

Minutes
CSA Community Advisory Group
To Western Forest Products
November 12th, 2014
Western Forest Products Boardroom

Attendance: refer to attached sheet

6:00 pm: Meeting called to order
Quorum met.

Safety Review

Facilitator noted fire exits and first aid attendants in case of emergency. Meeting place in case of emergency was noted.

Code of Conduct

Code of Conduct for Community Advisory Group was reviewed.

Welcome and Introductions

Chair welcomed members. Members and Alan Rudson introduced themselves.

Review and Acceptance of Agenda

Agenda was accepted.

Review and Acceptance of Minutes

Minutes were accepted..

Correspondence

Copies of recent correspondence was provided and reviewed

Letter to PRPAWS

Emails to First Nations

Email re: Eldred repeater and hauling on November 11

Lisa Perrault Thank You email

Email re: Road notification – Spring Main Closure 5.5km

Action List

Stuart spoke to Russ Parsons regarding speaking at a future meeting about mechanical harvesting. He will address the two action items regarding indicators during the indicator update later in the meeting.

Operational Information Map Review

Current Activities

Harvesting – CH-018, CH-042, LL-012 (inactive), PD-168, PD-421, PD-460, PD-462, PD-465, ST-026, ST-283, TM-254, TM-260, UL-819, UL-820

Road Construction – FH-033, GI-140, ST-103, ST-820, UL-846, WL-042

Road Deactivation – Dianne Valley deactivation complete. No access currently – bridge removed.

Engineering – PD-505, PD-507, ST-031, ST-065, ST-288, ST-294, ST-298

What's New on the Map

New Blocks – None

New Roads – None

Cutting Permit Approved Areas – CH-018, CH-042, GI-122

There are no new blocks or roads along the Sunshine Coast Trail.

Logging Complete – EL-701, EL-800, ST-106, ST-110, ST-119

Road Construction Complete – GL-021, GL-022, ST-273, ST-276

Engineered Blocks – ST-080, TM-263, TM-265

Engineered Roads – ST-080, TM-263, TM-265

Indicator Update

Indicator 1.4.2: Protection of identified sacred and culturally important sites with implemented management strategies. Stuart updated the wording in the target to give it a closer link to the indicator.

Indicator 3.1.2: Level of downed woody debris. Stuart added four new columns to the woody debris table. The new information added to the table includes woody debris burned at roadside, removed for biofuels, removed for special forest products and woody debris available for organic matter after all activities completed.

Indicator 4.1.1: Net carbon uptake. Stuart changed the indicator to clarify the variance.

Indicator 6.4.1: Level satisfaction with the public participation process. The target was revised to a periodic survey of the CAG membership in place of the annual meeting with the third-party auditors.

MFLNRO and coastal log exports – Alan Rudson, Revenue Team Leader, West Coast Region

Log Export Authorizations:

Federally and provincially export of raw logs (logs that have not been manufactured into products) is restricted. At the federal level this is the clause which prevents logs from being exported from Canada. This is to ensure there is an adequate supply and distribution of the article (logs) in Canada for defense and other needs.

Provincially there are controls on land and timber. The Forest Act asserts that timber from crown land in British Columbia must be manufactured in the province unless it is exempted. This exemption is provided two ways. Most commonly the exemption comes by way of the 'surplus test'. The minister may exempt the timber if it is deemed surplus to the needs of domestic manufacturing in British Columbia. Wood that someone is proposing to ship to Alberta is subject to the provincial legislation, but not subject to federal legislation. There is also ability for an Order in Council to do a broad level type of exemption.

All timber leaving British Columbia needs a federal export authorization. This includes both private and crown land. In addition to this, if it is crown land or crown timber, in addition to the federal authorization it needs a provincial authorization. For efficiency both of the processes can and do happen as part of a single application.

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Question: Of the volume harvested from the TFL how much is typically exempted on a year to year basis?

Alan said that he does not have that answer. A few years ago the answer would have been zero. Now the average across the board is 25 – 30% of exported volume is raw log.

Stuart said that the log export from this TFL fluctuates within a range up to about 3%.

Question: Regarding the private land and the federal exemption – does it matter whether the land was acquired prior to 1906?

Yes, it does.

On March 12, 1906 legislation regarding how land was granted changed. Prior to this date timber rights were given with crown land rights and after March 12, 1906 timber rights stayed with the provincial government. If land was acquired after 1906 stumpage must be paid and if export was desired an application to the provincial government had to be made. If the land was acquired prior to 1906 no stumpage need be paid and no provincial application need be made. The export of timber would still be subject to the federal process.

The following are the three criteria in which provincial timber can be authorized for export:

1. It must be surplus to the requirements of timber processing in the facilities
2. Cannot be processed economically in the vicinity
3. It would prevent waste and improve utilization

The first criterion is by far the most prevalent.

Question: Must all of the criteria be met or just one?

Just one.

There are two parties in addition to the government that are in play when a parcel is being proposed for export. They are involved in the surplus test. The surplus test accounts on the coast for about 90% of all export volume. The surplus test is a process where parcels of timber that are being proposed by the owner for export are put on a list for viewing. Interested parties can see them, enquire about them, and make an offer for them. If the offer is a fair market value the wood cannot be exported. If no offers are received or if the offer made is below domestic market values then the wood will be deemed available for export. On the coast only timber that has been harvested, scaled, and put together for domestic use can be put to the surplus test. This can be difficult for harvesters because if they are intending for some timber to be exported the client overseas may be using metric scales and have different desirable lengths than what would be required of the parcel to be presented for domestic use. Any export application has a maximum of 15,000 m³ and from remote locations a minimum of 2,800 m³. This is important because a large company may have intentions of exporting large volumes and might like to submit an application for a large parcel of 250,000 m³ but there would not be many individual domestic mills that could use that large a volume. The minimum of 2,800 cubic metres from remote areas is significant because the offers would be FOB from the location of the timber. Small amounts would not be economically reasonable for domestic mills to go to and view and make an offer. These limits attempt to make the process fairer for all involved.

There are species and grade restrictions to what can be exported. Cedar and cypress are not permitted for surplus testing. The only way the cedar and cypress can be exported from crown land in British

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Columbia is by specialty permits. Private land is only subject to the federal test and it allows cedar and cypress. This is because these two species are recognized as provincially significant.

Question: How do treaty settlement land and reserve land fit into the surplus test?

First Nation lands are treated differently depending upon the extent of governance on it, but generally First Nation treaty lands are treated much like private land and are subject only to the federal process. If it is timber from a First Nation woodland license which is crown timber it will be subject to the provincial crown land process.

No more than 10% of the package can be off species. Hemlock and balsam are considered to be one species. Higher grades of Douglas-fir are not available.

If a company is interested in exporting they need to be a company that is a timber harvester or an agent of a timber harvester.

The offerer (or domestic mill in need of volume) looks at the list of all the timber being proposed for export. If they see something that interests them they may go look at the timber. The timber owner has to identify where the timber is and if it is in transit they must be able to provide the interested domestic party with the location. If the interested party finds the parcel to their liking they make an offer. The requirements are that the people making offers must be manufacturers. They must not have exported timber in the last 90 days.

Question: Could they purchase the timber and then wait 90 days and offer it for export?

If an offer is made and deemed to be valid that timber cannot be exported. Most offers that are made are rescinded before the 14 day offer review period is up. This is because when an offer is made the two parties usually make a deal that if the offerer lets that package go the owner of the timber will let them purchase the next equivalent package that is coming up. This allows for greater efficiencies because the owner of the timber will have already made arrangements for the export of the original timber package.

When an offer is put in place it is reviewed by TEAC (a provincial advisory committee) or FTEAC (a federal advisory committee) to determine if the offer is fair.

Question: Who is TEAC?

They are a mixture of people including timber harvesters, major company representatives, and milling company representatives. They meet once per month and discuss what the current market conditions are and the offers. There are 8 or 10 appointees. It is a confidential group.

Question: Wouldn't there be room for conflict of interest?

Yes. If there was a conflict for a representative they would excuse themselves from that part of the deliberation. There is still a sphere of influence – it is not perfect, but most offers get resolved through supply arrangements before they get to the TEAC group.

Question: If TEAC deemed that an offer was good does the seller have to make that sale?

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If TEAC determined that the offer was fair the timber cannot be exported, but does not have to be sold to that person. It must be manufactured domestically by someone.

If the surplus assessment is concluded and there were no offers or the offers are not determined to be fair domestic market value the timber is then available for export and an export exemption is given. The exemption is for 180 days. It cannot be sold or traced and it cannot be extended. The export exemption does nothing other than allow you to move on to the next stage which provides for the issuance of an export permit.

The log export permit is issued for the remaining term of the exemption. The Fee in Lieu (FiL) comes in to affect during this stage of the process. The FiL is a fee that is supposed to account for the lost economic opportunity of that wood being processed in British Columbia. Timber from private land goes through the federal process and is not subject to the fee – they pay \$14 for the permit no matter how large the timber package is. Provincial timber is at a per cubic metre basis. In addition to the FiL there is a multiplication factor that is anywhere from 1 - 40% depending on export market values. The minimum FiL is \$1/m³. For all of the interior, the flat rate of \$1/m³ is applicable as the FiL for all exports. The export market value has been robust so up until recently the factor has been at the maximum of 1.4 so they would pay \$1.40 / m³. The coast is much more complicated. Douglas-fir is 15% of the domestic log value for its grade and species. For all other coniferous species better than Grade U (pulp log) it is 10% of the domestic market value and 5% for pulp and reject wood. Deciduous has a straight \$1 like the interior.

Question: Why is the coast penalized more than the interior when logging is harder here?

I have no idea. These calculations have been in place for 12 – 16 years.

Alan presented a chart showing Orders in Council (OIC) that specifically recognize the difficulties and costs of the mid coast, north coast, and Haida Gwaii. These areas have timber and log exemption orders that allow for a certain percentage of volume by tenure annually that can be pursued for export under the OIC and there will be no surplus test. The FiL under this process tends to be a lower fee structure.

Question: Does BCTS have an OIC as well? Is it 20%?

OICs are by area. If the BCTS timber sale license is in this area it would be 20%.

Question: Were OICs created to give some certainty of export to the sellers?

Yes, to recognize the economics and the difficulty of the timber including where it is. It is important to recognize that volume in excess of the allowed percentage can still be submitted under the surplus test. For some strange reason timber sale license holders are not pursuing the OIC for their volume and are going through the surplus test.

Specialty permits are for small volumes. They are usually used for export within Canada such as logs going to Alberta. Tone wood used for musical instruments and Japanese temple logs are typical specialty permit items. Under specialty permits crown cedar and cypress can be exported and most specialty permits are for cedar and cypress. It is used for small volumes for very specific purposes.

Indian reserves and settlement lands are only subject to the federal process and are not subject to a surplus test. Treaty settlement and self-governing lands require written consent from appointed band

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representatives. Indian reserves and other aboriginal lands require a letter of consent from the Department of Aboriginal Affairs & Northern Development Canada.

Private and Crown timber exported from both the interior and coast:

| | | |
|--------------|------|-------|
| China: | 2005 | 1.8% |
| | 2014 | 53.7% |
| USA: | 2005 | 51.7% |
| | 2014 | 6.8% |
| Japan: | 2005 | 39.7% |
| | 2014 | 24.3% |
| South Korea: | 2005 | 5.9% |
| | 2014 | 14.3% |

Question: When the forest industry was depressed were any of the export processes relaxed to try and help prop the industry up?

Not really. There was consideration from 2008 -2010 to do away with the OIC and because of the challenges this was not done. Stumpage in 2009 was significantly reduced to recognize the difficulties of the industry. It was an overnight reduction.

Any time that there are discussions regarding increasing or decreasing restrictions many factors are considered. Public expectations, trade issues, fibre utilization, harvest response, domestic needs, log/lumber value, GDP, forest sector employment and many other implications need to be considered.

Question: Is stumpage and the ratio that it will be ever published?

There is an information paper put out by timber pricing branch that is publicly available.

Question: How are woodlots treated? Both community and First Nations.

If it is crown timber it is subject to exactly the same rules. There are three different scenarios: there could be a woodlot (or TFL) with provincial timber and land and a regular woodlot cutting permit, they could have an exportable crown grant timber mark or a non-exportable crown grant timber mark. They could have provincial timber with the surplus test and the OIC, they can have timber which was granted before 1906 making the process federal or timber granted after 1906 which would be provincial process.

Question: We have a First Nations community forest here so that would come under the provincial process?

Yes, community forests are crown land so they are under the provincial process. If it was treaty settlement it would be self government. Very little community forest timber goes to export.

Question: I've been reading that our log supply for export to other countries is uncertain due to the surplus test. Countries like China and South Korea can't rely on steady log supply from BC which is creating those opportunities for New Zealand and Russia because they can give certainty. Can you comment on this?

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Certainly having certainty of supply is very important if you want to acquire logs from other jurisdictions and in British Columbia we have a very complicated export process therefore most of the timber is not certain. I think there will be some changes to log export policies over time and likely making it more restrictive. If you are a country wanting to acquire logs from others, I don't think British Columbia will be the most desirable place. It is awkward presently and the future may be less certain especially with land claims and other challenges on the landscape. The same conversation is happening with oil and gas. There are international pressures to remove artificial barriers to trade and our log export process is a restriction.

Question: And yet you foresee more restrictions?

I think it is an easier sell to the people of British Columbia. They generally view log exports as exporting jobs. I personally don't see it that way; I see it as part of the whole mosaic of the industry.

Question: Are policies always being worked on?

Eight years ago Bill Dumont wrote a paper that suggested a whole different quota based model. Everybody saw some benefits to the model. Two years ago all of industry, exporters and millers, came together to talk about if there could be refinements to the system and what that would look like. As would be expected in that forum there were many differing views, but the one thing that everyone agreed on was that the rule set needed to be clearer and simpler. There were a number of tweaks to the policy that were proposed. Virtually none of those have come into play. Exports, although a small component of resource extraction, comes up the most often.

Action List Items

Action Items

| <i>Ongoing</i> | Who | Meeting | When |
|----------------|-----|---------|------|
| | | | |

Adjourned 9:00 pm

Stillwater CSA Community Advisory Group Western Forest Products November 12th Attendance

| Name | Position | Member Seat |
|----------------------|-----------|------------------------|
| PRESENT | | |
| Jane Cameron – Chair | Primary | Member at large |
| Barry Miller | Primary | Environment |
| Andy Payne | Primary | Employment & Education |
| Russ Parsons | Alternate | DFA Worker |
| Colin Palmer | Primary | Local Governments |

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|---------------------|-----------------------|------------------------|
| Cathy Bartfai | Alternate | Member at large |
| Nancy Hollmann | Primary | Tourism |
| Paul Goodwin | Alternate | Forest Dependent |
| Bill Maitland | Primary | Local Business |
| Laura van Diemen | Alternate | Employment & Education |
| Debbie Dee | Alternate | Local Governments |
| Mark Hassett | Alternate | Contractor |
| Doug Fuller | Primary | DFA Worker |
| Joseph McLean | Alternate | Local Business |
| 9 Seats represented | | |
| ABSENT MEMBERS | | |
| Wayne Brewer | Alternate | Tourism |
| George Illes | Alternate | Environment |
| Rory Maitland | Primary | Contractor |
| Rob Stewart | Primary | Forest Dependent |
| Read English | Alternate | Recreation |
| Dave Hodgins | Primary | Recreation |
| PRESENT | | |
| Resource – others | | |
| Alan Rudson | MFLNRO | |
| Ken Mackenzie | WFP | |
| Walt Cowland | | |
| Stuart Glen | WFP | |
| Valerie Thompson | Facilitator/Secretary | |