

**MINISTRY OF FORESTS, LANDS AND NATURAL RESOURCE OPERATIONS
DECISION NOTE**

Date: October 24, 2016

File: 280-20

CLIFF: 224926

PREPARED FOR: Honourable Steve Thomson, Minister of Forests, Lands and Natural Resource Operations

ISSUE: Nanwakolas Forestry Licence to Cut A94386 – *Forest Act* Section 105(1) Stumpage Rate Determination Procedures

BACKGROUND:

The purpose of this note ^{s.13} of stumpage rate determination procedures – as provided under Section 105(1) of the *Forest Act* – that would be specific to cutting authorities issued under Forestry Licence to Cut (FLTC) A94386 only. If approved, these procedures would broaden both the rules for the configuration of cutting authority areas and the criteria respecting log grade percentages, as compared to any other fully appraisable cutting authority under the *Coast Appraisal Manual* (CAM).

The proposed procedures are derived from, and are consistent with, the terms of the FLTC as outlined in the Agreement-in-Principle (AIP) of July 7, 2016, between BC Timber Sales (BCTS), Nanwakolas, and Western Forest Products (WFP). The FLTC is, in turn, being issued in accordance with, and further to, the terms of the Nanwakolas Human Well-Being Agreement (HWB) between the Nanwakolas First Nations, the Nanwakolas Council, and the Ministry of Forests, Lands and Natural Resource Operations.

The FLTC volume is 372,000 m³ of which 220,000 m³ is 'low value profile' and the rest is 'average value profile'. The FLTC volume was sourced from unused volume from both BCTS and WFP.

All other procedures and provisions of the CAM would continue to apply to the FLTC.

FLTC A94386 is located in TFL39 Block 2 and Pacific TSA Timber Supply Block 18 of the Campbell River Forest District. Tenures staff have advised that the FLTC form of agreement is the only form of agreement that permits harvesting in either, or both, of the two management units (MU).

DISCUSSION:

Cutting Authority Area Configuration

The Minister approved changes to the Points of Origin Area (PoOA) policy via CAM amendment that took effect on September 1, 2016. The policy change resulted in more logical and much broader cutting authority (CA) configuration possibilities – on a new PoOA by new PoOA basis only – a key feature of the policy. An additional requirement to the new PoOA base policy is that all blocks in a CA must also be within the same timber supply block (TSB), or in the case of a tree farm licence (TFL), the same forest district.

The AIP on the other hand, provides that the FLTC A94386 allow any combination of methodologies when configuring a CA – i.e. any of the Menzies-Sayward Forest and/or Kelsey-Adam PoOAs in combination with any of the Pacific TSA TSB Block 18 and/or TFL39 Block 2. This requirement was included in the AIP at the request of Nanwakolas and WFP and renders the FLTC viable to a level necessary to harvest all volume available under the agreement, including a dominant component restricted to the low value portion of the timber profile. This entirely unique method of configuring CAs across multiple PoOAs and multiple MUs is not possible under the CAM 2.2.2(1).

Log Grade Percentage Criteria

The CAM provides a set of “Log Grade Percentage Criteria” (‘rules’) that specify the harvest billing history record that must be used as a source for log grade data purposes.

The AIP on the other hand, provides that the FLTC A94386 use a new log grade rule set. Additionally, in agreement with WFP, Timber Pricing Branch has added a log grade rule to address the possibility of second growth CAs and/or helicopter single standing stem selection.

Stumpage Revenue Impact Estimate

As stated above, 220,000 m³ of the licence volume is to be derived from uneconomic problem forest types that gave rise to most of the BCTS/Western undercut. In the absence of the agreement, the stumpage rate on this volume is estimated to have been negative \$10/m³. The remaining volume in the agreement is 76,000 m³ of additional BCTS volume that is unrestricted, and 76,000 m³ of Western volume that is also unrestricted. The total volume under the agreement is 372,000 m³.

Cutblock Composition

Pre-PoOA reform: very limited flexibility for licensees in this area (BCTS Pacific TSA and TFL 39). Agreement results in **\$2.2 million impact**. Post-PoOA reform: based on new rules as of September 1, only a small portion of TFL 39 would not be eligible to be combined with cutting authorities in the rest of the Nanwakolas licence. Impact is estimated to be less than **\$100,000** (incremental to impact accounted for in the PoOA reform proposal).

Historic Log Grades

Under the *Coast Appraisal Manual* a licence requires 5,000 m³ per species to generate licence-specific grades for appraisal purposes (perhaps 30,000 m³ total harvest). Using TFL 39 historic grades instead of the default historic grades is roughly estimated to confer a benefit of \$1/m³. Impact is therefore estimated to be a one-time **\$30,000**.

In the absence of the agreement, the 220,000 m³ of uneconomic profile would likely not be harvested. Enabling the harvest of this volume will generate two kinds of revenue that may offset the foregone direct stumpage revenue:

1. Direct non-stumpage revenues, including individual income taxes, corporate taxes, retail sales taxes, carbon taxes, etc.
2. Indirect revenue as a result of economic activity.

Other

Staff at the Ministry of Justice have reviewed the attached memorandum and advised that a copy of the signed memorandum/procedures must be posted on a public website in accordance with Section 105(5) of the *Forest Act*. Upon signature, a copy will be posted on the Timber Pricing Branch public website.

s.14

CONSULTATION:

The draft letter including attached Schedule A was additionally reviewed by applicable branch, regional and district staff, and BC Timber Sales.

RECOMMENDATION:

s.13

Approved / Not Approved



Signature

Steve Thomson, Minister, Ministry of
Forests, Lands and Natural Resource
Operations

Oct 30 / 2016

Date

Attachment: Memorandum to Regional Appraisal Coordinator and Revenue Business Analyst at the West Coast Region

File: 224926

To: Robert Glassford, Regional Appraisal Coordinator, West Coast Region
Mary Mitchell, Revenue Business Analyst, West Coast Region

From: The Honourable Steve Thomson, Minister of Forests, Lands and
Natural Resource Operations

**RE: Forestry Licence to Cut A94386 – Procedures Relating to Log Grade Percentage
and Cutting Authority Configuration**

Through this memorandum the procedures under sections 2.2.2 (1), 4.2.2.2 and 4.2.2.3 of the *Coast Appraisal Manual* (CAM) for cutting authorities appraised or reappraised under Forestry Licence to Cut A94386 are replaced by the following:

1. Section 2.2.2 (1) of the CAM is replaced by:
 - (a) The geographic centre of all cutblocks within a cutting authority must be within the:
 - (i) Menzies-Sayward Forest;
 - (ii) Kelsey-Adam; or
 - (iii) Both (a)(i) and (ii) aboveappraised point of origin area(s) as applicable, as identified in Section 4.2.5.3 of the *Coast Appraisal Manual*; and
 - (b) Must be fully contained within either:
 - (i) Block 2 of Tree Farm Licence No. 39;
 - (ii) Pacific Timber Supply Area Block 18; or
 - (iii) Both (b)(i) and (ii) above.
2. Sections 4.2.2.2 and 4.2.2.3 of the CAM are replaced by Schedule A attached to this memorandum.

These procedures are authorized under Section 105(1) of the *Forest Act* and replace the procedures under Sections 2.2.2 (1), 4.2.2.2 and 4.2.2.3 of the CAM as noted above and as applicable, for purposes of appraisals and reappraisals of cutting authorities under Forestry Licence to Cut A94386 only. All other procedures and provisions of the CAM apply to the licence.



Steve Thomson
Minister
Attachment: Schedule A

pc: Mike Falkiner, Executive Director, BC Timber Sales
Steve Kozuki, Director, Timber Pricing Branch
Allan Bennett, Manager, Timber Pricing, Timber Pricing Branch
Sharon Hadway, Regional Executive Director, West Coast Region
Don Hudson, Timber Sales Manager, Strait of Georgia
Romona Blackwell, District Manager, Campbell River

Schedule A

Log Grade Percentage Criteria Applicable to Forestry Licence to Cut A94386

1. The log grade percentage is the percentage by volume that a log grade is of the total net cruise volume for the species of timber being considered.
2. The log grade percentages for a species of timber are derived from the billing history record.
3. Before a two-year billing history record for a species of timber can be used in an appraisal or reappraisal, the volume of that species of timber in that two year billing history record must be at least 25 percent of the net cruise volume of that species in the cutting authority area being appraised or reappraised, or 2 000 m³, whichever is greater.
4. Where the cutting authority area being appraised or reappraised is entirely within the geographic boundaries of: (i) TFL39 Block 2; (ii) Pacific TSA Block 18; or (iii) both (i) and (ii); the log grade percentages for the cutting authority area will be determined in the following manner:
 - a. Where at least eighty percent of the timber in the cutting authority area is second growth coniferous timber, or the entire net cruise volume of the cutting authority area being appraised or reappraised will be harvested using helicopter single standing stem selection, the log grade percentages for that cutting authority area will be determined in accordance with the requirements of CAM subsection 4.2.2(5).
 - b. Where at least eighty percent of the timber in the cutting authority area is not comprised of second growth coniferous timber, the person determining the stumpage rate will proceed to subsection (c) of this section.
 - c. Where the species being considered has a billing history record derived from cutting permits issued under Forestry Licence to Cut A94386 and associated road permits authorizing harvest and that billing history meets the criteria of section (3) above, then that billing history record will be the source of the log grade percentages for that species.
 - d. Where there is no billing history record under subsection (c), the person determining the stumpage rate will proceed to subsection (e) of this section.
 - e. Where the species being considered has a billing history record derived from cutting permits issued under (i) TFL39 and associated road permits authorizing harvest in that part of TFL39 that lies within the geographic boundaries of the Campbell River Forest District; and (ii) Forestry Licence to Cut A94386 and associated road permits authorizing harvest; and that billing history meets the criteria of section (3) above, then that billing history record will be the source of the log grade percentages for that species.
 - f. Where there is no billing history record under subsection (e), the person determining the stumpage rate will proceed to the CAM, beginning with

subsection 4.2.2.3.1(4), where the licence is TFL 39 within the Campbell River Forest District.