Technical Report
No. 06/SBQ v. 0

Procedures for Implementation and Verification of the Chain of Custody of Grains and Vegetable Oils

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TECHNICAL REPORT No. 06/SBQ v. 0

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1. PURPOSE

The purpose of this Technical Report is to establish operational details, complementary to the procedures established in ANP Resolution No. 758, pursuant to art. 36, for the implementation of a chain of custody within the scope of RenovaBio, aiming at verifying the traceability of energy biomass, especially grains and vegetable oil, from the producer of energy biomass to the producer of biofuels, including possible intermediaries.

2. REFERENCE DOCUMENTS

- Law No. 13,576, of December 26, 2017;
- Decree No. 9,888, of June 27, 2019;
- Decree No. 9,964, of Sunday, August 4, 2019;
- ANP Resolution No. 758, of November 23, 2018; and
- Technical Report nº 02/SBQ – Procedures for the Certification of Efficient Production or Import of Biofuels.

3. SCOPE

This Technical Report applies to grain and vegetable oil supply chains, which produce and supply energy biomass to biofuel producers who wish to obtain Certification of Efficient Biofuel Production.

In general, the following links can be part of the supply chain:

- producers of energetic biomass (individual or legal entity);
- intermediaries (individual or legal entity), who are between the producer of energetic biomass and the producer of biofuels. Examples of intermediaries are warehouses, trading companies, cereal producers, cooperatives and oil extraction plants, among others;
- biofuel producers.

The operational details and additional information contained in this Technical Report are applicable to "intermediaries" and "biofuel producers", as described in sections 5 and 6.

The content of this Technical Report must be applied to all raw materials acquired from January 2023 onwards. There are no restrictions for applications of the Technical Report in 2022.

4. DEFINITIONS

For the purposes of this Technical Report, the following definitions apply.

4.1 - Mass balance

Chain-of-custody model in which traceable energy biomass (eg corn grain, soy grain or oil) can be physically mixed with energy biomass that has no traceability and with different characteristics (originating from different producers). It is based on controlling the amount of biomass that is acquired or received by one link in the supply chain sufficient to be sold or transferred to the next link, so that the amount of biomass sold or transferred by each link does not exceed the amount acquired or received by him previously. The Mass Balance works as a method that collects data, maintains records and reconciles inputs ("credits") and outputs of material ("debits"). It is possible to have more than one type of input raw material and/or output product, each type having its own mass balance.

4.2 - Chain of custody

Process by which information regarding raw materials, intermediate products and final products is transferred, monitored and controlled as it progresses through each stage of the supply chain.

4.3 – Input (credit) of material (traceable)

Quantity of energetic biomass (grains or oil) duly identified and documented in the chain of custody management system, which entered the stock of an intermediary or biofuel producer in a given period. This entry takes place through the transfer of legal possession of material from an energetic biomass producer or another intermediary.[1] to the intermediary or producer of biofuel.

4.4 -Inventory

Set of raw material for the production of biofuels (grain or oil) that is physically available in a given location or under the ownership of intermediaries until the moment it enters the production process or goes on to commercialization.

4.5 - Conversion factor

It is the factor that describes the change in the quantity of a specific material due to its processing or transformation into a new product (be it intermediate or final). For example, there is a soy bean to soy oil conversion factor, which indicates the amount of beans used to produce a given amount of soy oil. The conversion factor is specific to a particular type of material, product and location where processing takes place.

4.6 - Intermediary

Individual or legal entity that, as a raw material distributor (in this case, corn grain, soybean grain or oil, palm oil or palm oil, etc.), purchases from the energy biomass producer or from another intermediary to resell to a biofuel producer or to another intermediary. The intermediary can carry out physical storage of energy biomass or, in cases where there is no physical storage, carry out commercial intermediation of the material. Examples of intermediaries are warehouses, trading companies, cereal producers and oil extraction plants. Biomass producer cooperatives are also considered intermediaries since they act in the commercialization with the next link in the chain.

4.7 - Eligible material

Biomass duly identified and documented in the chain of custody management system, in accordance with the procedures of this Technical Report, which was verified by an accredited inspection firm and meets the eligibility criteria of the biomass producer, according to ANP Resolution No. 758/2018 (chapter V, articles 23 to 27). Consists of vegetable oil and/or grains from areas verified as eligible during the certification audit of a biofuel producer.

4.8 - Traceable material

Energy biomass duly identified and documented in the chain of custody management system, in accordance with the procedures described in this Technical Report.

4.9 - Chain of custody model

Refers to the type of approach used to control and identify material traceability information in a given supply chain. The "physical segregation" and "mass balance" models provided for in ISO 22095:2020 are accepted for the purpose of proving the eligibility criteria for energy biomass in the Biofuels Certification.

[1] *When a storage service occurs, without transfer of legal ownership, so that the invoice is issued by the producer of energetic biomass for the biofuel production plant, it can be considered a direct purchase.*

4.10 - Oil extraction plant

Industrial unit that produces vegetable oil for various purposes (for example, crude oil for plants producing biofuels, refined oil for food companies, etc.).

4.11 - Proof of traceable material

Document that links the purchase of material (grains or vegetable oil) with the rural property in which the energetic biomass was produced, allowing the material to be traced back to the rural property where it originated. The proof of material is not intended to prove the eligibility or carbon intensity of the energetic biomass, but its traceability through the use of mass balance or physical segregation chain of custody models (see details of the minimum content and requirement proof of material in section 5.4 of this Technical Report).

4.12 - Traceability

Ability to identify and follow the entire path of energetic biomass, from its origin to its use for biofuel production. Within the scope of this Technical Report, traceability is ensured by means of supporting documentation that identifies and relates the origin and respective quantities of energy biomass sold and used. Examples of documents and records that support traceability are the rural property code in the CAR (which makes it possible to identify the location of the rural property), invoices and product transport notes (which make it possible to identify the parties involved in the sale of biomass, dates of movement, transported and commercialized quantities) and production reports (which allow the identification of conversion factors when industrial processing takes place), among others.

4.13- Output or debit of material (traceable)

Quantity of material (grain or oil) duly identified and documented in the chain of custody management system that left the intermediary's stock in a given period. This exit takes place through the physical transfer or sale of material to another intermediary or biofuel producer. Debt also occurs when grains or vegetable oil are used to manufacture biofuel.

4.14 - Physical Segregation

Chain of custody model where traceable material (grain or vegetable oil) cannot be physically mixed with untraceable material.

4.15- Chain of custody management system

A set of measures that support the responsibility for the custody of materials, including controls over the ownership and transfer of the material's storage location within the supply chain, in order to ensure that the characteristics and information declared about a given material are those actually provided at the output.

5. CHAIN OF CUSTODY IMPLEMENTATION PROCEDURES

Intermediaries that intend to sell traceable material must establish, implement and maintain a chain of custody management system, covering the procedures and guidelines described in this Technical Report, applicable to their activities.

The biofuel producer who purchases energy biomass or vegetable oil from intermediaries must ensure that traceable material, which can later be counted as part of the eligible material, is always supported by a duly documented, robust and auditable chain of custody.

It is important that all links in the supply chain are identified, including the types of activities they carry out, the locations through which materials pass, and the controls and records tthat are in place at these locations.

A biofuel producer's supply chain can be fed directly by the energy biomass producer, or by a combination of several product streams that pass through intermediaries (Figure 1). The flows (A), (B) and (C) represented below are just examples and can coexist in the same biofuel producing plant.

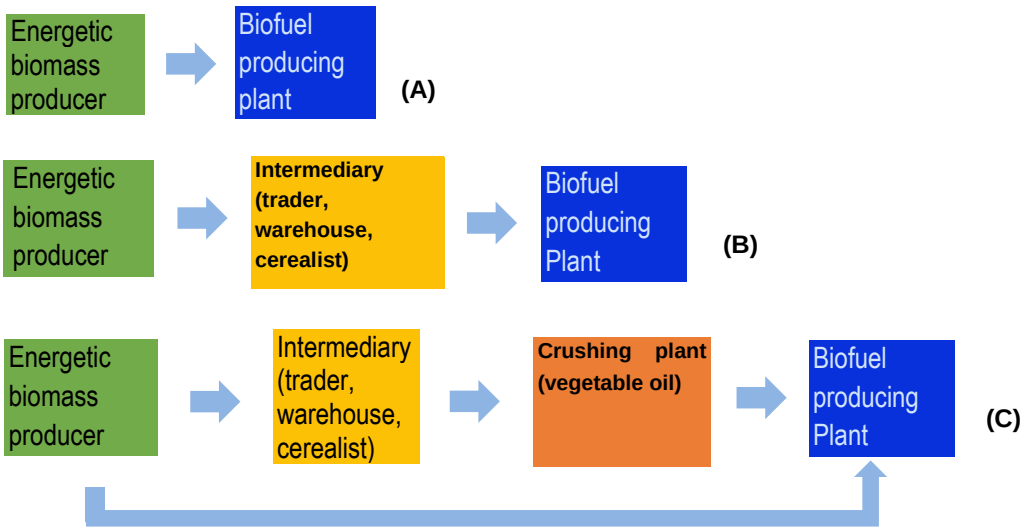

Figure 1: Supply chains commonly observed in biofuel production*

*being: (A) The biofuel producing plant purchases grains directly from the energy biomass producer; (B) The biofuel producing plant purchases grain from intermediaries, such as warehouses, trading companies, cereal producers or producer cooperatives; (C) The biofuel producing plant buys vegetable oil from crushers (and these can receive grains directly from the biomass producer or from intermediaries).

In cases of certification of a biofuel producer who has purchased from intermediaries who provide traceable material, the biofuel producer is responsible for the entire flow of information at each previous link in its supply chain.

Attention should be paid to cases where a biofuel producer also acts as an intermediary, trading grain and/or vegetable oil. In this specific case, the chain of custody procedures described in this Technical Report applicable to intermediaries would also apply to the biofuel producer that is acting as an intermediary.

We emphasize that the sale operation to order from the producer of energetic biomass to the producer of biofuel is considered in this Technical Report as a direct purchase, and the chain of custody management procedures are not applicable. The documentation proving traceability in these situations must be the one described in item 5.4.

The following topics describe the elements required to establish a chain of custody system.

5.1. General management system requirements

The intermediaries and producers of biofuels involved in the chain of custody must implement and maintain a system for managing the traceability of the energetic biomass to be used in the certification process of the efficient production of biofuels, appropriate to the type, size and complexity of their operations. The main components of the management system are:

- Responsibility and authority: The biofuel producers and intermediaries that process and/or sell traceable material must appoint a representative of the organization with responsibility and authority to implement and evaluate the chain of custody requirements described in this Technical Report.
- Qualification and training of personnel: The representative designated by the biofuel producer or intermediary must know the processes and procedures of the chain of custody and have the necessary competence to implement the applicable requirements (for example, through the allocation of resources and trained personnel and the provision of adequate infrastructure, amongst others). The training must be provided to all the workers (their own or third parties) who carry out activities that directly impact the management of the chain of custody and the traceability of energetic biomass to be used in the Biofuels Certification process.
- Internal procedures: work instructions must be available for the functions that perform activities to control the traceability of energetic biomass to be used in the Biofuels Certification process, in order to ensure its correct implementation and consistency. Each organization will be able to define the type of procedure appropriate to its activities, size and complexity. Procedures can be documented or made available in a format that meets your purpose.
- Records: All parties involved in the chain of custody must maintain complete and up-to-date records, covering the applicable requirements described in this Technical Report. Relevant records for the chain of custody are: material purchase and sale documents, material transport notes, material input and output weighing scale tickets, records of applicable training, data used in the mass balance, production reports of oil (in the case of crushers), copies of the "Traceable Material Evidence" received and issued, among others.

A system of control and storage of records must be implemented. Records must be kept in an accessible and auditable format, which may be in physical and/or electronic media. The minimum period for maintaining chain of custody records is 5 years.

The lack of an adequate management system may result in the disregard of the volume of eligible biomass acquired from the intermediary, since it will not be possible to guarantee the traceability of the origin of the raw material.

5.2. Chain of Custody Models

The traceability models described below are applicable to crushing plants and other types of intermediaries. The "Physical Segregation" and "Mass Balance" models can be used in Biofuels Certification. The intermediary can select one of the models or implement both models simultaneously. Material traceable under physical segregation may be considered as input to a mass balance, but material that originated in a mass balance should never be considered to have originated from physical segregation. This is due to the fact that in the mass balance there was already a mixture of materials, and it is not possible to guarantee their segregation in a next link in the chain of custody.

A. Physical Segregation

As defined earlier, this is a chain of custody model in which there is no physical mixing of traceable and untraceable material. This means that at any stage, whether in production, transport, storage or processing, traceable materials must be kept separately from other materials. Physical mixing of different batches of traceable materials is permitted.

The diagram in Figure 2 illustrates the "Physical Segregation" model.

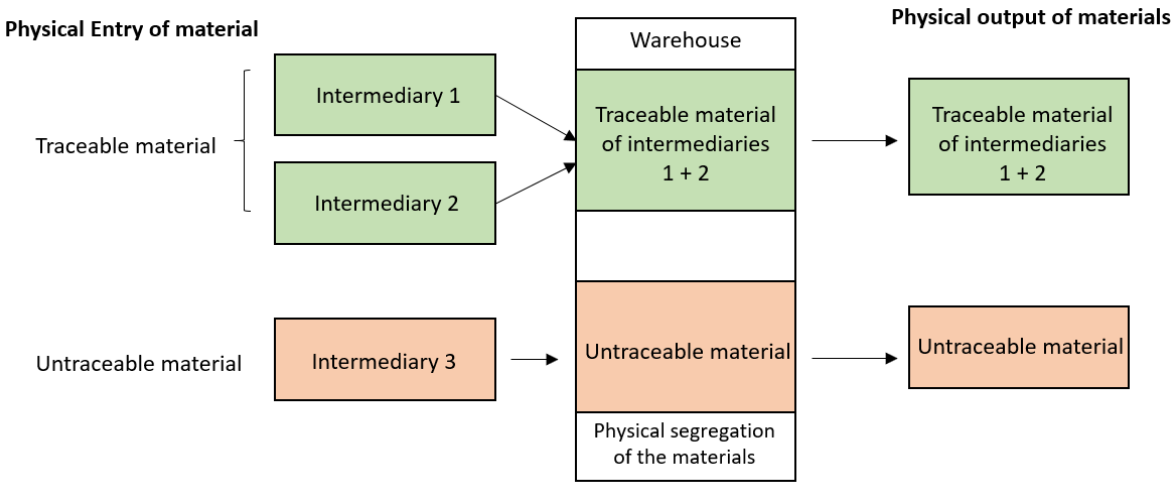

Figure 2: Physical segregation in the grain and vegetable oil chain, in an example of inputs and outputs of traceable materials in an intermediary.

When traceable material, originating from different producers or intermediaries, has different carbon intensities, traceability must be covered by the "mass balance" method.

Whenever material is processed, the industrial process conversion factor must be recorded (see definition in section 4 "Definitions"). In the case of warehouses, it is not necessary to apply the conversion factor, as there is no processing of the material into a new product (the warehouse receives and dispatches grain) and possible losses in storage and transport are not accounted for for chain of custody purposes.

Chain-of-custody controls for the Physical Segregation model are site-specific, that is, for a facility that has a clearly defined geographic location and boundaries. Therefore, if the same intermediary has more than one warehouse or more than one crushing plant, each warehouse or plant must maintain its own input, output and stock controls.[2]

B. Mass balance

The method of mass balance by inputs and outputs ("credits and debits") makes it possible to maintain the traceability of energy biomass even when there is a mixture of traceable material with untraceable material. The mass balance method by credits and debits is the accounting of the quantities of inputs and outputs of traceable material.

The registration of entries and exits of traceable material must be carried out in the chain of custody management system. The accounting must be kept linked to the origin of the energetic biomass at the rural property level (by registration in the CAR).

The mass balance is site-specific, that is, for the unit that has a clearly defined geographic location and boundaries. Therefore, if the intermediary has more than one warehouse or more than one crushing plant, each warehouse or plant must maintain its own mass balance calculation, based on the inputs and outputs of each specific plant. It is not allowed for different locations to transfer or share credits and debits among themselves, even when they belong to the same individual or legal entity.

The mass balance is specific for each type of material. It is not allowed to transfer recorded input and output data for one type of grain and allocate the mass balance to other types (eg transfer data from corn to soybeans and vice versa).

The credit and debit mass balance method is illustrated in the diagram in Figure 3. The same diagram applies to cases of grain warehouses and oil extraction plants.

Physical output of material

[2] *The physical segregation is not the most used model in grain supply chains for biofuel production purposes, as the physical characteristics of traceable material do not differ from those of untraceable material. In general, physical segregation requires stricter controls, adequate infrastructure and physical space, as well as specific logistics to keep materials physically separated.*

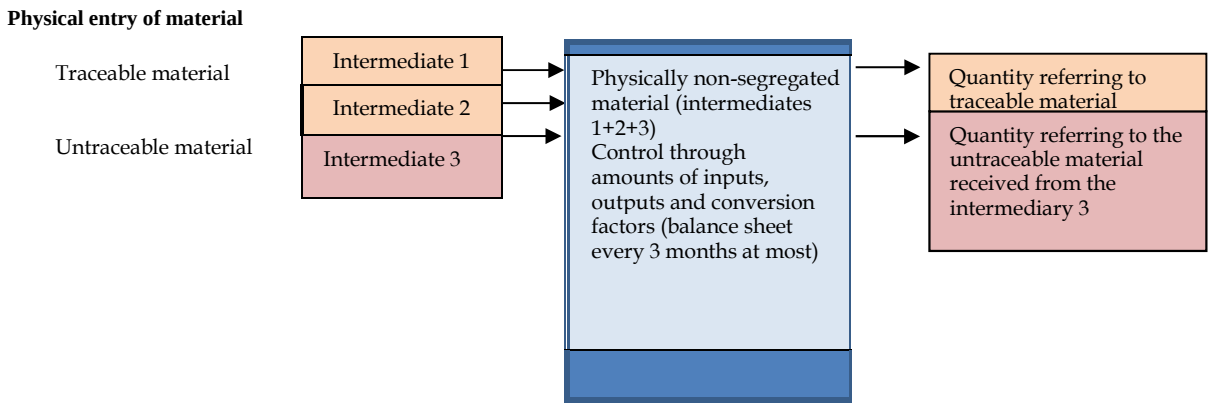

Figure 3: Representative diagram of the Mass Balance method, in an example for grain received and shipped from a warehouse (intermediary).

The mass balance must be calculated according to Equations 1-3:

$$Credit = Balance_{previous} + (M_{input} \times factor_{onversion}) \quad (1)$$

$$Debit = M_{output} \quad (2)$$

$$Balance_{current} = Credit - Debit \quad (3)$$

Where

$Credit$ is the current credit of traceable material existing in the intermediary, reported in the same unit as the output material (either grain or vegetable oil).

$Balance_{previous}$ is the remaining credit of material traceable in the intermediary's mass balance accounting system, existing before the entry of new material. The value must be informed in the same unit of output material (grain or oil).

M_{Input} is the amount of traceable material purchased or received by the intermediary. The value must be informed in the receiving unit and converted to the same unit as the output material when being multiplied by the conversion factor, where applicable.

M_{Output} is the amount of traceable material that has been sold or transferred by the intermediary to the next link in the chain. The value must be informed in the sales unit. It is the same as "debit" or .

$factor_{conversion}$ is the conversion factor of the industrial process, when there is material processing.

The amount of recorded outputs (debits) of each type of material must always be equivalent to the physical input (credit), taking into account a conversion factor when the input material is processed (for example, when the input is represented by grains and the output by vegetable oil). In this case, a conversion factor is used that depends on each material or product and its industrial processing.

This factor must be documented in the chain of custody management system, in order to reconcile inputs and outputs of different natures in the industrial process - for example, the input of energetic biomass and the output of oil. The conversion factor must be accounted for at least annually and supported by production records (eg annual consumption of grain in the process and total oil produced) that confirm the reported data.

When audits are carried out, the conversion factors can be compared with those usually observed for similar processes, in order to verify their plausibility, when necessary. In the case of warehouses, it is not necessary to apply the conversion factor, as there is no processing

of the material into a new product (the warehouse receives and dispatches grain, and losses in storage and transport are tolerable and are not accounted for for chain-of-custody purposes).

The mass balance calculation period must be at most annual, when inputs and outputs are reconciled. In any case, the calculation must be completed within the calendar year, by 12/31 of each year, and it is not allowed to transfer traceable material balance to the next calendar year.

For the calculation of the mass balance, an "accounting" system must be implemented (*bookkeeping*) to record and control inputs and outputs, as well as considering the other requirements described above.

This Technical Report is not prescriptive in relation to the accounting system to be adopted by producers or intermediaries, provided that it is correctly used and auditable. For example, it may consist of a simple spreadsheet (whose data are supported by documentary evidence), or a more sophisticated database or system, or integrated with other systems that already exist in the organization.

5.3. Records and Controls of Material Inputs and Outputs

Regardless of the chain of custody model implemented, the intermediary that is part of the grain or vegetable oil supply chain that serves a certified biofuel producer under Renovabio must record the quantities of traceable material that are acquired, processed and sold.

The following information must be recorded in the entry of material, in the management system of the Buyer intermediary chain of custody:

- Date of acquisition / entry of the material into the intermediary's chain of custody.
- Description of material received.
- Quantity of material received.
- Supplier identification: name, CPF/CNPJ, address, place of origin of the material.
- Code in the supplier's Rural Environmental Registry (CAR) to prove eligibility of purchased energy biomass (there may be multiple numbers of CARs associated with a single purchase).
- Number(s) and dates of the Invoice(s) and Shipping Note(s) associated with the material receipt.
- Copy of the 'Proof of Traceable Material' with its unique number, relating to the input material, when this document accompanies the grain or oil received (in the purchases of intermediaries that provide "traceable material").

The information must be registered in the chain of custody management system after the buyer is in possession of the material (grain or oil) and has ensured that the traceability documentation (invoices, transport notes, "Proof of traceable material") contains the correct information.

For work in process in an oil extraction plant, the following information must be recorded:

- Process description.
- Conversion factor.

For traceable material outputs, must be registered in the supply chain management system. seller intermediary custody:

- Date of sale/output of the material.
- Description of the material sold.
- Quantity of material sold.
- Buyer identification: name, Natural Persons Register, address, place of destination of the material.
- Code(s) in the Rural Environmental Registry (CAR) of the biomass producer(s) linked to the material sold.
- Numbers and dates of the Invoice(s) and Shipping Note(s) associated with the sale of the material.

- Copy of the 'Proof of Traceable Material' with its unique number, relating to the output material, when this document accompanies the grain or oil sold (in sales of 'Traceable Material').

Section 5.4 below describes in detail the content of the “Traceable Material Evidence”.

5.4. Traceable Material Proof

“Proof of traceable material” is the document issued by the intermediary, which accompanies the delivery of traceable materials. It contains relevant information about the origin of grains and/or vegetable oil when they are moved (through purchases and sales) along the supply chain.

The “Traceable Material Proof” allows the intermediary to link the traceable material sold to the rural property in which the energetic biomass was produced, recording its traceability. Each “Traceable Material Evidence” has a unique identification number, controlled by the intermediary that carries out its issuance.

“Traceable Material Proof” can aggregate multiple material outputs, which are part of transactions between the intermediary and the next link in the chain of custody. The maximum period of aggregation of sales to be included in a single “Proof of Traceable Material” is one year. It should be noted that the information contained in the same proof of material must refer to the same calendar year, that is, information on the purchase of biomass from the biomass producer to the intermediary that occurred between January 1st and December 31st of a particular year.

The Proof of Traceable Material may be issued in the subsequent calendar year provided it does not contain information from different calendar years.

The “Traceable Material Proof” must be issued by the intermediary only for sales of materials whose traceability is covered by the chain of custody, for which it is possible to list the producers of energetic biomass and the respective CARs of the rural properties of origin. The “Traceable Material Evidence” may contain information from an individual producer or a group of energy biomass producers, as well as from one or a set of CARs from those producers.

Non-Traceable Materials cannot be included in the “Traceable Material Evidence”.

The data to be filled in the “Evidence of Traceable Material” and which are preserved throughout the chain of custody are:

a) Unique “Traceable Material Proof” number, by which it is identified in the intermediary’s chain of custody management system.
b) Document issuance date.
c) Identification of the issuing intermediary (name, Natural Persons Register, address).
d) Description of the material sold.
e) Quantity of material sold.
f) Recipient identification (name, Natural Persons Register, address).
g) Number(s) of the invoice(s) referring to the material(s) sold by the intermediary and which are covered by the “Proof of traceable material”.
h) Traceability data of the material sold, back to the origin of the biomass:
    i. Name, Natural Persons Register and address of energy biomass producers.
    ii. Code(s) of energy biomass producer(s) in CAR.
    iii. Reference to the numbers of the Bill of Lading or Bill of Lading from the producer of energetic biomass to the intermediary, when necessary.

The intermediary must maintain the “Traceable Material Proof” of the traceable biomass it sells so that such material can continue to be considered traceable by the next link in the chain. The intermediary is not responsible for carrying out an analysis of the eligibility of the energetic biomass that it sells, but must collect and pass on the information associated with the material so that such analysis is carried out by the biofuel producer (in the certification process).

The ANP will provide a form to fill in the “Proof of traceable material” for use by intermediaries who sell traceable material. If intermediaries want to use their

own form template, must ensure that all the fields indicated in this Technical Report are duly contemplated and filled out.

5.5. Traceable material inventory

All material available in stock that is traceable must be debited from the total quantity on hand whenever it is used, transferred to another location or sold. This way, the control of entry and exit of traceable materials, within the criteria of RenovaBio, must be implemented as part of the chain of custody management system.

All traceable material must be linked to an energy biomass producer and CAR that originated the final quantity to be transferred or used.

All traceable material must be linked to proof of material that documents the traceability of the biomass to be transferred or used.

Records of traceable material movement data must be available for reference during audits and must be kept up to date.

The intermediary and the producer of biofuels must ensure that the amount of traceable biomass acquired or commercialized is registered in the chain of custody management system and stored for a minimum period of five years.

6. PROCEDURES AND GUIDELINES FOR INSPECTION COMPANIES DURING THE VERIFICATION OF GRAIN TRACEABILITY DOCUMENTS

Verification of the chain of custody can take place during the following processes within the scope of RenovaBio:

a) In the Biofuels Certification of the biofuel producer with stock formation;
b) In the Biofuels Certification of the biofuel producer with the purchase of traceable material (grain or oil) from an intermediary.

In the case of item b), the inspection firm must carry out an audit of intermediaries, being able to carry out a sampling plan following the Technical Report n. 02/SBQ.

6.1. Evidence of documentation when there is a direct purchase of grains by the biofuel producer

The following information and documents are required when verifying the traceability of grains purchased by the biofuel producer through direct purchase from the biomass producer:

a) Identification of the energy biomass producer (eg name, Natural Persons Register, address, other relevant information);
b) CAR number of the energy biomass producer;
c) Invoice for the sale of biomass issued by the biomass producer (issuer) on behalf of the biofuel producer (recipient);
d) Transport invoice or bill of lading, when it is not possible, only with the commercialization invoice, to prove the transport distance from the rural property to the biofuel producer.

The auditable evidence regarding the calculation of eligible volume is the same as in Technical Report No. 02/SBQ (item 4.4). The auditable evidence regarding the agricultural phase of each energy biomass producer is the same as in Technical Report No. 02/SBQ (item 4.6).

6.2. Evidence of documentation when grain is purchased through order sales

The following information and documents are required when verifying the traceability of grains purchased by the biofuel producer through direct purchase from the biomass producer:

As already highlighted in item 5, the sale operation to order from the producer of energetic biomass to the producer of biofuel is considered in this Technical Report as a direct purchase, and the chain of custody management procedures are not applicable. The biofuel producer must, in these cases, store traceability documentation of the origin of this biomass and present the following information and documents to the Inspecting Firm:

a) Identification of the energy biomass producer (eg name, Natural Persons Register, address, other relevant information);
b) CAR number of the energy biomass producer;
c) Invoice issued by the biomass producer on behalf of the biofuel producer (recipient) of "shipment on behalf of third parties" containing CFOP 5923/6923, the number, series and date of the Invoice issued by the original purchaser, as well as its name, address and state and Natural Persons Register registration numbers.
d) Invoice issued by the original purchaser (intermediary) on behalf of the biofuel producer (recipient) containing CFOP 5120/6120, the name of the biomass producer, address, state registration numbers and Natural Persons Register.
e) Transport invoice or bill of lading.

The auditable evidence regarding the calculation of eligible volume is the same as in Technical Report No. 02/SBQ (item 4.4). The auditable evidence regarding the agricultural phase of each energy biomass producer is the same as in Technical Report No. 02/SBQ (item 4.6).

6.3. Documentation supporting the chain of custody of a biofuel production unit involving intermediaries

The following information and documents are required when verifying the traceability of grain purchased from intermediaries:

a) Identification of the intermediary (eg name, Natural Persons Register, address, other relevant information);
b) Number of invoices;
c) Transport invoice or bill of lading, when it is not possible, with only the commercialization invoice, to prove the transport distance from the intermediary to the biofuel producer;
d) Proof of traceable material.

The auditable evidence regarding the calculation of eligible biofuel volume is the same as in Technical Report No. 02/SBQ (item 4.4). The auditable evidence at the biofuel producer level, regarding the agricultural phase of each energy biomass producer, is the same as in Technical Report No. 02/SBQ (item 4.6).

When the Inspecting Firm chooses to use a sampling procedure for biomass suppliers, specific sampling must be carried out in intermediaries for auditing and verification of compliance with the requirements prescribed in this technical report.