



# Follow-up: 2008 Timber Royalties - Department of Natural Resources and Energy Development

Report of the Auditor General – Volume I, Chapter 4 – August 2020

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## Why Is This Important?

- AGNB received a request from the Minister of Natural Resources and Energy Development to undertake this review
- Observations, findings and recommendations from the 2008 Auditor General Timber Royalties chapter have been referenced by various stakeholders in arguing their position on timber and stumpage markets in New Brunswick
- Forestry sector employs 22,000 people and represents 5% of New Brunswick Gross Domestic Product
- 2019 Crown timber royalties represented nearly \$68 million in gross revenue to the Province

## Overall Conclusions

- Crown timber royalty rate-setting process in New Brunswick has significantly improved since 2008; however, Department has yet to adjust and apply new rates as required under the *Crown Lands and Forests Act* since 2015.
- In this report, the Auditor General makes eight more recommendations to further improve the Crown timber royalty rate-setting process.

## What We Found

### Department has partially implemented a new system to determine fair market value

- Private woodlot stumpage market study significantly improved over 2008 survey
- Private woodlot stumpage prices can represent the fair value of transactions in the New Brunswick private wood market
- Crown timber royalty rates not updated annually as required under the *Crown Lands and Forests Act*
- Forest Products Commission does not enforce mandatory responses from all independent contractors.
- Department advisory committee required by the *Crown Lands and Forests Act* is non-existent

### Recommendation to implement regional Crown timber royalty rates no longer applicable

- The use of regional Crown timber royalty rates could increase accuracy but is complex and could significantly increase cost
- The cost of implementing a more complex regional rate system could outweigh the benefits
- No clear rationale exists supporting a regional rate system at this time

### Government not using stumpage study results to update Crown timber royalty rates for 4-years

- Department needs to use market indexes for updating Crown timber royalty rates until real-time data is available
- Implementation delay means Crown timber royalty rates not responsive to market changes
- Real-time data could improve responsiveness of Crown timber rate-setting process
- Minister needs latitude and ability to update Crown timber royalty rates on a more timely basis