Ref: 20740-01/GEN

January 17, 2013

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. Under the surplus test, timber will not be exempted from the requirement of manufacture in the province unless the following conditions are satisfied.

Most of these conditions have been in effect for some time, and are consolidated here from previous notices to exporting and interested parties (listed below). They have been restated to increase clarity. Some conditions are current practice that has not been set out in notices. They are stated here to increase transparency.

Until further notice, these conditions are in effect immediately:

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, hemlock, balsam, spruce, pine 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.

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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 (mis-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.

Location of timber: 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 of FLNRO or delegate will consider TEAC's advice on the fairness of an offered price and TEAC's recommendation that the timber should be considered surplus (or not).

Other Factors: When determining if timber is surplus, the Minister of FLNRO or delegate may also consider factors such as location of the timber harvest relative to the advertising location, freight cost, and other reasonable evidence of domestic demand. Timber suppliers are expected to bring timber to the log dump to which the location of harvest is tributary. The Coast Appraisal Manual lists points of origin (log dumps), and four points of appraisal (Port Alberni, Chemainus, Gambier Island, Pitt River Bridge) to which the points of origin are tributary by towing or barging (see Tables 4-5 and 4-6). Trucking logs to a different log dump that leads to a different point of appraisal, or towing/barging to a different point of appraisal, may be construed as an intentional avoidance of legitimate offers. Domestic market value is deemed to apply at all four points of appraisal. If the offer is FOB at a different location, and significant freight cost before or after the point of appraisal is avoided or added, then freight cost may also be taken into account.

Accounts in good standing: On the Coast, 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 following notices to exporters:

- Balsam High Grade (December 21, 2012)
- Balsam High Grade (February 9, 2012)
- Species and Sort Code Labels for Timber to be Advertised for Export (Feb. 28, 2011)
- 6 Month Exemption (December 13, 2010)
- Minimum Volume for Remote Locations (June 1, 2010)
- Sales Invoice Requirement For Export Permits (June 1, 2010)
- Location Of Timber (January 31, 2007; December 13, 2006)
- Items 3 and 7 in the notice: Coast Log Export Policy Changes (August 20, 2004)
- Western Red Cedar (August 28, 1987)
- Cypress (January 22, 1985)

Sincerely,

Paul Knowles
Director