



Ref: 20740-01/GEN

December 30, 2014

NOTICE TO ALL LOG EXPORTING AND INTERESTED PARTIES

Conditions for Surplus Test Exemptions

Under Part 10 of the *Forest Act*, Section 128 (3) (a) provides for testing if unmanufactured timber is surplus to requirements of domestic mills. When determining if timber is surplus, the minister or delegate may consider factors such as location of the timber harvest relative to the advertising location, freight cost, and other reasonable evidence of domestic demand. Under the surplus test, timber will not be exempted from the requirement of manufacture in the province unless the following conditions are satisfied.

Until further notice, these conditions are in effect:

- **Eligibility to apply for exemption:** A timber owner/agent that is also a mill operator that has made an offer on advertised timber within the previous 90 days is not eligible to apply for an exemption.
- **Eligibility to make offers on advertised timber:** A timber buyer that has exported timber directly or indirectly from Canada within the previous 90 days is not eligible to make an offer.
- **Species:** Only applications for Douglas fir, larch, hemlock, balsam, spruce, pine(s) and deciduous timber will be accepted, subject to restrictions on grades. Western red cedar and cypress will not be accepted.
- **Grades:** Applications for high-value timber of Douglas fir, hemlock and spruce with grades higher than H will not be accepted. All grades of balsam, pine and deciduous timber will be accepted and all interior grades are accepted.
- **Approved sorts:** All timber, on land or in water, must be sorted and categorized into sorts specified in Coast species and sort code labels (February 2011) and Interior species and sort code labels (August 2010). The Coast list's restriction on coastal Balsam High Grade logs (grades D and F) no longer applies. Balsam High Grade logs must be in a pure Balsam Sort.

Less than 10% by volume of other species (miss-sorts) in a sort is acceptable. For example, a hemlock/balsam species sort could have up to 9% of the volume as spruce or Douglas fir. No amount of western red cedar and cypress will be accepted.

Sorting practices will be monitored for abuse of process and corrective action will be taken if sorts deviate unreasonably from regular market sorts. The Timber Export Advisory Committee (TEAC) may be asked to advise on the reasonableness of sorts in applications for exemption.

- **Advertising Location:** Log suppliers are expected to transport timber to the log dump to which the harvest area is tributary. Delivering logs to a different location that is not tributary to the harvest location before advertising, may be construed as an intentional avoidance of legitimate offers. Offers will be considered relative to the market point the timber should have been delivered to for domestic sales.

To enable movement of timber in an application, and enable ministry staff or potential timber buyers to locate and inspect the timber in an application, the applicant must ensure that sufficient details about location(s) and contact(s) are provided. Freight companies must be aware that they are the contact for timber in transit. If timber in an application cannot be located by the details provided, it will be considered unavailable and removed from the Bi-Weekly Advertising List. If this occurs, it may still be advertised at a later date.

- **Offers on timber:** When determining if timber is surplus, the minister or delegate will consider the TEAC advice on the fairness of an offered price and the TEAC recommendation that the timber should be considered surplus (or not).
- **Freight Cost:** The Coast Appraisal Manual defines the four market points, or points of appraisal as, Port Alberni, Chemainus, Gambier Island and Pitt River Bridge, to which the log dumps are tributary by towing or barging. Domestic market value applies equally at all four points of appraisal.

If an offer has a Free on Board (FOB) point at a location different than the advertising location and significant freight cost would be incurred after the point of appraisal, then a reasonable freight cost may be taken into account. All advertised logs are deemed to be at the nearest point of appraisal.

Examples:

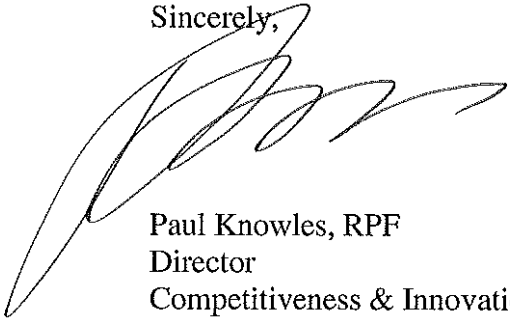
1. A boom is advertised at Quatsino Sound for export. An offer is made FOB Howe Sound. The fair market price determination will consider the freight cost from the nearest point of appraisal (Port Alberni) to Howe Sound.
2. A boom is advertised at Knight Inlet for export. An offer is made FOB Howe Sound. The nearest point of appraisal is Gambier Island. There is no significant freight cost from Gambier Island to Howe Sound, so the market price applies without a freight cost consideration.
3. A boom is advertised at Gold River for export. An offer is made FOB Port Alberni. The nearest point of appraisal is Port Alberni. The market price applies without a freight cost consideration.

NOTE: All costs of harvest up to the point of delivery to a point of appraisal are not considered in the determination of surplus. While the cost of harvest does not impact the log value in the domestic or export market, it may impact the supply when costs are greater than market values.

- **Accounts in good standing:** The timber owner/agent's accounts (including those of closely related companies) must be in good standing, i.e.; amounts payable to government must be paid within timeframes or payment arrangements acceptable to the Ministry of Finance (see Forest Act, Section 81).
- **Exemption period:** Ministerial exemptions are issued for 180 days. Extensions will not be granted. If additional time is required to complete an export sales agreement the timber will have to be re-advertised to ensure the volume is still surplus to the domestic market.

This notice cancels and replaces the January 17, 2013, "Conditions for Surplus Test Exemptions" notice to exporters.

Sincerely,



Paul Knowles, RPF
Director
Competitiveness & Innovation Branch
Ministry of Forests, Lands and Natural Resource Operations

