

STUMPAGE: WHAT YOU NEED TO KNOW

By Mike Greig, RPF, P.Eng

In 2018, the Province billed \$1.2 billion in stumpage fees to forest companies in BC that harvested 62 million cubic metres; \$267 million to coastal companies and \$952 million to interior companies. That's double the stumpage that was billed five years earlier, on less volume harvested.

If you harvest Crown timber, you pay a stumpage fee based on your assessed stumpage rate (\$/cubic metre) times the volume (cubic metres) of timber harvested. The assessed rate will affect decisions on whether to harvest (or not) and everyone who relies on harvesting for their livelihoods—including mills that consume those logs.

Is this something you need to be aware of? Absolutely.

What are the ins and outs?

At one time, stumpage rates were easy to understand. Timber value minus the cost to harvest and deliver plus profit equaled the assessed stumpage rate. At other times, government simply set the target rate. However, since 2004, stumpage on the coast was calculated using the Market Price System (MPS). The change to MPS was in hopes of ending the perpetual litigation cycle associated with the softwood lumber battles between the US and Canada by implementing market-based pricing of harvested timber. The Interior stumpage system was changed to MPS in 2006. The main feature of MPS is the use of winning bids from BC Timber Sales' (BCTS) auctioned timber to predict what someone might bid on a stand of timber and determine a stumpage rate.

The MPS method, equations and allowances are published by the Province in the *Coast Appraisal Manual* and the *Interior Appraisal Manual* and each is updated annually. The latest Coast update was December 15, 2018 and the latest Interior update was July 1, 2019.

How does MPS work?

MPS relies on estimated winning bid (EWB) equations derived by the Timber Pricing Branch using statistical analysis of previous BCTS timber sale bids, value indicators (e.g. average log price, lumber prices, number of bidders) and

cost indicators (e.g. slope, cable vs helicopter). One set of equations is updated for the coast and another for the interior. The data sets are updated annually with the previous year of timber sales data; currently utilizing 12 years of data. Appraisal value parameters for log and lumber prices are compiled and published monthly using forest industry sales transactions.

The final estimated winning bid (FEWB) is simply the EWB less any special cost considerations (called specified operations) that the BCTS timber sale holder is expected to incur but that would not normally have been considered in bids by market loggers in the timber sale data set, such as for tree crown modification.

An upset stumpage rate is then calculated, typically as 70 per cent of the FEWB (known as MPS70) and the timber is then offered for sale via BCTS auction where bidders can offer a bonus bid in addition to the upset stumpage rate.

The timber sale is awarded to the highest bidder and the stumpage rate is determined as the total of the upset stumpage rate plus any bonus bid from the winning bid of the timber sale. Sawlogs will be charged this amount. Timber sale stumpage rates are usually fixed for the term of the timber sale, and commonly range \$40-\$60/cubic metre with some higher than \$100/cubic metre. Pulp grade logs (grades X, Y and hem-bal—Hemlock Balsam—U on the coast and grade code 4 and 6 in the interior) are charged stumpage at \$0.25/m³ based on prescribed minimum stumpage rates set by the Province.

There are planning and related costs required to prepare a timber sale, incurred and paid by BCTS. This includes forest planning and administration, primary road construction and silviculture, collectively known as tenure obligations, which can easily cost \$20-\$30/cubic metre.

For major tenure holders (e.g. with a forest licence, timber licence, tree farm licence), the process differs slightly. The Province calculates an EWB and FEWB similar to BCTS. Data is pre-

pared and supplied by industry, and on the coast the Province uses grade source history to help determine values for old-growth permits.

Similar to BCTS, the major licensee prepares cutting permits. They also have tenure obligation costs they must incur for forest planning and administration, roads, silviculture, etc. To offset these costs similar to BCTS, the Province provides a tenure obligation adjustment (TOA) derived from a combination of BCTS costs and industry costs.

The FEWB is then reduced by the TOA to arrive at an Indicated Rate for major tenure holders. Pulp grade logs are assessed at \$0.25/cubic metre similar to BCTS.

All major tenure holder cutting permits have their stumpage rates adjusted quarterly, on January 1, April 1, July 1 and October 1 using appraisal parameters that reflect market value conditions for that quarter.

One point to note is the time lag. Log and lumber prices use three-month rolling averages derived by the Province (using industry log sales), delayed by two months for data collection. This means July 1, 2019 log price parameters are based on sales for the three months ending April 30, 2019. Lumber prices are three-month rolling averages using published prices.

For the Coast, stumpage rates have been decreasing since summer 2019 reflecting the weaker log and lumber market conditions.

In the Interior, the scarcity of timber supply (a legacy impact of the mountain pine beetle and wildfires) is having a strong influence on stumpage, driving up timber sale bids and stumpage rates. Interior stumpage has fluctuated based on the interplay of lumber prices and high bids over the last year, sometimes in the wrong direction with the current market; however, with the decrease lately in mill demand for logs and lumber prices, stumpage rates should be expected to decline.▲