



STRUCTURAL REVIEW OF BC TIMBER SALES

**STAKEHOLDER WORKSHOP, June 29, 2006
SUMMARY NOTES**

Introduction

The Ministry of Forests and Range (MOFR) has initiated a review to determine if the current organizational structure of BC Timber Sales (BCTS) most effectively addresses its mandate, and to recommend any needed changes.

This review is co-chaired by Howard Saunders, an external consultant, and Dave Peterson, the Assistant Deputy Minister – BCTS.

The complete Terms of Reference for this Structural Review can be viewed on the BCTS website: <http://www.for.gov.bc.ca/bcts/about/structuralreview.htm>

This review starts from the documented mandate of the existing BCTS program, and then identifies the critical organizational features or characteristics that could affect the attainment of that mandate. These topics were discussed at a June 29 workshop with a wide range of industry stakeholders and with representatives from BCTS and the MOFR Operations Division. A Discussion Paper will be released by the review co-chairs on these key characteristics.

The June 29 workshop participants provided input into characteristics, discussed alternative structures at a high level, and made numerous recommendations regarding how BCTS should conduct its business within any structural model. This broader input will be incorporated into a further Discussion Paper as referenced below.

Once the key characteristics have been identified, the current and alternative structures will be evaluated in light of those features and in light of the implications of moving to any alternative. The co-chairs will then recommend any changes or improvements needed to the BCTS structural model, or recommend improvements needed within the current structure. These recommendations will be put into a second Discussion Paper which will be posted on the website and will be taken back to the stakeholders in a workshop in September.

By September 30, after reviewing the input from interested parties and the feedback from the workshop, the co-chairs will make final recommendations to the Minister.

Workshop Participants

Industry Stakeholders

1. Gio Alberti, Vancouver Island Wood Processors Association
2. Dave Bryden, Council of Forest Industries
3. Russ Cameron, Independent Lumber Remanufacturers Association
4. Duncan Chisholm, Independent Timber Marketers Association
5. Dennis Cook, Interior Loggers Association
6. Shane Garner, Central Interior Logging Association
7. Jim Girvan, Truck Loggers Association
8. Paul Heit, Central Interior Wood Processors Association and Independent Lumber Remanufacturers Association
9. Les Kiss, Coast Forest Products Association
10. Bill Markvoort, Truck Loggers Association
11. Dave Martin, Northwest Loggers Association
12. Robin Modesto, Coast Forest Products Association
13. Roy Nagel, Central Interior Logging Association
14. Todd Roberts, Interior Value Added Association and ILRA

BCTS

1. Dave Peterson, Assistant Deputy Minister, co-chair Structural Review
2. Doug Wrean, Director, Business Operations
3. Mike Falkiner, A/Director, Operations
4. Jim Sutherland, A/Director Forestry
5. Jerry Kennah, Timber Sales Manager, Chinook Timber Sale Office
6. Shane Bowden, Timber Sales Manager, Kootenay Timber Sales Office
7. Gail Brewer, Manager, Program Planning and Business Practices
8. Graham Archdekin, Manager, Policy

MOFR Operations Division

1. Gerry Grant, District Manager, Quesnel Forest District
2. Dan Graham, Director, Compliance and Enforcement Branch
3. Dave Hails, District Manager, Squamish Forest District
4. Dave Raven, District Manager, Columbia Forest District

Other:

1. Gail Wallin, session facilitator
2. Howard Saunders, consultant, co-chair Structural Review
3. Alison Nicholson, consultant, Secretariat to TSAC, summary notes scribe

Workshop Summary Notes

Below is a summary of the key themes and characteristics that were discussed by stakeholders as important to consider in the review and design of an effective BC Timber Sales organization.

Themes

1. Clear Goals and Objectives
2. Timber Sales Program that Supports Market Pricing System
3. Costing Program Applicable to Market Pricing System
4. Effective and High Performing Organizational Structure
5. Communication/Education
6. Stewardship
7. Business Acumen
8. Bidders – Who Participates?

Theme 1: Clear Goals and Objectives

Characteristics:

A Clarification of Existing Goals

- a) Clarify relationship (i.e., implied hierarchy) between Goal 1: *Provide a credible reference point for costs and pricing of timber harvest from public land in BC* and Goal 2: *Optimize net revenue to the province, within the parameters dictated by our benchmarking mandate and safe and sound forest management practices*
- b) Clarify relationship between goal of optimization (goal 2) versus providing opportunities for customers (goal 3)

B Consistent Interpretation and Transparent Application

- a) Clarify whether there is a ranking among objectives and if so what it is.
- b) Clarify who are the clients and who are the customers? (i.e., bidders/ buyers of logs?)
- c) Ensure policies and procedures reflect the intent of the goals and objectives and are understood by staff – suggest testing of all staff, e.g. questionnaire on awareness,
- d) Ensure goals/objectives/policies/procedures are applied transparently and consistently

C Consider New Goal

- a) Stated new goal:
 - i) Even flow of AAC year over year with correct profile and distribution (that closely represents licensee profile and distribution)
 - ii) Even flow=awarded timber and/or harvested timber
- b) Optimization of revenue is more than a unit cost focus

D Social Forestry

- a) Clarify relationship of government's social forestry objectives to BC Timber Sales goals and objectives.

- i) Stakeholders recognized that there was a need for social objectives (e.g., providing opportunities for value added sector) but there was no consensus on whether it should be a part of BCTS's goals.
 - ii) Clarify whether or not social objectives are on the table, i.e., either increase or remove the partition.
- E Expanded Performance Measures
 - a) Ensure measure how well BCTS is meeting client needs – consider regional nature of industry and variation in clients
 - b) Ensure that there are sufficient measures that can be tracked meaningfully throughout year so business adjustments can be made on an ongoing basis

Theme 2: A Timber Sales Program that Supports the Market Pricing System

Characteristics:

- A) Robust Data
 - a) Ensure credibility of auction data vis-à-vis issue of corporate concentration.
 - b) Ensure variety of sales and characteristics
 - c) Ensure sales cover the range of timber types/profile and systems
 - d) Ensure a system that encourages many bidders and a wide spectrum of buyers and sellers.
 - e) No consensus of whether to ensure all auction sales unrestricted (open to all registrants) versus partitioned volume where some are open (to all registrants) and some are restricted to value-added (Category 2 registrants) (see also Theme 1 Clear Goals and Objectives and the issue of social forestry)
 - f) Sell timber to take advantage of market opportunities but ensure that timber sales are offered throughout the market cycle i.e., even flow throughout the year versus concentrating sales at the end of the year (and operating within a range that allows for market driven response too)
 - g) Clearly define even-flow – need to consider terms, fiber, mill needs, award dates
 - h) Ensure steady delivery of full BCTS AAC
- B) Transparency
 - a) Define data used in Market Pricing System and how it is used.
- C) Data Quality
 - a) Analyze sales data to identify market and bidding manipulation and deal with it appropriately and quickly
 - b) Don't use data points until all parameters met e.g.:
 - i) Stumpage paid
 - ii) Waste billings paid
 - iii) Sale fully logged within term
- D) Preparing Sales
 - a) Set upset price simply, so that it does not suppress the market but addresses no-bid sales
 - b) Allow negative bonus bids

- c) Ensure organizational capacity to deliver timber to market – resources to prepare and sell
- d) Promote excellence in sale design/preparation
- e) Sales to reflect TSA/FL/TFL objectives as documented in TSRs
- f) Ensure consistent application of policies e.g., term of sales, variable vs fixed; cruise based sp versus historic based sp; cutting authority composition
- g) All sales \$0.25/cubic metre?

Theme 3: Costing Program Applicable to Market Pricing System

Characteristics:

- A) Cost Structure comparable to licensees
 - a) Mandate limits the ability of BCTS to pursue creative options, such as lump sum timber sales, that could reduce costs i.e., mandate says all BCTS volume goes to pricing
 - b) BCTS should be one of the participants in the log costs surveys which drives acceptable cost structures
- B) Transparency
 - a) Ensure transparency between industry and BCTS costs so that costs can be compared e.g. road costs tied to specific sales; reporting at same scales, overhead etc.
 - b) Ensure equitable application of rules by MoFR (between BCTS and major licensees)
- C) Contracting
 - a) Bill 13 - The contractor requirements experienced by industry need to be recognized and cost impacts need to be understood –there is a difference of opinion on whether this results in a cost impact.
 - b) Contracting practices must be comparable to industry, i.e., there is a perception that BCTS must accept the lowest bid; ensure understanding of differences and impacts of government policy-based restrictions around contracting practices
- D) Overhead
 - a) Ensure clear definition of overhead so BCTS costs can be accurately compared to industry.
 - b) Clarify how human resource management practices in government affect overhead costs
 - c) Consider the effect of having the revenue collection function and responsibility separate from BCTS structure on overhead
- E) Capital
 - a) Clarify how capital costs are best compared to industry.
 - b) Incorporate cost of capital into cost accounting and decision-making.

Theme 4: Effective and High Performing Organizational Structure

Characteristics:

- A) Clear separation
 - a) Understand symbiosis with government and independence of BCTS.
 - b) Clear separation (physical and structural) between BCTS and MOF operations division.
 - c) Clarify roles of BCTS versus Operations Division regarding supervising/overseeing timber sales licenses.
 - d) Ensure that BCTS is seen to be operating independently i.e., BCTS is treated the same as a licensee.

- B) Proactive
 - a) Ensure ongoing client access to fibre.
 - b) Ensure BCTS has active role in identifying timber sales opportunities (versus relying on planning contractors)

- C) Staffing
 - a) Ensure business unit structure and personnel have the right level of experience and expertise
 - b) Ensure a customer relations point person to relate and liaise with clients
 - c) Ensure diversity of expertise, i.e., accountants, foresters, MBAs
 - d) Ensure hiring practices are competitive and flexible, i.e., don't limit to in –service competitions; provide competitive compensation and flexible hours of work; reward high performance.
 - e) Consider impacts of unionization compared to industry – should key roles be removed from union?

- D) Performance Measures
 - a) Ensure organizational performance measures e.g., measures that provide a feedback mechanism from clients and stakeholders about staff “satisfaction”; retention/recruitment etc.
 - b) Ensure performance measures that also directly reflect mandate, i.e., # of clean data points to revenue branch each year

Theme 5: Communication/Education (see also Theme 7: Business Acumen)

Characteristics:

- A) Frequent, timely and two-way
 - a) Identify key BCTS contact people

- B) Transparency
 - a) Communication to clarify rules – document rules/guidelines for bidders especially
 - b) Transparency with respect to enforcement of rules/consequences.

- C) Stakeholders
 - a) Communication with broader stakeholder group important too (e.g., politicians, Americans, other forest industry and government stakeholders) about mandate and Market Pricing System.

b) Customer satisfaction measures e.g., monitor with questionnaires.

D) Market Awareness

- a) Ensure BCTS staff understand client's business - what it takes to be a successful operator, and specifically what are the changing market needs at the local level;
- b) Collect better intelligence on local log markets (wood buyers an important potential source of such information)
- c) Ensure staff are aware of how their actions in delivering on the mandate can impact client's business.

Theme 6: Stewardship (equal expectations from public) fair amount of consensus for this theme

Characteristics:

A) Symmetry (with major licensees)

- a) Strive to align BCTS responsibilities regarding stewardship, safety, certification, etc. with responsibilities of licensees.
 - i) BCTS should be held to same expectations by the public and MoFR as major licensees are.
 - ii) Need to recognize the district variation and business area complexity that BCTS manages.
 - iii) When there are differences ensure that the differences are understood, rationalized and addressed so that the differences are cost neutral regarding the Market Pricing System

B) Roles and Responsibilities

- a) Clarify roles and responsibilities of BCTS staff and other government agency staff
- b) Participation in non-timber functions e.g., FIA funding, recreation work, forest health, in line with industry participation
- c) Clarify whether market-pricing mandate affects the BCTS commitment to management objectives of land base

C) Stable land base

- a) Very important

Theme 7: Business Acumen

Characteristics:

A) Marketing Focus

- a) Know market drivers, market constraints at the business area, local and international levels
- b) Staffing/policies driven by market based principles (staff need to believe in the market and market based solutions)
- c) Consider new delivery models to enable customers to better pursue market opportunities

- d) Enhance integrity of bidding system, flexibility to revise to meet market needs, fairness.
- B) Sales that are addressed at market needs
- a) Product – know profile by sale, package to sell, not all want pine – e.g. look for opportunities, including hardwoods
 - b) Network with licensees/advisory group on strategic and operational issues, feedback on sales, planning, log buying
 - c) Extension role
 - d) Increase capacity of bidders
 - e) Performance measure targets
- C) Business Case
- a) To ensure cost consciousness, cost effective, competitive, understanding of cause and effect
 - b) Business case should drive timber sales (must make sense from both BCTS and registrant point of view); understand cause and effect
- D) Best Practices
- a) Social license to operate; how BCTS performs in community (donation budget?)
 - b) Structure attracts good people, competitive wages
 - c) Open contracting practices – ensure value for money
 - d) Qualification/performance criteria needed for all contracted service work.

Theme 8: Bidders – Who Participates?

Characteristics:

- A) Consistent, Transparent Bidder Qualification Criteria
- a) Ensure relevant, realistic enforceable qualification criteria for bidders (e.g., knowledge of program roles and responsibilities, residency, safety record, financial capacity, experience etc.)
 - b) Consider whether BCTS is best suited to be the gatekeeper for the qualification criteria or not?
 - c) Ensure transparency regarding who the bidders are and enforcement of qualification criteria.
 - d) Consider increasing the limit on the number of sales a bidder can hold at one time (i.e., >3) to discourage the use of numbered companies.
 - e) See also Theme 1: Clear Goals and Objectives to clarify issue of maintaining the partition versus removing the partition and criteria vis-à-vis new Cat 2 entrants.
- B) Performance Criteria to remain a Qualified Bidder
- a) Ensure clear performance criteria on which participants will be monitored for continued qualification to the program (but beware of creating barriers to participation e.g., if have partition maybe criteria should be different for that subset)
 - b) Ensure transparent, consistent, strong enforcement of performance criteria to remove participants from the program who abuse system.

c) Ensure enforcement is cost effective, i.e., reflective of the gravity of the error (penalty lined up with gravity)

C) Appeal Process

a) Ensure appeal process related to performance is simple and fair.