



## **Advisory Bulletin No. 08/07/16 – Cruise Base Timber Sales Licence (TSL)**

### **PURPOSE**

This bulletin, which replaces Advisory Bulletin No. 03/23/09 (Innovative TSL Initiative), provides information and guidance to BC Timber Sales (BCTS) staff and customers regarding Cruise Base Timber Sale Licences (CBTSL).

### **BACKGROUND**

BCTS has been using CBTSLs with increasing frequency since the program first starting selling these types of TSLs in 2008 as part of the *Innovative TSL Initiative*. Given that CBTSL holders are not required to scale timber for billing purposes, CBTSLs can be a cost effective tool to market, administer and encourage the maximum utilization of low quality forest stands (e.g. Mountain Pine Beetle impacted stands). This in-turn:

- Complements the Ministry of Forests, Lands and Natural Resource Operations mountain pine beetle management objectives (e.g., capture rapidly declining timber values, reducing fire risk and revitalize/reforest affected areas);
- Ensures that core forest stewardship objectives are achieved (e.g. Environmental Certification, Forest & Range Practices Act, etc.);
- Helps to expand BCTS 'customer base (e.g. establish BCTS as a reliable supplier of fibre to emerging bio-energy companies and pulp mills); and,
- Maximizes the potential utility of CBTSL-related cost and pricing data in the context of the Market Pricing System.

Notwithstanding the utility of CBTSLs in respect of low quality forest stands, CBTSLs can also be an effective tool to help manage other objectives in higher quality stands (e.g. where grading, scaling and revenue certainty issues are a concern).

### **DESCRIPTION**

#### **Cruise-Based:**

Cruise Based licences are authorized under Section 106 of the *Forest Act*. Cruise Based licences differ from scale-based licences in that the amount of stumpage payable will be based on the proportion of the licence area from which timber has been cut and removed as determined by a timber cruise instead of the volume reported in a scale of the timber.

## **Pricing:**

Pricing of CBTSLs consists of two elements:

- “*estimated upset stumpage value*” for the timber; and,
- a *Bonus Offer*.

The “*estimated upset stumpage value*” for the timber in a CBTSL is equal to the greater value of the variable cost incurred by BCTS to bring the CBTSL to market (e.g. planning, primary road development, licence development, plus the estimated reforestation costs) or the total value of the licence as determined by the market pricing system unless otherwise approved by the BCTS Executive Director.

The *Bonus Offer* is a lump sum amount, expressed in total dollars, in addition to the “*estimated upset stumpage value*” that is tendered to acquire the right to harvest Crown timber under the CBTSL. A *Bonus Offer* is not a per cubic metre *Bonus Bid* that is tendered for the more common scale-based TSLs.

The *Total Amount of Stumpage* includes the *estimated upset stumpage value* plus the *bonus offer*.

## **Estimated Volume of Timber:**

The *Estimated Volume* of timber will be derived by the 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 CBTSL tender package will clearly stipulate how the *Estimated Volume* of timber was derived.

## **Award:**

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

## **Deposits:**

Deposits for CBTSLs are determined in the same manner as scale-based TSLs. The CBTSL deposit is calculated according to Section 16 of the *BC Timber Sales Regulation*, using the “total estimated upset stumpage value plus the total bonus offer value”. The successful applicant must provide a deposit for the licence before the CBTSL is issued.

## **Billing and Payment:**

On May 1, 2016, the Ministry of Forests, Lands and Natural Resource Operations has changed the timing of when cruise-base billing will occur. The new billing process will only apply where timber is cut and removed from CBTSLs on or after May 1, 2016.

Billing and payment of the stumpage and bonus offer will be in accordance with the *Forest Act*, and the approved policy and procedures.

Bonus Offer - For CBTSL, billing of the *Bonus Offer* will be concurrent with the cutting and removal of timber from the licence area.

Total Amount of Stumpage - The billing of the *Total Amount of Stumpage* will occur as timber is cut and removed from the licence area. More specifically, the amount payable is determined on the basis of the proportion of the cutting authority area on which timber has been cut and removed. For example, if cutting and removal of 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 will also include 15% of the *Bonus Offer*.

### **Submission of cruise base billing reports:**

The holder of a CBTSL is responsible for estimating the area of unbilled timber that has been cut and removed from the licence area and submit a monthly report to the Timber Sales Manager. The Timber Sales Manager in turn will periodically confirm those estimates and will forward those reports for subsequent processing. Until the licence is closed, a monthly cruise base billing report must be submitted regardless of whether any volume was cut and removed during that month. Failure to submit these reports may result in a penalty being levied under the Administrative Orders and Remedies Regulation.

### **Scaling:**

The scaling of timber originating from a CBTSL is not required for the purpose of stumpage payable determination; however, log buyers for the purpose of determining payments to contractors may request that timber be scaled. Ministry of Forests, Lands and Natural Resource Operations staff may request that the timber from the cruise based cutting authority be weight scaled and the weights recorded in a separate stratum.

### **Waste Assessments:**

Waste assessments will not be required. Once the Licensee commences cutting, the Licensee will be billed for the *Total Amount of Stumpage* for the timber, regardless of how much timber is actually 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 a CBTSL, 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 a CBTSL may be extended in accordance with the *Forest Act* (i.e. 1 year increments up to a maximum term of 4 years). A CBTSL may also be surrendered

in accordance with the *Forest Act* (i.e. cutting has not commenced and the surrender occurs prior to the expiration of the agreement).

If the holder of a licence surrenders a CBTSL, the TSL deposit will be forfeited in accordance with Section 58.3 (4) of the *Forest Act*.

For TSLs advertised before May 28, 2015, the bonus offer is payable when the TSL is surrendered or when the TSL expires and no cutting of timber has taken place. For TSLs advertised on or after May 28, 2015, the bonus offer is not payable when the TSL is surrendered or when the TSL expires and cutting of timber has not commenced.

### **Licence Expiry:**

If the holder of a CBTSL has commenced cutting of timber but has not completed harvesting by the time the CBTSL term expires, the remaining unbilled portion of the *Total Amount of Stumpage*, including the remaining unbilled portion of the *Bonus Offer*, becomes due and payable.

If the holder of a licence has not commenced harvesting of timber (as defined by section 1(2) of the *BC Timber Sales Regulation*) and the CBTSL expires, the TSL deposit will be forfeited in accordance with Section 21 (4) of the *BC Timber Sales Regulation*. When the TSL deposit is forfeited, the registrant primary performance evaluation will be affected and the deposit amount required to be submitted for the next TSL will increase to the next higher deposit level for the next 48 months in accordance with Section 16, 16.3 and 16.4 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/>.