

HIGHLIGHTS
NEW DIRECTIONS FOR FOREST POLICY IN BRITISH COLUMBIA
SEPTEMBER, 1987

TIMBER PRICING / CROWN REVENUES

- * A Comparative Value System will replace the Rothery System for pricing timber in the province.
- * The new system will ensure that charges are applied fairly to those harvesting the timber. It will take into account production costs and the value of the products produced. Prices will be adjusted quarterly, based on an independent index, to respond to market conditions. The current system does not adequately allow for differences in the quality of wood. This presents particular problems to those paying for lower quality wood.
- * Based on 1986 forest industry sales of \$9.3 billion, estimated direct provincial revenue from all sources, including stumpage, currently represents 6.2 per cent of gross forest product sales, or \$580 million.
- * The revised pricing structure will raise the percentage to 7.3 per cent or \$680 million at current volumes and prices. Of that \$680 million, \$547 million will be derived from non-competitive stumpage payments. In the current fiscal year, stumpage is estimated at \$138 million.
- * The province is seeking elimination of the federal softwood lumber export tax.
- * A minimum revenue base has been established to ensure that the amount charged is not less than the provincial government's costs of forest management.

- * Periodic reviews of the pricing system will maintain a healthy, viable forest industry and a continuing fair share of value to British Columbians for their timber resource.
- * The ministry will put in place a neutral method of measuring wood, such as an independent private scaling institute.

REPLACING THE FORESTS

- * Effective immediately, no new commitments will be made for the costs of basic silviculture and timber-harvesting roads and bridges, under Section 88 of the Forest Act as a standard credit to stumpage accounts.
- * Industry will assume full costs for basic silviculture, including seed collection, seedling production, site preparation and other cost measures required to replace forests following harvesting on long-term tenures.
- * Changes to the Forest Act will make pre-harvest silvicultural planning mandatory, enforce performance and require audit.
- * On tenures of less than 10 years, and the Small Business Enterprise Program, silvicultural costs will be recovered through timber pricing. Basic silviculture will be conducted by the province by establishing a secure fund for this purpose.
- * The costs of seeds and seedlings will be included as a silviculture cost. Industry will have the option of producing its own seedlings.
- * Industry will be encouraged to invest additional money in conducting more intensive silviculture on long term tenures. The ministry will guarantee that any increase in allowable annual cut from such investments in intensive silviculture will be retained within the long-term tenure. Where the public invests additional money, any increased yield will return to the province.

- * Tree Farm and Forest Licence holders will be responsible for the costs of building and maintaining forest harvesting roads and bridges for their harvesting and silviculture operations.
- * As determined by the province, where additional expenses are incurred on road construction, upgrading or maintenance to meet public needs, the province will pay the additional costs.

COMPETITION AND DIVERSIFICATION

- * The amount of wood currently sold on a competitive basis will be doubled by such means as:
 - Directing a portion of the existing provincial reserve of unallocated allowable annual cut to competitive sales.
 - Transferring five per cent of the allowable annual cut in all replaceable licences, including Tree Farm Licences.
 - Allocating five per cent of the allowable annual cut upon the sale, transfer or assignment of a licence, with the exception of woodlot licences.
 - Recovering up to 10 per cent of the allowable annual cut upon converting tenure to Tree Farm Licence status.
- * Increased allowable annual cut which has not been earned will not necessarily be included as an automatic supplement to existing harvesting rights.
- * To encourage full use of timber, annual undercuts of more than 50 per cent will be resold through competitive sale by the province. A five year undercut of more than five per cent will be immediately returned to the Crown and the allowable annual cut of the licence reduced accordingly.

- * Currently 5.2 million cubic metres, representing less than eight per cent of the annual harvest in the province, are sold competitively.
- * Individuals and companies without long-term replaceable tenures that have allowable annual cuts of more than 10 000 cubic metres will now be eligible to bid on competitive sales.
- * In return for increased commitment, responsibilities and costs, security will be available to industry by increasing the number of Tree Farm Licences from the current level of 29 per cent to a maximum of 67 per cent of the provincial allowable annual cut. Each case will be judged in terms of company performance and public interest.
- * New programs will be introduced to use wood currently not considered merchantable, such as wood from commercial thinning, salvage wood, and species and grades with limited commercial use.
- * The province will establish a more competitive chip market in B.C. by increasing export opportunities and ensuring a fair return to the province.

MARKETING / INCREASED WOOD PROCESSING

- * The province will work to reduce tariff and non-tariff trade barriers.
- * The government and industry will investigate the need to develop an ongoing product and technology research program.
- * A five year cooperative marketing program is being developed by government and industry to expand consumer contacts, identify potential products and markets, and promote the production of value-added products in the province.
- * The province will support initiatives to improve existing wood products research facilities.

- * Expanded manufacturing in the province will be encouraged through competitive sales and tenure policies. A major factor in new applications for Tree Farm Licences will be past performance and commitment to increased wood processing.
- * Fees on log exports have been increased to ensure a fair return to the province and to encourage employment development in B.C..

FOREST POLICY REVIEW

A SUMMARY OF MAJOR DECISIONS

Ministry of Forests and Lands
Province of British Columbia

SEPTEMBER 15, 1987

A. Timber Pricing: A Fair and Equitable Pricing System for the Province

1. Comparative Value Pricing:

- . The Comparative Value Pricing System will replace the Rothery System as the method of pricing timber in the Province.
- . The Comparative Value Pricing System is a method which ensures that Crown timber charges are equitably distributed amongst those harvesting the timber, taking into account the costs of production and the value of the products produced.

2. Revenues From Crown Timber:

- . The value of harvested timber will be broadly related to the gross sales value of products produced by the forest industry, thereby providing a framework for industry planning and investment decisions.
- . Based upon 1986 forest industry sales of \$9.3 billion, currently estimated provincial forest revenue represents 6.2% of gross forest product sales (\$580 million).
- . The revised pricing structure will raise the percentage of provincial revenues to an estimated 7.3% of the gross value of products produced in 1986 (\$680 million at current market volumes and prices).
- . A minimum provincial revenue base has been established such that forest revenues will not be less than the forest management related costs of the Ministry of Forests and Lands.
- . Reviews of the overall pricing of provincial timber as a percentage of gross value of products produced will take place periodically, taking into account the need to ensure a healthy, viable industry in British Columbia and a continuing fair share of value to the people of the province for their timber resource. These periodic reviews will occur as warranted.

3. Sensitivity to Market Conditions:

- . The forest industry is subject to unpredictable swings in product prices in short time periods.
- . The stumpage prices will be adjusted quarterly using a three month moving average in forest product prices as indicated below, causing revenues to respond to market conditions.
- . A single, independent and aggregate index will be used; namely the Statistics Canada industrial product price index for softwood lumber for British Columbia. The Ministry will consider a coast-interior split of this index if it can be made available and if its use is warranted.

4. Distribution of Revenue Changes:

- . Annual Rents - Annual rents will not change. Consideration is being given to replacing the existing property tax on Timber Licences with an appropriate increase in their rental rate.
- . Royalty - Royalty rates will be adjusted to more closely reflect stumpage prices.
- . Fee in Lieu of Manufacturing - In accordance with the recently announced changes in policy on log exports, the fee in lieu of manufacturing will be 30% of the price difference between domestic and export prices on surplus logs; 15% of the difference between domestic and export prices on logs that are exported under economic criteria. An overall minimum rate of \$1.00 per cubic metre on all species exported is now in effect.
- . Provincial Logging Tax - No changes are being made to the logging tax.
- . Small Business Enterprise Program - This program will operate on the basis of full recovery of planning and development costs and basic silvi-cultural costs. These costs will form part of upset stumpage and government revenues will reflect bids above these recoverables.

- . Federal Export Tax - Elimination of the Federal Softwood Lumber Export Tax will be sought. Rebate mechanisms, provided for by recent amendments to the Forest Act, will be used if necessary.
- . Non-Competitive Stumpage - Non-competitive stumpage conservatively estimated at \$138 million for the current fiscal year will increase to an estimated \$547 million, assuming elimination of the Federal Export Tax.
- . Chip Exports - In order to achieve a more market responsive chip industry, the Ministry will establish policies which will increase opportunities for chip exports in conjunction with appropriate fees.
- . Scaling - In order to achieve a fully neutral scaling function in the province, the Ministry of Forests and Lands will report on the measures necessary to establish a government regulated private scaling institute or equivalent independent and neutral forum.

B. A Sustainable Cycle of Forest Renewal

- . Effective April 1, 1988, Section 88 will no longer be used as a standard credit to stumpage for basic silvicultural costs. Effective immediately, no new commitments will be made for basic silvicultural costs.
- . Industry will assume the full costs for basic silviculture including seed collection, seedling production, site preparation and other cost measures required to bring about replacement forests following harvesting on long term tenures. This increased responsibility will be reflected in changes to the Forest Act which make pre-harvest silvicultural planning mandatory, enforce performance and require audit. On tenures of less than ten years and the Small Business Enterprise Program, silvicultural costs will be recovered from industry as part of the timber pricing structure and basic silviculture will be carried out by the Province through secure funding for this purpose.

- . Cost estimates for silviculture will be included in the Comparative Value Pricing System.
- . The costs of seeds and seedlings will now be incorporated as part of the silvicultural costs and industry will have the option of producing its own seedlings.
- . The Ministry will pursue an additional five year extension of the current Federal-Provincial Agreement prior to expiry, (an intensive silviculture program including stand management and backlog reforestation). The province will retain all allowable annual cut attained through this program for distribution through various Ministry programs, including competitive sales.
- . Industry will be encouraged to carry out more intensive silviculture on long term tenures. Any increase in allowable annual cut arising out of their expenditures will be retained by industry within its long term tenures.
- . The cost of building and maintaining forest harvesting roads and bridges will be borne by the holders of Tree Farm Licences and Forest Licences and these costs will be reflected in the cost estimates used in the stumpage appraisal system. The standard use of Section 88 credits will expire April 1, 1988. Effective immediately, no new commitments will be made.
- . Where roads are built at the request of the Crown in excess of industry norms, in order to meet specific public needs, the incremental costs will be borne by the public.
- . The Province, at its discretion, will:
 - acquire rights of way through private land where roads serve a broader public purpose.
 - contribute to the construction or upgrading of industrial roads where public benefits so warrant.
 - contribute to reconstruction of roads and/or bridges where public uses warrant.

C. Encouragement of a Strong, Competitive and Diversified Industry in British Columbia

1. Competitive Wood:

- . A program will be implemented through a variety of measures to double the amount of wood currently sold by the province on a competitive basis. The current volume of approximately 5.2M m³ represents less than 8% of the annual harvest in the province.
- . The existing provincial reserve of unallocated allowable annual cut will be strongly directed to competitive sales.
- . A disproportionate share of the current competitive sales program has been achieved at the expense in the allowable annual cuts of Forests Licences. In order to balance the impacts of additional wood flowing into the competitive sales program, initiatives will be undertaken to recover 5% of the existing allocation from all replaceable licences with allowable annual cut. Tree Farm Licences will be encouraged to retain the full areas of their licences within the context of the reduced allowable annual cut.
- . A program will be established to recover 5% of allowable annual cut upon sale, transfer or assignment of licensee interests, with the exception of woodlot licences. This initiative recovers a portion of the unearned value that is directly attributable to having tenure.
- . Industry has strongly supported the further expansion of Tree Farm Licences within the province. This mechanism has proven to be a cost effective form of tenure for government and the security provides an important and valued benefit to the licence holder. Policies will be established to support an expansion of Tree Farm Licences from the current level of 29% of the provincial allowable annual cut to as much as 67%. Individual applications for tenure will be judged in terms of company performance and public interest.

In recognition of the value being transferred to industry through this form of tenure, policies will be introduced by which up to 10% of the allowable annual cut will be made available for competitive sales upon conversion of tenure to a Tree Farm Licence status.

- . In order to encourage full utilization of harvesting opportunities, stricter enforcement of these privileges will occur. Policies will be established to permit sale by the Province of the portions of annual undercuts greater than 50%. Five year undercuts of greater than 5% will be removed from the licence.
- . The rights and liabilities of the Crown and third parties to enter tenures for harvesting and forest management activities will be clarified.
- . Revisions will be implemented in the competitive sales program to open access to individuals and companies having no long term replaceable tenure(s) with an allowable annual cut greater than 10 000 m³. Terms of tenure will vary from one to five years and there will be no cut constraints other than to complete the harvest within the term. There will be no provision for time extensions and no replacement rights.
- . Initiatives will be undertaken to expand the utilization of opportunity wood not currently considered merchantable including commercial thinnings, salvage wood and species and grades with limited existing commercial use.
- . A selective reassessment of inventory will be initiated over the next five years. This inventory will be focussed on areas with indicated incremental and unallocated volumes and with potential for uses in new manufacturing facilities in the province.
- . Clear policies will be enunciated to ensure that unearned incremental allowable annual cut will not necessarily form an automatic supplement to existing harvesting rights but will be available as an addition to an expanding competitive sales program.

2. Secondary Manufacturing - An Expansion of Marketing, Research and Development Activities:

- . In co-operation with industry and the federal government, the province will seek to refine and implement a five year marketing program to expand consumer contacts, to identify potential products and market niches and to promote the production of value added products in the province.
- . The province will continue to work to reduce tariff and non-tariff trade barriers in the forest sector.
- . The province will support initiatives to achieve enhancement of existing wood products research facilities.
- . Dialogue will be undertaken with industry to identify and establish an ongoing product and technology research program and to explore needs in respect of "first-user" technology.
- . The province will, where applicable, encourage local seminars within the province, to share and solicit ideas, stimulate interest and break down barriers which may discourage further development of small industries and processing facilities within British Columbia.
- . Tenure policies and competitive sales will, where applicable, reflect the desire to expand manufacturing in the province. A major consideration in applications for new Tree Farm Licences will be evidence and commitment to enhanced secondary and tertiary processing activity.
- . The use of fees in lieu of manufacturing will be expanded as required to ensure a fair return to the Province on its resources and to enhance job opportunities within British Columbia.