



**BC TIMBER SALES**

**STRUCTURAL REVIEW**

**RECOMMENDATIONS TO THE  
MINISTER OF FORESTS AND RANGE**

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## INTRODUCTION

In May, 2006, the Minister of Forests and Range directed a review be undertaken to determine if the current organizational structure of BC Timber Sales (BCTS) most effectively addresses its mandate, and to recommend any needed changes to the BCTS structure, or delivery model. The review was to be based on the current mandate of BCTS as articulated by its Vision and Mission statements, and stated in its goals and objectives.

The review identified key characteristics considered necessary to allow BCTS to operate effectively, and then evaluated how these characteristics could best be addressed within alternative structural models. Characteristics and models were evaluated through a series of stakeholder workshops, consultation with Ministry of Forests and Range departments and other government agencies, and through input on two discussion papers which were posted on the BCTS public website. Details on the review process, analysis, and findings are included in the Backgrounder to this report that is also posted on the website.

This review did not examine BCTS internal workings and relationships, as these and like issues are continually addressed through internal organizational improvement processes. Numerous improvements to BCTS practices and procedures were identified through input received in the workshops and public comments, and will be incorporated into these internal processes.

## RECOMMENDATIONS ON STRUCTURAL MODEL FOR BCTS

**Recommendation 1: BCTS should remain within the Ministry of Forests and Range (MoFR), subject to recommendations 2 to 8 being acted on. If all of these supporting recommendations cannot be implemented, then the alternative of a Crown Corporation should be pursued.**

With the recommended changes and potential improvements, BCTS can be effective while remaining within the MoFR, and should be able to operate at lower cost than a Crown Corporation or a private entity. The role of BCTS is likely to continue to evolve over the short term to such an extent that it would be difficult to create enduring legislation or contract language required for establishment of a Crown Corporation or private entity, while retaining the necessary flexibility to deal with unforeseeable changes.

**Recommendation 2: Immediately revisit the current BCTS strategic goals and ensure that their intent is clear and that the hierarchy of the goals is clearly identified.**

This recommendation should be acted on regardless of structural model or structural changes to BCTS. Revised goal statements will need to be incorporated into BCTS service plans and policies, and communicated to all MoFR staff and stakeholders. Suggestions for improvements to the goals are documented in the Backgrounder to this report, as well as in the stakeholder workshop summaries.

**Recommendation 3: In conjunction with any revision to the strategic goals and their hierarchy, establish an enhanced set of performance targets and measures for BCTS, and publicly report quarterly against those measures.**

These measures should address the primary deliverables of BCTS: supporting the Market Pricing System, supplying timber to the marketplace, and providing revenue to the Crown.

**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.**

Four years is considered an adequate period for BCTS to fully implement the performance improvement opportunities, as well as time for the relationship between BCTS and the Market Pricing System to evolve and stabilize within the context of the new Softwood Lumber Agreement with the United States. However, if there is a significant and sustained shortfall in performance during this period, the role of BCTS within the overall forest industrial fabric of BC is too critical not to immediately undertake that business case analysis.

Pilots of alternative models should only be considered during this period if they do not interfere with broad progress towards these performance measures.

**Recommendation 5: Immediately clarify the linkage between BCTS and the Market Pricing System.**

The Market Pricing System (MPS), in place for major licensees on the Coast since 2004 and in the Interior since July 1, 2006, relies on BCTS data to determine stumpage for major licences. There is a need for further clarity on the exact methodology for incorporating BCTS information into the MPS, including how BCTS costs are to be used in the estimation of the Tenure Obligation Adjustments of major licences. BCTS needs to ensure that its cost allocation and reporting is on a consistent basis with cost categories used by the MoFR and industry in collecting industry cost data.

This recommendation should be acted on regardless of structural model, and has to take place before any structural change could occur. This process should be carried out using existing multi-party timber-pricing groups.

**Recommendation 6: Take steps required to attain the degree of separation necessary while remaining within the MoFR.**

The Backgrounder identifies options for steps to be taken in each of the following three areas:

- Clear separation of roles between BCTS and the Operations Division of the MoFR
- Stability of mandate and operating area
- Change in reporting relationship for BCTS within the MoFR.

**Recommendation 7: Develop a detailed action plan to facilitate high-performance of BCTS within the MoFR organization and the broader government structure.**

As outlined in the Backgrounder, the action plan should focus on seeking efficiencies in the following areas of management: human resources, business practices, facilities, financial policies and procedures, contract policies and administration, and information systems.

**Recommendation 8: Increase the level of dialogue and communication between BCTS and its customers and stakeholders.**

The success of BCTS is highly dependant on continual, effective two-way communication, both to gather market intelligence on customer and stakeholder needs, and to inform stakeholders and the public on BCTS priorities, programs and performance. The BCTS communication plan should address opportunities for: increased staff dialogue with local log buyers, enhanced reporting on performance, targeted involvement with industry stakeholder groups and communities, and increased participation in stakeholder groups that address resource management issues affecting BCTS' mandate.

## **RECOMMENDATION ON THE ISSUE OF PRIVATIZATION**

The review assumes that the running of BCTS will remain a function of government for the foreseeable future. However, in response to the Wood Products Industry Advisory Committee recommendation for an independent review to "*...recommend if a form of privatization should be considered*" and to the Competition Council's recommendation that government take "*steps to reduce and eventually eliminate its role as operator and seller of timber produced from the Crown timber supply*", the option of privatization in the longer term was examined.

**Recommendation 9: Full privatization of the BCTS function, and the supporting timber assets, should not be considered as a long-run alternative at this time.**

This finding is based on current public views on ownership of timber resources, the role of BCTS in supporting the MPS, and the potential for continuing changes in the role of BCTS and in government forest policy more broadly. Further rationale on this conclusion is documented in the Backgrounder to this report.

## **RECOMMENDATIONS ON ISSUES OUTSIDE OF THE SCOPE OF THIS REVIEW**

A number of issues were raised by stakeholders that were outside the scope of the review as defined in the Terms of Reference. Due to the importance of these matters to both the MoFR and stakeholders, the co-chairs have included the following recommendations for wider discussion within the MoFR.

**Recommendation 10: BCTS should stay focussed on the mandate of marketing timber to support the Market Pricing System until there is alternative policy direction from government.**

Several recommendations were received to change the mandate of BCTS, or to reduce the volume of timber auctioned by BCTS in favour of alternative tenures or stakeholder groups. The current proportion of the AAC that is allocated to BCTS has been determined to be what is required to support the MPS; any variation of that figure, or changes in allocation to other timber consumer groups, must consider broader public policy issues than exist within BCTS' mandate.

**Recommendation 11: The future of the BCTS Category 2 program should be addressed by a broader discussion that considers input received through this review, the Softwood Lumber Agreement (“first-mill” component), public policy objectives, and other options available for the value-added industry.**

The future of the Category 2 program remains a significant issue to BCTS stakeholders, as evidenced by the diverse input received. This issue needs to be addressed in its broader context.

**Recommendation 12: BCTS should concentrate primarily on selling standing timber, and only consider selling limited quantities of logs if compatible business opportunities arise during the course of attaining its primary goal of supporting the MPS.**

Several proposals were received for BCTS to move to log sales rather than selling standing timber. Selling logs does not generate the data necessary to support the pricing of standing timber through the MPS.