



CanopyStyle Audit Report for Yibin Grace Group Co. Ltd

Assessment 2019

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INTRODUCTION

NEPCon is an international, non-profit organisation that delivers sustainability services and engages in innovation projects to facilitate the transformation of business practices and consumer behaviour to promote the responsible use of natural resources. Our chain of custody certified clients benefit from our over 15 years of experience in providing services to the forest supply chain sectors – including timber processing and manufacturing companies, printing houses, publishers, paper merchants, traders and retailers of all sizes. Through a well-developed network of regional representatives and contractors, NEPCon offers timely and cost-effective certification services around the world.

The purpose of this report is to document performance of *Yibin Grace Group*, hereafter referred to as "Organization", against the requirements of the Verification Framework and Guidelinesⁱ, developed by Canopy and approved, supported and requested by the CanopyStyle Leaders for Forest Conservation (Leaders Group)ⁱⁱ and the over 170 brands, retailers and designers looking to implement their sourcing policies for man-made cellulosic textiles. The focus of this verification audit is to manage the risk and avoid sourcing from ancient and endangered forests and other controversial sources and implement other sustainable sourcing measures, across the supply chain from the point of wood harvesting in forests and/or plantations and through to the brand and retail customers. Man-made cellulosic fibre (MMCF) producers, are required to document and provide evidence towards a set of pre-defined social and environmental criteria and key progress indicators as part of the CanopyStyle initiative.

The audit presents the findings of NEPCon auditors who have evaluated company systems and performance against the applicable standard(s). The report excludes confidential and sensitive information that do not affect the formal results of the audit.

Section 4 below provides the evaluation conclusions. The auditor reviewed and used Canopy's map of ancient and endangered forests, which has been overlaid with the sourcing regions and list of suppliers of the company to assess the level of risk.

Dispute resolution: If NEPCon clients encounter organisations or individuals having concerns or comments about NEPCon services, these parties are strongly encouraged to contact the relevant NEPCon regional contact identified within this report. Formal complaints and concerns should be sent in writing.

ⁱ The Audit Framework is available at <https://canopyplanet.org/resources/canopystyleaudit/>

ⁱⁱCurrent members of this group are H&M, M&S, Inditex/Zara, EILEEN FISHER, Stella McCartney and Canopy

1. GENERAL DESCRIPTION

1.1 Organization overview

The Yibin Grace Group was established in 1984 initially producing viscose rayon filament yarn, now forming into a comprehensive industry group, including textile, real estate, energy, alcohols, food materials & additives, investment and trade. Yibin Grace has approved the ISO9001:2015 standard quality system, ISO14001:2015 Environment Management System and Swiss Oeko-Tex Standard.

1.2 Organization scope (sites, locations, etc)

In the viscose division of Yibin Grace Group, there are two mills for viscose production, one in Yibin, Sichuang, one in Chengdu, Sichuang. The group office is responsible for development and enforcement of the company sourcing policy and purchasing raw materials for the mill in Yibin and Chengdu, however the Chengdu mill can also source independently.

1.3 Organization sourcing policy

The organization published their *Fibre Procurement Policy for Protecting Forests*, effective 20 August 2018, and committed to

- Conserve Ancient and Endangered Forests and intact forest landscapes.
- Recognize, respect and uphold human rights of communities
- Develop innovative and alternative fibre programme
- Advocate for conservation solutions
- Promote forest certification
- Transparency, traceability and verification
- Reduce greenhouse gas footprint
- Prevent pollutions
- Enhance communication

The following document is a draft policy template for your consideration and should be modified to reflect your own corporate language and approach. The process of discussing and considering your commitments internally is something we strongly encourage and support - it is an important part of the process to ensure corporate-wide policy support and implementation.

Fibre Procurement Policy for Protecting Forests (Effective: Date)

Yibin Grace Group Co. Ltd. is committed to playing a leadership role in the pulp, paper, dissolving pulp & cellulosic fibre industry and will work with our wood fibre suppliers and Canopy in order to promote sustainable forest management and the protection of ancient and endangered forests.

Yibin Grace Group Co. Ltd. supports the production of pulp, paper, cellulosic fibres & fabrics from wood fibre that is not sourced in ancient and endangered forests, such as Indonesia's tropical forest and Canada's Boreal Forest, unless meaningful conservation plans and FSC certification are in place.

The following principles apply to all man-made cellulosic fibers, fabrics and textiles, including but not limited to rayon, viscose, lyocell, modal and trademarked product lines produced by our company, as well as to the pulp and paper we produce. This commitment addresses our own operations as well as our procurement practices. This policy supports principles that result in long-term environmental, social and economic benefits.

Scope of Commitment

All of our operations, including companies we control, manage and/or have an investment in - will be in compliance with this policy.

We will source our raw material only through suppliers that are transparent, traceable and comply with this policy.

If suppliers contravene these criteria, we will first engage them to change practices and then re-evaluate our relationship with them if we find that fiber is coming from sources that do not meet this policy.

Conservation of Ancient & Endangered Forests¹ and Intact Forest Landscapes²:

Yibin Grace Group Co. Ltd. supports a future that does not use ancient and endangered forest for pulp or paper, or dissolving pulp to make cellulosic fibers. We will, therefore:

- Assess our existing use of wood pulp and fiber and ensure that we are not sourcing fibers made from ancient and endangered forests areas such as the Canadian and Russian Boreal Forests, Coastal Temperate Rainforests, tropical forests and peatlands of Indonesia, the Amazon and West Africa, or endangered species habitat.
- Work with our fibre suppliers towards phasing out and finding suitable alternatives to any fibre sourced from these regions.
- Eliminate sourcing fiber from other controversial sources including companies that are logging forests illegally³ and from tree plantations established after 1994 through the conversion or simplification of natural forests.

Recognizing, respecting and upholding human rights and the rights of communities

We will request that our suppliers respect the Universal Declaration of Human Rights and acknowledge indigenous and rural communities legal, customary or user rights to their territories, land, and resources.⁴ To do so, we request that our suppliers acknowledge the right of Indigenous People and rural communities to give or withhold their Free, Prior and Informed Consent (FPIC) before new logging rights are allocated or tree plantations are developed, resolve complaints and conflicts, and remediate prior human rights violations through a transparent and accountable grievance mechanism and mutually agreeable dispute resolution process.

Innovative and Alternative Fiber Development

We will collaborate with Canopy, innovative companies and suppliers to explore and encourage the development of fiber sources that reduce environmental and social impacts. Where appropriate, we will play an active role in the research and development of commercial scale production of pulp and cellulosic fiber made from alternative fiber sources such as agricultural residues⁵ and recycled fibers.

Advocacy for Conservation Solutions

Working with Canopy we will support collaborative and visionary system solutions that protect remaining ancient and endangered forests in the Coastal Temperate Rainforests of Vancouver Island and Great Bear Rainforest⁶, Canada's Boreal Forests⁷, and Indonesia's Rainforests.⁸

Forest Certification

We will preference fibre sourced from forests that are responsibly managed forests, certified to the Forest Stewardship Council (FSC) certification system. FSC certified plantations⁹ are part of the solution.

Transparency, Traceability and Verification

We will ensure the transparency & traceability of our own operations and supply chains by 2019, and will identify the origin of our raw material sourcing, including pulp and plantations/wood fibre, through mapping our entire supply chain (chain of custody) back to the mills, plantations, and forest areas. We will work with stakeholders to develop third party verification systems of our operations and supply chain and be verified ancient & endangered forest free by 2020.

Reduction of Greenhouse Gas Footprint

Recognizing the importance of forests and peatlands as carbon storehouses, we will support initiatives that advance forest conservation to reduce the loss of high carbon value forests, by encouraging vendors and suppliers to avoid harvest in these areas, and by giving preference to those that use effective strategies to actively reduce their greenhouse gas footprint.

Pollution Prevention

Pulp and viscose manufacturing is a resource-intensive process that can lead to air and water emissions that impact overall environmental quality. This policy does not address these other critical environmental issues, however, we will invest in and use the cleanest pulp, dissolving pulp and viscose manufacturing technology.

Communication

We recognize the benefit of creating environmental awareness among our customers, employees and peers. As such, we will highlight our environmental efforts on our website and in public communications.

Company name: Yibin Grace Group Co. Ltd
Address: Nantian, Yibin city, Sichuan, China
Board Chairman: Geng Chuan dong
E-mail: alg@yibin-grace.com
Phone: +86-281-2360468 / 688 13890914213
Date:
Signature:

¹ Ancient and Endangered Forest (AEF) and endangered forests are defined as intact forest landscape mosaics, naturally rare forest types, forest types that have been made rare due to human activity, and/or other forests that are ecologically critical for the protection of biodiversity. Ecological components of endangered forests are: intact forest landscapes; Remnant forests and restoration cores; Landscape connectivity; Rare forest types; Forests of high species richness; Forests containing high concentrations of rare and endangered species; Forests of high endemism; Core habitat for local species; Forests exhibiting rare ecological and evolutionary phenomena. As a starting point to geographically locate ancient and endangered forests, maps of High Conservation Value Forests (HCVF), as defined by the Forest Stewardship Council (FSC), and of intact forest landscapes (IFL), can be used and paired with maps of other key ecological values like the habitat range of key endangered species and forests containing high concentrations of terrestrial carbon and High Carbon Stocks (HCS). (The Wye River Coalition's Endangered Forests: High Conservation Value Forests Protection – Guidance for Corporate Commitments. This has been reviewed by conservation groups, corporations, and scientists such as Dr. Jim Strickland, President and Executive Director of the Conservation Biology Institute, and has been adopted by corporations for their forest sourcing policies). Key endangered forests globally are the Canadian and Russian Boreal Forests, Coastal Temperate Rainforests of British Columbia, Alaska and Chile; Tropical forests and peat lands of Indonesia, the Amazon and West Africa. For more information on the definitions of ancient and endangered forests, please go to: <http://canops.net/index.php?pages=science-behind-the-brand>

² Intact Forest Landscape (IFL) is an unbroken expanse of natural ecosystems within the zone of current forest extent, showing no signs of significant human activity, and large enough that all native biodiversity, including viable populations of wide-ranging species, could be maintained. (<http://www.intactforests.org/wordpress/index.html>)

³ Legal forest management is management that complies with all applicable international, national, and local laws, including environmental, forestry, and civil rights laws and treaties.

⁴ Agricultural residues are residues-by-products left over from food production or other processes and using them maximizes the lifecycle of the fiber. Depending on how they are harvested, fibers may include flax, bagasse, and hemp.

⁵ Coastal temperate rainforests originally covered 0.2% of the planet, and now less than 25% of these forests remain in their original state. We will consider sourcing from areas within the coastal temperate rainforests where credible conservation solutions are finalized. A legal conservation plan is now finalized for the Great Bear Rainforest a region of 6.4 million hectares within the Coastal Temperate Rainforest zone of British Columbia Canada. On February 1st, 2016 the Government of British Columbia, First Nations, environmental organizations and the forest industry announced an Ecosystem-based Management framework that sets 85% of this region off limits to logging and stringent logging rules in the other 15%. Provided these agreements are fully implemented – sourcing from this ancient and endangered forest region can be considered to be within sustainable levels. We encourage ongoing verification of this through renewal of Forest Stewardship Council certification by the logging tenure holders in the region.

(Note this footnote is key, otherwise the policy would suggest you would not source from this region, despite the conservation agreements in place, which would be a disincentive for forest companies to make these type of conservation agreements in other ancient and endangered forests).

⁶ Canada's Boreal Forest contain the largest source of unfrozen freshwater world wide and are part of the world's largest terrestrial carbon sink – equivalent to 26 years worth of global fossil fuel use. Canopy is committed to working collaboratively on the establishment of new protected areas, the protection of endangered species and the implementation of sustainable harvesting in Canada's Boreal Forest. This region is slated for the largest increase in mills for dissolving pulp that goes into cellulose-based fabrics.

⁷ Indonesia experiences the second highest rate of deforestation among tropical countries, with Sumatra island standing out due to the intensive forest clearing that has resulted in the conversion of 70% of the island's forested area (FAO Forest Assessment 2010; Margono, B.A. et al. 2012). Asia Pulp & Paper (APP) and Asia Pacific Resources International Ltd. (APRIL) have been identified as the primary cause and are criticized by local and international groups for being implicated in deforesting important carbon rich peat lands, destroying the habitat for critically endangered species and traditional lands of indigenous communities, corruption, and human rights abuses (Eyes on the Forest, 2011. <http://www.eyesontheforest.org>). APP has recently put in place a promising forest policy, tracking its implementation will be key to understanding if it offers lasting solutions for Indonesia's Rainforests and also if APRIL (a key producer of dissolving pulp for fabrics) will follow suit.

*Plantations are areas that have been "established by planting or sowing using either alien or native species, often with few species, regular spacing and even ages, and which lack most of the principal characteristics and key elements of natural forests". Plantations prior to 1994 are often FSC certified. Source FSC: <http://www.fsc.org/download/attachments/441386>

2. EVALUATION SCOPE

Scope Item	Check all that apply to the Certificate Scope	
Mill Type:	☐ Single	☒ Multi-site
Input Material Source:	☒ Listed in supplier CoC form	☐ Other suppliers
Majority Fibre Input:	Fibre from Brazil and Chile.	
Map of Ancient and Endangered Forests Overlay Completed:	☐ Yes	☒ No Comments: The organization conducted a risk analysis, however it relied on looking to see if companies held certification, and did not include a map overlay with ancient & endangered forests.
Mill Capacity:	About 380,000 ton/year including 100,000 tons from Chengdu Grace Fibre mill and 280,000ton from Yibin mill	
Primary Activity:	Viscose rayon filament yarn, Viscose embroidery thread, Viscose staple fibre, Viscose yarn	
Outsourcing:	☐ FSC-certified subcontractors	☐ Non-certified subcontractors
	☐ Outsourcing of the complete production process	
	☐ High risk subcontractor site(s) included	
	☒ No outsourcing	
Workforce:	Permanent male: 0	Permanent female: 0
	Contract male: 5994	Contract female: 4216
	TOTAL: 10210	

Sites included in evaluation	Location
Yibin Grace Corporate	Yibin City, Sichuang Province, China
Yibin Mill	Yibin City, Sichuang Province, China
Chengdu Mill	Chengdu City, Sichuang Province, China

3. EVALUATION PROCESS

2.1 Audit Team

Name	Qualification	Role/focus in audit
Zhang Xinxin	Zhang Xinxin, East Asia Regional Manager, has more than 15 years	Lead Auditor, auditing office in

	working experiences in FSC certification. Before working for NEPCo, she was the forest officer with WWF China, has led 10 FSC certification and HCVF projects in China. She had worked as the forest specialist with IKEA, responsible for evaluating IEKA wood supply chain, and as research assistant in Forest Certification Center with China Academy of Forestry. She graduated from Beijing Forestry University with Master Degree on Forest Management, Goettingen University (Germany) with Master Degree on Natural Resource Management and Wales University (UK) with Master Degree on Land Management. She is qualified as FSC FM Lead Auditor, SAN CoC Lead Auditor, fulfills ISO training requirement FSC-STD-20-001.	Yibin and mill in Yibin
Huang Rui	Huang Rui, Master of Forestry, has 5 years' experience in forest survey and sustainable forestry includes 2 years academic work. Huang Rui is working for China Standard Conformity Assessment Co., Ltd as Forest certification and Fair Wild Program manager of the International Cooperation Department. Before that, he had worked for Forest Inventory and Planning Institute of Jilin Province. He also had been a sustainable development department commissioner of APP (China) Forestry. He has attended the auditor training of CFCC, FSC-COC and ISO9000. He is qualified as FSC FM and FSC CoC lead auditor. He has participated more than 150 FSC CoC audits and more than 20 FSC FM audits in China mainland, Taiwan, HK, Vietnam and Thailand etc.	Support Auditor Auditing mill in Chengdu

2.2 Audit Overview

Site(s)	Audit date	Total on-site audit time (Hours)
Corporate Office	Jan 11, 2019	4 hours
Yibin Mill	Jan 11, 2019	4 hours
Chengdu Mill	Jan 11, 2019	4 hours

Note: more details about audit process are provided in a separate audit plan.

2.3 Description of Overall Audit Process

The auditor shared an audit plan with the organization two weeks before the onsite audit. The company supplier list was sent to the auditor and reviewed before the audit.

On Jan 11, two auditors started the onsite audit separately to Chengdu mill and Yibin office/mill.

Documents such as the Wood Fibre Sourcing Policy and Management Procedure, Annual Volume Summary Data, Supplier Documentation (invoices, bills of lading, trip tickets, delivery notes, etc.), Sales Documentation (Company's invoices, shipping documents), Risk Assessment Report, Training Plan and Record were reviewed after the opening meeting. Auditors interviewed Company CEO, Wood Pulp Purchasing Policy Implementation Team, Raw Material Purchasing Team, Factory Raw Material Storage and Processing Personnel, New Technology R&D Leader, Corporate Social Responsibility Leader, Environmental Pollution Manager.

Followed by the mill inspection tours. The closing meeting was carried out at the Chengdu site at 12:15, at 16:45 in Yibin, where initial findings and were shared with organization.

4. EVALUATION RESULT

4.1 Evaluation Conclusion

Yibin Grace has made the initial steps of understanding their supply chains, and their sourcing areas. They have made a company policy to align with the CanopyStyle initiative and communicated this policy with their suppliers. They have collected information on sourcing origin from most suppliers, but not all. Four suppliers were found during the audit that were not originally reported in the supplier list, 2 being used to source materials for testing.

Yibin Grace has started to conduct a risk assessment on their supply chains, by understanding the suppliers who hold FSC certification. This is an important first step, but done in isolation, does not sufficiently assess if materials are sourced from ancient & endangered forests and other controversial sources. More analysis is needed to understand if materials being sourced are certified (hold certification claims) and to identify where sourcing origins overlap with Canopy's maps of ancient & endangered forests.

The audit team conducted their own analysis based on the information provided during the audit and found all but two suppliers are potentially at a high risk of sourcing from ancient & endangered forests, and because materials are not being sourced with certification claims, all suppliers can potentially be sourcing materials from controversial sources. More information is needed to adequately assess and determine risks.

4.2 Summary of Findings

Rating	Color
Not Applicable	
Commitment Met	
Commitment in Progress	
Commitment Not Met	
Insufficient Information Available	

Key Commitment	Performance Indicators
1. The MMCF producer has publicly communicated and is implementing the Fibre Sourcing/Forest Policy	1.1 Senior executive and key managers make a publicly available commitment to full implementation of the forest sourcing policy **
	1.2 The MMCF producer has developed standard operating procedures (SOP) required to implement the Policy with input from and agreement of civil society stakeholders.
	1.3 The MMCF producer has assigned personnel with responsibility for Policy implementation. **
	1.4 The MMCF producer has developed capacity and organizational structure to implement the Policy.
	1.5 The MMCF producer has communicated its commitment to implement its Policy to all its suppliers. **
	1.6 The MMCF producer has included requirements to implement the Policy in agreements/contracts with current and future suppliers. **
	1.7 The MMCF producer has developed, and is implementing a system to monitor supplier conformance with the Policy. **
	1.8 The MMCF producer has put in place a transparent/public grievance procedure with the input and agreement of civil society stakeholders
	1.9 The MMCF producer has developed, and is implementing, an action plan that address any identified non-conformance and grievance received. **
	1.10 Key managers at each production site are aware of the Policy and demonstrate a similar commitment to implement it. **
	1.11 Each production site managers have developed procedures to implement the Policy, when relevant. **
2. The MMCF producer only sources raw material from suppliers that are transparent, traceable and are in conformance with the policy	2.1 An assessment of the MMCF producer supply chain has been completed globally and shared with Leaders Group. This assessment will be updated every year and shared with the Leaders Group. **
	2.2 The assessment identifies all suppliers in the chain that supply the MMCF mills, beginning at the forest or plantation of origin.
	2.3 A risk assessment has been done with the information and shared with Leaders Group.
	2.4 This supply chain assessment has been presented to the Leaders Group and stakeholders, allowing for questions to be answered and information gaps to be highlighted.
	2.5 The MMCF producer publishes its suppliers publicly, or, in the absence of such transparency, is providing its customers with a robust

	track and trace system that can be used throughout the supply chain up to clothing and textile retailers.
3. No conversion of natural forest to plantations	3.1 The initial date of the plantation development has been documented and sourcing only occurs in areas identified pre 1994, or post 1994 with a supporting valid FSC certificate. **
4. Since the signature of the Policy, all sourcing from ancient and endangered forests and other controversial sources have been eliminated	4.1 The MMCF producer has adopted clear definitions for the terms included in their Policy, such as "ancient & endangered forests", "intact forest", "natural forest", "endangered species", "controversial sources", "high conservation value", "high carbon area", "peatlands", etc. that are consistent with this document and the forest sourcing policy template. **
	4.2 All areas meeting the definition of "ancient and endangered forests" have been identified and mapped and suppliers and fibre that have a high risk of being considered controversial sources have been identified and shared with Leaders Group. **
	4.3 Any raw materials in the MMCF producer's supply chain originating from ancient and endangered forests or other controversial sources, and acquired before the Policy was adopted by the company, such as stocks in log yards, will be documented, identified accordingly and utilised by the mills. **
	4.4 The MMCF producer is aware of all relevant local, national and international laws and there is no evidence of non-compliance, with local, national or international laws. **
	4.5 The commitment not to source from ancient and endangered forests and other controversial sources is verified. **
5. If suppliers contravene these criteria, the MMCF producer will first engage them to change practices and then re-evaluate its relationship with them	5.1 All MMCF producers' suppliers are identified and the forest of origin is known. **
	5.2 The MMCF producer has developed procedures for engaging with suppliers, up to withdrawing from purchase and other agreements in situations where non-conformance is found. ** (Note: This means potential legal and contractual issues associated with withdrawal are identified and addressed.)
	5.3 The MMCF producer has documented withdrawals from supply agreements where non-conformance has been found. **
6. The MMCF producer welcomes interested stakeholders and Leaders Group observers to verify the implementation.	6.1 Leaders Group and other stakeholder observers are invited to participate freely and to report observations during this verification process. **
7. The MMCF producer shall recognize, respect and uphold human rights and the rights of communities and workers affected by the operations of their supply chain and affiliated companies	7.1 The MMCF producer has developed and requires its suppliers to adopt a similar policy, systems and procedures to implement Free, Prior and Informed Consent of indigenous people and local communities. **
	7.2 Suppliers document how they conform with the MMCF producer's commitment to recognize and respect human rights, community rights, First Nations rights and rights of workers. **
	7.3 The MMCF producer and its suppliers show responsible handling of complaints and resolution of conflicts in a transparent and accountable manner that is mutually agreed by the parties and includes relevant stakeholders.
	7.4 The MMCF producer and its suppliers have developed internal capacity and organizational structure to recognize and respect the rights of its workers
	7.5 The MMCF producer has developed procedures to ensure its Tier one suppliers uphold the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work and will require the equivalent of their own suppliers.

	7.6 Recognition and respect for human rights is demonstrated. There is no evidence of avoiding or failing to resolve social conflicts and remedy past or current human rights violations. **
8. Development of Innovative and Alternative Fibre ⁱ	8.1 The MMCF producer has developed and implemented an internal action plan to collaborate with innovative companies and suppliers to explore and encourage the development of new alternative fibre sources that reduce environmental and social impacts, such as agricultural residues and recycled fibres. **
	8.2 The research and development phase for the production of pulp and cellulosic fibre made from alternative fibre sources has been successfully completed and the MMCF producer is entering a commercial scale phase.
9. Voluntary advocacy for conservation solutions	9.1 The MMCF producer has a track record of participating in events that support collaborative and visionary system solutions that aim protect remaining ancient and endangered forests. **
	9.2 When prompted, the MMCF producer uses its brand influence or purchasing influence to positively impact conservation and development solutions that have the Free, Prior and Informed Consent of affected indigenous and local communities. **
	9.3 The MMCF producer publicly supports science-based international and national target(s) and programs for preserving designated protected and conservation areas that have the Free, Prior and Informed Consent of affected indigenous and local communities.
	9.4 The MMCF producer is developing and implementing specific programs to increase the endangered species population and the maintenance of their habitat through time, with government and/or ENGO programs. **
10. Responsible forest management	10.1 The MMCF producer has defined criteria for responsible forest management, gives a preference for FSC certification and has developed and implemented an action plan to increase FSC intake. **
11. Reduction of Greenhouse Gas (GHG) Footprint by recognizing the importance of forests and peatlands as carbon storehouses	11.1 The MMCF producer has developed and implemented procedures to evaluate their suppliers' performance in reducing GHG.
	11.2 The MMCF producer can document giving preference to suppliers that have identified and adopted management measures to protect forested peatland at the concession and landscape level (peat dome) and that have identified, withdrawn from and restored peatlands and their hydrology. **
12. Pollution Prevention	12.1 * This verification process <u>will not</u> address the pulp and viscose manufacturing process which can lead to air and water emissions that impact overall environmental quality. However, it will be noted when MMCF producers invest in and use the cleanest dissolving pulp and viscose manufacturing technology (i.e. lyocell process). The indicators will be the number of mills using such cleaner processes and the % of overall volumes produced with such technology. This information will be treated and framed as additional bonus performance by the MMCF producer.

4.3 Volume Summaries

Reporting period: 1 September 2017 – 30 September 2018

Category	Explanation	Volume Received (tons)	% overall
FSC Controlled Wood	Material received with an FSC Controlled Wood claim (either from an FM or COC certified company)		
Controlled material	Noncertified material controlled by the company's FSC Due Diligence System		
FSC Mix	Material received with an FSC Mix Credit or FSC Mix % claim from an FSC CoC certified company		
FSC 100%	Material received with an FSC 100% claim from an FSC certified company (FM or COC).		
Non-FSC	Material received with no FSC claim.	350,000	100%
PEFC	Material received with an PEFC claim. Note materials can be received with both a PEFC and FSC claim (no double counting)		

Appendix A: STANDARD CHECKLIST (CanopyStyle Verification Framework – Corporate Sourcing)

1. Evaluation of Site: Yibin Grace Group Corporate Office

People Interviewed, by Titles:	Chairman of the Group Import Director Deputy General Manager Assistant Export Director
Comments: Yibin Grace Group Office is responsible for development and enforcement of the company sourcing policy and purchasing raw materials for the mills in Yibin and Chengdu mill. However, the Chendu mill may also source independently.	

2. Standard Checklist

1. The MMCF producer has publicly communicated and is implementing their Fibre Sourcing/Forest Policy	
Indicators	Findings
1.1 Senior executive and key managers make a publicly available commitment to full implementation of the forest sourcing policy.**	Conformance with Indicator: ☐ Not Applicable ☒ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The organization has made a public commitment to promote sustainable forest management and conserve ancient and endangered forests (effective 20 Aug 2018). The policy was posted on the website http://www.cn-grace.com/show-13-419-1.html. The interview of the chairman of the organization and deputy general manager confirmed senior management team were well informed the definition of ancient and endangered forests and other controversial sources and were fully committed to implement the policy.
1.2 The MMCF producer has developed standard operating procedures (SOP) required to implement the Policy with input from and agreement of civil society stakeholders.**	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☒ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The organization developed an action plan to implement of the fibre sourcing policy. Accepting external auditing is one of the actions and after

	the audit, continuous improvements will be required according the action plan. The organization included fibre source policy requirements in the Sourcing and Supplier Control Procedure (GF/QB-2017-11), which requires the supplier evaluation against the fibre sourcing policy before purchasing. However, both action plan and supplier control procedure were not consulted with civil society stakeholders. In the closing meeting, the organization confirmed they will share their action plan with Canopy.
1.3 The MMCF producer has assigned personnel with responsibility for Policy implementation. **	Conformance with Indicator: ☐ Not Applicable ☒ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The purchasing managers are assigned and responsible for the implementation of the policy. The responsibility of implementing the policy is in the position TOR and annual KPI checking list. The interview of the purchase manager/import director responsible for fibre sourcing overseas, confirmed he's fully aware the policy and his responsibilities. Purchasing managers are required to sign a commitment letter of implementing policy, one letter signed was checked by the auditor
1.4 The MMCF producer has developed capacity and organizational structure to implement the Policy.	Conformance with Indicator: ☐ Not Applicable ☒ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The organizational structure for implementation of policy is shared with the auditor. There are 9 departments/branches involved in the implementation of the policy, such as Environment Protection Department in charge of pollution prevention, R&D in charge of new technology development, import/export branch in charge of supplier management and policy enforcement.
1.5 The MMCF producer has communicated its commitment to implement its Policy to all its suppliers. **	Conformance with Indicator: ☐ Not Applicable ☒ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met

	☐ Insufficient Information Available Description of the finding: Organization notified all key suppliers the commitments via emails. Emails was shared with auditor for review. Additionally, all key suppliers (except Hallein) signed a commitment letter as requested by the organization. Key suppliers here referred to supply large volumes for production, including CMPC, Arauco, Cenibra, Hallein, Jari Cellulose, Caima, Rayonier, TPL and Juntai. The organization also sourced small volume of products for testing from Mondi, Lenzing, and Phoenix, etc. Both Lenzing and Mondi were not part of the supplier list provided to auditors in advance of the audit, and they have not yet signed commitment letters.
1.6 The MMCF producer has included requirements to implement the Policy in agreements/contracts with current and future suppliers.**	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☒ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: Requirements to implement the policy have not been included in the agreement and contract used at the time of the audit, but the organization developed a new agreement template with the requirements of compliance to the policy and shared with auditor to review. The management team confirmed they planned to use the new agreement template soon.
1.7 The MMCF producer has developed, and is implementing a system to monitor supplier conformance with the Policy.**	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☒ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The organization included the ancient and endangered forests definitions and sourcing policy requirements in the Control System for External Suppliers GF/QB-2017-11, which requires evaluating fibre forest of origin, a check to see if suppliers are FSC certified, and a review of available HCV reports and CoC systems. In practice, such requirements haven't been implemented because the procedures were newly added. And, in the External Supplier Control System, the frequency of supplier control/monitoring wasn't clearly stated.

	Note: Checking if suppliers are FSC certified is not sufficient to monitor supplier conformance according to the CanopyStyle framework requirements. The organization didn't request certified claims on purchasing documents, and there were no materials purchased with FSC claims on the supplier invoice.
1.8 The MMCF producer has put in place a transparent/public grievance procedure with the input and agreement of civil society stakeholders.	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☒ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: There is a public grievance procedure in place and the organization has set up a webpage for accepting complaints from the public http://www.cn-grace.com/list-35-1.html. However, this webpage does not provide any information on the grievance procedure including the expectation for response and resolution. The webpage looks to be a contact form about products.
1.9 The MMCF producer has developed, and is implementing, an action plan that address any identified non-conformance and grievance received.**	Conformance with Indicator: ☒ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: No complaints have been received, and no nonconformities have yet been recognized as this is the first CanopyStyle audit.
1.10 Key managers at each production site are aware of the Policy and demonstrate a similar commitment to implement it.**	Conformance with Indicator: ☐ Not Applicable ☒ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The organization conducted three (3) trainings on the policy and Canopy requirements before the audit. Training records were provided for auditor review. The interviews to all staff in corporate office demonstrated they are fully aware the policy and were able to explain to the auditor how they should implement the policy.
1.11 Each production site manager has developed procedures to implement the Policy,	Conformance with Indicator:

when relevant.**	☐ Not Applicable ☒ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: Please refer to 1.2
Summary: The organization has developed a sustainable fibre sourcing policy with supporting procedures and systems for implementation. However, these procedures developed have not been consulted with stakeholders, nor have they been fully implemented (e.g. supplier monitoring procedure and the supplier contract requirements). Some procedures, such as the grievance procedure have not been posted publicly as required.	

2. The MMCF producer only sources raw material from suppliers that are transparent, traceable and are in conformance with the policy	
Indicators	Findings
2.1 An assessment of the MMCF producer supply chain has been completed globally and shared with Leaders Group. This assessment will be updated every year and shared with the Leaders Group.**	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☒ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The organization provided a supplier list for the audit, but it did not include two key suppliers (Juntai and Rayonier) nor two suppliers of test material (Mondi and Lenzing). The organization completed an assessment of suppliers to the sourcing policy, and the vice-general manager confirmed that they are willing to share with leader group as long as it's not related to intellectual property. This indicator is being noted as in progress, as not all suppliers were included in the assessment, and the assessment completed did not fully address the risk of sourcing from ancient and endangered forests and other controversial sources.
2.2 The assessment identifies all suppliers in the chain beginning at the forest or plantation of origin, that supply the MMCF mills.	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☒ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The organizations supplier list as submitted for the audit neglected to list 4 suppliers (Rayonier,

	Juntai, Mondi and Lenzing). These suppliers were found by the audit team while on site. The organization was able to trace fibre supply chain to a small geographic region or forest level for several key suppliers, such as: • CMPC, • Arauco, • Cenibra, • Jari Cellulose, • Caima (who provided the location of plantation/forest to the organization). Some supply chains are able to be traced to the country level, such as TPL and Rayonier. There is no forest origin info for Hallein and Juntai. The organization also sourced small volume of products for testing from Mondi, Lenzing, and Phoenix, among which only one supplier provided origin information (Phoenix), who declares that all fibre supplied to the organization is from Thailand.
2.3 A risk assessment has been done with the information and shared with Leaders Group.	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☒ Commitment Not Met ☐ Insufficient Information Available Description of the finding: A risk assessment was conducted by the organization, however this assessment was insufficient, as it only looked to see if suppliers held FSC certification and did not identify risk of sourcing from ancient and endangered forests and other controversial sources.
2.4 This supply chain assessment has been presented to the Leaders Group and stakeholders, allowing for questions to be answered and information gaps to be highlighted.	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☒ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The supply chain assessment completed has not been presented to the leader group prior to the audit, but the organization is willing to share if it's not related to intellectual property.
2.5 The MMCF producer publishes its suppliers publicly, or, in the absence of such transparency, is providing its customers with a robust track and trace system that can be used throughout the supply chain up to clothing and textiles retailers.	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☐ Commitment in Progress

	☒ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The organization does not publish its suppliers publicly nor hold any type of chain of custody certification that can provide this track and trace system throughout the supply chain. However, the internal material flow sheet could trace the output product back to input material to production and its supplier whenever customers request. This traceability is at the mill level only and does not fulfil the intent of this requirement.
Summary: The organization can trace fibre supply chain to forest level or a concise geographic area for several key suppliers, while some supply chains are able to be traced only to the country level. Two suppliers remain with no origin information. A risk assessment has been conducted but is not sufficient to determine if sources are from ancient and endangered forests and other controversial sources.	

3. No conversion of natural forest to plantations

Indicators	Findings
3.1 The initial date of the plantation development has been documented and sourcing only occurs in areas identified pre 1994, or post 1994 with a supporting FSC certificate.**	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☒ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The organization requested suppliers to disclose the plantation establishment date, however, no supporting documents were requested to confirm the declared dates. Also, many of the dates collected noted a plantation date that is post 1994.
Summary: The organization requested suppliers to disclose the plantation established date, however no additional information was collected to verify these declarations. Many plantations have been declared to have been developed post 1994.	

4. Since the signature of the Policy, all sourcing from ancient and endangered forests and other controversial sources have been eliminated

Indicators	Findings
4.1 The MMCF producer has adopted clear definitions for the terms included in their Policy, such as "ancient & endangered forests," "intact forest," "natural forest," "endangered species," "controversial sources," "high conservation value," "high carbon area," "peatlands," etc. that are consistent with this document and the forest sourcing policy template.**	Conformance with Indicator: ☐ Not Applicable ☒ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available

	Description of the finding: The organization's policies and procedures adopt the same definitions of ancient & endangered forests, intact forests, and controversial sources as the CanopyStyle framework.
4.2 All areas meeting the definition of "ancient and endangered forests" have been identified and mapped and suppliers and fibre that have a high risk of being considered controversial sources have been identified and shared with Leaders Group.**	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☒ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The organization was able to trace and identify geographical or forest origin for several key suppliers, however, there are fibre origins still untraceable or only traceable to country level. The organization conducted risk assessments for all key suppliers. However, the indicator of assessment mainly focused on if the supplier is FSC certified. The risk assessment is incomplete, since no indicator and concrete method was adopted on identification of ancient and endangered forests. One supplier, Jari Cellulose, was noted as being certified, but is listed on info.fsc.org with a suspended certification since 2017. Another, Phoenix Pulp & Paper is FSC certified, but does not list dissolving pulp as an available certified product on FSC's website. After learning of risks for controversial fibre, the organization terminated their sourcing from TPL. The auditor checked the internal supplier management system and found the last purchased from TPL in 2018 was on Aug 10, 2018. No new purchase from TPL since then until the date of audit.
4.3 Any raw materials in the MMCF producer's supply chain originating from ancient and endangered forests or other controversial sources, and acquired before the Policy was adopted by the company, such as stocks in log yards, will be documented, identified accordingly and utilised by the mills.**	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☒ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The organization made the commitment and published a sustainable fibre sourcing policy effective on Aug 20, 2018. There is no assessment to identify if there are any materials originating from ancient & endangered forests or controversial sources before the policy was developed.

	After learning risks for controversial fibre, the organization terminated their sourcing from TPL. The auditor checked the internal supplier management system and found the last purchased from TPL in 2018 was on Aug 10, 2018. No new purchase from TPL since then till the date of audit. No other suppliers have been terminated, even those that do not hold FSC certification, such as Jari Cellulose.
4.4 The MMCF producer is aware of all relevant local, national and international laws and there is no evidence of non-compliance, with local, national or international laws. **	Conformance with Indicator: ☐ Not Applicable ☒ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The interviews to the CEO and vice general managers confirmed they were aware all relevant laws and regulations. There is no news and info disclosed that the organization is non-compliance with national and international laws. The organization approved the ISO9001:2000 standard quality system, ISO14001:2004 Environment Management System.
4.5 The commitment not to source from ancient and endangered forests and other controversial sources is verified. **	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☒ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The organization developed a supplier risk assessment procedure and assigned four (4) staff in charge of monitor supplier conformance with the policy. However, as noted in the above findings, forest level information has not been collected from all suppliers, and the assessment conducted is insufficient and cannot verify the risk of sourcing from ancient and endangered forests and other controversial sources.
Summary: The organization developed a supplier risk assessment procedure and assigned four (4) staff in charge of monitoring supplier conformance with the policy. However, forest level information has not been collected from all suppliers, and the assessment conducted is insufficient and cannot verify the risk of sourcing from ancient and endangered forests and other controversial sources. The organization terminated sourcing from TPL after learning of risks related to controversial sources. However, a high-risk source from one non-certified supplier in Brazil remains present (Jari Cellulose).	

5. If suppliers contravene these criteria, the MMCF producer will first engage them to change practices and then re-evaluate its relationship with them	
Indicators	Findings
5.1 All MMCF producers' suppliers are identified and the forest of origin is known.**	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☒ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: Please refer to indicator and finding 2.2
5.2 The MMCF producer has developed procedure for engaging with suppliers, up to withdrawing from purchase and other agreements in situations where non-conformance is found.** (Note: This means potential legal and contractual issues associated with withdrawal are identified and addressed.)	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☒ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The organization included the policy and CanopyStyle requirement in the Control System for External Suppliers GF/QB-2017-11, however, there is no clear measure if nonconformance is found in the Control System. The interview to the import director and vice-general manager confirmed there were many factors to consider if the decision of termination or withdrawing from purchase is needed, nonconformance with the policy is just one of the factors. And, if suppliers contravene these criteria, the MMCF producer will first engage them to change practices and then re-evaluate its relationship with them, however, these measures were introduced by the managers verbally to the auditor but not documented.
5.3 The MMCF producer has documented withdrawals from supply agreements where non-conformance has been found.**	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☒ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: After learning of risks related to controversial fibre, the organization terminated their sourcing from TPL. The auditor checked the internal supplier management system and found the last purchased from TPL in 2018 was

	on Aug 10, 2018. No new purchase from TPL since then until the date of audit. This indicator is graded as “commitment in progress” as there is one supplier, Jari Cellulose, who does not hold certification, which would be a nonconformance with the company’s policy and no withdrawals have been made.
Summary: The organization included the policy and CanopyStyle requirement in the Control System for External Suppliers GF/QB-2017-11, however, there is no clear measure if nonconformance is found in the Control System. Supply has been terminated from one high risk suppliers, but others remain within the active supply with no termination or other measures planned.	

6. The MMCF producer welcomes interested stakeholders and Leaders Group observers to verify the implementation.

Indicators	Findings
6.1 Leaders Group and other stakeholder observers are invited to participate freely and to report observations during this verification process.**	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☒ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The chairman and vice general manager confirmed leader group and other stakeholders are welcome to join the verification as observers in the future, and any observations could be reported to the auditor freely.
Summary: The chairman and vice general manager confirmed leader group and other stakeholders are welcome to join the verification as observers.	

7. The MMCF producer shall recognize, respect and uphold human rights and the rights of communities and workers affected by the operations of their supply chain and affiliated companies.

Indicators	Findings
7.1 The MMCF producer has developed and requires its suppliers to adopt a similar policy, systems and procedures to implement Free, Prior and Informed Consent of indigenous people and local communities.**	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☒ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: Implement FPIC of indigenous people and local communities are included in the organization’s policy. All key suppliers (except Hallein) signed a commitment letter that includes a commitment to implement FPIC of indigenous people and local communities. Key suppliers here referred to products are massive purchased for production, including CMPC,

	Arauco, Cenibra, Hallein, Jari Cellulose, Caima, Rayonier, TPL (which sourcing has been terminated) and Juntai. The signed commitment letters by key suppliers were shared with auditor to review.
7.2 Suppliers document how they conform with the MMCF producer's commitment to recognize and respect human rights, community rights, First Nations rights and rights of workers.**	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☒ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The organization did not collect supplier documents on how they confirm with the commitment. All suppliers except TPL and Phoenix are FSC CoC certified, however no FSC certified materials were sourced by the organization. FSC CoC certification alone cannot guarantee the conformance to this indicator.
7.3 The MMCF producer and its suppliers show responsible handling of complaints and resolution of conflicts in a transparent and accountable manner that is mutually agreed by the parties and includes relevant stakeholders.	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☒ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The MMCF producer has a public grievance mechanism to accept and handle complaints (see indicators 1.8 and 1.9). All key suppliers except TPL and Jari Cellulose are FSC CoC certified companies which could guarantee the conformance to this indicator, as FSC CoC certified companies are required to have such a mechanism for their certified scope. This indicator is being graded as in progress, as not all suppliers hold CoC certification that includes a required grievance procedure and materials sourced do not hold an FSC claim.
7.4 The MMCF producer and its suppliers have developed internal capacity and organizational structure to recognize and respect the rights of its workers	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☒ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: All key suppliers except TPL, which sourcing has been terminated, and Jari Cellulose are FSC

	CoC certified companies which could guarantee the conformance to this indicator as FSC CoC certified companies are required to sign a Policy of Association that includes such a commitment. However, because not all suppliers hold certification, this indicator is being graded as in progress
7.5 The MMCF producer has developed procedures to ensure its Tier one suppliers uphold the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work and will require the equivalent of their own suppliers.	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☒ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: All key suppliers except TPL, which sourcing has been terminated, and Jari Cellulose are FSC CoC certified companies which could guarantee the conformance to this indicator as FSC CoC certified companies are required to sign a Policy of Association that includes such a commitment. However, because not all suppliers hold certification, this indicator is being graded as in progress
7.6 Recognition and respect for human rights is demonstrated. There is no evidence of avoiding or failing to resolve social conflicts and remedy past or current human rights violations.**	Conformance with Indicator: ☐ Not Applicable ☒ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: Recognition and respect for human rights is included in the organization's policy. Within the organization, there is a labor union which actively participates the management of the organization. All key suppliers except TPL, which sourcing has been terminated, and Jari Cellulose are FSC CoC certified companies which may be used to identify conformance to this indicator as FSC CoC certified companies are required to sign a Policy of Association. Because all companies are not certified, this requirement is graded as in progress.
Summary: Recognise, respect and uphold human rights and the rights of communities and workers was included in the organization's policy. All suppliers except TPL, which sourcing has been terminated, and Jari Cellulose are FSC CoC certified companies may indicate conformance to many of these indicators, however not all suppliers are certified, and no materials were sourced as FSC certified.	

8. Development of Innovative and Alternative Fibre

Indicators

Findings

8.1 The MMCF producer has developed and implemented an internal action plan to collaborate with innovative companies and suppliers to explore and encourage the development of new alternative fibre sources that reduce environmental and social impacts, such as agricultural residues and recycled fibres.**	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☒ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The organization did not have an internal action plan to explore and encourage the development of new alternative fibre sources, such as agricultural residues and recycled fibres.
8.2 The research and development phase for the production of pulp and cellulosic fibre made from alternative fibre sources has been successfully completed and the MMCF producer is entering a commercial scale phase.	Conformance with Indicator: ☒ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: N.A Please refer to 8.1
Summary: The organization didn't have an internal action plan to explore and encourage the development of new alternative fibre sources, such as agricultural residues and recycled fibres.	

9. Advocacy for conservation solutions	
Indicators	Findings
9.1 The MMCF producer has a track record of participating in events and taking actions that support collaborative and visionary system solutions that aim to protect remaining ancient and endangered forests.**	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☒ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The organization is a member of CV and joined meetings and events organized by CV on sustainable production and sourcing. It is encouraged, however, to take additional efforts to promote the protection of ancient and endangered forests. The organization actively engaged with Canopy and accepted third party verification against Canopy framework and guideline voluntarily.
9.2 When prompted, the MMCF producer uses its brand influence or purchasing influence to positively impact conservation and development solutions including Free, Prior and Informed Consent of affected indigenous and local communities.**	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☒ Commitment in Progress

	☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The organization requested all suppliers make commitments on FPIC of indigenous people and local communities, but the organization didn't join or initiate any conservation programmes.
9.3 The MMCF producer publicly supports large scale scientifically based conservation solutions, international and national target(s) and programs for preserving designated protected and conservation areas including the Free, Prior and Informed Consent of affected indigenous and local communities.	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☒ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The organization has not provided support for conservation solutions or programme.
9.4 The MMCF producer is developing and implementing specific programs to increase the endangered species population and the maintenance of their habitat through time, with government and/or ENGO programs.**	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☒ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The organization has not developed or implemented a programme on habitat and endangered species protection.
Summary: The organization is a member of CV and joined meetings and events organized by CV on sustainable production and sourcing and actively engaging with Canopy and has accepted this 3 rd party audit, however, the organization has not advocated, joined or initiated any other forest conservation programmes.	

10. Responsible forest management	
Indicators	Findings
10.1 The MMCF producer has defined criteria for responsible forest management, gives a preference for FSC certification and has developed and implemented an action plan to increase FSC intake.**	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☒ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: In the sourcing policy, it is stated the organization source fibre with the preference for FSC certification. All suppliers except TPL, which sourcing has been terminated, and Jari Cellulose are FSC CoC certified companies.

	However, no action plan to increase FSC intake was made. By the date of audit, no FSC certified materials was sourced by the organization.
Summary: In the sourcing policy, it is stated the organization source fibre with the preference for FSC certification, however no action plan to increase FSC intake was made. By the date of audit, no FSC certified materials was sourced by the organization.	

11. Reduction of Greenhouse Gas (GHG) Footprint by Recognizing the importance of forests and peatlands as carbon storehouses

Indicators	Findings
11.1 The MMCF producer has developed and implemented procedures to evaluate their suppliers' performance in reducing GHG.	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☒ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The organization has no procedure or requirement to evaluate supplier's performance in reducing GHG.
11.2 The MMCF producer can document giving preference to suppliers that have identified and adopted management measures to protect forests, forested peatland at the concession and landscape level (peat dome) and identify, withdraw from and restore peatlands and their hydrology. **	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☒ Commitment Not Met ☐ Insufficient Information Available Description of the finding: Manager interviews confirmed the organization give preference for FSC certified suppliers, however, not documented specifically giving preference to suppliers that have management measures to protect forest and peatlands.
Summary: The organization has no procedure or requirement to evaluate supplier's performance in reducing GHG.	

12. Pollution Prevention

Indicators	Findings
12.1 This verification process <u>will not</u> address the pulp and viscose manufacturing process which can lead to air and water emissions that impact overall environmental quality. However, it will be noted when MMCF producers invest in and use the cleanest dissolving pulp and viscose manufacturing technology (i.e. lyocell process). The indicators will be the number of mills using such cleaner processes and the % of overall volumes produced with such	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☒ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available

technology. This information will be treated and framed as additional bonus performance by the MMCF producer.

Description of the finding:

The organization has one unique intellectual property of technology, which is with the same input of energy and time and the production efficiency is triple to other viscose mills, which could dramatically improve the energy efficiency and reduce the air and water emission. And, the organization is planning and testing to upgrade production line to produce lyocell its manufacture is expected to more environmentally friendly.

Summary: The organization has one unique intellectual property of technology, which is with the same input of energy and time and the production efficiency is triple to other viscose mills, which could dramatically improve the energy efficiency and reduce the air and water emission. And, the organization is planning and testing to upgrade production line to produce Tencel its manufacture is expected to more environmentally friendly.

** Indicates Critical Indicators

Appendix B: STANDARD CHECKLIST (CanopyStyle Verification Framework – Viscose Mill Checklist)

1. Evaluation of Participating site: Chengdu Hiest Fibre Co.,Ltd.

People Interviewed, by Title:	Manager of Import and export business Chairman financial manager administration employee production director production employee finance employee sourcing employee environment protection department director vice director of sewage treatment factory worker at production line
Brief Overview of Audit Process for this Location:	Supplier list was sent to the auditor and reviewed before the audit. Opening meeting for this site was started at 08:30 and auditor introduced the audit team, the relationship between Canopy and NEPCON to the organization. After that the organization give a brief introduction of the organization and the staff involved. In addition, audit scope, audit methods and the audit schedule were recapped. The organization also raised the questions on the following process of the report and the relationship between RA and NEPCON. After the opening meeting, auditor started the interview with the key managers, documentation review and transaction documentation review from 09:00-11:20. From 11:20-11:50, auditor went on-site inspection of the mill. After the on-site inspection, auditor went back to the office for sufficient document review and staff interview from 11:50-12:00. The closing meeting was held from 12:15-12:35 that the general findings and were shown to the organization and no question raised by the organization.
Comments:	

2. Standard Checklist

1. The MMCF producer has publicly communicated and is implementing their Fibre Sourcing/Forest Policy	
Indicators	Findings
1.10 Key managers at each production site/mill are aware of the Policy and demonstrate a similar commitment to implement it. **	Conformance with Indicator: ☐ Not Applicable ☒ Commitment Met

	☐ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The policy was public on the website http://www.cn-grace.com/show-13-419-1.html. Trainings on Canopy and wood sourcing policy were also held Jan 4, 2019. Auditor interviewed with the Chairman and key managers sampled of this site introduced the training content including the wood sourcing policy, definition of ancient and endangered forests and controversial sources clearly. The primary contact of the organization told the auditor that a complete training is undergoing and planned to be finished by the end of Jan 2019.
1.11 Each production site's/mill's managers have developed procedures to implement the Policy, when relevant. **	Conformance with Indicator: ☐ Not Applicable ☒ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: Organization has updated the sourcing management procedure that ensures the wood sourcing policy is implemented. Auditor reviewed the sourcing management procedure that the organization has stopped sourcing from high risk suppliers which were also shown on the http://www.cn-grace.com/show-13-419-1.html. The organization shall collected legal documents of the material received from the supplier including certificate of origin, species and identification of the forest of origin etc. to ensure the purchasing is in accordance with legal requirement. From the interview with manager of Import and export business, auditor was told her working procedures clearly. Related trainings on the commitment and Canopy requirement were held in the Import and export business dept that the staff of the dept. sampled for interview also introduced their working procedures which is in accordance with the wood sourcing policy.
Summary: Wood Sourcing Policy has been established and public on the website of the organization. Sourcing management procedure is updated including measures of suppliers' verification and transaction documents verification etc. Trainings were on related procedures and Wood Sourcing Policy was also held.	

2. Sourcing from transparent supply chains that are in conformance with the policy.

Indicators	Findings
2.6 The production site/mill maintains all <u>purchase and sales</u> documentation related to the wood fibre <u>inputs</u> . Such documentation includes an identification of the forest of origin.	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☒ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The organization import the pulp from foreign supplier that related purchase and sales documentation which is in accordance with the Customs Law such as purchase contract, certificate of origin, bill of lading, purchase invoice and packing list. However, the organization didn't keep the documentation to identify the forest origin or species info.
2.7 The mill/production site maintains all <u>delivery documentation</u> received with the wood fibre <u>inputs</u> . Such documentation includes an identification of the forest of origin.	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☒ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The organization import the pulp from foreign supplier that related purchase and sales documentation which is in accordance with the Customs Law such as purchase contract, certificate of origin, bill of lading, purchase invoice and packing list. However, the organization didn't keep the documentation to identify the forest origin or species info.
2.8 When sourcing from certified or verified land origin, the supplier code and claim for the applicable third-party verification is included on sales and delivery documentation.	Conformance with Indicator: ☒ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The material received are not certified or verified by applicable third-party.
2.9 The production site maintains a summary of annual purchases and then sales to the MMCF producer.	Conformance with Indicator: ☐ Not Applicable ☒ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met

	☐ Insufficient Information Available Description of the finding: Auditor reviewed the annual volume summaries of the organization that the template including the total quantity received, total quantity used, existing stock and the current stock. The quantity received from each supplier was also recorded by the organization.
2.10 All Suppliers provide <u>outgoing</u> transportation documents that include the forest/plantation of origin and certification status if relevant	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☒ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The supplier provides the organization purchase contract, certificate of origin, purchase invoice and packing list. All the material received by the organization are without any certification status. The forest of origin or species info was not provided by the suppliers.
Summary: The organization keeps related transaction documents which is in accordance with the Customs Law. The organization does not keep the documentation to identify the forest origin or species info nor the suppliers provide related documents.	

4. Sourcing from ancient and endangered forests and other controversial sources have been eliminated.

Indicators	Findings
4.4 The production site/mill is aware of all relevant local, national and international laws and there is no evidence of non-compliance, with local, national or international laws.**	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☒ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The organization has identified the laws shall be followed and the list and texts of laws and regulations were reviewed by the auditor. The managers of each key position demonstrated the laws and regulations they shall follow clearly. Such as the financial manager explained the laws of taxes. Environment protection manager explained the environment protection laws. However, the international conventions were not kept or trained by the organization. The key managers sampled for interview were also not clear the content of international convention.

4.5 Production site/mill understands the definitions of Ancient and Endangered forests and controversial sources. They also comply with the commitment to not procure wood from Ancient and Endangered forests and controversial sources.	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☒ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The management level of the organization all explained their understandings on ancient and endangered forests and controversial sources. Chairman explained the definitions of Ancient and Endangered forests and controversial sources combined with the definitions of HCV, natural forest and RTE species. The directors of each department such as production department, environmental protection department, financial department and etc. also told the auditor the essential meaning of the definitions of ancient and endangered forests and controversial sources which is in accordance with the definitions defined in the sourcing management procedure. However, the supplier risk assessment is not sufficient to identify if any fibre from ancient and endangered and the organization didn't source any FSC certified fibre, therefore, this indicator is being graded as commitment in progress.
4.6 Production mills have conducted assessment of presence of ancient and endangered forests and other controversial forests in their wood supply areas.	Conformance with Indicator: ☒ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The assessment was conducted by the group headquarter.
4.7 The sourcing from regions that contain Ancient and Endangered forests and other controversial sources is verified to low risk by this CanopyStyle audit.	Conformance with Indicator: ☒ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: Risk assessment and supplier assessment were conducted by the group headquarter.

Summary: The organization has identified the laws shall be followed and the list and texts of laws were well kept by the organization. Key managers of each position demonstrated the laws and regulations they shall follow clearly and clear about the definitions of ancient and endangered forests and controversial sources. Supplier assessment and material sourcing risk were evaluated by the headquarter. However, the international conventions were not kept or trained by the organization. The key managers sampled for interview were also not clear the content of international convention.

5. Actions if suppliers contravene criteria	
Indicators	Findings
5.4 Production sites/mills have a documented program for monitoring performance of suppliers which includes procedures for identifying non-conformances to the CanopyStyle policy and sanctions to suppliers in such cases where non-conformances are identified.	Conformance with Indicator: ☒ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: Supplier performance monitoring program was conducted by the headquarter.
Summary: Supplier performance monitoring program was conducted by the headquarter.	

Appendix C: STANDARD CHECKLIST (CanopyStyle Verification Framework – Viscose Mill Checklist)

1. Evaluation of Participating site: Yibin Grace Mill

People Interviewed, by Titles:	manager of production staff of viscose production line 1 staff of viscose production line 2 staff of viscose production line 2 manager of warehouse staff, warehouse staff, environment protection department
Brief Overview of Audit Process for this Location:	After the group office audit, the auditor conducted the mill inspection in the afternoon of Jan 11. There are two production lines with Yibin mill, one for manufacture of the staple viscose, one for viscose filament. Both were visited by the auditor. During the onsite inspection, auditor interviewed staff on the production lines randomly. The auditor visited warehouse for raw materials and final products, checked the warehouse in-record and out records, and interviewed staffs. The auditor interviewed the environment protection department and reviewed the duly monitoring data of air/water emission.

2. Standard Checklist

1. The MMCF producer has publicly communicated and is implementing their Fibre Sourcing/Forest Policy	
Indicators	Findings
1.10 Key managers at each production site/mill are aware of the Policy and demonstrate a similar commitment to implement it. * *	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☒ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The auditor interviewed staff and managers in production lines and warehouse, all people interviewed were fully aware of policy and demonstrated commitment to implement the policy. The production manager told auditor they

	had participated training on policy and record records shared with auditor for review.
1.11 Each production site's/mill's managers have developed procedures to implement the Policy, when relevant.**	Conformance with Indicator: ☒ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The procedure of implementation policy is developed by the group office.
Summary: All people interviewed were fully aware of policy and demonstrated commitment to implement the policy.	

2. Sourcing from transparent supply chains that are in conformance with the policy.

Indicators	Findings
2.6 The production site/mill maintains all <u>purchase and sales</u> documentation related to the wood fibre <u>inputs</u> . Such documentation includes an identification of the forest of origin.	Conformance with Indicator: ☒ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: All purchase/sales function for the mill is done the group, documents are maintained in the group office.
2.7 The mill/production site maintains all <u>delivery documentation</u> received with the wood fibre <u>inputs</u> . Such documentation includes an identification of the forest of origin.	Conformance with Indicator: ☒ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: All purchase/sales function for the mill is done the group, all delivery documents are maintained in the group office.
2.8 When sourcing from certified or verified land origin, the supplier code and claim for the applicable third-party verification is included on sales and delivery documentation.	Conformance with Indicator: ☒ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met

	☐ Insufficient Information Available Description of the finding: All materials purchased by the organization are non-certified.
2.9 The production site maintains a summary of annual purchases and then sales to the MMCF producer.	Conformance with Indicator: ☒ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The summary of annual purchase and sales are maintained in the organization's internal supplier management system and sale system.
2.10 All Suppliers provide <u>outgoing</u> transportation documents that include the forest/plantation of origin and certification status if relevant	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☒ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The outgoing transportation documents didn't include the info of forest origin.
Summary: All sales and purchase documents are not maintained in the mill, therefore, the indicators above are not applicable to the mill level. The outgoing transportation documents didn't include the info of forest origin.	

4. Sourcing from ancient and endangered forests and other controversial sources have been eliminated.

Indicators	Findings
4.4 The production site/mill is aware of all relevant local, national and international laws and there is no evidence of non-compliance, with local, national or international laws.**	Conformance with Indicator: ☐ Not Applicable ☒ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The manager of the production is fully aware of regulation and legal requirements. As the state-owned company, the organization set up higher

	standard for themselves not only to be compliance the law but also demonstrated to be the leading enterprise in Yibin city. There is no evidence of non-compliance to the national and international law by the organization.
4.5 Production site/mill understands the definitions of Ancient and Endangered forests and controversial sources. They also comply with the commitment to not procure wood from Ancient and Endangered forests and controversial sources.	Conformance with Indicator: ☐ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☒ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The random interviews to all staff in the production site demonstrates all of them know the general concept of the ancient and endangered forests. The group office is responsible for the implementation of the policy for the mill. However, the supplier risk assessment is not sufficient to identify if any fibre from ancient and endangered forests and the organization didn't source any FSC certified fibre, therefore, the implementation of the commitment is weak.
4.6 Production mills have conducted assessment of presence of ancient and endangered forests and other controversial forests in their wood supply areas.	Conformance with Indicator: ☒ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: The assessment is done by the group office.
4.7 The sourcing from regions that contain Ancient and Endangered forests and other controversial sources is verified to low risk by this CanopyStyle audit.	Conformance with Indicator: ☒ Not Applicable ☐ Commitment Met ☐ Commitment in Progress ☐ Commitment Not Met ☐ Insufficient Information Available Description of the finding: Supplier verification is done by the group office.
Summary: The manager of the production is fully aware of regulation and legal requirements.	

5. Actions if suppliers contravene criteria

Indicators	Findings
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5.4 Production sites/mills have a documented program for monitoring performance of suppliers which includes procedures for identifying non-conformances to the CanopyStyle policy and sanctions to suppliers in such cases where non-conformances are identified.

Conformance with Indicator:

- ☒ Not Applicable
- ☐ Commitment Met
- ☐ Commitment in Progress
- ☐ Commitment Not Met
- ☐ Insufficient Information Available

Description of the finding:

Supplier control and monitoring system is managed by the group office.

Summary:

Appendix D: RECOMMENDATIONS FOR IMPROVEMENT

Recommendations made by Canopy
5 May 2019

Canopy applauds Yibin Grace embarking on the verification process very quickly after joining CanopyStyle in 2018, and for making progress on tracing its supply, conducting worker training, initiating the collection of forest of origin information and the elimination of a controversial source from Indonesia. These are important first steps for reducing risk in your supply chain.

Continuous improvement over time will be required to fully implement the commitment throughout the company's supply chain. Additional work is required to meet all of the critical and progressive criteria, and to lower the risk of sourcing from ancient and endangered forests and other controversial sources.

Based on the review of the audit report, Canopy recommends that immediate action be taken to:

1. Eliminate or address all remaining controversial sources (in particular the sourcing geography of one dissolving pulp supplier is in the Brazilian Amazon region, where concerns of illegal logging activities exist);
2. Assess risk for all trial materials (Lenzing, Mondi and Phoenix);
3. Share current risk assessment with Canopy and the Leaders Working Group.

In addition, it is an expectation of the CanopyStyle Initiative that Yibin Grace continue to collect forest of origin information including GPS points, GIS coordinates and/or shapefiles from its dissolving pulp suppliers, which will allow for an overlay with the Canopy ForestMapper (map of ancient and endangered forests).

Based on the information collected, Yibin Grace can then review and update its risk assessment, ensure it is aligned with the CanopyStyle requirement to avoid sourcing from Ancient & Endangered forests & controversial sources, and then ensure the system to monitor the raw material input allows to track the right information.

In the case that information on the forest of origin cannot confirm a low risk rating or in the case that forest of origin information is not being shared by the dissolving pulp supplier, Yibin Grace may need to take further actions. These actions may include providing additional documentation that verifies full compliance with CanopyStyle policy expectations, and/or exclusion of further sourcing from this/these supplier(s), and/or additional assessment of the dissolving pulp supplier at their corporate office, mills and/or forest harvesting sites.

In the future, Yibin Grace should consider sharing such forest of origin information and certification information with its customers to help track and trace the fiber assessed as low risk of sourcing from ancient and endangered forests and other controversial sources.

It also is recommended that Yibin Grace:

- Publish its list of suppliers on the company website;
- Develop a plan to increased FSC certified fiber inputs (those with FSC claims);
- Track, and keep records of all purchases orders;
- Examine the use of alternative fibers (agricultural waste, recycled textiles, recycled pulp) and initiate partnerships to develop new product lines made of such innovative materials.

As mentioned in the CanopyStyle audit framework, ongoing regular audits and/or random site visits will be essential to ensure that Yibin Grace continues to implement their policy and meets the expectations of the CanopyStyle Initiative.

Once again, we congratulate you for the timely completion of the audit and for taking early steps to reduce risk in your supply chain. We look forward to working collaboratively with Yibin Grace to address any outstanding issues.
