



NEPCon Evaluation of ULK Group LLC (Velsk) Compliance with the SBP Framework: Public Summary Report

First Surveillance Audit

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Completed in accordance with the CB Public Summary Report Template Version 1.4

*For further information on the SBP Framework and to view the full set of documentation see
www.sbp-cert.org*

Document history

Version 1.0: published 26 March 2015

Version 1.1: published 30 January 2018

Version 1.2: published 4 April 2018

Version 1.3: published 10 May 2018

Version 1.4: published 16 August 2018

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1 Overview

CB Name and contact:	NEPCon OÜ, Filosoofi 31, 50108 Tartu, Estonia
Primary contact for SBP:	Ondrej Tarabus otarabus@preferredbynature.org, +34 605 638 383
Current report completion date:	12/Nov/2020
Report authors:	Mikhail Rai
Name of the Company:	ULK Group LLC, Production site address: 48B Klimovskogo str., Velsk, Arkhangelsk region, 165151, Russia. Office: build. 1, 25 Zavodskaya str., Velsk, Arkhangelsk region, 165151, Russia.
Company contact for SBP:	Ekaterina Krivosheeva, Deputy Director of Certification Department, e.krivosheeva@ulkust.ru, +79214989849
Certified Supply Base:	Russia, Arkhangelsk, Vologda regions and Komi Republic
SBP Certificate Code:	SBP-07-35
Date of certificate issue:	14/Nov/2019
Date of certificate expiry:	13/Nov/2024

This report relates to the First Surveillance Audit

2 Scope of the evaluation and SBP certificate

Scope of certificate includes the production of wood pellets at ULK Group LLC (Velsk) production site located in Velsk, Arkhangelsk region, Russia for use in energy production and its transportation by different means of transport to different endpoints in Russia and Europe. The scope of the certificate does not include the Supply Base Evaluation. The scope of the certificate includes the communication of Dynamic Batch Sustainability Data.

3 Specific objective

The specific objective of this evaluation was to confirm that the Biomass Producer's management system is capable of ensuring that all requirements of specified SBP Standards are implemented across the entire scope of certification.

The scope of the evaluation covered:

- Review of the BP's management procedures;
- Review of the production processes, production site visit;
- Review of FSC system control points, analysis of the existing FSC CoC system;
- Interviews with responsible staff;
- Review of the records, calculations and conversion coefficients;
- GHG data collection analysis and assessment of compliance with ID 5E ver. 1.1.

4 SBP Standards utilised

4.1 SBP Standards utilised

Please select all SBP Standards used during this evaluation. All Standards can be accessed and downloaded from <https://sbp-cert.org/documents/standards-documents/standards>

- ☐ SBP Framework Standard 1: Feedstock Compliance Standard (Version 1.0, 26 March 2015)
- ☒ SBP Framework Standard 2: Verification of SBP-compliant Feedstock (*Version 1.0, 26 March 2015*)
- ☒ SBP Framework Standard 4: Chain of Custody (*Version 1.0, 26 March 2015*)
- ☒ SBP Framework Standard 5: Collection and Communication of Data (*Version 1.0, 26 March 2015*)

4.2 SBP-endorsed Regional Risk Assessment

Not applicable

5 Description of Company, Supply Base and Forest Management

5.1 Description of Company

ULK Group LLC (Velsk) is a primary processor (sawmilling) and a secondary processor (biomass producer) located in the Arkhangelsk region, Russia. The BP holds a valid FSC CoC certificate and uses FSC certified secondary feedstock (sawdust and woodchips) with FSC 100% claim for FSC/SBP certified pellet production. In the dryer, BP also uses FSC-certified residues from sawmilling. To produce wood pellets and for heating the BP uses only secondary feedstock, coming from its own primary production (sawmill). For all products, including wood pellets, the FSC transfer system is implemented to control FSC claims. Pellets with an FSC 100% claim are sold as SBP-compliant biomass.

The final product may be transported by train to different endpoints in Russia, on FCA delivery conditions, and to different endpoints in Europe on CIF delivery conditions.

The annual production capacity of wood pellets is 90 000 tons.

5.2 Description of Company's Supply Base

ULK Group LLC is one of the largest logging and timber processing enterprises in the Arkhangelsk and Novgorod regions. The group includes 4 sawmills (3 in the Arkhangelsk region and 1 in the Novgorod region) and 3 pellet plants: 2 of which are located in the Arkhangelsk region in the village of Oktyabrsky and in the city of Velsk and one in the city of Pestovo, Novgorod region. ULK Group LLC has FSC forest management certificates (NC-FM / COC-014108; NC-FM / COC-014179; NC-FM / COC-054054; NC-FM / COC-055555; NC-FM / COC-054018).

The supply base of BP is the forest fund area of ULK Group in the Arkhangelsk and Vologda regions and the leased base of seven FSC certified suppliers in the Arkhangelsk, Vologda regions and the Komi Republic.

The BP is located in the south of the Arkhangelsk region in the middle taiga zone, in Velsk town. The main activities are lumbering and sawn timber production. The company processes about 500 thousand m³ of roundwood per year. For the production of pellets, ULK GROUP LLC (Velsk) uses only SBP-compliant secondary feedstock (sawdust and wood chips, the residue of its own sawn timber production). For the production of SBP-certified pellets, only FSC-certified residues are used, which are physically separated from non-certified residues.

The Supply Base is located in the North-West Federal District of the Russian Federation, in one of the most forested regions of the country. Officially, the forest territory of the Russian Federation (forest fund) accounts for about 21% of the global stock of standing timber. Softwood species constitute 78%, hardwood - 22%.

In accordance with the legislation of the Russian Federation, all lands of the forest fund are in state ownership. Legal entities receive forest plots for use for a period of 10 to 49 years on loan (with the possibility of their prolongation). Long-term rental relations are the dominant legal form for obtaining the right to harvest standing stock. The conclusion of lease agreements for forest plots or purchase and sale

agreements for forest stands is carried out at auctions for the sale of the right to conclude such agreements. Land leased, must pass a state cadastral registration.

The Forest Code of the Russian Federation obliges each tenant to develop a forest development project for 10 years (based on taxation and forest management), implement measures for the conservation, protection and reproduction of forests, and each year submit a forest declaration containing a report on the implemented measures and logging volumes.

Ensuring high-quality reproduction of forest resources and protective afforestation is a prerequisite for forest use. All reforestation work on leased forest areas is planned and carried out by forest users at their own expense in accordance with forest managements projects.

The Arkhangelsk, Vologda regions and Komi Republic are among the leading forest regions of Russia. The share of mature and overmature forest stands is about 25-30% of the timber stock. Within the Supply Base, the calculated cutting area is not fully developed. Underdeveloped infrastructure does not allow full use of available timber stocks.

The table shows data on the supply base for the regions of the Russian Federation, from where sawlogs are supplied to the enterprise.

Variable	Northwestern Federal District		
	Arkhangelsk region	Vologda region	Komi Republic
Area of forest fund, mln. ha	28,4	11,5	36,3
Stock of ripe and overripe forests, thousand ha	1800,5	1071,4	2862,2
Actual volume of ripe and overripe forest stands (for 2019) harvesting, mln. cubic meters	14,3	16,9	9,9
Forest tundra and light forest taiga, northern taiga, middle taiga, southern taiga / Boreal forests, million ha	29,3	11,7	38,9

Within the Supply Base, forests of high conservation value (HCVF) have been identified. FSC-certified enterprises, incl. ULK GROUP LLC, observe a moratorium on timber harvesting in these forest areas. On the territory of the Supply Base there are intact forests and wetlands of international importance. In protective forests located along lakes, swamps and other environmentally sensitive objects, a more strict control regime is applied. Therefore, in order to minimize the risk of conflict wood entrance in the supply chain, ULK GROUP LLC (Velsk) uses wood originating only from FSC certified forests in the pellets production.

Within the Supply Base, forest management practices are based on the achievement of renewable sustainable forest management in accordance with the requirements of forest legislation and the principles of forest certification. The rotation period is 60-120 years. Only clear cuts are used as a method of wood harvesting. The maximum area of clear cuts is limited by 50 ha. Reforestation can be done with planting seedlings (about 10-15%) or the promotion of natural regeneration (about 85-90%).

The most common wood species in the supply base are Scots pine (*Pinus sylvestris*) and Norway spruce (*Picea abies*). It is also the only two wood species that ULK GROUP LLC buys and processes. Other common tree species in the region are birch (*Betula pendula* and *Betula pubescens*), aspen (*Populus tremula*) and gray alder (*Alnus incana*).

The Federal Service for Supervision of Natural Resources of Russia (Rosprirodnadzor) approved the list of animal and plant species that fall under the Convention on International Trade in Endangered Species of wild fauna and flora (CITES). The CITES list became effective from June 12, 2013. In Russia there are four CITES listed timber species: Japanese yew (*Taxus cuspidate*), Manchurian ash (*Fraxinus mandshurica*), Korean pine (*Pinus koraiensis*), and Mongolian oak (*Quercus mongolica*). These tree species, however, are only found in the Asian part of Russia and are not found in the supply base of ULK Group LLC (Velsk).

In addition to the protected flora and fauna of CITES, there are national Red Book lists with protected animals and plants. Some of these species are present in the supply base. As for the red-listed tree species, the supply base contains, for example, Karelian birch (*Betula pendula* var. *Carelica*), smooth elm (*Ulmus laevis*), rough elm (*Ulmus glabra*), Russian larch (*Larix archangelica*), Russian willow (*Salix rossica*), blueberry willow (*Salix myrtilloides*); Lappish willow (*Salix lapponum*), three-stalked willow (*Salix triandra*), and squat birch (*Betula humilis*).

Within the regions of the resource base, deep wood processing prevails over the export of round timber. The leading directions of processing are the production of sawn timber, plywood, fiberboard, chipboard, pulp production, paper and cardboard production, wooden housing construction. Pellet production accounts for approximately 2% of the total wood processing within the supply base.

The forest complex of the Russian Federation, which includes forestry and timber industries for the harvesting and processing of wood, occupies an important place in the country's economy. The development of the social sphere (health, education, culture) largely depends on the success of forestry. In many cases, the presence of a woodworking enterprise is critical for the existence of settlements.

ULK GROUP LLC (Velsk) is of great socio-economic importance in the region. The company provides financial and material support to social and cultural facilities and organizations, sports facilities and healthcare facilities, is engaged in repair and construction of roads in the district.

5.3 Detailed description of Supply Base

Total Supply Base area (ha):	76,2 mln. ha
Tenure by type (ha):	public 76,2 mln. ha
Forest by type (ha):	boreal 76,2 mln. ha;
Forest by management type (ha):	managed natural 76,2 mln. ha
Certified forest by scheme (ha):	20,3 mln. ha FSC-certified forest

Detailed information about BP's supply base may be found in their Supply Base Report available in Internet.

Specifically, English version is available by link

<http://ulkust.ru/files/SBR%20ULK%20Velsk%202020%20EN.pdf>

Russian version is available by link <http://ulkust.ru/files/SBR%20ULK%20Velsk%202020%20RU.pdf>.

5.4 Chain of Custody system

The BP holds valid FSC CoC certificate covering the primary (sawmilling) and secondary (pellet production) wood processing <https://info.fsc.org/details.php?id=a0240000008nKWsAAM&type=certificate>. Only secondary feedstock (sawdust, woodchips) with FSC 100% claim is used for pellet production and FSC transfer system of claims is implemented (all pellets have FSC 100% claims). For pellet production non-certified feedstock is neither processed nor used in the dryer.

6 Evaluation process

6.1 Timing of evaluation activities

Onsite assessment was conducted on July 30-31, 2020 (app 14,5 working hours). Assessment activities included documents review at office, inspection of production facilities and staff interviews.

Activity	Location	Date/time
Opening meeting	Office	30/07/2020 08.00-08.30
Documents and procedures review (feedstock inputs, SBR, CoC control system and critical points, compliance with legal requirements, H&S), staff interview.	Office	30/07/2020 08.30-12.00
Chain of custody review (site tour); staff interview	Production facilities	30/07/2020 13.00-15.00
Documents and procedures review (feedstock inputs, SBR, CoC control system and critical points, compliance with legal requirements, H&S), staff interview.	Office	30/07/2020 15.00-19.00
Documents and procedures review (SAR and energy use primary data); staff interview	Office	31/07/2020 09.00-16.00
Closing meeting	Via phone	11/08/2020 16.00-16.30

6.2 Description of evaluation activities

Composition of audit team:

Auditor(s), roles	Qualifications
Mikhail Rai, audit team leader	NEPCon SBP lead auditor. He has successfully passed SBP auditor training in Berlin in September 2019; previous experience with several SBP assessments and annual audits in Russia and Belarus.

The evaluation visit was focused on management system evaluation: division of the responsibilities, document and system, input material classification (reception and registration), analysis of the existing FSC system and FSC system control points as well as GHG data availability.

Description of the audit evaluation:

All SBP related documentation connected to the SBP as well as FSC CoC system of the organisation, including SBP Procedure, SAR and GHG data calculations, Supply Base Report and FSC system description was provided by the company in the beginning of the assessment, which started with an opening meeting attended by the representatives from Organisation's management and staff.

Audit team leader introduced himself, provided information about audit plan, methodology, auditor qualification, confidentiality issues, and assessment methodology and clarified certification scope. During the opening meeting the audit team leader explained CB's accreditation related issues.

After that auditor went through all applicable requirements of the SBP standards nr. 2, 4, 5 and instruction document 5e covering input clarification, existing chain of custody system, management system, CoC, recordkeeping/mass balance requirements, emission and energy data and categorisation of input and verification of SBP-compliant biomass. During the process, overall responsible person for SBP system and other staff were interviewed.

After a roundtrip around BP's pellet production was undertaken. During the site tour, applicable records were reviewed, staff was interviewed and FSC system critical control points were analysed.

At the end of the audit, findings were summarised, and audit conclusions based on use of 3 angle evaluation method were provided to the management and SBP responsible person.

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6.3 Process for consultation with stakeholders

No stakeholder consultations conducted prior to, or during this annual audit.

7 Results

7.1 Main strengths and weaknesses

Strengths: use of the FSC transfer system; only FSC 100% secondary feedstock is sourced; non-certified feedstock is not accepted. Effective recordkeeping system. Small number of the management staff and clearly designated responsibilities within the staff members.

Weaknesses: no weaknesses identified during assessment.

7.2 Rigour of Supply Base Evaluation

Not applicable

7.3 Collection and Communication of Data

The following energy sources are used by BP: biomass for heating, electricity for pellet production; diesel for feedstock delivery and handling; diesel for biomass transportation to customer. Diesel consumption value by loaders is based on actual refuelling data obtained in accountancy; electricity consumption by pellet plant (including office facilities and staffrooms) is based on readings obtained from installed electric meters.

7.4 Competency of involved personnel

Overall, BP staff showed a good understanding of knowledge of all applicable SBP requirements. Generally, very few staff members are involved in SBP certification:

- BP's management (appointment of SBP responsible);
- SBP responsible person/deputy director of certification department (SBP procedures and systems updates, staff training, SBP management system implementation, SBR and feedstock origin, SAR, complaints, chain of custody, SBP trademark, anti-bribery policy and code of conduct, EUTR requirements and DDS implementation);
- Roundwood purchase manager (Feedstock origin);
- Wood pellets sales manager (sales, DTS, SDIs, SREG (if applicable), trade and tax legislation);
- Head of production (inputs and outputs, registration of biofuel consumption, moisture measurement);
- Accountant (registration of electricity and diesel consumption);
- Head of sorting lines (biofuel moisture measurement);
- Lawyer (trade and tax legislation, anti-bribery policy and code of conduct);
- Separate H&S responsible (H&S implementation).

Prior to and during SBP audit, BP was supported by an external consultant, who also has provided relevant training to BP staff.

7.5 Stakeholder feedback

No comments received from stakeholders prior to, during or after this audit.

7.6 Preconditions

None.

8 Review of Company's Risk Assessments

Describe how the Certification Body assessed risk for the Indicators. Summarise the CB's final risk ratings in Table 1, together with the Company's final risk ratings. Default for each indicator is 'Low', click on the rating to change. Note: this summary should show the risk ratings before AND after the SVP has been performed and after any mitigation measures have been implemented.

Not applicable.

9 Review of Company's mitigation measures

Not applicable.

10 Non-conformities and observations

Identify all non-conformities and observations raised/closed during the evaluation (a tabular format below may be used here). Please use as many copies of the table as needed. For each, give details to include at least the following:

- *applicable requirement(s)*
- *grading of the non-conformity (major or minor) or observation with supporting rationale*
- *timeframe for resolution of the non-conformity*
- *a statement as to whether the non-conformity is likely to impact upon the integrity of the affected SBP-certified products and the credibility of the SBP trademarks.*

No NCRs and/or Observations raised during this audit.

11 Certification decision

Based on the auditor's recommendation and the Certification Body's quality review, the following certification decision is taken:

Certification decision:	Certification approved
Certification decision by (name of the person):	Nikolai Tochilov
Date of decision:	12/Nov/2020
Other comments:	<i>Click or tap here to enter text.</i>