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August 8, 2019

### **NOTICE TO ALL LOG EXPORTING AND INTERESTED PARTIES**

**Six new timber exemption Orders in Council (OICs) came into effect on July 10, 2019; including Cassiar, Haida Gwaii, Nass, Northwest Interior, Northwest Coast, and Soo. The most significant change shifted the basis for the OICs from “surplus timber” to timber that is “uneconomical” to process locally.**

All OICs include the following terms and conditions:

- Recorded volume is the total volume shown in stumpage bills and volume statements of timber scaled and billed in the reference period; less western redcedar and cypress volume.
- The reference period for calculating the volume of timber is 545 days.
- The fee-in-lieu of manufacturing (FiL) will be calculated at \$1/m<sup>3</sup>.
- Only timber volumes applied for under the “surplus test” after August 6, 2019 will count toward total exemption volume. All OIC volume will count towards the total exemption volume.
- The orders will expire on July 31, 2024

The percentage of the recorded whitewood volume (all species less western redcedar and cypress) in the reference period that is exempted is different for each exemption area, as follows:

- Cassiar: 80%
- Haida Gwaii: 40%
- Nass: 70%
- Northwest Interior: 40%
- Northwest Coast: 40%
- Soo: 30%

#### **A. Conditions for Timber Exemption Orders in Council**

The OICs specify what percentage of harvest is uneconomic to process domestically. This exemption amount is the cumulative total of volume exported in the previous 545 days under the prior OIC (n/a to Soo OIC) and the current OIC; and any volume advertised and permitted through the surplus test after August 6, 2019. When the cumulative total reaches the percentage identified in the OIC, the only option to export would be through the surplus test until new harvest volume is added to the reference period.

- For policy transition purposes; exempted volumes as a result of the surplus test will be reset to zero up to August 6, 2019 for the purposes of the calculation of cumulative volume exported in the reference period.
- A permit request under an OIC made after August 6, 2019 will be evaluated based on: OIC export volume recorded in the 545-day reference period of the licence; plus surplus volume advertised and permitted after August 6, 2019 against the total harvest volume (minus harvest of western redcedar and cypress) and the appropriate OIC %.
- Timber mark volume located in OIC areas that are submitted and permitted in LEXIS under the “surplus test” will be included after August 6, 2019 when determining if there is sufficient volume available in the OIC.
- FiL will be calculated at \$1/m<sup>3</sup> for OIC export permits.

**Example A:** An exporter in the Cassiar Timber Exemption area has a Forest Licence. On August 23, 2019, they consider applying to export 6,000 m<sup>3</sup> of timber from that licence.

- During the preceding 545 days they note in the Harvest Billing System (HBS) that to date they harvested 8,000 m<sup>3</sup> of timber. Of this, they harvested 1,000 m<sup>3</sup> of western redcedar and cypress. Therefore, the base harvest volume is (8,000 m<sup>3</sup> – 1,000 m<sup>3</sup>) = 7,000 m<sup>3</sup>.
- They have not exported any volume (under the OIC or under the surplus test) in the preceding 545 days.
- The exporter may apply to export (80% x 7,000 m<sup>3</sup>) = 5,600 m<sup>3</sup> of timber on August 23, 2019 under the Cassiar OIC with a corresponding FiL of \$1/m<sup>3</sup>.
- The remaining volume for application to export (6,000 m<sup>3</sup> – 5,600 m<sup>3</sup>) = 400 m<sup>3</sup> may be applied for exemption under the surplus test on that date to attain the intended 6,000m<sup>3</sup> of export

**Example B:** An exporter in the Cassiar Timber Exemption area has a Forest Licence. On August 23, 2019, they consider applying to export 6,000 m<sup>3</sup> of timber from that licence.

- During the preceding 545 days they note in Harvest Billing System (HBS) that to date, they harvested 8,000 m<sup>3</sup> of timber. Of this, they harvested 1,000 m<sup>3</sup> of western redcedar and cypress. Therefore, the base harvest volume is (8,000 m<sup>3</sup> – 1,000 m<sup>3</sup>) = 7,000 m<sup>3</sup>.
- Under the Cassiar OIC, the exporter may apply to export (80% x 7,000 m<sup>3</sup>) = 5,600 m<sup>3</sup> of timber on August 23, 2019.
  - In May 2019, the exporter advertised 500 m<sup>3</sup> on the surplus test and received a permit for the 500 m<sup>3</sup>.
  - In April 2019, the exporter applied for an exemption of 200 m<sup>3</sup> under the previous OIC and received a permit to export for the 200 m<sup>3</sup>.
  - On August 7, 2019 the exporter advertised 300 m<sup>3</sup> under the surplus test and received a permit to export for the 300 m<sup>3</sup> upon completion of the review period process.
- On August 23, 2019 if they decide to export 6,000 m<sup>3</sup>, only 5,100 m<sup>3</sup> can be exported under the OIC due to the previous OIC exemption volume and surplus test exemption volume post August 6, 2019 (5,600 m<sup>3</sup> - (200 m<sup>3</sup> +300 m<sup>3</sup>)) = 5,100 m<sup>3</sup>. The remaining volume (6,000 m<sup>3</sup> – 5,100 m<sup>3</sup>) = 900 m<sup>3</sup> must be advertised on the surplus test.

In order to make a smooth transition to the new policy, exporters are encouraged to review information regarding new changes to log export procedures here [Log Exports](#).

## **B. Conditions for Surplus Test Exemptions**

[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:

- **Eligibility to apply for exemption:** A timber owner/agent that is also a mill operator who has made an offer on advertised timber within the previous 90 days is not eligible to apply for an exemption. The period of ineligibility to apply for an exemption begins on the date the offer was made and continues for 90 consecutive days up to and including midnight on the 90<sup>th</sup> day.
- **Eligibility to make offers on advertised timber:** A timber buyer who has had authorization to remove timber from

the Province of British Columbia (Province) directly or indirectly through a business relationship within the previous 90 days is not eligible to make an offer that will be considered when determining if timber is surplus. The period of ineligibility to make an offer on advertised timber begins the day after the last exemption or expiry of a provincial permit allowing the removal of timber from the Province; and continues for 90 consecutive days up to and including midnight on the 90<sup>th</sup> day.

- **Timber Mark Requirement:** The timber marking requirements for scaled timber are prescribed in the [“Timber Marking and Transportation Regulation”](#) plus, as per the approved export exemption “Timber must originate from and be well marked with timber mark(s)”. Applicants must have an auditable process to trace all timber in an advertising package to the source of the timber.
- **Mixed Timber Marks in Weight Scale Bundles:** The creation of resized bundles from a weight scale program allows the mixing of timber marks provided the timber is governed by the same legislation. [Forest Act, Part 10](#) timber must not be mixed with non-Forest Act timber.
- **Weight Scale for Export:** The requirements for weight scaling timber for export are the same as the requirements for domestic sale purposes. The use of samples to establish volume to weight ratios differs for export as only the most recent sample(s) are used to determine the application package volume.
- **Unintentional Inclusions:** Coast -The unintentionally included species or grade volumes are not to exceed 2.5% in aggregate total of any application volume. Interior – Only species and grades advertised can be exported.
- **Species:** Only applications for Douglas-fir, larch, hemlock, balsam, spruce, pine(s) and deciduous timber will be accepted, subject to restrictions on grades. Western redcedar and cypress will only be accepted as restricted species, unintentionally included, up to a threshold of 2.5% of the application package volume.
- **Coast Log 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. Restricted grades unintentionally included, up to a threshold of 2.5% of the application package volume will be accepted.
- **Interior Log Grades:** All interior log grades are accepted for export applications. Timber using the regulated interior log grades must make a volume estimate in unique applications specific to each grade where a scale of the application volume is not available.
- **Approved sorts:** All timber, on land or in water, must be sorted and categorized into sorts specified in [Coast species and sort code labels](#) (March 2017) and [Interior species and sort code labels \(August 2010\)](#). [Balsam High Grade logs must be in a pure balsam sort.](#)

*Coastal sorts;* Less than 10% by volume of other species (mis-sorts) in a sort is acceptable. For example, a hemlock/balsam species sort could have 9.9 % of the volume as Douglas fir. Western redcedar and cypress volume up to a threshold of 2.5% by application volume will be accepted as defined in the species section above.

*Interior Sorts;* only species and grades advertised can be exported.

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:** *Coastal* 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.

*Interior* log suppliers, using the interior species and sort code labels, are expected to advertise timber in the vicinity of the harvest and must not transport timber into water before the advertising period has completed. Delivering logs to a distant location other than the closest support centre to the harvest location (Defined in [Interior Appraisal Manual](#))

before advertising may be construed as an intentional avoidance of legitimate offers. Offers will be considered relative to the market access point the timber should have been delivered to for domestic sales; or the source which is the vicinity of the harvest area.

To enable movement of coastal 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. For interior timber applications, to 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. 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 later.

- **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 whether the timber should be considered surplus.
- **Freight Cost:** 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 for delivery, then a reasonable freight cost may be taken into account when determining the fairness of an offer.
- **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. As with all exemption permits, the fee in lieu of manufacture will be charged regardless of whether the logs were previously permitted. This includes permits issued under OIC.

This notice cancels and replaces the July 16, 2019, "Conditions for Surplus Test Exemptions" notice to exporters.

Sincerely,



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Ministry of Forests, Lands, Natural Resource Operations and Rural Development