



BCTS

BC Timber Sales

File: 10765-01

Advisory Bulletin No. 03/23/09 – Innovative TSL Initiative

PURPOSE

This bulletin provides information and guidance to customers and BC Timber Sales (BCTS) staff about the Innovative Timber Sale Licence (ITSL) Initiative.

BACKGROUND

BCTS is testing ways to improve efficiency, utilization, and minimize the waste of timber through a new innovative Timber Sale Licence. This lump sum form of TSL relies on the combination cruise-based billing and a bonus offer instead of the more common scale-based/bonus bid format. Through these licences, BCTS will market mountain pine beetle-attacked, pulp and other timber throughout the province.

Core objectives of the ITSL Initiative are summarised as follows:

- Complement the Ministry of Forests and Range's mountain pine beetle management objectives to the greatest extent possible (e.g., capture rapidly declining timber values, reducing fire risk and revitalize/reforest affected areas);
- Develop innovative and more efficient methods of competitively pricing low quality and other timber throughout the province;
- Ensure that core forest stewardship objectives are achieved (e.g. Environmental Certification, Forest & Range Practices Act, etc.);
- Explore opportunities to expand the BCTS customer base (e.g., establish BCTS as a reliable supplier of fibre to emerging bio-energy companies and pulp mills); and,
- Maximize the potential utility of ITSL-related cost and pricing data in the context of the Market Pricing System.

DESCRIPTION

Cruise-Based:

Cruise Based licences are authorized under Section 106 of the *Forest Act*. They differ from scale-based licences in that the amount of stumpage payable is calculated using the volume of timber estimated by a cruise of the timber rather than volumes derived from the scale of logs.

Pricing:

Pricing of ITSLs consists of two elements:

- *Total Amount of Stumpage* for the timber; and,
- a *Bonus Offer*.

The *Total Amount of Stumpage* for the timber in an ITSL is equal to the variable cost incurred by BCTS to bring the ITSL to market (e.g., planning, primary road development, and estimated reforestation costs).

The *Bonus Offer* is a lump sum amount in addition to the *Total Amount of Stumpage* that is tendered to acquire the right to harvest Crown timber under the ITSL. A *Bonus Offer* is not a per cubic metre *Bonus Bid* that is tendered for more common scale-based TSLs.

Estimated Volume of Timber:

The *Estimated Volume* of timber will be derived by a Timber Sales Manager using any number of methodologies ranging from a traditional timber cruise to forest cover maps and the related Vegetative Resource Inventory volume and species information. Regardless of which methodology is used, the ITSL tender package will clearly stipulate how the *Estimated Volume* of timber was derived.

Bidding:

The Timber Sales Manager will approve the application submitted by an eligible applicant that tenders the highest *Bonus Offer*.

Deposits:

Deposits for ITSLs are determined in the same manner as those for more common scale-based TSLs. The bid deposit is calculated according to Section 15 (3) of the *BC Timber Sales Regulation* using the *Total Amount of Stumpage* as the “total estimated upset stumpage value” referred to in that section. The final deposit is calculated according to Section 16 (2) of the *BC Timber Sales Regulation*, again using the *Total Amount of Stumpage* as the “total estimated upset stumpage value” referred to in that section. The successful applicant is required to “top-up” the deposit, with the difference between the bid deposit and the final security deposit.

Billing and Payment:

Bonus Offer - In accordance with the *Forest Act*, the *Bonus Offer* must be paid in full regardless of whether the successful applicant (i.e., the eligible person who tenders the application containing the highest *Bonus Offer*) enters into the agreement, subsequently commences timber harvesting (cutting timber), or surrenders the ITSL. The payment schedule may vary from ITSL to ITSL and will be specified in each agreement. For example, billing of the *Bonus Offer* may occur in equal periodic instalments (e.g., monthly, etc.), or concurrent with harvesting, such as one based on the proportion of area from which timber has been cut.

Total Amount of Stumpage - The billing of the *Total Amount of Stumpage* will occur as timber harvesting (i.e., the cutting, removing or knocking down any timber on the cutting authority area) progresses. More specifically, the amount payable at any time is determined on the basis of the proportion of the cutting authority area on which any timber has been cut. In other words, and by way of example, if cutting of any timber has occurred on 15% of the cutting authority area in a given month, the Licensee will be billed that month for 15% of the *Total Amount of Stumpage*. As described above, the billing for that month may also include 15% of the *Bonus Offer*.

The Licensee is responsible for estimating the area on which timber has been cut and submitting monthly reports to the Timber Sales Manager who in turn will periodically confirm those estimates and will forward those reports onto the District Manager for subsequent processing.

Scaling:

The scaling of timber originating from an ITSL is not required for the purpose of stumpage determination; however, log buyers may request that timber be scaled for the purpose of determining payments to contractors.

Waste Assessments:

Waste assessments will not be necessary, since once the Licensee commences harvesting, the Licensee will be billed for the *Total Amount of Stumpage* for the timber, regardless of how much timber is actually cut, or cut and removed. However, in accordance with Section 22 (f)(ii), of the *Forest Act*, a TSL must contain a requirement for the licence holder to pay waste assessments. Therefore, for the purpose of an ITSL, the waste assessment will be the final bill for the remaining unbilled portion of the *Total Amount of Stumpage* for the timber. A waste survey and submission by the Licensee to the Waste System will not be required.

Extensions and Surrender:

The term of an ITSL may be extended in accordance with the *Forest Act* (i.e., 1 year increments up to a maximum term of 4 years). An ITSL may also be surrendered in accordance with the *Forest Act* (i.e., harvesting has not commenced and the surrender occurs prior to the expiration of the agreement); however, as previously noted, the *Bonus Offer* will become payable in full on the date the surrender is accepted.

Licence Expiry:

If the Licensee has commenced, but has not completed harvesting by the time the ITSL term expires, the remaining unbilled portion of the *Total Amount of Stumpage* and the remaining unbilled portion of the *Bonus Offer* become due and payable.

If the Licensee has not commenced harvesting and the ITSL term expires, the full *Bonus Offer* becomes due and payable, and the security deposit forfeited in accordance with Section 21 (4) of the *BC Timber Sales Regulation*.

CONTACTS

For further information regarding this bulletin, please contact your local BCTS office or visit our web site at <http://www.for.gov.bc.ca/bcts/>.