BC Timber Sales Opportunities Review

Final Report

June 2013

Contents

***About this report:** This report was prepared by Tim Maki, an independent consultant hired by BCTS through a formal, competitive procurement process. Project terms of reference for the project were developed by BCTS and the project was managed through a steering committee consisting of representatives from BCTS and FLNRO. The steering committee provided essential guidance and technical expertise in all stages of the project.*

A.Executive Summary

This report presents the results of an Opportunities Review conducted over the July to October 2012 period. The intent of the Opportunities Review was to strengthen BC Timber Sales' (BCTS) ability to support provincial priorities, to deliver on its mandate, and to build commitment to the organization within government and among all customer segments. The recommendations aim to better locate the organization within the broader policy framework and priorities the province has for the sector, and to enhance the ability of the province to leverage the program to continue to promote investment opportunities, innovation and job creation. The information and recommendations contained in this report are intended to support BCTS' commitment to continuous improvement.

BCTS was established in 2003 to offer fibre to the market through a competitive auction system. The competitive auction system provides the basis for collecting the market price information used to drive stumpage rate determinations, and it continues to provide a credible foundation for setting stumpage rates at levels consistent with forest product markets. The importance of providing credible pricing data is underscored by the most recent arbitration ruling by the London Court of International Arbitration (LCIA) where the BCTS model served the Province in successfully countering claims from U.S. based interests that BC's forest sector is unfairly subsidized. The forest sector avoided compensatory export taxes in excess of $300 million as a result.

With responsibility for close to 20% of the province's apportionment, a substantial operational presence in all areas of the province, and offices in 33 communities, BCTS has an impact on all facets of the forest sector and the local and regional economies that rely on the industry as a wealth generator. In terms of direct impacts, the value of services that BCTS has secured through local suppliers since 2003 is in excess of $900 million. It has brought 95 million cubic metres of timber to the open market and generated over $350 million in net revenues through its timber sales. More important, since the pricing mandate requires it to test markets and respond to customer needs even in depressed market conditions, it had a stabilizing influence on local businesses and regional economies during the recent downturn across the province. While many major licensees stopped doing the development work needed to bring their own timber to market and curtailed production, BCTS did not. BCTS reduced its development work and the volume of sales to adjust to weak markets, but provincially, the BCTS maintained a strong market presence. During the market downturn, BCTS achieved a stronger revenue flow through its timber sales than those produced through other forms of tenure, generating 80% of the province's stumpage revenue from just 20% of the provincial forest land base.

The forest sector and those communities that depend on it as a wealth generator are facing great change and uncertainty. In the wake of the uplifts implemented to bring Mountain Pine Beetle (MPB) affected stands to market and put the land back into production, many regions are seeing a more constrained timber supply and growing challenges in securing the fibre to meet existing needs and emerging demand by First Nations, communities and some major licensees. While the United States is still a key market for softwood exports, it has receded in importance with growing demand in other markets. Regardless, BCTS' pricing mandate now and into the future is an important consideration in any future policy discussions. There are strong advocates for very different visions of the future of forestry and the regional, provincial and international value chains that BCTS feeds into. The organization is not immune to these issues and is feeling the push and pull of different interests. Along with most companies in the forest sector, BCTS has had to adjust its business practices to address the decline in profitability associated with the forest sector downturn following the global financial crisis. With improvements in market conditions in the fall of 2012 and increased product demand, BCTS and the broader sector have seen a return to greater profitability.

Purpose of the Review and Approach

BCTS initiated a review tasked to:

- Report on benefits and assess key areas of strength, successes and challenges associated with its programs;
- Identify the factors having an impact on BCTS and associated risks and opportunities; and
- Develop options and recommendations to act on identified risks and opportunities.

This report presents the results of that review and supporting discussions with over 120 customers, partners, stakeholders and staff including a survey of all BCTS staff (conducted July-October 2012 with an approximate response rate of 70%).

The Case for Change

BCTS is recognized generally as a valuable and dependable fibre supplier to the open market that is balanced, sustains opportunities for new entrants into the forest sector, and keeps options open for the province at a time of considerable uncertainty. The risks and challenges that the organization faces are being managed well given the limited powers and authority that the organization has under its current governance structure and legal framework. The organization has generally delivered on its mandate, providing a stabilizing influence to customers with reliable product delivery in good and poor market cycles.[1]

BCTS provides fibre supply solutions that can effectively serve the needs of businesses working both within international value chains and small independent businesses working within local and regional markets. The development of more competitive fibre markets increases the level of benefit from every tree cut. By promoting regional and provincial conditions that allow fibre to move to its highest and best use, BCTS can work effectively with government partners to develop new opportunities for First Nations and communities, and to sustain the conditions necessary to foster innovation, investment and job creation. Improving access to fibre on an open market for new entrants, and proactively and collaboratively working with local governments, First Nations, business and government partners, BCTS can broker fibre solutions that contribute to local, regional and provincial economies.

Where action can be taken now: A range of actions are proposed that are intended to deliver tangible results in the short-term, and which focus mostly on processes and products currently delivered by BCTS. While the actions will be familiar to most within the organization and many business areas are already embracing them, their cumulative impact signals a significant shift in how the organization operates and engages the world around it. In particular, the recommendations promote:

- The development of stronger customer focus and greater responsiveness to customer needs;
- Actions to develop stronger support for BCTS across all key relationships, including First Nations, communities, licensees and fibre processors, market loggers and brokers, suppliers who provide services to the organization, and key government partners such as the Ministry of Forests, Lands and Natural Resource Operations (FLNRO) and the Ministry of Aboriginal Relations and Reconciliation (MARR);
- Work with key partners to leverage BCTS to deliver fibre supply solutions that effectively support provincial priorities while limiting risks to the apportionment and ability to meet pricing, revenue and fibre supply targets;

[1] BCTS has successfully delivered on the majority of its mandate, save and except a few business areas which accumulated an undercut (i.e., they did not meet targets with respect to the volume of fibre offered to the market). At the time the report was completed BCTS was taking measures to address this issue.

- The development of a better work environment and more rewarding careers within the organization.

The longer-term: In the longer-term, the recommendations lead to more fundamental change within BCTS. The recommendations build towards change in the government structure and legal framework to enhance the ability of the organization to act as a full service, professional forest land manager and position it more strongly to succeed. In particular the recommendations are designed to:

- Increase the capacity to develop and support a financial plan that promotes profitability in the short and long-term and bring stability to how the organization operates;
- Enable the purchasing and trading of volume and securing operating areas through greater use of area-based tenure to provide the province with a sustainable and more diverse portfolio of forest lands managed by BCTS (in trust for the people of British Columbia) that provide opportunity to investors and innovators – First Nations, communities and private sector businesses alike; and
- Create an organization with the ability to provide the range of benefits, competitive wages and work environment that attracts and retains the talent needed to spur innovation and drive BCTS forward.

Key Themes and Future Challenges

Relationships with First Nations and Communities: Many of the challenges facing BCTS relate to broader decision-making processes that must consider a range of competing interests at the regional or local level. There is a general perception that the organization has not worked hard enough to develop effective relationships and to broker regional fibre supply solutions that respond to the needs of communities and First Nations and the benefits that BCTS can bring to First Nations and local government are not sufficiently understood. At the same time, there is a strong perception held by some within and external to BCTS that it risks diluting its mandate by investing in partnerships and that more effort is needed to communicate to decision makers the costs associated with drawing on the apportionment to provide replaceable tenures to communities and First Nations. Regardless, opportunities exist to secure fibre through mutually beneficial business arrangements with some First Nation entities.

Security over the Apportionment, Operating Areas and Timber Supply Constraints: Competing demands and pressures for tenure are resulting in the reallocation of parts of BCTS' apportionment to replaceable licenses to meet First Nations, community or other needs. Unless carefully implemented, reallocation could pose a risk to the pricing mandate. This may represent a financial risk for BCTS as well since they must continue to develop a standing timber inventory (STI) at considerable cost.

Competitiveness of Fibre Markets: All customer groups note the need for BCTS to continue to reach out to customers, work harder to identify their fibre needs, and commit to meeting those needs through the ongoing development and refinement of the products and processes used to bring fibre to market. At present, the range of products and the manner in which they are delivered constrain the ability of some customer segments to access fibre. Customers identified concerns with the Category 2 (Cat 2) program. Opinions were mixed with an even split between those who saw no benefit, and those advocating for it. Advocates saw the need to strengthen the program to more effectively meet the needs of independent mills. Some called for a range of different products (i.e. licence types) such as non-replaceable forest licences (NRFL) types of arrangements, and flexibility within the products such as highly modified Cat 2 requirements to respond to the needs of specific proponents or First Nations. Others advocated for greater BCTS involvement in the development of regional log merchandizing centres in order to meet the demands of independent mills (without replaceable tenure) who rely on a steady supply of fibre and have no interest in the harvesting side of the equation. Beyond this, in the interests of continuous improvement, a range of opportunities to streamline or improve the bidding process, bid packages, TSL contract requirements, and the structure of specific types of sales to improve their marketability were offered.

Responsiveness to Customer Needs: BCTS serves a diverse customer base with sometimes very different needs and expectations. A diversity of fibre supply strategies exist in today's forest economy and BCTS is part of the mosaic of forest land managers that supply the market. There is a perception among some of the larger fibre processors that, as BCTS continues its mandate to mirror the market and behaviour of major licensees, improvements could be made relative to the timeliness of delivering the apportionment to the market. This is more prevalent on the Coast, the Cariboo-Chilcotin, and portions of the Prince George Timber Supply Area. The view among many independent fibre processors is that the Cat 2 program remains essential to securing fibre supplies and that BCTS could be using it more effectively to meet the needs of some customer segments. Customers value the access they have to BCTS and the level of communication that exists. However, a pervasive theme running through the consultations is that BCTS has not made clear commitments to its customer segments, and that it should communicate more effectively to understand and respond to them.

BCTS Staff – Human Resources: At the staff level, there is a general perception that BCTS is less effective than it could be and that its relevance to decision makers is weakening. Staff are reporting a loss of engagement and slipping morale within BCTS. The flat organizational structure, while viewed as efficient, limits career opportunities. With wage rates that aren't viewed as competitive with the private sector and some parts of government, staff see a growing problem in attracting and retaining staff. At the same time, there is general support for the organization, its strong operational focus and clear mandate. Staff are concerned about the future of the organization and its ability to attract, inspire and retain skilled and experienced people, yet they are also enthusiastic, proud and loyal.

Suppliers: BCTS depends on a range of suppliers to bring its fibre to market in a timely fashion and to meet post-harvest obligations. Engineers, foresters, road developers, multi-phase and silviculture contractors, and other consultants support the work of every business area. Staff identified challenges in accessing suppliers and these shortages are leading to delays in bringing some sales to market. In some areas, BCTS staff have begun to undertake work traditionally done by contractors to make up for the short-fall. Suppliers and staff identified a range of factors that have contributed to the shortages: more attractive terms provided by major licensees where the work can be done more efficiently and higher rates and per diems can be realized (likely to further draw down on the pool of suppliers as the market picks up); the procurement policies of BCTS which they feel over-emphasize lower price (leading to challenges for both staff and suppliers who sometimes find it hard to secure the best people at the best price); and the structure and complexity of contracts including the practice of bundling up work (e.g. multi-phase) which has effectively created a challenging barrier to entry for many smaller companies that could otherwise be drawn upon.

Administrative and Organizational Structures: The operational realities facing many business areas have changed significantly since the launch of BCTS in 2003. Timber supply constraints, treaty negotiations, forest health, and changing market demands have fundamentally altered the current or projected workload within some business areas. While customers, partners and stakeholders generally did not see a need to alter the administrative and organizational structure (focus was on output, not on the process to deliver the output), considerable concern was expressed at the management and staff level in some business areas that the current structure was leading to inefficiencies, and declining staff morale. On the other hand, some business areas expressed support and satisfaction with the current structure. As well, with the formation of FLNRO there is concern, albeit limited, over the extent to which the business areas align sufficiently with the administrative boundaries of the broader ministry and the extent to which this is inhibiting communication and effective issues management. This is particularly true in the Prince George TSA where two business areas co-exist but are measured as one through AAC partition requirements.

Governance Model and Legal Framework: The last several years have challenged the organization and the strengths and vulnerabilities associated with the current governance model and legal structure have come into focus. While opinions are mixed, many staff believe the ministry structure is a significant constraint to developing an effective strategy for attracting and retaining skills and experienced staff. In addition, many have noted that the current financial model has made it difficult to make investments into the STI and manage the organization under weak market conditions. The mixed success in engaging First Nations and doing what is needed to secure operating areas have also been attributed in part to limitations associated with the current legal framework. In spite of these challenges, the organization has in many respects been successful as a net revenue generator over the long-term, as a fibre supplier, and providing the basis for meeting the province's obligations under the terms of the Softwood Lumber Agreement.

Recommendations

The recommendations are summarized below in Table 1 and organized around eight key themes that emerged through the review. For each recommendation, a range of potential implementation options have been proposed to strengthen the performance of BCTS in the short-term. Longer-term actions have also been proposed. These require a higher level of investment, often require legislative or regulatory changes, entail a shift in the mandate of the organization, and increase its legal authority. Collectively, the recommendations and implementation options are designed to take the organization from a focus on:

- Delivering the apportionment to the market to responding to customer needs;
- Pushing back against competing claims on the apportionment to brokering better solutions that enhance the province's capacity to achieve long term strategic interests;
- Short-term and responsive planning to longer-term planning supported by robust information;
- Struggling within the constraints of the current organization to changing the rules;
- Managing BCTS risks to sharing risk with registrants;
- Staff doing the best with what they've got to a fully empowered and engaged team that is well supported, delivers results, and is rewarded appropriately; and
- Pursuing program objectives through individual business areas to collaborating across the organization to provide corporate solutions that effectively, efficiently and consistently respond to customer needs.

Fulfilling the pricing and costing mandate is just one part of a much greater range of benefits that is delivered by BC Timber Sales. The recommendations are intended to further enhance the effectiveness of BCTS and maintain opportunities for new entrants and long-standing businesses that collectively are the building blocks of prosperity in British Columbia's emerging bio-economy. This ultimately is the foundation of BCTS and the recommendations underscore the importance of these outcomes.

Table 1: Summary of Recommendations, Expected Benefits, Supporting Actions and Timing

Theme	Recommendations and Benefits	Short-term Options Within the Mandate	Longer-term Options
1. Meaningful Relationships with First Nations and Communities	**1. Increase efforts to build awareness and understanding of the BCTS Program.** **2. More effectively leverage BCTS to create local partnerships that provide mutual benefits.** *Benefits:* • *Reduced risk to apportionment* • *Increased planning capacity* • *New potential revenue streams* • *Increased support for BCTS* • *Stronger corporate solutions and support fo FLRNO and provincial priorities*	More effectively engage First Nations, communities and local government to improve understanding and awareness of the benefits BCTS creates and can provide at the local level. Where there is a sound business case for doing so, develop "business to business" relationships with First Nations, local governments and existing licensees to pursue regional fibre supply opportunities.	Provide leadership in brokering local and regional fibre supply solutions including B2B relationships with communities, First Nations and government partners. With FLNRO promote tenure agreements with First Nations that make volume available through the BCTS auction system. Promote revenue sharing opportunities and mutually beneficial social, skills, and business capacity enhancement among First Nations. Pursue joint area/volume based tenures with First Nations and communities.
2. Stewardship and Sound Forest Management	**3. Strengthen operating area security.** *Benefits:* • *Stewardship reputation is enhanced* • *Pricing mandate is protected* • *Reduced risk to investment on the land* • *Financial and resource security*	Gather operating area information to verify timber supply and use baseline data to spatially identify economic fibre volumes. Support the Ministry (FLNRO) in its Timber Supply Review and AAC determinations to ensure that the apportionment is in line with what can be supported by operating areas.	Promote forest estate planning in collaboration with key customers and partners. Evaluate operating areas and adjust where necessary to maintain sustainability and the quality of pricing and costing information. Purchase volume, explore opportunities to purchase or acquire replaceable tenures (volume or area based) to support the mandate of BCTS. Protect BCTS operating areas through changes to existing legislation.
3. Responsiveness to Customer Fibre Needs	**4. Develop fibre supply plans in the context of a market trends and customer needs and adopt a longer planning horizon.** *Benefits:* • *Strategic approach to developing STI* • *Enhanced quality of customer service*	Develop service strategies by customer segment. Develop supporting performance targets and hold TSMs accountable for them. Develop an annual sales schedule in each business area that is governed by customer needs and provides for an even flow of fibre.	Develop and communicate an annual three year market outlook and five year fibre supply strategy. The strategy should consider market needs by customer segment and should include a communication plan targeting customers and partners.

Theme	Recommendations and Benefits	Short-term Options Within the Mandate	Longer-term Options
4. Competitiveness of Fibre Markets	***5.*** **Develop timber sale licences to be more responsive to each customer segment.** *Benefits:* • *Broader bidder pool* • *Better customer service* • *Stronger bidder management of risks which should result in more informed bidder behaviour*	Maintain continuous improvement process to ensure the quality, consistency and accessibility of information supporting bid packages and administrative standards. Seek options to improve bidder access to the tendering process. Develop specific product offerings to better engage all customer segments and broaden the pool of potential bidders. Market niche components within stands and smaller sales to target needs of smaller fibre processors including cut timber and promoting log merchandizing if a sound business case exists.	Support industry in reviewing ministry policy where changes are necessary to reflect evolving operating conditions. Explore opportunities to market volumes through direct awards or through B2B relationships to support government objectives and regional priorities. Develop policies and guidelines defining the role and approach BCTS will take to respond to the needs of smaller independent fibre processors (including independent primary breakdown facilities without major quota including options to promote pilot log merchandizing centres and harvest and haul contracts in areas where demand exists.
5. Engaged, Skilled and Experienced Staff	**6. Develop a Recruitment, Retention and Succession Strategy.** *Benefits:* • *Increased staff morale and engagement* • *More effective use of staff skills/talents* • *Increased staff continuity*	Develop and Implement succession plans. Promote mentoring and development programs to enhance career advancement within BCTS and explore opportunities to better utilize the skills and expertise within the organization. Affirm government commitment to BCTS.	Review job descriptions, salaries and benefits, and align with those of competing employers. Improve the ability to more effectively utilize the core skills of existing employees. -
6. Cost-effective Supplier Relationships	**7. Increase the pool of qualified suppliers serving BCTS.** *Benefits:* • *Assurance that work will get done* • *Higher quality suppliers* • *Greater flexibility and efficiency in project delivery*	Broaden the supplier pool, improve its quality and increase value for money. • Remove unnecessary barriers to entry and draw more effectively on smaller firms. • Seek alternatives to least cost and other procurement tactics. • Use internal staff when the business case warrants it.	Consider direct awards to enhance First Nation and community relationships. Review project requirements and standards for closer alignment with industry practices. Develop shared functions to serve regions and to deliver services internally to augment supplier capacity.
7. Administrative and Organizational	**8. Align organizational structure and functions with changing timber supply conditions and customer locations, and promote**	Promote sharing of staff and resources between business areas.	Periodically review business area timber supplies and structure to maintain or strengthen the ability

Theme	Recommendations and Benefits	Short-term Options Within the Mandate	Longer-term Options
Structure	**collaboration between business areas.** *Benefits:* • *More effective management of internal costs; more efficient organization; better service*	Promote communication and collaboration between business areas and consistency in processes, practices and products to optimize efficiency and consistency in customer service. Undertake a timber supply review of each business area and realign boundaries or amalgamate business areas where necessary to maintain business functionality.	to manage risks and achieve performance targets. Where it makes business sense, continue to share resources (staff capacity and technology) between business areas.
	9. Promote collaboration with FLNRO to achieve mutual objectives and protect the integrity of the mandate. *Benefits:* • *More effective B2B partnerships* • *Effective collaboration within FLNRO*	Strengthen communication and collaboration between Timber Sales Managers and District Managers to support issues management. Strengthen relationship between BCTS and Timber Pricing Branch staff (including professional reliance) relative to timber pricing and appraisal submission requirements.	In collaboration with FLNRO, promote the ongoing development of BC's forest policy framework and clarify respective roles between BCTS and other partners. Expand BC Timber Sales role to assist FLNRO service delivery.
8. Governance Model and Legal Framework	**10. Increase the capacity and ability of BC Timber Sales to fulfill its mandate by increasing the control and flexibility it has to make decisions and implement them.** *Benefits:* • *More effective B2B partnerships* • *More effective recruitment and retention* • *More flexibility in financial management*	Amend the Special Account to enable business to business relationships and development of solutions that are outside of the core business. Identify legislative or other amendments to the special account that are required to provide for revenue sharing and account management outside the current parameters.	Assess the business case for adopting a new governance model and legal framework that considers the need for: • A financial model that enhances efficiency and cost effectiveness over the economic cycle. • Sufficient control over HR decisions to sufficiently recruit, reward, develop and retain staff. • Stronger B2B relationships with First Nations and local governments.

B.Introduction

BC Timber Sales (BCTS) was established in 2003 to offer fibre to the market through Timber Sale Licenses (TSLs) awarded through a competitive auction system.[2] The establishment of BCTS was part of a broader tenure reallocation program that aimed to strengthen the forest sector by creating opportunities for new operators to get involved in the sector, and to reduce the impact of fibre processing restrictions which were making it difficult for major licensees to enhance their efficiency and competitiveness in the international marketplace. The volume managed through BCTS increased from 14 to 20 per cent under this reallocation process, and commitments were made to increase the apportionment held by First Nations, communities, and smaller companies through woodlots and small scale salvage opportunities. The BCTS Program and the broader reallocation was enabled through Bill 28 (Forest Revitalization Act – 2003) which gave the province the legal authority to take 20% of the volume back from major licensees on tenures over 200,000 m^3. Licensees were compensated at fair market value.[3]

The reallocation was expected to make more fibre available to an open, revitalized market, allowing it to flow to its highest and best use. In turn this was expected to address the long standing challenges independent mills and the value added sector have had in accessing fibre to meet their needs. New opportunities, innovation, competitiveness, investment and jobs were the stimulus that drove tenure reallocation. Making a larger apportionment available to the market through competitive auctions also served as British Columbia's solution to identify the market value of its Crown timber which allows the province to price timber more consistent with market conditions. This change also allowed B.C. to negotiate more favourable trade conditions with the United States through the Softwood Lumber Agreement (SLA). In this regard, BCTS provides the basis for collecting market price information that continues to be used to derive stumpage rates and serves as a credible foundation for defending B.C.'s forest sector against trade actions under the Softwood Lumber Agreement. The importance of providing credible pricing data is underscored by the most recent arbitration ruling by the London Court of International Arbitration (LCIA) where the BCTS model served the Province in successfully countering claims from U.S. based interests that BC's forest sector is unfairly subsidized. Through the ruling, the forest sector avoided compensatory export taxes in excess of $300 million.[4]

Current Situation

With responsibility for close to 20 per cent of the province's apportionment, a substantial operational presence in all areas of the province, and offices in 33 communities, BCTS has an impact on all facets of the forest sector and the local and regional economies that rely on the industry as a wealth generator. In terms of direct impacts, the value of the

2 The establishment of the Timber Sale Licence and the auction system in 1979 was a direct response to the Pearse Commission of 1979 which saw the need for a new mechanism to offset the negative impacts of corporate concentration and to overcome the challenges in attracting new investment and innovators to the marketplace. The recommendations made by Pearse led to the establishment of the Small Business Forest Enterprise Program in 1979 which, in turn, was the foundation for BC Timber Sales.

3 "Through legislation, licensees will be required to return about 20 per cent of their replaceable tenure to the Crown. About half of this allowable annual cut will then be redistributed to open up opportunities for woodlots, community forests and First Nations. The other half will be sold at auction to increase the portion of timber going through open markets, and to assist in setting stumpage rates. … Timber will be redistributed only from firms holding or controlling a large amount of timber in replaceable, long-term licences. The first 200,000 cubic metres held by any firm will be exempt from the redistribution plan, reducing the effect on small-scale operators. Licensees will be fairly compensated, as the law requires, for harvesting rights returned to the Crown. The determination of compensation will take into account the new stumpage system and changes in regulatory requirements of the Forestry Revitalization Plan." (Source: Forest Revitalization Plan)

4 The most recent arbitration ruling by the London Court of International Arbitration (LCIA) over the U.S. complaint that Grade 4 wood destined for the US market was being sold at less than market value underscores the importance of BC Timber Sales pricing mandate. The ruling was in B.C.'s favour, finding that the US had not proved a problem.

services that BCTS has secured through local suppliers is in excess of $900 million since 2004. In addition it has brought 95 million cubic metres of timber to the market which has generated $350 million in net revenues for the Province.

More importantly it brought a stabilizing influence to many regions of the province since its pricing mandate requires it to test markets and respond to customer need - even in depressed market conditions. While many major licensees stopped or curtailed the development work needed to bring their own timber to market, BCTS did not. BCTS reduced its development work and the volume of sales to adjust to weak markets, but provincially, the BCTS maintained a strong market presence in all regions. Companies operating in the province through the downturn, have seen BCTS as an increasingly important fibre source.

The BCTS model has been inherently flexible and adaptable in a time of considerable uncertainty within the sector and it complements the mosaic of replaceable and non-replaceable tenures through which the rights over crown timber are granted. The environment within which it operates has evolved considerably, and it continues to offer fibre into a diverse marketplace that consists of strong advocates with very different visions of the future of forestry and how to strengthen competitiveness and enhance the level of benefit to British Columbians.

The fibre offered to the open market through BCTS provides reliability and certainty of supply – a necessity for investment and growth of existing businesses and an opportunity that can attract new entrants. This is perhaps one of the greatest assets of BCTS – the model sustains opportunities for innovation and evolution within regional economies by continuing to offer fibre to the open market through arms-length, open and transparent processes.

However, the broader economic, social and policy environment within which BCTS operates has changed considerably. Recent financial challenges facing the program during the last few years as a result of depressed fibre markets, budgetary constraints facing the Ministry of Forests, Lands and Natural Resource Operations (FLNRO), shifting government priorities and interests in accommodating community and First Nations interests in securing long-term renewable tenures, looming timber supply shortages in some business area have contributed to these uncertainties. As a supplier of fibre to the open market and an employer who depends on well trained and qualified staff to deliver high quality service to customers daily, future success depends on engaging these challenges.

Purpose of the Review and Approach

This report presents the results of a broad range of discussions with customers, partners, stakeholders and staff, in addition to a survey of all BCTS staff consisting of approximately 553 people, excluding unfilled vacancies. Conducted from July to September 2012, the consultations supported a broader opportunities review tasked to:

- Report on the benefits associated with BCTS;
- Assess key areas of strength, successes and challenges associated with BCTS' programs;
- Assess the effectiveness of program delivery;
- Identify the key factors currently or likely to have an impact on BCTS, and the risks and opportunities associated with them;
- Develop and assess options to act on identified risks and opportunities; and
- Develop recommendations for consideration by BC Timber Sales and the Province.

The review was undertaken in six phases:

- A Communications Strategy was developed to guide the review;
- Consultations were undertaken with registrants (brokers, market loggers, smaller sized fibre processors, larger sized independent fibre processors and major licensees), sector associations, FLNRO district managers and regional executive directors, BCTS headquarters and business area staff, and local government;
- A presentation of preliminary results and options was made to the project steering committee;

- A web-survey to gather staff views in relation to the key issues and options identified through the consultations and the key risks, opportunities and priorities for BCTS. A total of 387 people responded to the survey which represents a response rate of approximately 70% (assuming a staff complement of 553 people);
- Draft highlights and recommendations were presented to the Steering Committee;
- Revised highlights and recommendations were presented to the Timber Sales Leadership Team (TSLT); and
- A draft report was presented to the Steering Committee and finalized in December 2012.

Table B.1 - Number of Interview Events and Number of People Interviewed

	Victoria	Vancouver – LM	Coast Region	North Region	South Region	**Total**
Major Licensees	--	--	1 (1)	1(2)	6(10)	**8(13)**
Large Volume Processors with Little or no Tenure	--	--	--	2 (3)	1(3)	**3(6)**
Smaller Processors/Brokers	--	--	1(1)	2(2)	10(13)	**13(16)**
Contractors	--	--	3(3)	--	2(2)	**5(5)**
BCTS (includes ex BCTS)	5(5)	--	3(8)	4(25)	4(11)	**16(49)**
FLNRO	4(4)		--	2(2)	8(9)	**14(15)**
Local Elected Officials	--	--	1(1)	--	1(1)	**2(2)**
Associations	--	3 (4)	--	1(1)	3(3)	**7(8)**
Other Ministries	2(2)	-	--	--	--	**2(2)**
Community TFLs	--	--	--	--	1(1)	**1(1)**
MLA	--	--	--	1(1)	1(1)	**2(2)**
Total	**11(11)**	**3(4)**	**9(14)**	**13(36)**	**37(54)**	**73(119)**

Note: number of people interviewed is denoted by (brackets).

*Cat 1 and Cat 2 registrants have not been separated since many interviewed are registered under both programs in some capacity.

Report Structure

The report is organized into four sections.

Section A – Executive summary.

Section B – Introduction to the BCTS program, the project terms of reference and the approach to the review.

Section C – Overview of the mandate and goals that guide BCTS and the key relationships (customers, partners, and stakeholders) that BCTS depends upon for its success.

Section D – Summary of the key factors or conditions that affect performance in relation to each of the four goals (as identified through consultations with staff, customers, partners and stakeholders). The assessment of key factors is organized into eight themes. For each theme area, recommendations for improvement have been developed to respond to the issues and opportunities identified for each of the key factors.

Section E – Summary of recommendations and options to better position BCTS leadership to deliver results that support the Province's broader policy objectives and strategic priorities.

C. Mandate, Goals and Client Base

The Mandate and Goals

The vision of BCTS is to be an effective marketer of timber, generating wealth through sustainable resource management. It works towards this vision by providing open and fair access to timber through a market-based auction mechanism. Fair and open access provides opportunity to businesses unable to secure their fibre supplies through longer-term tenures. The market-based approach also ensures a fair return to citizens for the harvesting of timber from public land and the highest and best use of the resource. More broadly, BCTS provides the cost and price benchmarks for all timber harvested from public land in British Columbia. This market pricing information is used to develop a market-based valuation of Crown timber, and set stumpage rates reflective of those market values. A market-based and defensible approach to timber pricing more generally contributes to the broader public interest in promoting competitiveness of BC's forest sector, maximizing the benefits associated with it.[5]

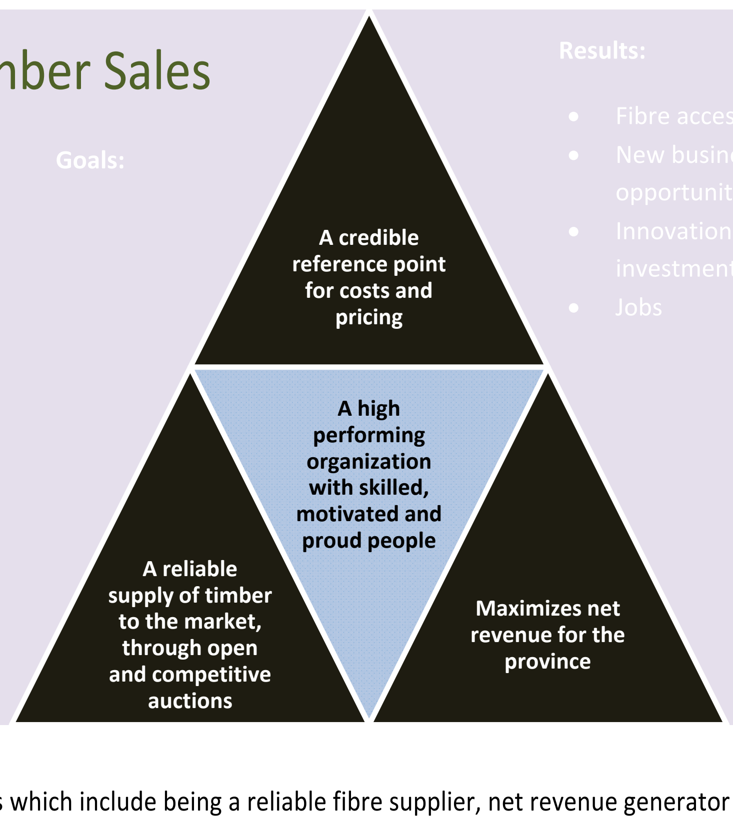
While BCTS aims to maximize net revenues, its ability to pursue market opportunities and to reduce fibre supply in weak market conditions is limited by its pricing mandate which requires it to harvest the profile and continually test the market in all market conditions. A commitment to cost-effective delivery is reflected in both its goals to be a high performing organization and to maximize net revenues (while not compromising its pricing mandate). Figure C.1 presents the vision, mission and goals that guide BCTS.

Figure C.1: BC Timber Sales

Vision:
To be an effective timber marketer generating wealth through sustainable resource management.

Mission:
To market Crown timber to establish market price and capture the value of the asset for the public.

Goals:



Results:

- Fibre access
- New business opportunities
- Innovation and investment
- Jobs

BCTS must balance a number of goals which include being a reliable fibre supplier, net revenue generator and a credible reference point for costs and pricing. As noted in the Structural Review, "To be credible both as a data source

[5] The pricing information generated through the marketing of BCTS timber through its auction system has also helped the province to maintain fair and open access to the US market for B.C. wood and fibre manufacturers. Historically this has been the key public interest associated with the program and in the view of some has been the central rationale for the BCTS program.

and as a consistent supplier of timber, it must be also engaged in timber sales, to some extent, in all stages of the market cycle. BCTS must continually test the market across all significant timber types, sales sizes, harvesting systems and geographic areas of the province". As a consequence, net revenue has to be considered within the broader market cycle.

Relevance of the Mandate

Relevance and Suitability of the Goals - What we Heard

There was strong support for the goals driving the organization and most of those interviewed identified the need to ensure that the pricing mandate remains squarely in focus. While the other goals are considered critical, most felt the way BCTS works towards them must be governed by the requirements essential to preserving the integrity of the pricing mandate. At the same time, the following concerns were identified by those we spoke with in the organization as well as those external to it.

- There was a difference in opinion among some over the importance of each of the three goals of the organization (pricing, reliability of supply and profitability) and their relationship to each other. It was evident that reinforcement of the organization's goals and the relevance and importance of each may be required to ensure clarity of the organization's mandate.
- BCTS should simply sell the apportionment (and the representative profile) and make this volume available to the market annually or over a set number of years. This would ensure that the pricing mandate is fulfilled and would provide the broad parameters within which the organization could pursue its objective of maximizing net revenues. Although this view is widely held, it is also recognized to be potentially undesirable in poor market conditions since it could undermine the financial viability of BCTS and the pricing mandate if too high a volume of fibre is put on the market in periods of low demand.
- A large number of TSL opportunities have failed to attract bids within the last few years and while this is reflective of poor markets, there is a perception among some that BCTS should act decisively to reduce the number of no-bid offerings, by reducing bidder risk, more effectively developing its Standing Timber Inventory (STI), and working harder to develop TSL opportunities to appeal to particular niche markets and customer segments. Conversely, no bid sales are a good indication of BCTS testing the fringes of market demand and that, in itself, provides valuable information to the pricing file.
- The shift from committing to harvest a minimum of 20 per cent of the provincial apportionment, in some business areas, to harvesting 20 per cent of the total annual provincial cut is not well understood by customers.
- Customer expectations vary widely between customer segments and are not effectively managed or addressed through the current portfolio of performance measures and targets used by BCTS.[6]

It became clear through discussions with BCTS staff and registrants that each business area has considerable autonomy in setting the balance between the goals guiding the organization. These differences were often noted by registrants and in some cases it was not clear to registrants how BCTS was balancing the pursuit of net revenue with its pricing and the reliable fibre supplier mandates. The variations in management approaches from region to region have led to a few situations where some business areas appear significantly out of step with others. Although there appears to be sound reasons for such differences, the rationales for the particular variances between business areas are not readily understood by key clients.

[6] Since the interview phase of the review was conducted, BCTS has re-evaluated and re-designed their internal performance measures to, in part, address some of these concerns.

Customers and Key Relationships

BCTS serves a diverse range of customers and depends on an equally diverse range of relationships for its success. These relationships include:

- Customers that look to BCTS as a fibre supplier;
- Customers and clients that look to BCTS as a supplier of pricing and costing information;
- Suppliers who provide silviculture, engineering, multi-phase and other services to BCTS as it develops its standing timber inventory, timber sale licences and undertakes post-harvest activities; and
- Communities and First Nations who have an interest in ensuring that BCTS manages its apportionment in ways that provide direct and lasting benefits at the local level.

Each of these groups are illustrated in Figure C.2 and described below.

Supplier of Fibre - Customers

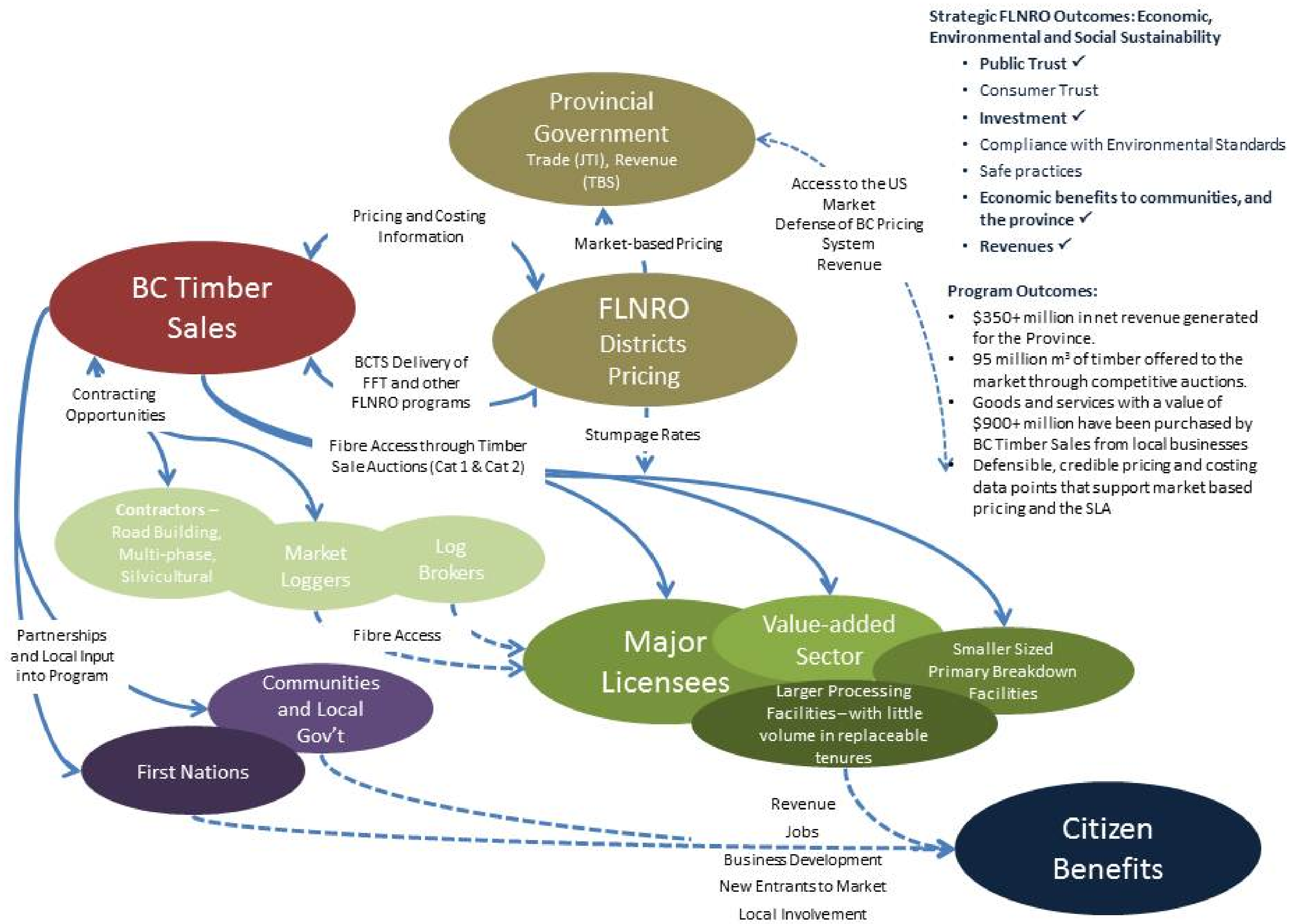
Currently, the customer base consists of the 1,235 program registrants who are eligible to bid on timber sales[7]. Customers can be segmented into the following:

- Major licensees who rely on their replaceable tenures to furnish the majority of their fibre needs and bid on timber sales and purchase fibre from market loggers and others to meet remaining requirements;
- Larger independent fibre processors who access the majority of their fibre through the open market and bid on timber sales and purchase fibre from market loggers and others who bid on sales;
- Smaller, independent primary breakdown facilities who bid on timber sales, and purchase fibre from market loggers and others who bid on sales or trade fibre with others to meet their needs;
- Smaller, independent value-added processors who bid on specialty sales but more typically use timber sales to trade with other fibre suppliers and licensees to meet their specific needs;
- Log brokers who either purchase fibre offered to the market by market loggers or who bid on timber sales themselves, and offer the wood to fibre processors or to other national markets through export; and
- Market loggers who bid on timber sales and supply fibre processors. Most have longstanding relationships with fibre processors and may provide contract services to licensees in addition to bidding on BCTS.

More than 80% of customers are market loggers while the remaining customers cover the full range of fibre processors operating in BC. There are very few that do not depend in some way directly or indirectly on the fibre supply that BCTS offers to the market.

[7] Current as of November 2012

Figure C.2: Key Customers and Relationships – BC Timber Sales



Within the customer base there has been considerable consolidation and it has taken many forms:

- While the top ten companies have accounted for about the same percentage of the total apportionment in BC over the last ten years[8], the allocation of the apportionment has shifted among these companies. The absolute number of mills operating in the province has decreased over the 2000 to 2009 period while the average capacity of these mills has increased (refer to Table C.1 and C.2).
- Independent mills and fibre processing operations (largely smaller sized and family owned) have also decreased in numbers over time. While information for this sector is not tracked with the rigour of larger mills, the Independent Wood Processors Association (IWPA), which represents independent, non-tenured, family owned and operated wood processing companies in B.C., reports a significant decline in membership which they see as reflective of consolidation and contraction of the sector.[9]

These changes collectively underscore the fact that the market that BCTS offers its fibre to is continually changing. In turn, BCTS must continually adapt is products and marketing strategies to maintain or enhance competitiveness within changing markets to continue to effectively fulfill its mandate.

Table C.1: Number of Medium and Large Lumber Mills – 2000 to 2009

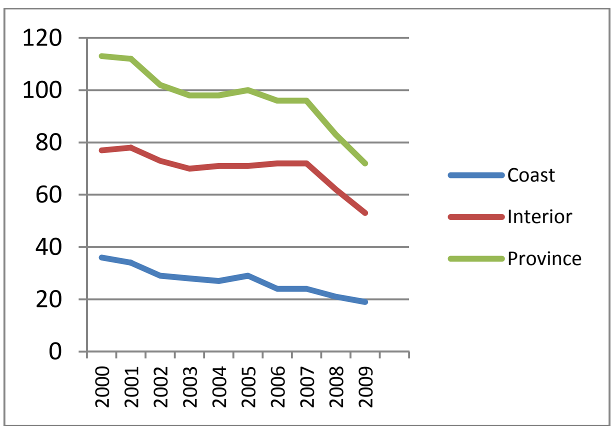
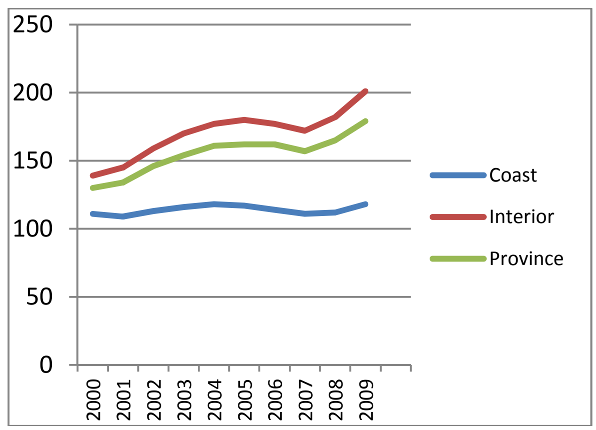


Table C.2: Lumber Mills – Average Capacity (million board feet per year)- 2000 to 2009



Source: Ministry of Forests, Lands and Natural Resource Operations (July 2011), Major Primary Timber Processing Facilities in British Columbia – 2009.

Since the economic downturn in 2008, mills have been operating under capacity due to suppressed market prices for logs and lumber products. Most larger mills are owned by companies with secure timber supplies provided through replaceable licensees which are either area-based (e.g. Tree Farm Licence) and/or volume-based (e.g. Replaceable Forest Licences). Since the take-back enabled by Bill 28 (Forest Revitalization Act), the extent to which larger companies can rely on these secure fibre sources to meet their needs has been reduced. While BCTS fibre offerings to the market are considered incremental by some, they are increasingly essential to meeting both fibre and market needs for the larger tenured companies. For smaller and medium sized independent companies, the open market is typically where the vast majority of their fibre needs are accessed. Smaller value-added and remanufacturing businesses have historically depended on Section 21 TSLs (S21 TSLs) of the former Small Business Forest Enterprise Program (SBFEP) which was replaced by Category 2 (Cat 2) of the BCTS Program. For non-tenured businesses, the program is critical to meeting their needs.

8 Ministry of Forests, Mines and Lands (2010), State of the Forests Report – Third Edition.
9 Independent Wood Processors Association (IWPA).

Supplier of Pricing Information Customers

BCTS provides pricing information to the Timber Pricing Branch within FLNRO. In turn, the Timber Pricing Section is responsible for translating broad government direction into specific timber pricing policies and procedures and serves as the interface between government, the forest industry and the public on a broad range of matters relating to timber pricing. Specific responsibilities include:

- Development and updating timber pricing policies;
- Providing advice on the interpretation and application of timber pricing policies to Ministry staff, licensees, industry associations and the public;
- Issuance of quarterly stumpage adjustments and conducting Market Pricing System (MPS) updates;
- Collection, verification and analysis of industry costs and revenues;
- Maintenance and development of computer business applications (General Appraisal System , Electronic Commerce Appraisal System, Interior Selling Price, and Coast Selling Price) to determine stumpage rates; and
- Providing support for trade challenges, litigation and negotiations under the Softwood Lumber Agreement.

Working with First Nations

BCTS works with First Nations through the development of TSL opportunities, offering them to the market, or working with First Nations-owned companies who bid on market offerings and contractors that provide post-harvest services to the organization. First Nations also advance indigenous rights as established through the courts which has led to a range of provincial policies and government to government negotiations and/or agreements that may affect BCTS positively or negatively. For example, First Nations may pursue rights to harvest timber through a range of mechanisms including treaty negotiations or specific licence actions and efforts to secure tenure, which in turn may result in the loss of operating area, or apportionment, or both. On the other hand, BCTS aims to strike agreements with First Nations to support a range of objectives that can include increased planning flexibility, cooperative management agreements, and the provision of forestry expertise on a fee for service or profit-sharing basis.

Supporting Program Delivery for other Programs within FLNRO

BCTS cooperates with the broader Ministry informally at the district and headquarters levels and formally through a range of agreements usually defined through a Memorandum of Understanding (MOU) or Service Agreements. The sharing of office and infrastructure costs at the district level is one such arrangement. In terms of direct program delivery, the most substantial role BCTS currently has is the administrative/contract management support it provides in the Forests for Tomorrow program. Other arrangements also enable resource sharing in a number of areas (e.g. the provision of engineering expertise from FLNRO to BCTS).

Working with Communities

Much like First Nations, communities have ongoing interests in how BCTS manages its operating areas not only for the economic and social benefits they provide, but also for the costs that BCTS related activity may impose on particular community values. BCTS aims to work with communities to ensure plans are consistent with local interests as much as possible and has in place a range of initiatives and processes to promote sound stewardship. In this regard, communication with local governments and community interests is often viewed as essential to maintaining social licence at the local level.

Staff Perspectives on the Customer Base

The nature and importance of key program relationships varies from region to region and between business areas. This is reflective of the particular nature of the regional forest economy, the specific mix of businesses that exist at the regional level, and the nature of interests and policy issues facing each region. These differences are illustrated in the results of a BCTS survey which asked staff to identify which relationships they felt were most important to the success of the program (Table C.3). A few key differences between regions are notable:

Fibre processors:

- Large processors who primarily depend on the open market to secure fibre are considered much more important in the north and the south as compared to the coast,
- Smaller independent mills are considered the most important client relationship in the south and the coast, and
- Secondary manufacturers are viewed as a less important customer relationship in all regions.

Those who depend on TSLs to harvest fibre and then market the raw wood:

- Log brokers are much more important to the coast than the north or the south, and
- Market loggers are viewed as important to the coast but less so in the north and the south.

These differences between regions are reflective of the differences in regional fibre markets.

Local government and communities have a relatively lower level of direct day to day involvement in the program. While staff did not see communities as one of the more important relationships as it relates to the success of the program, they saw communities and local government as a key client and recognized a need to more effectively communicate with and involve them to ensure that the program better supports local needs and objectives. In general terms, the most important relationships to staff were the supplier relationships with multi-phase and silviculture contractors, which is likely reflective of the fact that the greatest workload and effort of the organization is in undertaking the work required to bring timber sales to market and then to manage them post-harvest.

Table C.3: Program Relationships and Per Cent of Staff who feel they are Important or Very Important

Key Program Relationships	Coast	North	South
Major Licensees with a majority of their fibre supplied through replaceable tenures	58%	61%	59%
Large Processors who primarily depend on the open market to secure fibre	66%	78%	80%
Smaller independent mills (e.g., primary breakdown facilities) who primarily depend on the open market to secure fibre	71%	64%	82%
Secondary (value added) Manufacturers	53%	41%	54%
Log brokers	79%	39%	41%
Market Loggers	77%	61%	52%
First Nations	53%	46%	48%
Local government	21%	16%	12%
FLNRO – Pricing	63%	64%	63%
FLNRO - Forests for Tomorrow	29%	48%	41%
Road Construction Contractors	71%	60%	66%
Multi-phase contractors	86%	86%	79%
Silviculture contractors	83%	84%	80%

Source: BCTS staff survey – 2012.

D. Factors Impacting Effectiveness – Assessment and Recommendations

This section examines the key factors influencing the effectiveness of BCTS. These factors were identified through an analysis of the information gathered through the interview and survey phases of the review and are summarized below in Figure D.1. Each factor is organized into eight theme areas. Many of the factors contribute to more than one goal and for that reason this section organizes findings and recommendations by theme rather than the goals of the BCTS. Each theme is examined separately in the sections that follow to identify the range of issues, options and recommendations that have been identified in relation to it. The recommendations are organized according to short-term actions that could be undertaken over the next 6-12 months and longer-term initiatives. The longer-term initiatives are more tentative in nature since in many cases they are contingent upon changes in the broader policy and legal framework within which BC Timber Sales operates.

Figure D.1: Summary of Themes and Factors Having an Impact on Effectiveness

Reliable Fibre Supplier

A High Performing Organization

Themes:

1. **Meaningful Relationships with First Nations and Communities**
2. **Stewardship and Sound Forest Management**
   - Security of the apportionment
   - Managing operating areas to meet the needs of the pricing and costing models employed by the Province.
3. **Responsiveness to Customer Fibre Needs**
   - Fibre supply strategies and marketing plans
   - Effective implementation of plans
4. **Competition within Fibre Markets**
   - Quality of the bidder pool for TSLs
   - Marketing of niche opportunities
   - Ensuring TSL products, processes and TSL requirements reduce, as appropriate, the level of risk incurred by bidders and TSL holders.
   - The highest and best use of fibre.
5. **Cost Effective Supplier Relationships**
   - Quality of the supplier bidder pool
6. **Engaged, Skilled and Experienced Staff**
7. **Efficient Administrative and Organizational Structure**
8. **A Supportive Governance Model and Legal Framework**

Credible Pricing and Costing Information

Net Revenue

1. Meaningful Relationships with First Nations and Communities

Context

The valuable role that communities and First Nations have in the management of the forests, and the benefits that forestry brings has long been recognized by the Province. Under the Forest Revitalization Plan, the province committed to increasing the total apportionment for First Nations, community managed tenures, and Woodlot Licences. The Plan recognized both the positive contributions that community and First Nations-held tenure can contribute to local and regional prosperity and the legal obligation to consult with and accommodate First Nations Interests.[10]

It was envisioned that the reallocation of volume called for under the Plan would be sufficient to meet the needs of BCTS' pricing mandate, the commitments made to First Nations (8 per cent of the provincial AAC) and the ability to expand the community forest and woodlots programs. In practice, balancing these different needs can prove challenging and requires considerable effort to succeed. The initial policy intent was to satisfy all requirements without infringing upon the allocation made to BCTS. However, in recent years, some volume needed to respond to community or First Nations commitments by the province has been located in several operating areas held by BCTS. This may affect apportionment if suitable replacement areas are not provided.

Yet, with responsibility for close to 20 per cent of the province's apportionment, a substantial operational presence in all areas of the province, and offices in 33 communities, BCTS has an impact on all facets of the forest sector and the local and regional economies that rely on the industry as a wealth generator. BCTS has direct impact on communities through the purchases of goods and services from local suppliers, through the investments and revenues associated with market loggers, fibre processors and other businesses that either bid on timber sales or provide services to those who do. BCTS can also have significant impacts on communities through the decisions they make with respect to areas where they operate, the infrastructure they build and the timing of their operations. BCTS can be a significant contributor to local economic and social objectives. At the same time, by the nature of the business, the development of TSLs can potentially pose risks to other values and interests in the operating areas that BCTS draws upon.

What we Heard

There is a general view that strong partnerships and supportive relationships with communities and First Nations are quickly becoming essential to the long term success of BCTS. It was also recognized that in the past, the organization has not devoted sufficient energy and attention to developing stronger relationships at the community level and among local government and First Nations. Key issues and options are noted below.

- There was interest in BCTS taking a greater role in brokering solutions to meet specific regional needs and to promote the development of niche opportunities within regional fibre markets. In some cases this extended to the point of using Cat 2 volumes in a broader variety of ways by providing TSMs more flexibility in how they can be used. This could include longer terms for sales adding specific requirements that allow BCTS to employ volumes more like competitive Non-replaceable Forest Licenses (NRFLs). In contrast, many noted the need to ensure that any changes did not create risks to the pricing and costing mandate. In all cases, there was an interest in ensuring that BC Timber Sales is involved at an early stage, is an effective advocate for its interests, and seeks innovative solutions that leverage the program to achieve provincial priorities.
- In some cases, it was identified that BCTS should broaden the range of products and services it can employ to more directly foster relationships at the local level including:
  - Direct awards of timber sales (e.g. a Cat 2 type of program for First Nations) and the ability to grant competitive NRFLs;

[10] Under the Action Plan, the province aimed to promote the development of accommodation agreements with First Nations and to use the reallocation of volume to promote treaty settlements. The reallocation enabled through Bill 28 provided the volume to enable the province to enter into such arrangements.

- The ability to engage in business to business (B2B) relationships for either providing land management or auction services on a profit sharing or fee for service basis[11]; and
- Providing additional direct awards to First Nations-owned businesses that can supply services to BCTS.

- Although improving, not all business areas have a presence during pre-treaty negotiations where tenure is being considered and where the interests of the organization can be most effectively communicated before accommodation and treaty related decisions are made. As a consequence, decisions made to support accommodation and treaty related objectives may not fully consider the incremental costs to the province.

- There was also a broader theme related to the general growing scarcity of fibre and the need for greater collaboration between all parties holding apportionment (volume or area based) to find regional supply solutions. Greater coordination between government ministries was advocated to ensure that government objectives can be achieved at the operational level while ensuring that impacts on BCTS are considered.

- In many business areas, broader government commitments to First Nations are affecting both the security of the operating areas that BCTS depends upon, and the ability to manage these areas effectively. While the apportionment held by the BCTS is providing the province with options to address emerging opportunities and commitments, it was also noted that unless a mechanism is put in place that allows BCTS to purchase volume, the utility of BCTS in sustaining provincial options will continue to diminish.

- The level of cooperation between First Nations and BCTS was consistently identified as an issue by staff along with the constraints that the organization faces in terms of developing business to business relationships with First Nations.

- The level of awareness and understanding of the BCTS program is low at the community/local government level and may be indicative of the low level of support for the program.

- BCTS can help to broker solutions that respond to local needs but it cannot be looked upon in isolation to solve the complex problems involving First Nations and communities. A stronger presence among First Nations, local government, and in communities is needed through communication and participation in community functions (e.g. rotary club) to maintain its social license. Collaboration with provincial government partners is also essential to ensure the tools that BCTS possesses (e.g. TSLs, Cat 2, planning processes, and more generally the apportionment) can be effectively leveraged to find regional solutions.

Recommendations:

BCTS is beginning to work more closely with First Nations and is increasing the level of communication it has with communities and local governments. As it develops these relationships, it is likely that new opportunities will present themselves to develop innovative partnerships and solutions that can be leveraged to deliver incremental benefits to communities, First Nations and BCTS. The recommendations are intended to strengthen the ability of BCTS to more effectively support provincial priorities and FLNRO objectives through meaningful relationships.

[11] While a number of formal partnerships have been entered into with First Nations, these are not technically considered Business to Business relationships since the current Special Account structure does not recognize BCTS as a legal entity.

<table>
<tr><th colspan="2">Recommendation 1: Increase efforts to build awareness and understanding of the BC Timber Sales Program.</th></tr>
<tr><td>Short term actions:
Enhance the level of formal and informal communication with First Nations, communities, local government, and government partners as identified in the Communications Strategic Plan for BCTS.
Increase the level of involvement for First Nations, communities and local government in planning (e.g. in fibre supply strategies, plans for the annual developed volume, development of the sales schedule) to optimize benefits and minimize risks to each other's interests.
Increase BCTS presence through active participation in various local educational forums.</td><td>Expected Benefits:
More effective issues identification and resolution
Reduced risk to apportionment
Increased planning capacity
Increased support for BC Timber Sales</td></tr>
<tr><th colspan="2">Recommendation 2: More effectively leverage BC Timber Sales to create local partnerships that provide mutual benefits.</th></tr>
<tr><td>Short term actions:
Continue to promote "business to business" relationships with First Nations, local governments and existing licensees to pursue regional fibre supply and forest management opportunities when there is a sound business case for doing so.
Promote stronger and more frequent communication between TSMs and District Managers to coordinate activities and strategies in relation to mutual clients and partners.
Increase the level of collaboration with other key government organizations whose mandate touches BCTS clients and who have other instruments and mechanisms (other forms of tenure, funding, expertise) that can help to create local solutions.
Work with MARR and First Nations more effectively in pre-treaty negotiations.</td><td>Expected Benefits:
More effective issues identification and resolution
Reduced risk to apportionment
Increased planning capacity
Increased support for BC Timber Sales
Stronger corporate solutions and support for FLRNO and provincial priorities</td></tr>
<tr><td>Long term actions (beyond the current mandate): Provide leadership in brokering fibre supply solutions including business to business relationships in coordination with communities, First Nations and government partners.
Work with FLNRO to promote the development of tenure agreements with First Nations that promote collaboration with BCTS and make volume available through the auction system.
Explore new tenure arrangements that promote partnerships with BCTS including the potential for requiring that licensees granted new replaceable tenures make a percentage of their volume available through BCTS auctions.
Pursue joint area/volume based tenures with First Nations and communities and promote and engage in revenue sharing opportunities and mutually beneficial social/skills/business capacity enhancement among First Nations.</td><td>Expected Benefits:
Increased support for BCTS and less risk to apportionment
Increased planning capacity
New potential revenue streams
Stronger corporate solutions and support for FLRNO and provincial priorities
Increased engagement with First Nations and Communities</td></tr>
</table>

2. Stewardship and Sound Forest Management

Context

The operating areas that BCTS draws upon for its fibre supply are defined through a range of agreements and plans which vary from TSA to TSA. Similarly, management and planning processes in relation to defined operating areas range from joint planning with licensees to data sharing, or limited consultation and communication. The ability to continue to meet the needs of customers and to bring the apportionment to market depends on securing and maintaining operating areas and a Timber Harvesting Land Base (THLB) that can support fibre supply commitments.

What we Heard

Generally, the greatest concern expressed by those interviewed through the review and staff participating in BCTS survey were uncertainties around the extent to which some business areas can deliver their apportionment given the challenges on the land base (e.g. declining piece size, First Nations accommodation issues, uncertain timber supply projections and dated or unmade AAC determination).

A range of issues were identified through the review.

- Annual Allowable Cut determinations are not viewed as realistic in a number of operating areas and this is creating challenges for the business areas. In response, some have reduced proposed harvest levels until determinations can be updated which in turn has created the perception among customers that BCTS is accumulating an undercut.
- Some staff and customers note that BCTS is more focused on the short-term and, as a consequence, is not taking the necessary actions to forecast fibre flows and develop plans to support long term customer needs.
- Staff also noted the challenges in promoting a longer-term view of forest estate planning given the risk of losing operating areas through further tenure allocations. In this regard, competing demands and pressures for additional tenures are resulting in the re-allocation of parts of the operating areas held by BCTS and Major Licensees in favour of replaceable licenses to meet First Nations, community or other needs.

A range of options to address these issues were identified and included:

- Reviewing the operating area requirements needed to fulfill the pricing and costing mandate to ensure that BCTS effectively adapts to changing market and resource conditions/timber supply;
- Taking action to secure operating areas (including exploring options to secure area based tenure) to prevent further potential erosion of the apportionment; and
- Undertaking longer-term forest estate planning to build predictability and certainty into fibre flow projections.

Recommendations:

The recommendations presented below are intended to enhance the security over BCTS' operating areas to safeguard operating areas and the ongoing investment required to develop the Standing Timber Inventory, manage customer expectations and maintain a high level of forest stewardship.

<table>
<tr><th colspan="2"><u>Recommendation 3:</u> Strengthen operating area security.</th></tr>
<tr><td>Short term actions:
Gather base line operating area information to verify timber supply
Utilize baseline data to spatially identify economic fibre volumes
Based on the above, support the Ministry (FLNRO) in its Timber Supply Review and AAC determinations to ensure that the apportionment is in line with what can be supported by operating areas.</td><td>Expected Benefits:
Pricing mandate is protected
Reduced financial risk
Plans more closely reflect the reality of the operable timber availability</td></tr>
<tr><td>Long term actions (within the Current Mandate and Legal Framework):
Promote forest estate modelling and planning in collaboration with key customers and partners to identify options for enhancing fibre flow by reducing constraints or enhancing the economic accessibility of stands
Consolidate and adjust operating areas, as necessary, to enhance pricing and costing information that is representative of the operating conditions, forest types, etc. that the major licensees are operating within.
Collaborate with pricing and revenue staff to ensure representativeness is sufficient to fulfill the pricing mandate.
Confirm the target apportionment required by region to meet the goal of supplying target markets with fibre and promoting competitiveness and new entrant capability.
Through partnerships with First Nations, major licensees, and community forests, expand the portfolio of areas that BCTS can access to enhance the representativeness of pricing and costing information.
Identify and assess risks to operating areas through a risk matrix (e.g. forest health, higher resource values or higher government priorities).
Develop a plan of action to replace or mitigate the potential fibre loss associated with high risk areas. Where areas are at risk due to First Nations concerns, explore opportunities for joint management/tenures.
Develop clear program objectives for areas surplus to the needs of BCTS to support the pricing mandate.
Identify where other tenure or management options would be more effective (e.g. woodlots in interface areas; First Nations in some traditional areas.).
Long term actions (beyond the Current Mandate and Legal Framework):
Purchase, sell or trade volume/operating areas/tenures as needed to support the mandate of BCTS and to provide the province with an accessible apportionment to adapt to changing priorities and opportunities.
Explore opportunities for “stand alone” BCTS Area Based Tenures. Promote and implement forest estate modeling within such tenures.</td><td>Expected Benefits:
Stewardship reputation is enhanced
Pricing mandate is protected
Stronger awareness of the operating area requirements associated with the pricing and costing mandate
Reduced risk to investment on the land
financial and resource security</td></tr>
</table>

3. Responsiveness to Customer Fibre Needs

Context

The forerunner of the BCTS program was the Small Business Forest Enterprise Program (SBFEP) which was established in 1979 in response to Peter Pearse's Royal Commission Report (Timber Rights and Forest Policy in British Columbia - 1976). The report identified a growing corporate concentration in the forest sector which was a risk to competitiveness and limited the ability to attract new, innovative fibre processing businesses to the province. The SBFEP was to provide new entrant capability by offering fibre to the open market through competitive awards. Initially, the program served smaller independent fibre processors and market loggers who ran smaller- typically independent-businesses. The program evolved to additionally provide fibre to remanufacturers and specialty products manufacturers on a competitive proposal basis.[12] .

The BCTS program still retains both of these customer segments. It has also evolved to meet the needs of major licensees who increasingly rely on fibre that the program offers to market. The fibre economy has evolved significantly as well. The commodity lumber producer and the pulp mills that were the engine of the forest economy are still major generators of wealth, but the range of products and the businesses seeking fibre have broadened significantly. For example, in recent years the province has seen an increasing interest in accessing low quality and residual waste fibre to produce energy and feedstock for pellet mills and other new entrants in BC's emerging forest sector bio-economy.[13] The fibre market and interdependencies between businesses have changed significantly.

BCTS provides the province with a nimble mechanism to leverage new opportunities in the bio-economy market by adapting its product mix to respond to emerging needs. However, this requires the right inventory to be developed and brought to market in ways which are responsive to customer demands. At present, BCTS engages in regular communications with customers including formal annual events designed to strengthen the flow of communication between customers and staff. This helps to ensure that staff has an understanding of customer needs and facilitates adjustments to the sales plans based on customer input.

Table D.1: The Financial Performance of BC Timber Sales - 2003 to 2012

	2003/04	2004/05	2005/06	2006//07	2007/08	2008/09	2009/10	2010/11	Total	Annual Average
					----- '000,000 cubic metres -----					
Volume Advertised	11.2	12.8	16.3	16.7	15.7	16.3	14.7	13.9	117.6	14.7
Volume Sold	9.0	11.3	14.3	15.1	12.8	11.4	10.6	11.3	95.8	12
Volume Developed	12.6	15.4	17.7	14.7	14.9	14.2	11.6	8.9	110	13.8
Volume Scaled	7.9	10.0	12.9	11.4	13.2	10.5	11.4	10.8	88.1	11.0

Source: BC Timber Sales, Annual Reports.

12 Ministry of Forests, Five Year Forest and Range Resource Program 1996- 2001. Section 16 sales served the market logger and small mills - each of which had equal opportunity to bid on timber sales which were sold by auction. Section 16.1 (later referred to as Section 21 sales) was awarded on a competitive proposal basis which considered both the bonus bid and value added associated with proposal. Category 2 sales now serve the needs of registrants who would have accessed sales under Section 21.

13 Forest Sector Bio-Economy Transformation Council (November 30, 2012, Transforming B.C.'s Forest Sector – Working Action Plan for Advancing a Forest Bioeconomy.

What we Heard

Customers place a high value on the reliability and consistency of fibre supply provided by BCTS. While customers are generally satisfied, there are areas where improvements are necessary and can be made. Businesses large and small note the need to put the apportionment on the market to keep fibre flowing and most feel that BCTS should put its full apportionment out to the market annually.

As a provider of 20 per cent of the available timber in the province, reliability of supply is critical to the fibre supply strategies of most customers across the province. In this regard, some customers have expressed concern with the lower volumes offered to the market in some areas during poor market conditions. While the market is quickly improving, some feel fibre isn't being offered in sufficient volumes to meet demands. The strongest message coming from customers is the importance of BCTS being responsive to changing market and customer needs.

Offering the Apportionment to the Market: Customers generally expect BCTS to offer its full apportionment. Some felt this should be done annually while others felt that it was more appropriate to ensure the full apportionment was offered over a five year period, recognizing market cycles affect both the demand for BCTS fibre and the profitability of operations.

- The BCTS policy of adjusting the sales volume offered to a percentage of the annual harvest as opposed to an annual percentage of the total provincial apportionment is not well understood by customers. As a result, some customer expectations exceed the supply commitments BCTS has made in its business plan.
- BCTS is expected to work within market cycles and not influence prices through either the over-supply or under-supply of fibre. This creates challenges in setting targets for how much fibre should be offered to the market within specific business areas because decisions by major licensees continue to have the greatest impact on the fibre flow at the local level.
- The rationale for adjusting sales schedules and the volumes offered to the market are not well articulated.

Harvesting the Profile: While there is general satisfaction with the profile harvested through the program, some observe that forest health issues have been driving the harvest over several years in the Interior for BCTS and major licensees.

- The focus on bringing dead stands of MPB-affected wood to market before they lose all economic value has resulted in less emphasis on some niche markets. More importantly, in some cases this has resulted in missed market opportunities (e.g. Interior Douglas-fir) and unmet customer needs. This tension between meeting niche customer needs and offering sales to the market that are broadly representative of the major licensees has been identified with some regularity.
- In other cases, BCTS has been perceived as focussing too heavily on high value stands at particular points in the market cycle and deferred harvesting temporarily in other profile components. While this has had a positive impact on revenues for the organization, some customers have felt that a better balance would be preferable to address their profile needs. At the same time, there are others who note that BCTS is effectively working towards its revenue goals by adapting to changing market conditions on a site specific basis and that this provides the best return to the Crown, while collectively addressing the needs of the Market Pricing System.

Standing Timber Inventory (STI): With the recent downturn, BCTS found itself in a position with an inventory that was much larger than was deemed necessary given market conditions, which resulted in a reduced need to develop inventory.[14] There is general concern that BCTS does not make sufficient investments into its STI which impedes its

[14] BC Timber Sales Business Plan 2011/12 – 2013/14, p. 23.

ability to respond to customer needs and adapt to changing market conditions. There was no consensus around the volume that should exist, but the need for a STI of at least a few years (1.5 to 2.0 years) was identified.

- There was some recognition of the organization's efforts to reduce costs by decreasing the STI but there was also concern that this would impact customer service and negatively affect revenues in the future.
- The recent policy to reduce the level of investment into STI is viewed as reducing both the ability to fulfill the reliable supplier of fibre mandate and eroding the capacity to maximize net profit (a reduced STI is perceived to restrict the ability to respond to market shifts and to act when market opportunities emerge).
- There was also recognition that processes for developing sales and bringing them to the market could be streamlined which could reduce overall lead time, improve market responsiveness and reduce the overall level of investment required to sustain and adequate STI.

Category 2: Many saw the Cat 2 program as having little impact, while others viewed it as essential to serving some customer segments, but felt it was far less effective than it could be if it were implemented as intended (e.g. put the Cat 2 allocation on the market as planned, and increase the processing requirements of the program).

- On the coast, some believe the elimination of the mill processing requirement for Cat 2 TSLs reflects an abandonment of the program's commitment to serve small, independent fibre processors).[15] There is also general concern over the decision by BCTS to reduce volumes sold through the Cat 2 program. Some believe this was a unilateral decision which was poorly communicated to Cat 2 registrants. The concern has been amplified by the challenges smaller independent fibre processors report in accessing fibre from major licensees. According to the Cat 2 registrants interviewed, large mills cannot be relied on as much as they have been in the past according to many independent wood processors, making it more and more difficult to access fibre supplies. Not surprisingly, there remains strong interest in employing Cat 2 as a mechanism to provide additional security over fibre supplies.
- More broadly, small independent fibre processors would like to have long term renewable tenures similar to what the major licensees enjoy. Alternatively, some suggest eliminating long term replaceable tenures more generally to level the playing field by substantially increasing the amount of Crown timber which could then be offered to the open market through auctions.
- Some of the larger mills and tenured companies believe the Cat 2 program is largely irrelevant, however they also understand the fibre requirements and needs of smaller independent producers.

Recommendations:

The recommendations below are intended to strengthen the customer focus of BCTS by increasing the understanding of market trends and customer requirements, developing fibre supply strategies to set supply targets, enhancing communication, and delivering the program effectively.

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[15] Since the interview phase supporting the review was completed, BCTS coastal operations have implemented or partially implemented milling requirements for Cat 2 TSL's.

Recommendation 4: Develop fibre supply plans in the context of market trends and customer needs and adopt a longer planning horizon.	
Short term actions: • Develop formal service strategies by customer segment. • Develop supporting performance targets and hold TSMs accountable. • Develop an annual sales schedule in each business area that is governed by customer needs and provides for an even flow of fibre, where appropriate and desired, over the calendar year: o Supported (ideally) by the 3 year marketing plan and the 5 year Timber Availability Plan. o Developed in consultation with customers taking into consideration needs in terms of volumes, terms and timber quality/ profile (and where feasible/desirable synchronize sales plans with production schedules for key clients). o Flexible to react to market changes in the annual cycle.	**Expected Benefits:** • More strategic approach to developing STI • Enhanced customer service and satisfaction • Improve responsiveness to short term market changes
Long term actions (within the Current Mandate and Legal Framework): • Develop and communicate an annual 3 year market outlook and 5 year fibre supply strategy/timber availability plan. The strategy should consider market and customer needs by customer segment and should include a communication plan targeting customers and partners. The marketing plan would: o Include a comprehensive assessment of customer segments and market niches. o Determine the profile to be pursued to address market niche demands and representativeness. o Develop the non-conventional profile to be marketed to build this sector back into the market place. o Evaluate marketing opportunities in marginal and salvage stands beyond the scope of the current program. o Promote non-conventional harvest systems through expanded TSL opportunities, such as skyline, helicopter, etc. (where there exists such a demand). o Establish formal fibre supply targets by business area that consider market trends, niche opportunities, and the level of dependency of particular customer segments on BCTS. o More actively manage the risk that comes with supplying major licensees during weak fibre markets. o Include through informed input from communities, First Nations, FLNRO, MARR and customers to ensure that specific needs and interests (e.g., recreation values, other community values, and fibre needs) are considered. o Develop an STI (one to one and a half years to two years) to enable quick response to changing market and customer demands. o Investigate the opportunity to develop pilot log merchandizing centres where high Cat 2 demand exists.	**Expected Benefits:** • More strategic approach to developing STI • Enhanced customer service and satisfaction • Increased marketing opportunities • Providing the right product at the right time

4. Competitiveness of Fibre Markets

Context

BCTS is a critical part of the mosaic of instruments used by the province to allocate timber harvesting rights and pursue its economic and social objectives. With maximum terms of four years (term of a TSL is set by the Timber Sales Manager and is usually much shorter than the maximum term), the Timber Sale Licence ensures that, once sold, fibre will reach the market with some degree of predictability. While there has been a notable increase in the volume to be sold in the competitive market since 2003 through the reallocation of the apportionment enabled by Bill 28, debate continues as to whether or not the reallocation has been sufficient to achieve the province's objectives. For example, the Forest Resources Commission in the early 1990's envisioned 50 per cent of the apportionment to be made available to an open market – half to be sold to the market by the Crown and half to be awarded to other "non-industrial" tenure holders.

Alongside the recurring policy objective of making more timber available to the open market is the position advanced by major licensees to increase tenure security and to enhance the bundle of property rights associated with the tenure. There remains considerable debate over both the extent to which these two policy objectives are compatible and balanced appropriately within the broader provincial tenure portfolio.

With the Forest Revitalization Plan the province committed to increasing the apportionment dedicated for auctions and expanding the use of auctions which ultimately led to the creation of BC Timber Sales. In tandem, the province expanded the Woodlot and Community Forest Licence Programs, and created First Nations Woodland Licences. Collectively these changes represent a commitment by the province to ensure that a significant portion of Crown timber would be made available through an open market. More recently, the Roundtable on Forestry (2009) recommended an increase in the "percentage of fibre that is available through competitively-bid timber sales" and prefaced the recommendation with:

> Having a robust, open and competitive market for wood fibre is the best way to ensure all industry firms have an equal opportunity to expand and diversify. Maintaining a minimum percentage of timber sold through the competitive system is also necessary to maintain adequate data from which to drive prices for timber not sold through competitive bids." [16]

The BCTS program is a key element of the province's broader efforts to promote competitiveness and to ensure that the Crown forests are used to optimize benefits to citizens.

The range of policies and programs to support the development of the value-added sector and ensure that wood fibre flows to its highest and best use have also been intertwined with both the Small Business Forest Enterprise Program and BCTS. The issues that smaller mills and the value added sector have in accessing reliable fibre supplies to meet their specific needs has been a long and vexing policy challenge. Through the Forest Revitalization Plan, the province intended to phase out Section 21 TSLs (S21 TSLs) which enable the province to award sales to valued-added and independent fibre processors through a range of criteria that were in conflict with the auction system. Section 21 sales were viewed as insufficient to meet the fibre needs of many within the sector and those outside of the sector typically viewed it as "social engineering".[17] The province sought to develop market-based solutions to meet the needs of the value-added sector through the removal of the appurtenancy clause, removing timber processing

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16 The Working Roundtable on Forestry (March 2009), Moving Toward a High Value, Globally Competitive, Sustainable Forest Industry (The Report of the Working Roundtable on Forestry), p. 40. Refer to Recommendation 20 which states, "We should increase the percentage of fibre that is available through competitively bid timber sales."

17 The Forest Revitalization Plan specifically notes that Section 21 sales were insufficient to meet customer needs and the plan aimed to create a lasting market-based solution that would make fibre accessible to the valued-added sector and smaller independent fibre processors.

restrictions, and increasing the apportionment sold through BCTS, and other non-industrial tenure holders such as First Nations, communities and woodlots. This was expected to result in a freer flow of fibre. At the same time, the province committed to retain a program designed to help meet the needs of the value-added sector until such time as the new policy framework was fully implemented and fulfilling the outcomes intended of it. It was expected that over time, the need for Cat 2 sales would decrease and the program could then be phased out.[18]

What We Heard

There is a high level of communication between customers and BCTS and the majority of customers value the level of access they have to BCTS. However, all customer groups note the need for BCTS to continue to reach out, work harder to identify their fibre needs, and commit to meeting them through the ongoing development and refinement of the products and processes used to bring fibre to the market. A range of options to enhance the ability of BCTS to respond to customer needs and maintain healthy competition within fibre markets is noted below. Most options focus on marketing standing timber but some explore opportunities to market logs.

Small Independent Fibre Processors and Secondary (value-added) Wood Processors: Throughout the review, smaller independent mills and valued-added producers reported that Crown fibre has been more difficult to access under the new policy regime. They also note that in recent years larger tenure holders have (with some exceptions) been less willing to supply fibre to smaller independent mills, and many of the non-industrial tenure holders have established partnerships with major licensees. Some independent value-added producers, who once were involved in Category 2 (Cat 2) no longer participate in order to minimize their taxation costs.[19] BCTS has also scaled back the use of Cat 2 sales in some business areas. These developments have contributed to the current situation where accessing fibre for small independent mills and value-added manufacturers is more difficult today than it was prior to the launch of the BCTS program.

A range of suggestions were offered by Independent (without major quota) primary breakdown facilities and value-added processors including the following:

- Enforce a 50 per cent fibre processing requirement for Cat 2 sales (coast/interior).
- Increase use of Cat 2 sales in business areas where there is a customer demand that cannot be met through Cat 1 sales.
- Explore avenues to include Cat 2 pricing in the data repository to support the pricing mandate. (Higher volumes offered through Cat 2 sales could reduce the pool of bidders for Cat 1 sales in some areas if this is not done.)
- Revitalize Cat 2 to better respond to customer needs.
- Consider partitioning Cat 2 volume between independent primary break down and remanufacturing facilities.
- Consider eliminating Major Licensees (with quota) from the bid pool.
- Include larger volume, longer term competitive tenures with provisions to target independent manufacturing facilities where current capacity ceilings limit participation in Cat 2 programs.

[18] **Action:** Over time, policy changes designed to promote the freer flow of timber will provide B.C.'s value-added manufacturers with more access to timber. These policy changes include reallocation of tenure to market loggers, and removing timber processing restrictions. As well, the value-added sector will be able to bid on the increased volume of wood sold at auction through reallocation. Since increased volumes will take several years to come fully into effect, government will maintain Section 21 through this transition. This will see a portion of B.C. timber set aside for the value-added sector, but awards will now go to the highest bidders.
Benefits: These measures should result in a more competitive, more dynamic value-added industry. Maintaining Section 21 during the transition will ensure fair returns to the Crown while also ensuring the most competitive value-added companies have access to the timber they need to build healthy, job-creating businesses.

[19] Those businesses that do not hold other forms of tenure, are only obligated to pay export taxes on input costs (the cost of the lumber that is then used in the production processes) as opposed to the value of the product that is created as is required by major licensees with major replaceable tenures.

Highest and Best Use: Most of the registrants expressed a desire to see fibre go to its highest and best use. In relation to BCTS, some customers believe this means not only finding ways to ensure that the organization is able to support this goal through the structure and design of its sales but also to find ways to help ensure that fibre flows to where it will have the highest value after the TSL has been issued. The ability to design and implement sales and more broadly, to put in place mechanisms that allow fibre to flow where the customer is willing to pay a premium on it, is in the broader interests of a large proportion of those that were consulted. This is consistent with the Province's strategic interests.[20] To this end, a range of ideas and concerns were expressed.

- Smaller sized businesses and specialty fibre processors expressed concern that larger fibre processors were often allowing high value fibre to go to low value products even when they have an opportunity to sell higher valued material to other mills.
- There were concerns expressed by some smaller fibre processors over the difficulty experienced in accessing a specific profile from a Timber Sale License once it was sold. It appears that this is due in part to the cost and inconvenience of sorting specific stand components combined with the purchaser requiring all the volume of the sale to satisfy their needs.
- The obligation of the receiving mill for stumpage and uncertainty over how this requirement is to be implemented in the context of cruise-based sales (ITSLs) sometimes makes it untenable for a TSL holder to direct fibre to its best use. Stumpage hold-backs or liabilities may potentially be in excess of the value of the fibre received. In some cases, this has compromised the utility of cruise-based sales.
- There was interest expressed in designing timber sales around smaller high valued stands by either providing better cruise information or by designing smaller timber sales containing high quality timber targeted for specific high valued products.
- There were advocates in every region for the establishment of sorting arrangements where high valued logs can be freely accessed to meet the needs of smaller fibre processors who cannot access them from major licensees, timber sales or others. There was also concern over whether such a mechanism could deliver fibre at costs the market would be willing to pay. There were as many advocates for supporting log merchandizing as there were detractors.
- The informal networks that exist between businesses and licensees serve many parties quite well and they function efficiently in some local contexts. However, there was greater concern that opportunities to do more with the available fibre were being lost due to the extent to which the apportionment is fragmented across so many interests. At the extreme end of the spectrum, some long standing fibre processors have suggested that one option would be to put all timber up for competitive bid.

The concept of highest and best use varies widely between customer segments, but the underlying concern is that high value fibre is sometimes going into low value products. This is a concern that smaller businesses have with larger fibre processors who for the most part, are not able or are unwilling to remove high value products for sale to other processors. Some smaller producers have observed that some larger companies that have had a longstanding policy of making higher value logs available have reversed this position recently.

A Competitive Market place: A key factor influencing revenue is the extent to which there exists a competitive marketplace for the fibre BCTS offers to the market. The market place is diverse and complex ranging from industry with replaceable tenures to those that rely entirely on the open market to satisfy their needs. A range of ideas were expressed:

[20] Forest Revitalization Plan (2005). The plan aimed to promote the freer flow of fibre so that it could go to its highest and best use.

- Many of the current registrants of the BCTS program had originally entered the business through the SBFEP. Most have grown with the program which has involved restructuring their businesses to compete within the current environment characterized by larger and more complex TSLs. With the transition to larger companies and the need to keep moving volume, there is a perception that the BC Timber Sales program has seen the pool of active bidders shrink along with opportunities for new entrants. This may pose a longer-term challenge for BCTS to ensure a broad range of opportunities are provided to encourage a vigorous competitive environment.

- It was noted that the high level of competition in some business areas offsets (from a market pricing perspective} the impact of business areas where there are fewer potential or actual bidders. In some cases, there were advocates for a broader range of tenure products that would allow BCTS to adapt to changing local fibre markets and attract greater interest such as competitive or directly awarded NRFLs to achieve government objectives.

The Level of Perceived Financial Risk: Some requirements of Timber Sales Licences and information contained in bid packages were viewed as unduly increasing the level of financial risk to bidders and ultimately TSL holders. The overall impact of these risks is reflected in the bids received. Key areas of risk include:

- **Shorter term TSLs** – Shorter term TSLs were identified as creating constraints and affecting the level of perceived risk amongst bidders which in turn affects bidder behaviour.

- **There was intere**st in the interior specifically to augment the current established cruising procedures and results by securing additional information relative to both higher valued products as well as volume that conceivably would not be saw-log material. It was also apparent that some of the smaller independent firms were not as versed in interpreting cruise information as those that had ready access to Qualified Professionals. Notwithstanding this, most acknowledged that good cruise information supplemented by a thorough stand reconnaissance was essential for preparing a tender submission.

- **Road user fees are often unknown at the time of bidding** – Depending on the relationship a TSL holder has with a licensee or the road owner, road user fees can fluctuate significantly. Road use fees or maintenance costs are often unknown at the time of bidding. Some of those interviewed suggested BCTS negotiate road use agreements with road owners prior to advertising a TSL and then factor any road use fees into the upset price.

Managing Market Risks – TSL Terms: The terms attached to TSLs was an area of considerable interest to all registrants interviewed.

- Longer term sales generally attract a larger pool of bidders. By enhancing the ability of bidders to manage market risks, the longer term sales can attract higher bids. In declining markets, longer terms can have a more detrimental impact on TSL holders should they choose to defer harvesting.

- Longer term TSLs may promote speculative behaviour which increases the risk of fibre not reaching the market in a reasonable and predictable time. Larger consumers of fibre identified this as a problem.

- Longer term TSLs allow the TSL holder to essentially develop a standing timber inventory (STI) which affords them flexibility in managing fibre flow. Some believe this benefit outweighs any speculative behaviour risk.

- Longer term sales allow registrants and BCTS to simplify administration where unexpected issues or seasonal variables delay the holder from planned harvesting activities. Generally this suggests that BCTS must consider the range of risks that could likely affect the ability to meet the terms of the sales within the planned term and adjust accordingly. Thus, the "ideal" TSL term should provide the registrant with the ability to manage and resolve various risks and allow for contract administration efficiencies.

Recommendations

The long term success of the BCTS program and the broader objective of allowing fibre to flow more freely to its highest and best use is dependent to a great extent on the broader policy and trade environment which creates a range of opportunities and constraints for particular customer segments. The recommendations presented below are intended to reduce undue risks to bidders and develop a broader range of avenues to more effectively market timber sale licence opportunities.

<table>
<tr><th colspan="2"><u>Recommendation 5:</u> Develop timber sale licences to be more responsive to each customer segment</th></tr>
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Short term actions – eligibility, bid process and contract administration:

- Eliminate the three sale rule as open entry to the program and evergreen provisions for registration have neutralized this policy or, alternatively, clarify the policy intention behind the three sale rule and develop more effective eligibility rules to enforce it.
- Enhance the quality, consistency and accessibility of information supporting bid packages and promote consistency in administrative standards between business areas; ensure a complete and fulsome Timber Sale Licence, Site Plan and harvesting plan.
  - Ensure consistent, high quality map standards and bidder instructions.
  - Ensure operational planning (SP) minimizes unforeseen costs to licensees, particularly with respect to high cost elements such as location of roads and prescribed harvesting systems.
  - Standardize tender package content including the "notice to bidders".
  - Provide enhanced level of cruise information for diverse, complex stands (including stands with a large component of Grade 4) and cruise-based sales (grade differential), and link sales plan directly to Google Earth.
  - Provide supplemental information to bidders to assist them in understanding the cruise information package.
- Streamline the bidding process to reduce bidder risks and increase efficiency for BCTS and bidders.
  - Increase the number of locations where bid submissions can be deposited by bidders to reduce barriers to bidding. In the longer term, introduce electronic bidding.
- Assess fees and billing processes.
  - Cruise base billings may need to be reviewed to ensure they properly support safety and harvest practices.
  - Assess receiving company's stumpage obligation and the impact this has on the utility of cruise based sales.
  - Maintain a balanced portfolio of tenure terms to ensure that financial objectives can be met and investment costs recovered in a timely manner.

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Expected Benefits:

- Broader bidder pool
- Better customer service
- Stronger bidder mgt. of risks - higher bids

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Recommendation 5: *(continued)*	

• Set the term of sale to reflect not only the volume but the operating risks (weather, wet belt conditions, location of sale from markets). Consider longer term sales for Category 2 sales. Assess relative impact of TSL term on competitiveness and speculative behaviour by piloting longer term Cat 1 sales.
• Ensure timely management of no-bid responses and undercut volumes.
• Strengthen monitoring of field practices relative to contract requirements and harvesting plan prescriptions to enhance TSL holder performance, and where possible, coordinate final inspections prior to machinery moving off site.
  o Promote compliance through pre-work discussions, joint field inspections, assessment of compliance against contract requirements, and where possible, ensure final inspections occur prior to equipment being moved off site and promote more interaction between multiphase contractor and TSL holder.
  o More effectively involve the TSL holder/logging contractor in post-sale review for the purpose of continuous improvement for all parties concerned.
• Implement performance measures to monitor and evaluate the effect of sold but unharvested TSL volumes in common fibre and market sheds.
• Promote succession and new entrant capability (market loggers and brokers) by exploring options to link the small scale salvage program more closely to the succession objectives of BCTS and the province, work with new and potential registrants (First Nations and others) to improve understanding of program and build business acumen, and design a portion of the annual sales schedule to attract smaller companies or processors.
• Simplify licence documents to reduce back-end obligations and the impact of deposit requirement impact.
• Revisit option of delinking post-harvest responsibilities from the core harvesting responsibilities in relation to deposit management.
• Investigate opportunities to speed up deposit returns, including delinking post-harvest obligations from the TSL document.	

Recommendation 5: ***(continued)***	

Short term actions – fibre market infrastructure and product offerings:
• Support the development of local fibre supply infrastructure in regional markets through innovative, customized products.
  o Explore marketing of other tenures such as competitive NRFLs and cruise-based sales for lower value stands to better serve customer segments including those seeking fibre residues.
  o Explore alternate approaches to supplying fibre including BCTS managed timber harvesting through contract loggers/harvest and haul contracts.
  o Support the development of log merchandising centres where demand exists and more resilient market driven mechanisms cannot be promoted.
• Enhance marketability of low quality stands/species and very high quality stands/species elements.
  o Continue employing cruise-based sales in low quality decadent/repressed stands.
  o Review interior cruising practises and standards to determine practicality of providing an enhanced level of information, beyond current industry standards.
• Explore tenure administration and marketing opportunities for management of incremental fibre agreements.
	Expected Benefits:
	• Broader bidder pool
	• Better customer service
	• Stronger bidder mgt. of risks – higher bids

Long term actions (may require changes to the current mandate and legal framework): • Collaborate with industry to pursue solutions to address evolving challenges associated with changing stand dynamics and development opportunities. • Explore opportunities to market undercut volumes through direct awards, or through B2B relationships to support broader government objectives and regional priorities. • Respond to the needs of smaller independent fibre processors by developing a formal policy for this customer segment and adjust products to better respond to customer needs. • Develop a strategic and operational direction to provide services to independent (without major quota) primary breakdown facilities and remanufacturing facilities.	**Expected Benefits:** • Broader bidder pool • Better customer service • Stronger bidder mgt. of risks – higher bids

5. Engaged, Skilled and Experienced Staff

Context

BCTS is the largest operationally oriented program within FLNRO and is comprised of 553 people.[21] Of these, 97 per cent are regular employees and the remaining 3% are auxiliary. The vast majority of employees work at the business area level or within teams assigned to particular operating areas with just six per cent of staff work located in Victoria. Employees within Science and Technical positions (i.e. Licensed Science Officers) make up 82 per cent of the workforce.[22] By 2017, 29 per cent of the existing workforce will be eligible to retire. As of May 2012, BCTS was experiencing an attrition rate of 18 per cent and declining employee engagement scores.[23]

Both the operating environment and the demands of the program are unique within government. The nature of the business is more aligned to that of a private sector forest land manager than the public service. This creates a range of challenges and opportunities for the organization. Public sector employees are attracted to BCTS because its mandate is clear and the work is operationally focused. Yet the broader public service is often where the long-term career opportunities lie for many. While the experience within BCTS is an asset, the organization must manage the issues associated with a relatively high turnover rate. BCTS often seeks and recruits staff with private sector experience – a desired trait within the BCTS organization. This has presented recruitment challenges when broader ministry policies limit hiring options to in-service competitions or when hiring freezes are put in place to manage broader ministry budget constraints.

What we heard

Customers, clients, partners and stakeholders interviewed during the course of the review expressed considerable respect and appreciation for the work BCTS staff do. An overwhelming number of those interviewed felt that staff demonstrated a high level of expertise and responsiveness. Within BCTS, staff indicated a high level of commitment to the Timber Sales program. A number of issues, risks and opportunities were also identified.

At the staff level, there is a general perception that BCTS is less effective than it could be, and that its relevance to decision makers (executive and elected officials) is weakening. Within the program, BCTS staff reported lower overall engagement and reduced morale. The flat organizational structure, while viewed as efficient, is perceived as limiting career advancement opportunities. Additionally, given that staff see wage rates as non-competitive with the private sector and some parts of government, BCTS is contemplating a growing problem in attracting and retaining qualified staff. However, there is general support for the organization and the operational focus and clear mandate are seen as key strengths. While staff are genuinely concerned about the future of the organization and its ability to attract, inspire and retain skilled and experienced people, they are also enthusiastic about the role that BCTS plays in the province.

When staff were asked to consider and identify the most significant risks facing the organization, close to 60%of the risks identified were linked to human resource issues. The need to focus on recruitment and retention was the most important priority in the minds of staff. Some key aspects driving these risks are noted below (the information is drawn both from interviews and the BCTS staff survey):

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21 These figures are current as of October 1, 2012.

22 Licensed Science Officers account for 32% of total staff.

23 The retention rate includes employees who left voluntarily and involuntarily. A retention rate of 18 per cent means that in the year 2011/2012 just under 100 people left BCTS. In contrast, engagement scores were increasing in 2007/08 just prior to the significant downturn in the forest sector.

- A flat organizational structure (one without a regional layer) provides limited opportunities for staff advancement and/or progressive career paths. Opportunity for career advancement within BCTS is seen as essential to developing a successful recruitment and retention strategy for the organization.
- BCTS cannot easily compete with the private sector in terms of remuneration. As the resource sector economy improves, the organization is likely to lose staff as they seek more attractive wages.
- While staff generally identify BCTS as a great place to work, there are growing frustrations regarding the overall management of the program. Frustrations have included challenges in attracting and retaining staff and consequent workload pressures, lack of timber supply in some business areas, risks to the apportionment posed by the granting of new tenures, and the recent poor economic climate and the financial impact this is having in some business areas. In some cases, staff associate these issues with what they perceive to be a result of lack of leadership and government support for the mandate of BCTS. There is also a strong staff desire in renewing the mandate and the organization to recover the strength of purpose the organization enjoyed in earlier days.
- The operational nature of the organization is a strong asset from the perspective of field-oriented staff who find the more “hands-on” nature of the work rewarding. In this regard, there is some interest in ensuring that BCTS does not simply become an organization that excels at contract administration. In some business areas where staff have become involved in the work usually undertaken by multi-phase contractors, the experience has been viewed positively (although there are challenges as well). Expanding operational activities (for example, harvest and haul contracts and small direct hire engineering projects) for BCTS staff will also promote operational knowledge and skills through first hand supervision and/or experience.
- The constraints BCTS faces as a unit within FLRNRO are currently impeding its ability to serve the customer base both in the short and longer term. A significant portion of staff responding to the survey feel more independence as an organization would provide greater flexibility to respond to the challenges around wage rates, rewards for high performance, and other factors that limit the ability to attract, retain and develop staff.

It is also important to note that while the staff identified human resources risks as the most important issues facing the organization, a large number of staff also identified BCTS as a great place to work. The story emerging from staff interviews and the follow-up survey is that the organization faces a range of recruitment, retention and succession issues but it continues to be viewed as a desirable place to work with a rewarding mix of administrative and operational activities. The business orientation makes it unique within FLNRO and staff believe the brand and autonomy of BCTS must be preserved and enhanced to ensure effectiveness in the years to come.

Recommendations

As the forest sector returns to profitability and market demand for B.C. wood products increases, the current recruitment, retention and succession risks facing BCTS will increase. Historically, there are many aspects of BCTS that have been attractive to staff such as clarity of the mandate, the business mind-set and the operational nature of the work. However, the erosion of the apportionment, continued pressures to reallocate volume to replaceable tenures, soft fibre markets, and looming timber supply challenges in some business areas, combined with a flat organizational structure and fewer opportunities for advancement are adversely affecting staff morale. With the upswing in the resource sector, BCTS is seeing an increased level of risk that staff may seek employment in the private sector where wage rates are more attractive. There are a range of options identified to ameliorate these issues. The options also include measures designed to address what seem to be systemic issues within BCTS, which appear to be limiting the ability of the organization to recruit and retain people with the skills and experience needed to make the organization successful and vital in both the short and long term. The recommendations strive to provide the means to manage circumstances (functions and activities) that lead to perceptions of a “more generous and unrestricted” work environment.

Recommendation 6: Develop a Robust Recruitment, Retention and Succession Strategy.	

Short term actions:
• Prepare and implement succession plans.
• Develop mentoring and staff development programs to increase ability to promote from within the organization and to enhance career development opportunities.
  o Recruit from within when qualified staff are available by providing training and orientation to enhance their performance in competing for available positions.
  o BCTS should consider advancing its succession objectives through mentoring initiatives consistent with the option of developing strong career paths for BC Timber Sales staff. Consider identifying and pre-qualifying staff for advancement. When such opportunities arise, assign staff accordingly.
  o Leverage remote and hard to recruit locations by recognizing them as "points of entry" and training grounds for newly recruited BCTS staff. Institute a systematic staff training program within these points of entry. Share HR costs across the organization to increase the utility of these points of entry.
• Affirm government and FLNRO commitment to BCTS' mandate and actively promote its interests within the Ministry and among other government partners.
• Explore opportunities to better utilize skills and expertise within the organization.
  o Provide HR support to business areas to streamline efforts to manage the operational aspects of the business.
  o Explore opportunities to develop matrix-like relationships to more effectively leverage and share skills and expertise across business areas.
  o Provide opportunities for staff to gain or maintain operational experience such as harvest and haul contracts and hands on engineering related projects.
	Expected Benefits:
	• Increased staff morale and engagement
	• More effective use of existing skills/talents
	• Increased staff continuity

Long term actions (within the Current Mandate and Legal Framework): • Review job descriptions, salaries and benefits to improve competitiveness as an employer of choice. • Improve the ability to more effectively utilize the core skills of existing employees. • Review salary and other benefits for key at-risk positions and identify options to make them more competitive with other government agencies and the private sector. **Longer- term actions (beyond the Current Mandate and Legal Framework)**: • Explore the extent to which the current governance structure and legal framework allows BCTS to implement an effective recruitment, retention and succession strategy. Based on the level of perceived risk, promote the adoption of an alternative governance model and legal framework.	**Expected Benefits:** • Increased staff morale and engagement • More effective use of existing skills/talents • Increased staff continuity

6. Cost-effective Supplier Relationships

Context

Suppliers are integral to the delivery of the BCTS program. They include engineers and road-builders, foresters, GIS and other specialist service providers, multi-phase contractors and silviculture contractors. Since 2003, goods and services with a value in excess of $900 million have been purchased by BCTS from local sources. Continued access to suppliers and quality contractors is essential to the timely development of the Standing Timber Inventory, TSL bid packages offered to the market, construction of roads and infrastructure to access timber sales, and to undertake post-harvest activities required to reforest areas harvested. Each business area secures suppliers through formal procurement processes. Bidders must demonstrate they meet experience, skill and capacity requirements to be eligible for contract award. Once these criteria have been met, bidders are then evaluated in terms of their bid quotes and contracts are awarded to the lowest cost supplier. Improvements have been made to the procurement process over time. Multi-phase projects is one such practice which allows BCTS to retain suppliers for terms longer than one year, assuming they meet annual performance expectations. This innovation provides suppliers with certainty and streamlines the procurement process by reducing administrative costs for business areas.

What We Heard

Suppliers have generally viewed BCTS as a good client to work with. During the downturn, BCTS maintained greater continuity of operations compared to major licensees and provided suppliers with continued access to contracting opportunities. Suppliers were very appreciative of this stabilizing effect. There are a range of issues identified by staff and customers and key themes are presented below.

Some business areas reported difficulty in accessing contractors required to develop the Standing Timber Inventory, which is a critical to developing Timber Sale Licences. In some instances, this has resulted in delays or scaled back sales schedules where no supplier could be secured. In some locations there are few multi-phase contractors which reduced the ability of the organization to access a sufficiently broad pool of suppliers to provide confidence the procurement process has succeeded in securing the best contractor for the best price. BC Timber Sales has also undertaken some work in-house informally as a stop-gap measure to deal with challenges in contractor availability. Generally there is concern the pool of suppliers is insufficient at present to meet the needs of the organization.

Given the importance of supplier relationships to BCTS, staff noted several key areas of risk:

- Current policies and approaches to procurement overly limit the ability to select suppliers that would best meet the needs of the organization. In this regard, some staff noted that they are increasingly concerned with the quality of suppliers they are able to secure through the current procurement model.
- The current procurement approach creates larger and more complex opportunities (i.e. multi-phase) which effectively narrows competition while restricting development of new entrants into the business.

A range of opportunities were identified by staff to better manage risks and strengthen supplier relationships. Opportunities include development of internal capacity, increasing the focus on skills and performance when evaluating proposals to avoid some of the risks inherent in focusing on the lowest bid, and developing a procurement approach that can increase the bidder pool and quality of suppliers.

Recommendations

The recommendations below are intended to reduce barriers to entry, broaden the bidding pool for suppliers, and increase the pool of expertise available to BCTS by continuing to build internal capacity to deliver services where suppliers are not available and to reduce the time period required to develop standing timber inventories and to bring them to market.

<table>
<tr><th colspan="2"><u>Recommendation 7:</u> Increase the pool of qualified suppliers serving BC Timber Sales.</th></tr>
<tr><td>Short term actions: Develop and implement supplier strategies to broaden the and improve the quality of the supplier pool and to enhance product quality (deliverables).
• Advertise contracts well in advance of planned activities and coordinate procurement strategies for business areas served by common suppliers.
• Attract smaller firms and new entrants by unbundling contract activities.
• Employ entry-level contracts to build upon the current contractor pool.
• Explore options that generate incremental economy and efficiency, and encourage innovation as an alternative to lowest bid awards. Consider:
  o Prequalifying contractors to reduce the time period to complete procurement processes and increase access to contractors.
  o RFP approaches in areas where innovation is to be promoted.
  o Increasing the emphasis on past performance and demonstrated skills/ experience in procurement processes.
• Continue to promote common practices and processes to support the procurement function.
• Draw on excess capacity in BCTS and FLNRO to deliver a portion of services currently contracted out.
  o Unbundle some projects such as multi-phase contracts and have staff assume a project management role, thereby increasing staff ability to supplement contractor capacity.
  o Provide staff training and collaboration with contractors to develop capacity to undertake additional work in-house.
  o Limit BCTS role to undertaking in-house work only where private sector capacity is inadequate or excessively costly.</td>
<td>Expected Benefits:
• Greater assurance the work will get done
• Higher quality suppliers and products
• Greater flexibility in how work will get done
• Increased staff skills and capacity
• Increased efficiencies and responsiveness to market opportunities</td></tr>
<tr><td>Long term actions (within the Current Mandate and Legal Framework):
• Consider direct awards to support relationships with First Nations and communities.
  o Assess the extent to which direct awards could be supported through partnerships with First Nations and communities without compromising the costing mandate of BC Timber Sales.
• Review project requirements and standards and align with normal industry practices.
• Develop shared functions that serve logical groupings of business areas to deliver services internally to augment supplier capacity.</td>
<td>Expected Benefits:
• Greater capacity to deliver projects
• Higher quality suppliers
• Greater flexibility in project delivery
• Increased benefits to communities and First Nations</td></tr>
</table>

7. Administrative and Organizational Structure:

Context

BCTS delivers its program through 12 business areas which have historically had considerable autonomy in how they operate. This has served the program well, instilling pride within business areas and fostering healthy, productive competition between them. Each business area has the flexibility to be innovative and they have adopted practices and processes that work well for their unique situations while respecting the more common standard business practices required to meet corporate goals and standards. Maintaining capacity and managing budgets within the business area to deliver the operational program has been a major strength of the organization. The operational realities facing many business areas have changed significantly since the launch of BCTS in 2003. Timber supply constraints, treaty negotiations, forest health and changing market demands are some of the challenges that have fundamentally altered the current or projected business area workload.

What we Heard

While customers and stakeholders generally did not see a need to alter the administrative or organizational structure of BCTS, in some business areas considerable concern was expressed at the management and staff level that the current structure was causing inefficiencies and negatively affecting staff morale. There was also support in some business areas to amalgamate with the adjacent business area to more efficiently manage risks associated with reduced timber supplies, lack of competition, and administrative or operational costs. Other business areas expressed support for and satisfaction with the current structure. As well, with the formation of FLNRO there is some concern over non-alignment of business areas with the administrative boundaries of the broader ministry, and the extent to which this may be inhibiting communication, duplicating work and resulting in a lack of effectiveness relative to issues management.

Consistency in Practices and Products from a Customer Perspective: Most customers who provided input into the review were generally not concerned with the differences in how business areas operated but there were a number of issues raised.

- Inconsistencies in bid packages were noted and greater uniformity was sought by some registrants.
- Registrants and staff noted differences in how some customer segments were served. This caused some concern in that the same customer could be treated very differently between business areas.

Capacity Challenges Experienced by Some Business Areas: Changing market conditions, timber supply and other developments (such as treaty negotiations and accommodation measures), and staffing challenges all have an impact on the workload at the business area level. While most business areas are managing well, some are having significant challenges operating as profit centres. In a few instances, business areas are pursuing innovative arrangements with neighbouring business areas to share resources and reduce costs. However, in both the short and long term, there are concerns some business areas will not be viable from a net revenue perspective.

Interdependencies between Business Areas: Most customers are served by more than one business area and generally they are willing to go greater distances to secure fibre supplies than they have historically. As the program and the operating environment have changed and evolved, some customers see the need for a more coordinated approach between business areas in delivering the program. In this regard, business areas are already beginning to coordinate sales schedules to ensure customer service and business area objectives are aligned.

Cooperation, Collaboration and Involvement with FLNRO: BCTS is a semi-independent unit working within FLNRO. However, there are a range of areas where interdependencies exist between BCTS and FLNRO. With constrained budgets and shared concerns over staff retention and succession issues, common objectives and priorities as they relate to some customer groups, and common policy objectives in relation to First Nations, there is considerable interest in finding ways to realize efficiencies and enhance effectiveness by working more closely together. A range of issues were raised and options proposed by customers, stakeholders and BCTS/FLNRO staff.

- While there was considerable interest in promoting greater integration between FLNRO and BCTS, there was also consensus that the mandate and credibility of the pricing and costing function must be protected. Within this context, options for integration tended to be limited to the sharing of administrative and select technical expertise, along with assistance in program delivery.
- Lack of budget flexibility within FLRNRO districts was identified as a barrier to greater integration and the lack of available funding makes is difficult to hire BCTS to deliver some services.

Specific opportunities included:

- Closer cooperation between TSMs and District managers to foster collaborative approaches to solving shared issues:
    - BCTS could take on field responsibilities related to roads and structures to assist Districts;
    - District staff could be hired or seconded on a fee-for-service basis to perform such functions as check cruising and field activities to provide for "boots on the ground" experience; and
    - Reduce the FLNRO district and regional workload associated with stumpage rate determination and allow BCTS staff to generate rates without the involvement of FLNRO staff (other than on a professional reliance/audit perspective).

Broadening the Range of Products and Services Delivered through BC Timber Sales: The expertise and capacity developed and maintained by BCTS to deliver its core program has ideally positioned it to take on a range of other services. In recent years, this capacity has been used to administer portions of the Forest for Tomorrow (FFT) Program. Delivered through FLNRO, the FFT essentially invests in reforestation opportunities. With expertise in delivering its own silviculture program (the largest such program in the province), BCTS has been able to provide program administration services in some Districts at a lower cost than would otherwise have been possible. There was considerable interest in expanding the role of BCTS in the delivery of such programs given the lower cost delivery while concurrently providing a modest revenue stream that effectively offsets associated administrative costs. A range of other opportunities have also been identified, ranging from the auctioning of other forms of tenure (e.g. competitive NRFLs) to the delivery of the Small Scale Salvage Program, to a greater role in the delivery of Provincial Emergency Program (PEP) services. A small portion of those interviewed suggested that BCTS could extend its development and auction services to non-forestry related tenures/licences (e.g., gravel). Being more involved in such activities would leverage the significant existing operational presence and capacity of BCTS. Staff, customers, and stakeholders view these opportunities cautiously with the view that the organization should not deviate from its current mandate and risk diluting the BCTS brand by taking on new peripheral services.

Recommendations

To a large measure, the success of BCTS can be attributed to the autonomy and flexibility provided to business areas to deliver their mandate. This has lead to the development of creative solutions to local challenges, but has also limited the ability of the organization to respond to emerging issues that span business areas. From the customer perspective (who are often served by several business areas), the organization at times appears fragmented in that issue resolution may be inconsistent. The changing timber supply conditions in some regions, and the broader challenges in serving regional fibre markets and promoting regional priorities can more effectively be engaged by working together. Some business areas have already adopted collaborative approaches such as coordinating timber sales schedules, recruitment efforts and procurement plans. The sharing of some staff resources has also been promoted with positive results. The recommendations are intended to continue to foster the development of corporate solutions, shared responsibility on strategic issues, and recognize the need for good communication and positive relationships at all levels within the organization including the broader Ministry.

Recommendation 8: Align the organizational structure and functions with changing timber supply conditions and customer locations, and promote collaboration between business areas.	
Short term actions: • Continue to promote sharing of Timber Sales Office staff and other resources between business areas. • Continue to promote communication and collaboration between business areas and consistency in standards, processes, practices and products to optimize efficiency and common standards of customer service. • Undertake an operational timber supply review of each business area. Based on findings, re-align or amalgamate business area boundaries where necessary to maintain staffing and business functionality. • Continue to support Timber Sales Advisory Council (TSAC) in a strong consultation and advisory capacity with interior and coastal operations presence.	**Expected Benefits:** • More effective management of costs • Efficient organization • Better customer service • Continuous Improvement
Long term actions (within the Current Mandate and Legal Framework): • Periodically review business area timber supplies and structure to maintain or strengthen the ability to manage risks and achieve performance targets. • Where it makes business sense, continue to share resources (staff capacity and technology) between business areas.	**Expected Benefits:** • More effective management of costs • Efficient organization • Better customer service

<u>Recommendation 9:</u> Promote collaboration with FLNRO to achieve mutual objectives and protect mandate integrity.	

Short term actions:
• Increase collaboration between TSMs and District Managers to:
  o Share business acumen, contract administration practices and operational expertise.
  o Seek opportunities to offset inefficiencies and duplication of effort in such practices as tenure administration (competitive NRFLs), engineering functions, cruising, pricing and seedling programs.
  o Support strong collaboration at the management level in concert with the "land manager" concept, especially with respect to other "tenure" interests, potential encroachment on BCTS pricing areas, and striving to meet government priorities of mutual benefit and interest.
  o Draw on FLNRO expertise when capacity exists or can be leveraged. Conversely, make BCTS expertise available to FLNRO when capacity exists or can be leveraged.
	Expected Benefits:
	• More effective management of internal costs
	• Efficient organization
	• Better customer service
	• Improved internal relationships

Long term actions (within the Current Mandate and Legal Framework):
• In collaboration with FLNRO, promote the ongoing development of BC's forest policy framework and clarify respective roles between BCTS and other partners.
• Expand the role of BCTS in the delivery FLNRO programs.
  o Presently, the extent to which BCTS supports FFT varies considerably among business areas. In at least one business area, safety certification has been identified as an impediment to delivery of FFT since FLNRO is not safety certified.
  o Explore potential to expand BCTS role in stewardship and the Forest and Range Evaluation Program (FREP).
  o Work with FLNRO in identifying potential B2B BCTS/First Nation relationships and joint tenure options.
  o Coordinate compliance monitoring activities and resource road responsibilities to streamline and increase efficiency.
	Expected Benefits:
	• More effective management of internal costs
	• More efficient organization
	• Better customer service
	• Increased internal collaboration

8. Governance Structure and Legal Framework

Context

The last significant review of the governance model and legal framework for BCTS was accomplished through the Structural Review, conducted internally in 2006. Based on an assessment of BCTS against a range of attributes of effectiveness, the review concluded that the business case for change was weak and that the organization would be most successful if it were to remain distinct but embedded within a ministry structure. The high costs of establishing a Crown Corporation and the flux that was occurring as BCTS evolved in the first few years of operation were the primary factors supporting the conclusion. The review further noted the need to revisit the business case made for the current structural model if the organization had not achieved identified performance targets and measures in the four years following the release of the structural review report.[24]

Since the Structural Review was completed, BCTS has gained considerably more experience operating across the full range of market conditions associated with the economic cycle.

What we Heard

Customers and partners generally felt that the governance structure and legal framework were appropriate, allowing the organization to effectively deliver upon its mandate. The majority of those consulted in support of the review felt that regardless of the governance model and legal framework, it was important to protect the BCTS brand and to maintain the independence of the program. It was felt that the program could lose focus if it were more fully integrated within the ministry and that it would be much more difficult to maintain its credibility as a supplier of costing and pricing information.

While opinions are mixed, many staff believe the existing ministry structure is a constraint in developing an effective strategy for attracting and retaining skilled and experienced staff because the organization does not have sufficient autonomy and flexibility to meets its HR needs and because the flat organizational structure limits career advancement. Additionally, many have noted the current financial model makes it difficult to make investments into the STI while managing the organization through a sustained period of net losses. The limited success in engaging First Nations has also been attributed, in part, to the current legal framework. For example, BCTS can only enter into partnerships as the Province. Furthermore, profit sharing within the current financial structure is difficult at best given revenues are not retained by BC Timber Sales but flow more generally to the Province. These realities reduce the effectiveness of the organization in developing true business to business and profit-sharing opportunities with First Nations, communities and others.

In spite of these challenges, the organization has in many respects been successful, generating net revenue over the long term, providing a reliable fibre supply, and in providing the basis for successfully defending the province's interests under the terms of the Softwood Lumber Agreement.

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[24] Recommendation 4: If BCTS has not achieved the performance targets and measures after an additional four years of operating within the MOFR, undertake a full business case analysis of the alternative structural models. This business case analysis should be undertaken earlier if a significant and sustained shortfall in performance is reported.

Recommendations

The 2006 structural review noted the need to revisit the business case made for the current structural model once the organization and the business model matured. Through the course of the Opportunities Review, a range of risks and options have been identified that many in the organization feel cannot effectively be engaged under the current governance model and legal framework. The following recommendations are intended to confirm or improve the fit between the mandate of the program and the governance structure and the enabling legal framework.

<table>
<tr><th colspan="2"><u>Recommendation 10:</u> Increase the capacity and ability of BCTS to fulfill its mandate by increasing the control and flexibility to make and implement decisions.</th></tr>
<tr><td>Short term actions:
Amend the special account to enable business to business relationships and development of solutions that are outside of the core business.
Identify legislative or other amendments to the special account that are required to provide for revenue sharing and account management outside current parameters.</td><td>Expected Benefits:
More effective b2b partnerships
Enhanced ability to achieve HR objectives
Greater flexibility in financial management</td></tr>
<tr><td>Long term actions (within the Current Mandate and Legal Framework):
Assess the business case for adopting a new governance model and legal framework (Crown Corporation, Trust, or similar model) that considers the need for:
A financial model that promotes efficiency and cost effectiveness over the economic cycle.
Sufficient control over human resource decisions to sufficiently reward and develop staff.
Stronger business to business relationships with First Nations and local governments.
Enhanced forest stewardship through possible revenue sharing relationships involving area/volume based tenure arrangements.</td><td>Expected Benefits:
More effective b2b partnerships
Enhanced ability to achieve HR objectives
Greater flexibility in financial management</td></tr>
</table>

E. Positioning BC Timber Sales for Success

The Case for Change

BCTS is generally recognized as a valuable, dependable and balanced fibre supplier to the open market, sustaining opportunities for new entrants into the forest sector and keeping options open for the province at a time of considerable uncertainty. The risks and challenges facing the organization are being managed well given the limited powers and authority it possesses under the current governance structure and legal framework. Over the last decade, BCTS has successfully delivered on its mandate, provided a stabilizing influence to customers with steady product delivery in both good and poor markets. While the last few years have challenged the sustainability of the organization, it has recently returned to profitability.

A range of strategic shifts within the organization are envisioned to effectively address the challenges and opportunities identified through this review. A number of these strategic shifts are already taking root across or in portions of the organization. Thus, some of the recommendations contained in this report are intended to enhance and build on what has already taken root. Further, the recommendations are designed to take the organization from a focus on:

- Delivering the apportionment to the market to a focus on responding to customer needs;
- Pushing back against competing claims on the apportionment to brokering better solutions that enhance the province's capacity to achieve long term strategic interests;
- Short-term, responsive planning to long-term planning supported by robust information;
- Struggling within the constraints of the current organization to changing the rules;
- Managing BC Timber Sales' risks to sharing risk with registrants;
- Staff doing the best with what they've got to a fully empowered and engaged team that is well supported, delivers and is rewarded; and
- Pursuing objectives through discreet business areas to collaboration across the organization to provide corporate solutions to customer needs corporate solutions that effectively, efficiently and consistently respond to customer needs.

The intent of the Opportunities Review is to strengthen BCTS' ability to support provincial priorities, to deliver on the mandate, and to build commitment to the organization within government, and among all customer segments. The recommendations made in this report are intended to better locate the organization within the broader policy framework and priorities the province has for the sector, and to enhance the ability of the province to leverage the program to continue to promote investment opportunities and innovation. The recommendations are further intended to enhance the sustainability of BCTS and, in so doing, maintain opportunities for new entrants and long-standing businesses that collectively are building blocks of prosperity in British Columbia's emerging bio-economy.

The fibre supply solutions that BCTS provides can effectively serve the needs of businesses working within international value chains, and small independent businesses working within local and regional markets. The development of more competitive fibre markets increases the level of benefit from every tree cut. By promoting regional and provincial conditions that allow fibre to move to its highest and best use, BCTS can work effectively with government partners to develop new opportunities for First Nations and communities, and to sustain the conditions necessary to foster innovation, investment and job creation. Improving access to fibre on an open market for new entrants, and proactively and collaboratively working with local governments, First Nations, business and government partners, BCTS can broker fibre solutions that contribute to local, regional and provincial economies.

This ultimately is the foundation of the organization. The recommendations underscore the importance of these outcomes, and fulfilling the pricing and costing mandate is just one part of a much greater range of benefits delivered by BC Timber Sales.

Taking action now: In the short term, actions focus predominately on processes and products currently delivered by BC Timber Sales. While the actions will be familiar to most within the organization and many business areas are already embracing them, their cumulative impact signals a significant shift in how the organization operates and engages the world around it. In particular, the recommendations promote:

- A stronger customer focus, and greater responsiveness to customer needs.
- Actions to develop stronger support for BC Timber Sales across all key relationships including: First Nations, communities, licensees and fibre processors, market loggers and brokers, suppliers who provide services to the organization, and key government partners such as the Ministry of Forests, Lands and Natural Resource Operations and the Ministry of Aboriginal Relations and Reconciliation.
- Collaboration with key partners to leverage BC Timber Sales to deliver fibre supply solutions that effectively support provincial priorities while limiting risks to the apportionment and maintaining the ability to meet pricing, revenue and fibre supply targets.
- Development of a better work environment and more rewarding careers within the organization.

The longer term: In the longer term the recommendations lead to more fundamental change within BC Timber Sales. They build towards change in the government structure and legal framework to enhance the ability of the organization to act as a full service, professional forest land manager and position it more strongly to succeed. In particular the recommendations are designed to:

- Increase the capacity to develop and support a financial plan that promotes profitability in both the short and long term and bring stability to how the organization operates.
- Provide BC Timber Sales with the means to secure its operating areas by enabling it to purchase and trade volume, and to enter into area-based tenure agreements with the Province. This provides the province with a sustainable and more diverse portfolio of forest lands managed by BC Timber Sales in trust for the people of British Columbia, and continues to support the broader government objective of providing opportunity to investors and innovators – First Nations, communities and private sector businesses alike.
- Create an organization provides the range of benefits, competitive wages and work environment that attracts and retains the talent needed to spur innovation and drive BC Timber Sales forward.

Recommendations and Implementation Options

The recommendations are summarized below in Table E.1. They have been organized by key themes and issues identified through the review. These are further grouped according to whether they aim to engage risks and opportunities external or internal to BC Timber Sales. The potential implementation options in relation to each of these recommendations have been identified in Table E.2. To support the recommendations, a range of actions have been proposed that can strengthen the performance of BC Timber Sales in the short term. Longer term actions have also been proposed and these require a higher level of investment. Longer-term options often require legislative or regulatory changes, entail a shift in the mandate of the organization, and increase its legal authority. Collectively, the longer-term actions more effectively contribute to the Province's broader policy objectives of adding value and creating greater benefit from the use of British Columbia's forests and brokering stronger regional solutions in collaboration with government partners, First Nations, communities and businesses.

Table E.1: Summary of Recommendations

Engaging External Risks and Opportunities

Theme	Recommendations
1 - Meaningful Relationships with First Nations and Communities	1. Increase efforts to build awareness and understanding of the BC Timber Sales Program. 2. More effectively leverage BC Timber Sales to create local partnerships that provide mutual benefits.
2 - Stewardship and Sound Forest Management	3. Strengthen operating area security.
3 - Responsiveness to Customer Fibre Needs	4. Develop fibre supply plans in the context of a robust understanding of market trends and customer needs, and adopt a longer planning horizon.
4 - Competitiveness of Fibre Markets	5. Develop timber sale licences to be more responsive to each customer segment.

Engaging internal Risks and Opportunities

Theme	Recommendations
5 - Engaged, Skilled and Experienced Staff	6. Develop a Recruitment, Retention and Succession Strategy.
6 - Cost-effective Supplier Relationships	7. Increase the pool of qualified suppliers serving BC Timber Sales.
7 - Administrative and Organizational Structure	8. Align the organizational structure and functions with changing timber supply conditions and customer locations, and promote collaboration between business areas. 9. Promote collaboration with FLNRO to achieve mutual objectives and protect mandate integrity.
8 - Governance Model and Legal Framework	10. Increase the capacity and ability of BC Timber Sales to fulfill its mandate by increasing the control and flexibility in decision making and implementation.

Table E.2: Summary of Recommendations, Expected Benefits, Supporting Actions and Timing

Theme	Recommendations and Benefits	Short-term Options Within the Mandate	Longer-term Options
1. Meaningful Relationships with First Nations and Communities	**1. Increase efforts to build awareness and understanding of the BCTS Program.** **2. More effectively leverage BCTS to create local partnerships that provide mutual benefits.** *Benefits:* • *Reduced risk to apportionment* • *Increased planning capacity* • *New potential revenue streams* • *Increased support for BCTS* • *Stronger corporate solutions and support fo FLRNO and provincial priorities*	More effectively engage First Nations, communities and local government to improve understanding and awareness of the benefits BCTS creates and can provide at the local level. Where there is a sound business case for doing so, develop “business to business” relationships with First Nations, local governments and existing licensees to pursue regional fibre supply opportunities.	Provide leadership in brokering local and regional fibre supply solutions including B2B relationships with communities, First Nations and government partners. With FLNRO promote tenure agreements with First Nations that make volume available through the BCTS auction system. Promote revenue sharing opportunities and mutually beneficial social, skills, and business capacity enhancement among First Nations. Pursue joint area/volume based tenures with First Nations and communities.
2. Stewardship and Sound Forest Management	**3. Strengthen operating area security.** *Benefits:* • *Stewardship reputation is enhanced* • *Pricing mandate is protected* • *Reduced risk to investment on the land* • *Financial and resource security*	Gather operating area information to verify timber supply and use baseline data to spatially identify economic fibre volumes. Support the Ministry (FLNRO) in its Timber Supply Review and AAC determinations to ensure that the apportionment is in line with what can be supported by operating areas.	Promote forest estate planning in collaboration with key customers and partners. Evaluate operating areas and adjust where necessary to maintain sustainability and the quality of pricing and costing information. Purchase volume, explore opportunities to purchase or acquire replaceable tenures (volume or area based) to support the mandate of BCTS. Protect BCTS operating areas through changes to existing legislation.
3. Responsiveness to Customer Fibre Needs	**4. Develop fibre supply plans in the context of a market trends and customer needs and adopt a longer planning horizon.** *Benefits:* • *Strategic approach to developing STI* • *Enhanced quality of customer service*	Develop service strategies by customer segment. Develop supporting performance targets and hold TSMs accountable for them. Develop an annual sales schedule in each business area that is governed by customer needs and provides for an even flow of fibre.	Develop and communicate an annual three year market outlook and five year fibre supply strategy. The strategy should consider market needs by customer segment and should include a communication plan targeting customers and partners.

Theme	Recommendations and Benefits	Short-term Options Within the Mandate	Longer-term Options
4. Competitiveness of Fibre Markets	***5.*** **Develop timber sale licences to be more responsive to each customer segment.** *Benefits:* • *Broader bidder pool* • *Better customer service* • *Stronger bidder management of risks which should result in more informed bidder behaviour*	Maintain continuous improvement process to ensure the quality, consistency and accessibility of information supporting bid packages and administrative standards. Seek options to improve bidder access to the tendering process. Develop specific product offerings to better engage all customer segments and broaden the pool of potential bidders. Market niche components within stands and smaller sales to target needs of smaller fibre processors including cut timber and promoting log merchandizing if a sound business case exists.	Support industry in reviewing ministry policy where changes are necessary to reflect evolving operating conditions. Explore opportunities to market volumes through direct awards or through B2B relationships to support government objectives and regional priorities. Develop policies and guidelines defining the role and approach BCTS will take to respond to the needs of smaller independent fibre processors (including independent primary breakdown facilities without major quota including options to promote pilot log merchandizing centres and harvest and haul contracts in areas where demand exists.
5. Engaged, Skilled and Experienced Staff	**6. Develop a Recruitment, Retention and Succession Strategy.** *Benefits:* • *Increased staff morale and engagement* • *More effective use of staff skills/talents* • *Increased staff continuity*	Develop and Implement succession plans. Promote mentoring and development programs to enhance career advancement within BCTS and explore opportunities to better utilize the skills and expertise within the organization. Affirm government commitment to BCTS.	Review job descriptions, salaries and benefits, and align with those of competing employers. Improve the ability to more effectively utilize the core skills of existing employees. -
6. Cost-effective Supplier Relationships	**7. Increase the pool of qualified suppliers serving BCTS.** *Benefits:* • *Assurance that work will get done* • *Higher quality suppliers* • *Greater flexibility and efficiency in project delivery*	Broaden the supplier pool, improve its quality and increase value for money. • Remove unnecessary barriers to entry and draw more effectively on smaller firms. • Seek alternatives to least cost and other procurement tactics. • Use internal staff when the business case warrants it.	Consider direct awards to enhance First Nation and community relationships. Review project requirements and standards for closer alignment with industry practices. Develop shared functions to serve regions and to deliver services internally to augment supplier capacity.
7. Administrative and Organizational	**8. Align organizational structure and functions with changing timber supply conditions and customer locations, and promote collaboration between business areas.**	Promote sharing of staff and resources between business areas. Promote communication and collaboration between	Periodically review business area timber supplies and structure to maintain or strengthen the ability to manage risks and achieve performance targets.

Theme	Recommendations and Benefits	Short-term Options Within the Mandate	Longer-term Options
Structure	*Benefits:* • *More effective management of internal costs; more efficient organization; better service*	business areas and consistency in processes, practices and products to optimize efficiency and consistency in customer service. Undertake a timber supply review of each business area and realign boundaries or amalgamate business areas where necessary to maintain business functionality.	Where it makes business sense, continue to share resources (staff capacity and technology) between business areas.
	9. Promote collaboration with FLNRO to achieve mutual objectives and protect the integrity of the mandate. *Benefits:* • *More effective B2B partnerships* • *Effective collaboration within FLNRO*	Strengthen communication and collaboration between Timber Sales Managers and District Managers to support issues management. Strengthen relationship between BCTS and Timber Pricing Branch staff (including professional reliance) relative to timber pricing and appraisal submission requirements.	In collaboration with FLNRO, promote the ongoing development of BC's forest policy framework and clarify respective roles between BCTS and other partners. Expand BC Timber Sales role to assist FLNRO service delivery.
8. Governance Model and Legal Framework	**10. Increase the capacity and ability of BC Timber Sales to fulfill its mandate by increasing the control and flexibility it has to make decisions and implement them.** *Benefits:* • *More effective B2B partnerships* • *More effective recruitment and retention* • *More flexibility in financial management*	Amend the Special Account to enable business to business relationships and development of solutions that are outside of the core business. Identify legislative or other amendments to the special account that are required to provide for revenue sharing and account management outside the current parameters.	Assess the business case for adopting a new governance model and legal framework that considers the need for: • A financial model that enhances efficiency and cost effectiveness over the economic cycle. • Sufficient control over HR decisions to sufficiently recruit, reward, develop and retain staff. • Stronger B2B relationships with First Nations and local governments.