Ministry of Forests

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Advisory Bulletin No. 2026-07-21 – Understanding the Value-added Performance Obligation

The BC Timber Sales (BCTS) Value-added Manufacturing Program is a key element of the Ministry of Forests strategy to sustain, diversify and grow value-added manufacturing in B.C. and support the forest sector to transition from high-volume to high-value. It includes Category 4 – Value-added (Category 4) and Category 5 – Custom Cutters and Processors (Category 5).

This bulletin is an update that replaces "Advisory Bulletin No. 2025-07-02 – Understanding the Category 4 Performance Obligation".

As the defining feature of a value-added timber sale licence (TSL), the performance obligation is paramount to the success of the Program and was designed to ensure that the objectives of the Program are met. Recent changes to the performance obligation were made to include Category 5 registrants while still maintaining the ability for multiple Category 4 and now Category 5 registrants to collectively satisfy the obligation.

Purpose

This bulletin provides information to BCTS staff and value-added registrants on understanding the performance obligation associated with value-added TSLs, and how BCTS will administer and enforce the obligation.

Performance Obligation

The updated performance obligation is:

1.01 During the term of this Licence, the Licensee must meet the following Performance Obligation:

(a) process a minimum value of [50% value, in dollars] of timber or wood fibre:

(i) harvested from the Cutting Authority Area; or

(ii) received in trade for timber harvested from the Cutting Authority Area; or

(iii) achieved in accordance with 1.04; or

(iv) achieved through a combination of (i), (ii) and (iii); and

(b) produce a minimum value of [75% value, in dollars] of eligible value-added products as that term is defined in the BC Timber Sales Regulation.

1.02 The Licensee, if a Category 4 registrant, must satisfy the Performance Obligation in 1.01:

(a) at the eligible valued-added processing facility identified in the Licensee's application for BC timber sales enterprise registration; or

(b) at the eligible value-added processing facilities of other Category 4 registrants in accordance with 1.04; or

(c) as processed by Category 5 registrants in accordance with 1.04.

1.03 The Licensee, if a Category 5 registrant, must satisfy the Performance Obligation in 1.01:

(a) at value-added processing facilities in British Columbia; or

(b) at the eligible valued-added processing facilities of Category 4 registrants in accordance with 1.04; or

(c) as processed by other Category 5 registrants in accordance with 1.04.

1.04 The Licensee may seek written approval of the Timber Sales Manager to collectively share the Performance Obligation with up to a maximum of three Category 4 or Category 5 registrants. This request:

(a) must be made within 90 business days of the execution of this licence; and

(b) once approved by the Timber Sales Manager, cannot be changed during the term of the licence.

1.05 The Category 4 or Category 5 registrants identified in 1.04 must continue to meet the eligibility requirements in their respective categories for the Licensee to share the Performance Obligation.

1.06 If the Licensee holds more than one timber sale licence, the minimum values in 1.01 (a) and (b) will be in addition to any minimum values required by the other timber sale licence(s) held by the Licensee.

1.07 Nothing in this section:

(a) authorizes communications with other Category 4 or 5 registrants prior to the closing date of the auction of the Licence that are contrary to section 164 of the *Forest Act*;

(b) alters the Licensee's sole responsibility to ensure the Performance Obligation is met during the term of the Licence.

The values required to be met in Parts 1.01(a) and (b) are based on the average market value of sawlogs and pulpwood published by Timber Pricing Branch at the time of the effective date of the appraisal, multiplied by the volume of each species derived from the timber cruise of the cutting authority area including any volume under road permit.

To satisfy Part 1.01(a), a TSL holder may use either the volume harvested from the cutting authority area or volume acquired through trade. Alternatively, the TSL holder may work with up to three Category 4 and/or Category 5 registrants to collectively meet the minimum value identified in Part 1.01(a) or use a combination of these approaches. Selling the TSL volume to receive cash to then purchase input materials will not contribute to meeting Part 1.01(a) of the obligation.

Part 1.01(b) requires the TSL holder to produce 75 percent of the sawlog value, in dollars, of products processed. To satisfy part (b), input materials may include timber or wood fibre harvested from the cutting authority area, received in trade, or purchased.

The values identified in the performance obligation cannot change, and they cannot be transferred, assigned, or double counted towards another value-added TSL.

Part 1.02 requires the TSL holder, that is a Category 4 registrant to satisfy the performance obligation at the processing facility identified in its application for registration. However, where the TSL holder has been approved to share the performance obligation, processing carried out at the facilities of other approved Category 4 registrants may also be counted toward meeting Part 1.01(a) the obligation. In addition, processing completed by an approved Category 5 registrant during the term of the TSL may also be applied toward satisfying Part 1.01(a). Processing completed by the approved registrants does not need to originate from the TSL volume.

Part 1.03 requires a TSL holder that is registered as a Category 5 registrant to satisfy the performance obligation through processing conducted at one or more processing facilities located in British Columbia. Where the TSL holder has been approved to share the performance obligation, processing completed by approved Category 4 and/or Category 5 registrants may be counted toward satisfying Part 1.01(a) of the obligation. Processing completed by the approved registrants does not need to originate from the TSL volume.

Part 1.04 allows the Licensee to request approval from the Timber Sales Manager to share the performance obligation with up to a maximum of three Category 4 and/or Category 5 registrants. The Licensee must submit the form, Request for Sharing the Performance Obligation, that is part of the TSL tender package to the Timber Sales Manager within 90 business days of the TSL being executed. Prior to granting approval, the Timber Sales Manager must verify that all proposed registrants are in good standing and once approved they cannot change during the term of the TSL.

Sharing the obligation applies only to Part 1.01(a). However, even when the performance obligation is shared, the Licensee retains sole responsibility for meeting the obligation.

Part 1.07 requires bids to be prepared and submitted independently as required in section 164 of the *Forest Act*. As such, any communication between registrants regarding the particulars of a bid

must take place after the bids are submitted. If it is suspected there is a potential contravention of *Forest Act* section 164, Compliance and Enforcement may conduct an investigation.

Once a TSL is issued, the minimum values assigned to a specific value-added TSL as performance measures cannot change, or be transferred, assigned, or double counted towards another value-added TSL.

The 3-Sale Limit

If the TSL holder chooses to work with up to three Category 4 or Category 5 registrants to collectively satisfy the obligation, the 3-sale limit applies only to the TSL holder because the TSL is issued to them. The Category 4 or Category 5 registrants working with the TSL holder may also obtain up to three TSLs each.

Reporting – Performance Report and Trade Agreement

Performance Report

The TSL holder must submit a Performance Report to the Timber Sales Manager to demonstrate whether the performance obligation was satisfied, and it must be submitted by the TSL expiry. If other Category 4 or Category 5 registrants contribute to satisfying the obligation their contribution must also be identified in the Performance Report.

If a registrant holds more than one value-added TSL, they must identify all TSLs with overlapping terms in the Performance Report, even in different Business Areas. Each TSL will be evaluated separately.

Records

The TSL holder must submit records with the Performance Report to verify the performance obligation was satisfied. Such records may include, but are not limited to, sales invoices, production reports, or other documentation to verify the volume utilized, the quantity of products produced and their selling price per unit. These records must be in the same name as the full legal name of the corporation or individual identified in the application for registration and must be dated within the TSL term.

Trade Agreement

A Trade Agreement must be submitted to the Timber Sales Manager when the TSL volume is traded to obtain the profile or products (e.g., lumber) needed at the processing facility. It must be submitted by the TSL expiry.

A Trade Agreement template is provided in the tender package and requires the following information:

- the scaled TSL volume and profile that was traded,
- the volume and profile or products (e.g., lumber) received from the trade, and

- information identifying each party with whom the TSL holder has traded.

Failure to Satisfy the Performance Obligation

If it appears the TSL holder did not satisfy the performance obligation an assurance review will be completed, and the Timber Sales Manager will offer an opportunity to be heard. Based on the information, the Timber Sales Manager will make a determination.

The table below illustrates the actions to be taken under the BC Timber Sales Regulation (BCTSR), *Forest Act* and *Forest and Range Practices Act* (FRPA) for non-conformances related to the performance obligation. The table also shows whether the action is automatic (i.e., no determination required), mandatory, or is a discretionary decision.

Non-Conformances and Actions to be Taken

Actions to be Taken	Discretionary, Mandatory or Automatic	Failure to Submit Performance Report and/or Trade Agreement	Failure to Satisfy the Performance Obligation	False, Misrepresented or Inaccurate Information Submitted	Failure to Comply with a Request for Records
Section 9 BCTSR Suspension of registration	Automatic and immediate	✓			✓
Section 10 BCTSR Cancellation of registration	TSM discretion			✓	
Section 21 BCTSR Forfeiture of 25% or 50% of deposit for non-compliance	Mandatory	✓	✓	✓	✓
Section 78 *Forest Act* Disqualification, suspension, cancellation	TSM discretion	✓	✓	✓	✓

Actions to be Taken	Discretionary, Mandatory or Automatic	Failure to Submit Performance Report and/or Trade Agreement	Failure to Satisfy the Performance Obligation	False, Misrepresented or Inaccurate Information Submitted	Failure to Comply with a Request for Records
Section 71 and 74 FRPA Administrative penalties	Executive Director discretion	✓		✓	✓

A determination under section 21(2) of the BCTSR or under section 78 of the *Forest Act* may affect the TSL holder's deposit level for future TSLs.

TSL Extensions

The TSL holder must satisfy the performance obligation by the TSL expiry. Prior to the expiry of the TSL, the TSL holder may apply for an extension of the term under section 58.1 of the *Forest Act*, and the Timber Sales Manager must grant this extension providing all other requirements of section 58.1 are met and the TSL does not prohibit extensions.

There is no opportunity to extend the time to satisfy the performance obligation after the expiry of the TSL.

Assurance Reviews

If it appears the TSL holder did not satisfy the performance obligation, an assurance review will be conducted to verify whether the obligation was satisfied. The results of the assurance review will be provided to the Timber Sales Manager for consideration as part of their determination. Assurance reviews may also be conducted randomly.

Contact

BCTS Category 4 and Category 5 registrants may contact their local BCTS Timber Sales Office with inquiries regarding this bulletin.