species list. The Desk Audit screens all purchases against the results of the SBE. Counties with known critical habitats for endangered species are further scrutinized based on location of critical habitat and location of the forest tract. Other criteria refer to the type of operation (thinning or final cut), age and type of stand (natural or plantation) to assess against risk for conversion or risk to natural southern yellow pine stands which are also suitable habitat for the Red Cockaded Woodpecker

HP requires suppliers to comply with laws and regulations, to use trained logging crews and implement BMPs. In addition, HP verifies and evaluates suppliers through field inspections. Suppliers are required to identify the tracts of origin of their supply and internal audits of Bills of Sale are conducted to assess the risk to biodiversity based on the profile of the forest tracts.

9.2 Monitoring and outcomes

Information on the monitoring of the above-named indicators, and the results of that monitoring, will be reported in future iterations of this report.

10 Detailed Findings for Indicators

Detailed findings for each Indicator are provided in Annex 1.

11 Review of Report

11.1 Peer review

If an external peer review of the final version of this report is performed, the process that was followed will be described, and the competency of the parties involved will be outlined as well.

11.2 Public or additional reviews

If another type of external review is performed prior to finalisation of this report (e.g. publication for comments by stakeholders, NGOs, or other independent third parties), the process will be described here.

12 Approval of Report

Approval of Supply Base Report by senior management			
Report Prepared by:	[name]	[title]	[date]
	Name	Title	Date

<p>The undersigned persons confirm that I/we are members of the organization’s senior management and do hereby affirm that the contents of this evaluation report were duly acknowledged by senior management as being accurate prior to approval and finalization of the report.</p>			
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
Report approved by:	<i>[name]</i>	<i>[title]</i>	<i>[date]</i>
	Name	Title	Date

13 Updates¹⁵

Note: Updates should be provided in the form of additional pages, either published separately or added to the original public summary report.

13.1 Significant changes in the Supply Base

Provide a description of any significant changes to the supply base.

13.2 Effectiveness of previous mitigation measures

For each mitigation measure identified during the evaluation, give a detailed account of whether the measures were shown to be effective or not.

13.3 New risk ratings and mitigation measures

Provide an update of risk ratings for all relevant Indicators.

13.4 Actual figures for feedstock over the previous 12 months

*Using the categories in Section 2.5 'Quantification of the Supply Base' (above), give an update on the actual figures for the previous 12-month period. Volume may be shown in a banding between XXX,000 to YYY,000 tonnes or m³ if a compelling justification is provided**

13.5 Projected figures for feedstock over the next 12 months

Bands are:

1. 0 – 200,000 tonnes or m³
2. 200,000 – 400,000 tonnes or m³
3. 400,000 – 600,000 tonnes or m³
4. 600,000 – 800,000 tonnes or m³
5. 800,000 – 1,000,000 tonnes or m³
6. >1,000, 000 tonnes or m³

¹⁵ This section is not applicable at this time, i.e. prior to the Main (Initial) Certification audit.

14 Appendix – HP County List

Anderson	Rusk
Angelina	San Augustine
Brazos	San Jacinto
Burleson	Trinity
Chambers	Tyler
Cherokee	Walker
Freestone	Waller
Grimes	
Hardin	
Harris	
Henderson	
Houston	
Jasper	
Jefferson	
Leon	
Liberty	
Madison	
Milam	
Montgomery	
Nacogdoches	
Newton	
Orange	
Polk	
Robertson	