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VIAWP

Vancouver Island Association
of Wood Processors

July 31, 2006

By Email – Original Sent by Facsimile

Dave Peterson
Assistant Deputy Minister of Forests, BC Timber Sales
P.O. Box 9525, Stn Prov Govt
Victoria BC V8W 9C3

Re: BC Timber Sales (BCTS) Program Review and Possible Elimination of CAT 2 Value-Added Sales

Dear Mr. Peterson,

The Vancouver Island Association of Wood Processors wishes to express its appreciation to have input into the Competition Council's review of the BCTS program and strongly express its concerns about any proposal to privatize the program or eliminate CAT2 timber sales.

Our understanding is that the small CAT 2 volume partitioned to the value-added sector is viewed as "social engineering", but the significant volumes partitioned to major licensees through Tree Farm Licences is not. The independent value-added sector is a vital and complementary part of the province's forest industry. Independent research by the Pacific Forestry Research Centre has demonstrated the contribution of secondary processors and value-added mills, in terms of sales growth, exports, employment generation, fibre maximization and innovation. Fair application of forest policy would require that either the CAT2 partition is maintained and expanded or that partitioning is eliminated entirely and all logs harvested from Crown Lands be available for bidding on the open market.

Access to fibre remains a major obstacle to the long-term sustainability of BC's valued-added forestry sector. BCTS CAT 2 sales is one mechanism that offers our sector the opportunity to access the logs it needs for cutting or trading. Industry consolidation, particularly on Vancouver Island and the Coast, has created a monopoly with one company controlling the majority of Crown and private forestland. This situation must be balanced by ensuring the independent value-added sector has access to the fibre it needs to grow, support and diversify the provincial economy, and the communities that have been affected by the recent changes in provincial forestry policies.

We trust that any further changes to the BCTS structure will be subject to a thorough industry and public consultation process and the decisions of the provincial government will take into account the input received.

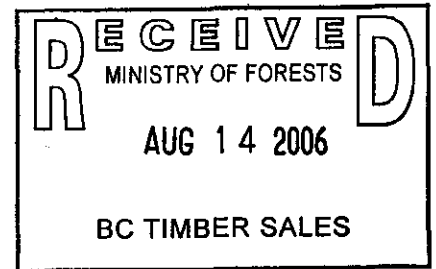
Yours truly,

P.P. 

Gio Alberti, President
Vancouver Island Association of Wood Processors

CC The Honourable Gordon Campbell, Premier
The Honourable Rich Coleman, Minister of Forest.

208 – 312 Mount Benson Street, Nanaimo, British Columbia, Canada V9S 5K2
Phone: 250-754-3270 Fax: 250-754-3250 Email: viawp@telus.net Website: www.islandwoodpro.com



2006-AUG-08

File No. 0410-01

Mr. Dave Peterson
Assistant Deputy Minister of Forests, BC Timber Sales
PO Box 9525, Stn Prov Govt
Victoria, BC V8W 9C3

Dear Mr. Peterson;

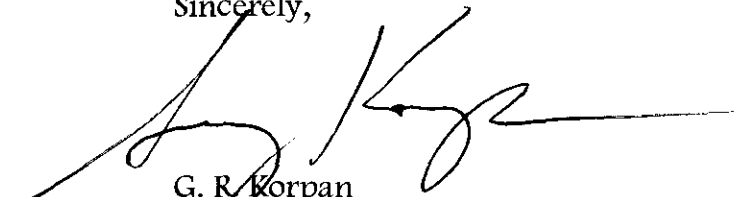
Re: BC Timber Sales and Vancouver Island Value-add Wood Sector

Council, on behalf of the City of Nanaimo has received a copy of the letter dated 2006-JUL-31 from the Vancouver Island Association of Wood Processors (VIAWP). After speaking to a representative of the Association, we offer this letter in support.

The VIAWP enjoys membership of value-added wood manufacturing businesses throughout Vancouver Island, including Nanaimo and the central Island region. We encourage that VIAWP members who may be impacted by proposed changes to the timber sales process are adequately consulted regarding the changes.

Nanaimo's history and much of its economic success includes its ties to the forest industry. Council believes that with the ongoing discussions with your Ministry, the future strength of the forest sector lays with collaboration between the major licensees and the value-added sector. We look forward to following the positive progress of the discussions.

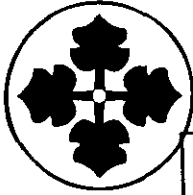
Sincerely,



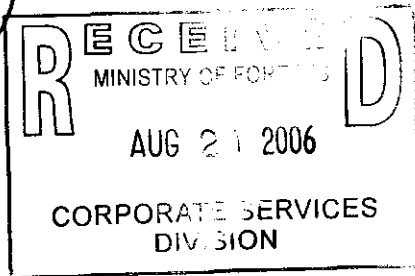
G. R. Korpan
MAYOR

pc: The Honourable Gordon Campbell, Premier
The Honourable Rich Coleman, Minister of Forests & Range





CITY OF PORT ALBERNI



City Hall
4850 Argyle Street,
Port Alberni, B.C. V9Y 1V8
Telephone: (250) 723-2146
www.portalberni.ca

Fax: (250) 723-1003

August 16, 2006

Dave Peterson
Assistant Deputy Minister of Forests and Range
PO Box 9525, Stn. Prov. Govt
Victoria, BC V8W 9C3

Dear Mr. Peterson:

Re: BC Timber Sales (BCTS) Program Review

Council for the City of Port Alberni is concerned for the potential reduction in timber supply to the value added sector. The attached correspondence from the Vancouver Island Association of Wood Processors, received at the Regular Council Meeting on August 14, 2006, has brought possible changes to the attention of Council. We support their concerns and request that there be public consultation should such changes be contemplated.

Yours truly
CITY OF PORT ALBERNI

Ken McRae
Mayor

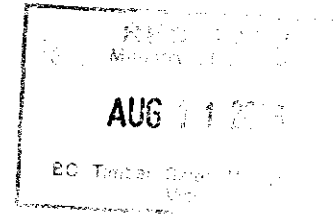
Attachment

cc: The Honourable Gordon Campbell, Premier
The Honourable Rich Coleman, Minister of Forests and Range
Gio Alberti, President, Vancouver Island Association of Wood Processors
Roy Osling, Executive Director, Vancouver Island Association of Wood Processors

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Our strength is in our roots.



BCTS Structural Review
BC Timber Sales Headquarters
PO Box 9510 Stn. Prov. Govt.
Victoria BC
V8W 9C2

Attention: Howard Saunders and Dave Peterson, Co-Chairs:

Re: July 31 Discussion Paper Feedback

Thank you for the summary documents following the June 29 2006 workshop on this topic. I believe they fairly capture the comments made and will provide a valuable launching point for the review process.

I am concerned, however, that the fundamental direction for the review may be flawed. As noted on page 3 of the **Discussion Paper on the Key Characteristics of an Effective, Efficient BCTS Organization**, this process came about as a result of a recommendation made by the BC Competition Council Wood Products Industry Advisory Committee. In their report it stated that the objective is to “*consider if a responsive timber pricing system can be achieved through BCTS or similar organization with a corporate structure...*”

On page 4 you note that “*The fundamental purpose of the review is to answer the question: “What is the best TYPE of organizational structure for BCTS given its mandate?”*”

While we discussed this topic at length at the workshop, I do not feel that the above stated fundamental purpose of the review is consistent with what the Competition Council recommended.

As a member of the BC Competition Council Committee we identified this as a key competitiveness issue for the BC forest products sector. We discussed it extensively and felt strongly about the importance of this recommendation.

I believe that the Committee’s goal (noting that its wording was adopted in its entirety by the Council) was to ensure a “responsive timber pricing system within BC” – so as to maintain competitiveness. In essence, the Council questioned the clearly conflicting mandate of BCTS to ‘provide a credible reference point for costs and pricing of timber harvested from Crown land’ and to “optimize net revenue to the province”. This concern over the conflicting mandate of BC Timber Sales led to the fundamental question: Is BC Timber Sales the right vehicle to ensure the impartiality and

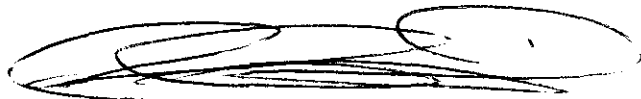
effectiveness of a market-based timber pricing mechanism in BC? Many of us do not believe that it is!

What your report says you are doing is reviewing the appropriate *structure* for BC Timber Sales in order that it can best deliver its mandate. That is not what the Competition Council was asking should be done.

I hope that this fundamental issue is not lost in the review of BC Timber Sales - as I regretfully perceive that it is.

Hopefully, even with your review underway, you will look at the original mandate from the BC Competition Council and address its specific concern on this topic. Simply stated, your review must actually answer the question "Is BCTS the right vehicle in the first place?"

Yours truly,
The Truck Loggers Association

A handwritten signature in black ink, appearing to read "Jim Girvan", written over a horizontal line.

Jim Girvan RPF MBA
Executive Director

cc: Doug Konkin, Deputy Minister
TLA Board of Directors

From: Clowes, Jim FOR:EX
Sent: Thu, August 3, 2006 10:44 AM
To: 'BCTimberSalesHQOffice@gov.bc.ca'
Subject: Comments on Structural Review

As a 21yr employee of BCTS and Forest Service, I have the following comments of our organization, they are as follows: - Firstly I feel the biggest issue we have is security of our operating land base, this is where all our wood comes from. Recently and on a ongoing basis Government has been carving it off and giving it away in Treaty settlements with First Nations, and at the same time not reducing the aac for that business area, the government has been doing this because there is no compensation to BCTS because of there actions as opposed to a major licensee. Another example of this erosion of our landbase is Forest Stewardship Plans by major licensees that cover historical BCTS chart areas. I feel that if we were treated the same as a major licensee with a TFL this would not happen.

-- - Secondly As far as being more efficient, yes there are regulatory changes that could be made. The number one issue that comes to mind is appraisals, we should go with a variable rate only when calculating a upset rate, which is based on our cost that we have invested in a block, and start the bidding from there. That way we know we are going to make a profit no matter what (I am only speaking for the business area that I work in). This would save us countless hours dealing with appraisals and the back and forth with appraisal staff.

Thirdly a major inefficiency I feel is the 35hr work week, no licensee in the province works on a 35hr work week. I feel that a 40 or 45hr work week would be way more efficient, this however would have to be negotiated with the union, perhaps we could become a separate component of the collective agreement.

Fourthly I feel we should also have a better accounting in place, with a organization of our size with the revenues and expenditures we have I find it very strange that we do not have a CFO and controllers (all of which are CMAs or CGAs) the same way that any corporation our size has. This I feel would help out a lot as far as our finances/budgeting/forecasting/marketing based decisions and business focus(s) are concerned. Thirdly we have major problems with our IT systems, lack of training, constant outages, and more and more data requirements that I feel are not necessary.

Fifthly there is the issue of contracting (contracting practises/regulations/policys) out more and more of our job functiuons, sometimes we spend more time and expense training our contractors, administering there contracts, fixing up screw ups, than if we did the work ourselves (has anyone ever done a cost analysis on this?).

And Finally, I feel there is a lack of customer service. In any business the customer always comes first, I feel this is lacking. Our clients like to see us out in the bush breathing the same air as they do, helping them out in any way we can, being available 5 days a week, in certain situations we can even save them money, also we can keep small issues from becoming larger C & E type problems. I for one like to go out and visit my active sales every couple of weeks, and I always make time for our clients. Anyways this is all that I can think of at this moment in time. By implimenting some or all of these issues, I feel we can meet our Mandate better.



Central Interior
Logging Association

August 22, 2006

**Mr. D. Peterson,
Assistant Deputy Minister,
BC Timber Sales**

By e-mail: Dave.Peterson@gov.bc.ca

Dear Mr. Peterson:

Further to the ongoing process to restructure the BC Timber Sales program, we ask that you note our concerns about maintaining the category 2 structure which partitions the program's volume for the benefit of one class of bidders.

Continuation of category 2 contradicts two key goals and objectives set out in the BC Timber Sales 2006-09 Service Plan:

- To optimize net provincial revenue by generating more bid competition;
- To provide opportunities for customers (we're presuming all customers) to purchase timber in an open and competitive market.

To paraphrase the Service Plan, this would be done by opening the process to more bidders, and by reducing/eliminating restrictions and barriers to program participation over time.

We don't see those goals being achieved if category 2 is continued.

We draw your attention to another concern -- the addition in March 2006 of a new provision (Sect. 9) to the BC Timber Sales Regulation that allows category 2 registrations to be transferred to other family members or family-held companies.

The effect of this measure is to assure generational legacies, and it contradicts another key BCTS goal and objective -- to increase the amount of timber available for competitive sale by moving, over time, other committed volumes (category 2) into Section 20 category, any bidder.

The more than 3 million cubic metres of timber currently dedicated to category 2 -- inaccessible to other bidders -- represents a significant limitation to the rest of the industry. The B.C. government should be concerned about how American lumber interests will retaliate to continuation of category 2, a measure they will logically view as protectionist and a restriction on competition for timber sales.

Government and industry should both be concerned about continuation of policies that restrict the entry of new participants in the forest industry. Government pledged to increase such participation, and an aging industry needs an infusion of new blood.

For the above reasons, we strongly urge you to accelerate the termination of category 2 licences that limit opportunities for all other industry participants and create a perception (real or imagined) that category 2 value-added bidders are receiving a subsidy to the price of their timber through lower successful bid prices.

Sincerely,

Roy Nagel,
General Manager

*#201 – 850 River Road, Prince George, BC V2L 5S8 * phone: 562-3368 * fax: 563-3697 * e-mail: cila@pgonline.com*



2006-08-25 10:00 AM
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August 25, 2006

BCTS Structural Review
BC Timber Sales, Headquarters
PO Box 9510 Stn Prov Govt
Victoria, BC
V8W 9C2

Attention: Nicole Jee, Office Supervisor

Dear Ms. Jee:

Re: Structural Review of BC Timber Sales

With reference to the July 31, 2006 BCTS Structural Review Discussion Paper, we appreciate the opportunity to provide you with our views.

Dunkley Lumber Ltd. is a major customer of BCTS. Our sawmill consumes in excess of 1,700,000 m³/year. Due to a Mountain Pine Beetle AAC uplift, the TFL quota for the next 2 to 3 years is 850,000 m³/year, which then declines to roughly 200,000 m³/year. After adjusting for some short term small volume tenures (NRFL's), our purchase program is approximately 800,000 m³/year for the short term, then increasing to roughly 1.5 million m³/year thereafter. We rely on BCTS for the majority of the volumes we purchase. Therefore, it is critical that BCTS function as efficiently as possible to ensure all allocated volumes hit the marketplace.

As a general observation, after reading the Discussion Paper and the June 29, 2006 Stakeholder Workshop Summary Notes, it would appear that this process is not only timely but well focused on the important key issues. The right questions are being asked and debated.

We would like to offer the following views:

1. Theme 1A Clear Goals: Which goal takes precedence, Goal 1 (credible reference point for pricing quota) or Goal 2 (optimize net revenue)? We agree wholeheartedly that Goal 1 should always trump Goal 2. Using 20% of the provincial volume to price the remaining 80% is significantly more important than

optimizing revenue on the 20%. In order to achieve Goal 1, it is imperative that the full BCTS volume needs to be put up for auction, ideally on an annual basis.

2. Theme 2A Robust Sales Data d) Ensure sales cover the range of timber types/profiles and harvest systems: Three points here, first it is absolutely critical that BCTS harvest the same average profile as the major licensees. Second, the full BCTS profile needs to be put up for auction. Third, this “representative profile” must be distributed geographically. By way of example, not all of the big spruce for the Northern Interior Pricing Unit should be located in the extreme corner of the Pricing Unit; it needs to be geographically distributed over the entire Pricing Unit.
3. Theme 2B Transparency: We entirely agree with the goal of transparency and suggest that an additional step is required. All parties need to be comfortable that the profile harvested by BCTS is the same as that harvested by the major licensees. There needs to be a regular transparent reporting mechanism to make this information available to the public. We suggest this report should be done annually and rolled up by Pricing Unit.
4. Theme 3C Overhead: We agree that overhead costs for BCTS need to be compared to those in industry. The concept of the average efficient operator applies here as well. We suggest that BCTS should survey industry to obtain comparable “benchmark” data such as overhead cost/m³ and m³/FTE.

Thank you for the opportunity to provide you with our views. We understand the next step in this review process is to assess the input you have received and develop a second Discussion Paper for review by the stakeholders’ group. If you have any questions or would like to discuss the BCTS Structural Review further, I can be reached at (250) 998-4223.

Yours truly,

DUNKLEY LUMBER LTD.



Steve Sheldon, R.P.F.
Woodlands Manager

**Independent Lumber Remanufacturers Association (ILRA) Interior Value Added Wood Association (IVAWA)
Vancouver Island Association of Wood Processors (VIAWP)**

August 28, 2006

Dave Peterson
Assistant Deputy Minister of Forests, BC Timber Sales
P.O. Box 9525, Stn Prov Govt
Victoria BC V8W 9C3

Re: BCTS Structural Review – Joint Submission from the ILRA, IVAWA, and VIAWP

Dear Mr. Peterson,

The three Associations we represent reflect the combined voice of 160 non-tenured valued-added processing companies and their 6,000 employees throughout the Province of British Columbia. We wish to have our concerns about the possible outcomes of the BCTS Structural Review on our sector recorded and included in this process:

1. *Urgency of making decisions on the structure and future of the BCTS* – The BCTS program has been operational for less than three years and has only recently implemented its Market Pricing System on a province-wide basis. More time is needed to monitor the MPS system and fine-tune any deficiencies before making wholesale changes.
2. *Understanding and serving the needs of BCTS customers* – A “one-size fits all” approach does not serve the best interests of delivering the greatest return on Crown timber resource and its shareholders – the citizens of the province. BCTS should set standards for environmental certification, silviculture, sustainability of the resource, and maximizing both the revenue to the Crown and jobs generated per cubic metre of fibre harvested. This is best achieved through sound management and a balanced approach that develops a program and volumes that meet the needs of the customers.
3. *Finding the true market price for BC Timber* - Finding the true market, means making timber available for all players and addressing the needs of the different sectors, woodlots, First Nations initiatives, large tenure holders and the non-tenured value-added sector. Each has its own distinct needs and bid differently according to anticipated returns in their markets. These bids can be combined to get a true BC market price. This will set a true MPS and give BC a true value return, achieved through not only stumpage but taxes and create a thriving forest industry which will drive the economy.
4. *Partitioning of BCTS and importance of maintaining the CAT 2 sales program for the independent value-added sector* - We endorse the positions and views of the ILRA expressed in its August 25, 2006 submission and those of the VIAWP submitted on July 28, 2006. See attachments.
5. *Using AAC undercut volumes* – We support the suggestion that annual undercut volumes within single bidder tenures be offered to eligible BCTS bidders. This would assist many companies currently experiencing difficulties in filling their timber supply needs.
6. *Mitigating the impact of Softwood Lumber Agreement* – Research the fallout of the SLA on small independent producers and determine if there are ways to minimize it.

Thank you for considering our input into the review process and we trust that there will be full and open consultation with our sector before any changes are made to BCTS.

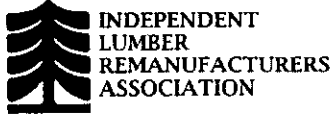
Yours truly,

Paul Heit, ILRA

Todd Roberts, IVAWA

Gio Alberti, VIAWP

CC The Honourable Gordon Campbell, Premier
The Honourable Rich Coleman, Minister of Forest.



Russ Cameron
1295 Morris Crescent
Delta, BC
V4L 1W3
camida@telus.net
604-943-2379

Dave Peterson
Assistant Deputy Minister of Forests, BC Timber Sales
P.O. Box 9525,
Stn Prov Govt
Victoria BC, V8W 9C3

Dear Dave,

Please accept the ILRA's comments on the current review of the BCTS being conducted on the recommendation of the major licensees on the Premier's Competition Council.

Far too soon

We believe this structural review is being conducted far too soon. It would seem to be more logical to determine if a review is necessary after the BCTS has run for a year or two instead of beginning the day before the BCTS begins to play an active role in setting the stumpage on the tenures in the interior.

Serving the customer

We believe that the BCTS staff understands that there are improvements needed in matching their products to their customer's needs. This is a very serious problem for BC's small producers and we look forward to continue working with BCTS staff to solve it.

The Partition

Other than the Softwood Lumber dispute with the United States, the two most important issues for independent remanufacturers have always been fibre supply and financing. Any difficulties with the first, creates difficulties with the second.

In the late 1980's, the Government of British Columbia recognized this and created the 3.1 million m3 Section 16.1 program to help us address these difficulties. It was very successful for the participating companies in that it assured that these companies would have the currency in the form of trade wood to secure the fibre supply that they required. Their bankers viewed this favourably and were therefore willing to provide terms of financing that matched the terms of assured fibre supply.

There were also attempts to augment the program with other programs such as the "credit system", "wood fibre supply program", "fibre facilitators", etc, but they all proved to be unworkable failures.

After a decade of running, the MOF did a comprehensive review of the 16.1 program and presented it in Richmond in 1999. They determined that it was meeting and exceeding its intended objectives of increasing employment and investment in BC's value added sector.

In December of 1999, the ILRA worked with MOF and rebuilt the bidding process by placing a greater emphasis on cash and by coming up with the first use of a MPS for setting the upset in what was renamed Section 21. We also beefed up the enforcement of the rules.

In October 2001, the MOF decided to terminate the program. The reason given by Minister de Jong was that it was a necessary step in achieving "free trade". We very reluctantly gave it up with the minimum of complaint as we believed that it was our part to play in achieving free trade. We were told that to achieve free trade, it was necessary to open up the Small Business Forest Enterprise Program to direct bidding by the Licensees and to convert our program to cash only bids, as these bids would provide the basis for the required implementation of an MPS system on the tenures.

We asked for only two things in return. The first was that the MPS be implemented on the tenures prior to, or simultaneous to, the elimination of Section 21. The second was that the 4.1 million m³ (as expanded by Minister Zirnhelt in 1998) Section 21 volume and eligibility be maintained in a separate tenure (known as the 'partition').

MOF let us down on the first point by 2 or 3 years and it now seems that there is pressure on them to let us down on the second.

The partition reserved for small producers in BC is just one of many. Other than those granted with title to Railroad and Coal interests long ago, partitions of public timber were handed out in the 1950's to producers who we now refer to as the Major Licensees. They were subject to various "social" requirements and given that there was only one bidder per partition, the stumpage was of necessity, determined administratively. The systems on these renewable partitions, which came to be called tenures, remained essentially unchanged for about 50 years, although a great deal of consolidation occurred.

The last 5 years have seen a small reduction in the size of these partitions and the complete removal of the "social" requirements under which they were originally established. Given that they each still have only one eligible bidder, a modified system of administratively set stumpage is still necessary, hence the new MPS.

The more recently created partition, or tenure, for the rest of the producers also came with "social" objectives, but it always had many bidders. Under sections 16.1 and 21, these bidders formally competed to provide the greatest "socio-economic benefit per cubic meter" and occasionally would also bid additional cash. As mentioned above, the "social" obligations in this partition have now also been removed, but there are still many eligible bidders on a cash basis, so administratively set stumpage is not required.

In recent years the consolidation of those producers that hold the single bidder tenures has reduced competition and reduced the number of available suppliers to those producers who do not hold exclusive renewable tenures with administratively set stumpage. This has resulted in an increase in the importance of maintaining and expanding the tenure currently reserved for the many non-tenured producers eligible to bid in it.

For these reasons the current eligible bidders oppose the elimination of their tenure.

Fibre supply and financing are still critical problems for the sector and we believe that the most desirable course of action would be to acknowledge that the elimination of Section 21 did not and will not get us to free trade and to therefore re-establish the Section 21 program.

A second, but less effective choice, would be to maintain and expand the current partition to allow new producers to participate.

The only acceptable means of eliminating the small producer's partition would be to eliminate all partitions and have everyone bid for all public timber.

Under utilized AAC

The ILRA supports the idea of offering, through the BCTS, any under-cut volume that may occur within any of the partitions. For example, on an annual basis, if a company holding single bidder tenure feels that it does not need or can not economically harvest part of their AAC, then the opportunity should be provided for others to bid upon and potentially harvest the unused portion. There would be no permanent effect on the AAC of the company that did not want to harvest their entire AAC in a particular year, simply the opportunity for those that do need the timber and may be able to economically harvest it.

The Potential Softwood Lumber Deal

The US Coalition for Fair Lumber Imports and the US Department of Commerce continue to assert that the BCTS does not sell timber at market value (see AR3 preliminary results). They therefore insist that BCTS bidders are no different than those BC companies holding renewable tenures with stumpage administratively set under the MPS. The Government of BC has agreed with the Americans that companies that bid on BCTS sales are not operating independently from tenure holders and has further agreed that they shall be disqualified from the potential benefit of being taxed on a 'first mill' basis.

Should this 'deal' complete, it is going to mean that all the non-tenured producers will have to have to choose between bidding on BCTS timber and being taxed on 'first mill' vs. 'entered value'.

There has been much concern over this point within the MOF&R. Staff has attempted to estimate the effect on the program. We conclude that it is not possible to estimate the effect at this time as the potential value, if any, of 'first mill' remains unknown to the small producers. The latest 'scrubbed legal text' contains Coalition 'arm's length' language that we believe may disqualify any producers that are judged by the Coalition to obtain a dominant portion of their raw material from any one tenured company. There is also a previously unseen paragraph that refers to BC reporting a 'trim loss factor'. We have not yet been told what this means but it could potentially mean that we will be taxed on our trim loss and fall down.

In any event, small producers will not be able to make the choice until the choice is quantified.

Summary

- the review is premature
- develop products that more closely meet the needs of the customers
- restore Section 21 or increase the size of the small producer's tenure
- make under utilized AAC available to bidders via BCTS
- do not take the disqualification of small producers into consideration at this time

Yours truly,

Russ Cameron
President ILRA

cc. The Honourable Rich Coleman, Minister of Forest

From: Doering, Roland L FOR:EX
Sent: Mon, August 28, 2006 12:30 PM
To: 'BCTimberSalesHQOffice@gov.bc.ca'
Subject: Comments on Structural Review

As a relatively recent employee (Jan 2005) to BCTS and Forest Service, and former industry/government contractor for over 12 years previous, I have the following comments regarding our organization;

1/ A major issue I see facing BCTS is determination and security of our operating land base. To be effective Timber Managers, we need a solid, known and quantifiable base to operate from. Having pieces of our operations 'given away' or 'traded off' by government, for whatever reason (FN treaties, Woodlots, CFL's etc), casts uncertainty to the process, prevents us from planning and projecting into the future, raises job stability concerns, and leads our customers to question the long-term sustainability of BCTS.

2/ The issue of contracting out more of our job functions, such as block layout and design, is reducing some of the control that BCTS used to have over projects. Often our 'lowest bid' contractors do the bare minimum with the cheapest staff, and as long as they meet the contract minimums, we have to accept the work 'as is'. If BCTS desires changes to the work, or decides to improve upon work completed for the benefit of our customers, we usually 'pay thru the nose' in hourly fees from our contractors. This defeats the concepts of 'continual improvement', 'working to a higher standard', and 'doing what is best for the public interest', not to mention cost effectiveness. The previous way we used to operate, doing our own layout of blocks and roads and having contractors traverse and map, should be revisited. I am convinced that we were more efficient, produced a better product for the public/customers, and had full confidence in our product using this previous method. Has anyone ever completed a cost analysis for this?

3/ We are now being asked, as an RFT, to sign off on our contractors work. I for one will only be confident to do so after walking the entire block and road systems. In the time spent doing this, I could have almost laid out 1/2 to 3/4 of the block anyway. We could save time and money by having BCTS staff complete the layout and design of blocks and roads.

4/ BCTS could be more efficient thru regulatory changes to the appraisal calculation. BCTS should only be using the variable rate when calculating an upset rate, based on our actual costs invested in the block, and start the bidding from that point, ensuring that we will make a profit. We seem to be spending an excessive amount of time (and therefore money) dealing with appraisal staff.

5/ If BCTS wishes to promote excellence in 'customer service', then we need to be able spend time with our customers and improve communications. In the 'results based' world, it is sometimes hard to distinguish between 'officious interference' and 'providing the best service to your customer'. I believe that being available to our clients, with regular visits to our Timber Sales, will improve relations and bottom lines for both parties. We can't just refer our clients back to the TSL package clauses and EMS documents, and leave the rest to C&E. We should be able to have our presence welcomed on the job-site by our clients, and have their confidence to approach us for any interpretation and concerns they may have. These are, after all, our future clients, and will be BCTS's best advertising promoters, thru word of mouth, about our organization.

6/ I believe dedicated IT employees will be far more cost effective that the current system of contracted out IT services. BCTS should do a cost and time analysis of IT procedures. There have been continual problems with service outages, unfamiliarity with our business needs, and inaccessibility of qualified personnel to help within a timely manner. Needless hours are wasted by all BCTS staff trying to deal with IT problems.

7/ A 40 hour work week, minimum, would improve BCTS efficiency greatly. I don't believe any other forestry business operates on a 35 hr/ week schedule. We need to be available to our clients both in the field and office, to be a high performing organization. A 35 hr work week is barely enough time to effectively carry out our continually mounting duties.

8/ 'Public Perception'. BCTS needs to do more to inform the public about who we are and how we differ from major licensees. For instance, one of BCTS's main obligations to the public is to use sound forestry practices, while maintaining respect for other forest values and users. BCTS is not driven solely by investors profit margins with little regard for anything else. Public awareness overall about BCTS and our function could use more promotion.

I hope these comments will be of constructive use, and help us all reach our mandate. Thank you for the timely posting and adequate response period for the structural review,

Roland Doering, RFT
Ministry of Forests and Range
BC Timber Sales
Strait of Georgia Business Area
4885 Cherry Creek Road
Port Alberni, B.C.
Roland.Doering@gov.bc.ca
Ph: 250-731-3068



Gail Brewer
Manager of Program Planning and Business Practices
BC Timber Sales, Headquarters
PO Box 9510
Stn. Prov. Government
Victoria, BC
V8W 9C2

August 31, 2006

Dear Ms Brewer, **Re: BCTS Structural Review**

Thank you for the opportunity to respond to the "Structural Review of BC Timber Sales" discussion paper dated July 31, 2006.

Tolko Industries Ltd. (Tolko) has reviewed not only the discussion paper but also the summary notes from June 29, 2006, the BCTS Mandate and the current organizational structure. In general, we feel that the BC Timber Sales (BCTS) organization has done an excellent job of re-aligning its organization to fit its mandate of supporting the MOFR goal of "providing benefits to British Columbians from the commercial use of public forests". We believe that for the BCTS to be successful in achieving its stated goals it needs to clearly focus on distinguishing itself from the MOFR Operations departments and to align itself with the challenges and opportunities of the other licencees in British Columbia.

As an attachment to this letter, we have provided for your consideration a summary of comments on the July 31, 2006 discussion paper.

If requested, Tolko would welcome the opportunity to provide clarity on this submission.

Your truly,

Original mailed August 31, 2006

Mark Tamas. R.P.F.
Okanagan Regional Woodlands Manager

cc Randy Chan Vice President and General Manager
Environment and Forestry, Tolko Industries Ltd.

Tolko Industries Ltd.

COMMENTS ON BCTS STRUCTURAL REVIEW DOCUMENT

July 31, 2006; "The Ministry of Forests and Range (MOFR) has initiated a review to determine if the current organizational structure of BC Timber Sales (BCTS) most effectively addresses its mandate, and to recommend any needed changes. The focus of this Discussion Paper is on the critical features or characteristics of BCTS as an organization that would affect the attainment of BCTS' mandate."

Tolko offers the following comments regarding the document:

Theme 1: Clear Goals and Objectives

Characteristics:

A. Goals should be clearly understandable to all

Tolko comments:

- Goal 1 and Goal 2 are not complementary, maybe even counter productive. The issue is can BCTS optimize revenue and be a credible reference point at the same time? We believe this is not possible. (can be a "price setter" and a price taker" without conflict but the two goals contradict each other as above)
- Goal 2 - lacks "commercial drive", only a revenue objective. Is there a better incentive than just "General Revenue"? Should BCTS derive some benefit or contribute to some provincial programs such as schools and communities providing a direct link to the forest resource? If it is a "profit centre" where should the "profits" go?
- Goal 3 - how does the marketplace influence BCTS in providing opportunities, beyond the process of being open and competitive? The "being open and competitive" is only a measure of the process for making volume available, not in meeting "customers" needs. How do we measure "providing opportunity"? Should they sell volume at the bottom of the market? Should BCTS play the market? Should there be a consistent supply available to the market? Goal needs to be driven by market needs. BCTS has a role to play with respect to social issues such as community stability. Their ability to take advantage of market cycles must be constrained much like it is for other licencees.
- Goal 4 – agree

B. Clear distinction between the mandate and responsibilities of BCTS and of the MOFR

Tolko comments:

- To ensure a separation of costs the structure needs to continue to be completely disassociated with the MOF Operations

- Complete physical separation would also be preferred but not as necessary under the current model as compared to the alternative model of a Trust Fund, Crown Corporation or separate agency.
- Currently MOF does treat BCTS as a licensee for approvals but BCTS is still more directly guided by DM forest management direction. A greater level of independence with the Operations may be required to facilitate the development of a different culture.
- MOF should consider BCTS to be a Trust company or Crown Corp, or separate agency within a ministry.
- New ADM role allows some separation
- Current structure does not allow enough focus on the customer(s) of the BCTS

C. Consistent interpretation and transparent application of objectives

Tolko comments:

- A variety of models can be successful in addressing these issues

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

Characteristics:

A. Robust sales data

Tolko comments:

- Tolko agrees that the structure may not make any difference to delivering the mandates above however the conflicting goals noted above will interrupt a natural delivery of this mandate.
- Consideration should be given to allocating more MPB uplifts to BCTS
- Tolko agrees strongly that the system requires robust sales data that clearly represents; species profile (both multiple and single species timber types) a variability of CP sizes and logging chance.

B. Transparency

Tolko comments:

- Agree

C. Data quality

Tolko comments:

- Exclusive of the Operations group at the District level we agree that due to the mandates of the other Branches, a strong connection needs to be maintained with specific sections of the MOFR. (this is contrary to our position in B where we believe there should be less connection?)
- System should discourage speculation bidding. At times the sales price does not represent the market conditions of the period when it was sold.

Sales data should be based on when a timber sale is harvested not when it is sold or shorter terms for the licenses to eliminate the practice of speculation. As the system is setting the quota costs it needs to reflect the market condition

- As a result of the differing mandates of the BCTS the organization needs to balance and be more responsive to the customers needs and the profile constraints with the Pricing unit

Theme 3: Costing Program Applicable to Market Pricing System

Characteristics:

A. Transparency and symmetry

Tolko comments:

- Tolko considers this to be a significant measure of the success in the BCTS organization delivering on symmetry with the licensee obligations and costs.
- Structure will play a key role in this as many programs are currently not in place within the BCTS organization or they may not have the necessary discretionary funding available.
- The culture within the organization may not fully understand the other obligations of major licensees; i.e. social and economic.
- Working relationships with First Nations needs to be part of the BCTS business model, just as it is with other licensees.

B. Contracting

Tolko comments:

- Operational costs are driven by economy of scale and in some circumstances licensees have Bill 13 contractors that are not efficient. It is difficult to develop a structure that resolves this lack of symmetry.

C. Overhead

Tolko comments:

- BCTS must emulate licensee obligations; social, economic and legal obligations
- BCTS must share in programs that licensees participate in; i.e Forest Educator, stakeholder meetings, donations, Planning costs, taxes (i.e. municipal and provincial)
- Upset pricing needs to be reviewed. Consideration should be given to elimination of the upset levels as it is unclear if upset prices arbitrarily increase the pricing of sales beyond market levels

Theme 4: Effective and High Performing Organizational Structure

Characteristics:

A. Appropriate, effective staffing

Tolko comments:

- Agree

B. Appropriate support services and processes

Tolko comments:

- Agree

C. Business acumen

Tolko comments:

- Strong business acumen within the organization is critical to the success of the organization. For example, BCTS seems more focused on delivering their program versus optimizing their business unit. It seems apparent that they are not as focused on the contribution to the bottom line for incremental volume. The current structure may not promote the right business model.
- Development of the key performance indicators for the organization and consistent reporting by the various Regions would assist in this cultural reform.
- Understanding the customer needs and the developing market cycles is critical to the success of the organization.
- A structural reform away from the status quo to a Trust fund or Crown corporation may drive this culture more effectively.

D. Regular communication with its customers and other

Tolko comments:

- Agree