

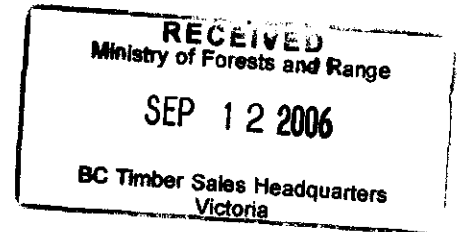
October 15, 2006

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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,

A handwritten signature in black ink, appearing to read "Mark Tamas". The signature is stylized and overlaps the printed name below it.

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

From: Lara & Doug Beckett [mailto:druid@pgweb.com]
Sent: Mon, September 11, 2006 10:34 PM
Subject: Restructuring of BC Timber Sales

I learned today that BC Timber Sales is undergoing a public review to establish how it's structure can be improved. This wonderful opportunity to provide input ends on September 30, 2006.

More information can be obtained from:

<http://www.for.gov.bc.ca/bcts/about/structuralreview.htm>
Input on the "Alternative Structural Models and Opportunities for Improvement" discussion paper to be forwarded by September 30, 2006
to: Forests.BCTimberSalesHQOffice@gov.bc.ca

BC Timber Sales is well positioned to evolve to the next level of encouraging free market activity and pricing of trees.

Changes required to make this evolution:

1. BC Timber Sales needs to be independent of short-term political interference - similar to how legislation makes the BC Chief Forester independent.
2. Rather than selling standing trees, BC Timber Sales needs to begin selling wood profiles. This would remove the existing barriers to garage based businesses from getting started - as they no longer will need to hire individuals to harvest and truck the wood. Nor will they have to merchandize (sell) the wood they do not require. They just place an order for the quantity and quality of wood they desire - and have to pay more than anybody-else interested in the same wood.

As a consequence of such changes:

- the resource managers can manage to maximize the net revenue obtained for the public over time;
- improved access to the quantity and quality of wood desired will increase activity in the Value Added sector. This will in turn increase the demand and subsequently the price paid for BC wood;
- as BC Timber Sales will be doing the management, harvesting, sorting and transportation (to designated gate points) processors will now be able to focus entirely on being the best processors;
- the mid-term timber supply (in the interior Mountain Pine Beetle infested areas of the province) is more likely to be protected if such changes were implemented;
- the vulnerability of the current stumpage system would be eliminated; and
- greater efficiencies will be realized, providing the public with increased net revenues.

I think such an approach would work well the currently established 'Results Based' approach.

I look forward to reading the input from others that has already made
it into the documents on the website:
<http://www.for.gov.bc.ca/bcts/about/structuralreview.htm>

Yours truly,

Doug Beckett

Permanent Email Address: whitewater.canoe@unb.ca

From: Fraser, Bryan FOR:EX
Sent: Tue, September 12, 2006 2:29 PM
Subject: BCTS Structural Review

The discussion paper on Alternative Structural Models for BCTS identifies six available organizational choices:

1. The current BCTS structure
2. Remaining within the MoFR, with greater separation
3. A Special Operating Agency
4. A Crown Corporation
5. A private entity delivering the BCTS function under contract
6. Full privatization of BCTS and the resources that support it

Choices #4 through 6 and, to some degree, choice #3 would bring great discomfort to many BCTS staff planning on remaining in their present bargaining units until retirement. The upcoming schedule of retirements within the MoFR will create a large number of vacancies within field services. Any assessment of the feasibility of these alternative structural models must consider the number of BCTS staff who would choose to bid on these positions in order to remain in the MoFR and the safety of their collective agreements. They would certainly have the opportunity to jump ship. The question is: how many would if a restructuring actually occurred?

Bryan Fraser, RPF, ATE
Operations Manager
Fort Nelson Forest District
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Fort Nelson, BC V0C 1R0
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Tel: (250) 774-5503; Fax: (250) 774-3704
Cell: (250) 961-9170

From: Balcaen, Trish L FOR:EX
Sent: Sun, September 17, 2006 1:22 PM
Subject: RE: Discussion paper for BCTS Structural Review

Hi Dave,

Thanks for the opportunity to comment. I must throw the caviat around my comments that they may be more suited for a "Coast Recovery" discussion more than the structural review of BCTS though in my mind, these two pieces are intrinsically linked.

As you may know, I was tasked with reviewing the BCTS program on QCI with Jerry Kennah last fall. I wrote a little report that outlined what we perceived the issues of the day to be. Interestingly, as I get to know my job here in South Island better, the more I see the linkages from that report to the Coast as a whole.

The key concepts in the report were:

- Intrinsic linkages between all facets of the industry - success for any facet lives in MOFR valuing that linkage.
- Certainty on the landbase for operations outside of protected and management areas for First Nations.
- Certainty for operations around infrastructure - roads, bridges, sorts, dumps

I don't think I have much to add to the discussion on the structural review that hasn't already been raised save one additional concept that may or may not assist BCTS in solidifying it's position as a business entity under the Government wing.

In my view, BCTS should consider acquiring tenures and infrastructure like dumps and sorts as it moves forward. I see this move as serving two purposes - one for BCTS as a program and two for Government as a whole. In general, I think this tactic could help BCTS on the Coast from looking like the QCI operation in a matter of 10 years in terms of it's diminished role (volume) and capacity to meet it's goals.

Benefits to BCTS:

Tenures

- by purchasing tenures that are either openly or covertly for sale, BCTS can expand it's operating area obtaining more certainty and diversity in operations
- looking at the 1st Quarter results for BCTS, it appears that the Coast represents 17% of the volume sold which garners 26% of the Gross Revenue (it would be helpful to know what the net revenue is though that isn't indicated in the report)
- by expanding BCTS volume, we grow a program that does not relate to First Nations, communities, small or large business - this is the one place we have that offers everyone and anyone an equal opportunity and will be our savior in the long run as tensions rise for others that want opportunities in the forest sector
- these types of transactions are truly reflective of a business environment and therefore assist in bullet proofing the program in terms of cost reflection

- I like to think these purchases can also assist MOFR in determining appropriate, market driven values for tenures versus a legislated program for takeback with a budget cap that the players know up front

Infrastructure - BCTS may want to bat around the idea of diversifying it's business and contracting out log sorts and dumps.

- if key dumps and sorts were operated by an independent third party, we could assist in ending the 'turf war' between major licensees and small independent operators
- this type of operation could supplement existing operations, become a profit center and also provide some good benchmarking of real operating costs to facilitate the MPS piece
- I think this concept would require a separate business centre to keep costs/issues transparent and arms length from BCTS Corporate

Benefits to Government:

- we all know that the land has become increasingly constrained on the coast and Government's options to appease one party almost always mean displacing another
- I also think this will help in the Interior (post beetle) as the timber harvesting land base will be susceptible to the same issues we face on the Coast now
- by increasing our control of the Crown land base, we give ourselves an option that is cheaper than purchasing private land to manage for these constraints in the future (don't know if an issue would ever go that far but I know we have several groups that lobby for it down here)
- by increasing Government control of Crown Land we can also ensure that it is harvested in a sustainable manner today to increase the future value of the forests in the future (here I'm talking about high-grading, risk of some variable retention techniques contributing to the green illusion)

Key concept

BCTS will always be susceptible to attack by business and the public around it's ability to be a true benchmark for pricing as long as it does not behave in a manner like business in these key areas: accounting, systems, operations, human resources, mergers and acquisitions.

I see many good ideas and comments from those that know the program far better than I. All I'm suggesting we explore are the last two concepts - mergers and acquisitions.

For your consideration,

From: Peter Tweedie [mailto:peter@tyhee.ca]
Sent: Mon, September 18, 2006 7:02 AM
Subject: BCTS Structural Review

Hello,

I read with interest the material connected to the BCTS Structural Review.

I offer the following as comment.

As a forestry consultant who provides a wide range of services to both Licensee and BCTS clients, I am offered the opportunity to compare and contrast the two systems. The most significant difference I see, and it appears to be all encompassing from Victoria to the smallest field office, is the corporate ethos. The current BCTS structure has a desire to be corporate-like but is run by bureaucratically oriented people who are steeped in the civil service.

The average BCTS employee is trying to achieve his or her job by managing and process for the process' sake. The average Licensee staff conducts his job to manage a process that gets the job done at the lowest effective cost because they know that increased costs mean lower profits. But... somehow they seem to be able to do that by more effectively by paying what appears to be more for it (from a BCTS point of view).

Ask yourselves this...why does a consultant like myself get paid hourly rates by industry that BCTS staff openly feel are too high yet we deliver a final product to the Licensee that is cheaper per cubic metre than the resultant final product delivered under "low bid" to BCTS, on a unit rate bid.

I think the answer lies in the fact that that company has continuously hired us on a "direct award" basis for the past 10 years. We don't have to mess around with reams of contract management, 3 hour EMS pre-works, endless delays from GENUS that we have to eat out of profit margins. We work and they pay us within 2 weeks of billing, not 30 to 90 days. We don't have UBI's, URI's and complex invoice spread sheets to email, etc.

Reduce the complexity.

Peter Tweedie, RPF
Tyhee Forestry Consultants Ltd.
Smithers, BC
(250) 847-3101



TOWN OF LADYSMITH

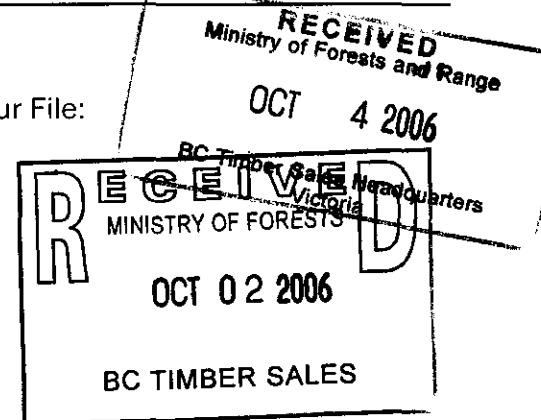
410 Esplanade, P.O. Box 220, Ladysmith, BC V9G 1A2
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*By JESSICA WHITE
for STRUCTURAL REVIEW*

September 21, 2006

Our File:

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



Dear Mr. Peterson,

RE: BC TIMBER SALES (BCTS) PROGRAM REVIEW AND POSSIBLE
ELIMINATION OF CAT 2 VALUE-ADDED SALES

The Town of Ladysmith is in receipt of a letter (copy attached) from Vancouver Island Association of Wood Processors regarding BC timber sales (BCTS) program review and possible elimination of CAT 2 value-added sales.

Please be advised that the Town fully supports the position of VIAWP and we call on the Provincial Government to support the voices of British Columbia's municipalities.

Respectfully,

Robert Hutchins
Mayor

Enclosure

cc Gio Alberti, President - Vancouver Island Association of Wood Processors
The Honourable Gordon Campbell, Premier
The Honourable Rich Coleman, Minister of Forest

cowichan



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

From: Stafford, Jason FOR:EX
Sent: Fri, September 22, 2006 2:36 PM
Subject: BCTS Structural Review Comments

Dear Sirs/ Madams:

I have several comments on the BCTS structural review and the need to re-organize BCTS to better reflect the industry standard, improve operational effectiveness, and create a fair and equitable work environment.

BCTS needs to be totally separated from the Ministry of Forest and Range for several reasons:

- 1) The existing structure does not adequately reflect the overhead that normal industry would experience. In particular, BCTS in-office resources rely quite heavily on assistance from MOFR staff, equipment and vehicles. These unaccounted for overhead cost would not adequately reflect industry cost in the overhead portion of the MPS equation.
- 2) The Collective agreements that are shared between BCTS and MoFR handcuff BCTS staff into working limited hours as most jobs require more than a 7.5 hour day, additionally the level of responsibility, budgeting, and contract administration is significantly greater on BCTS side as compared to a similar scaled position in the Field Services (i.e. LSO 3 responsibilities). There is limited flexibility in wage negotiations to ensure compensation is commensurate with responsibilities (i.e. LSO 3 can directly supervise anywhere from 2 to 13 people, manage budgets from \$500,000 to \$5 million). BCTS may hire a road engineer (STO4) with 20 years industry experience but is expected to start at a Step 1 wage which is the same as where someone with very little experience would start.
- 3) BCTS management is very goal oriented yet there is no linkage between EPDP and pay for performance. This would attract new and motivate individuals to become more goal oriented if they are compensated for it.
- 4) Monetary compensation for BCTS responsibilities is significantly different from industry for the job responsibilities. Fair compensation would attract more qualified individuals from within the industry and be more effective at maintaining existing, qualified personnel. Additionally the below average wages do not adequately reflect industry cost in the overhead portion of the MPS equation.
- 5) Focusing BCTS on BCTS work. Often BCTS staff get pulled into performing District or Regional initiatives that focus on building field services capacity and not adding much value to BCTS capacity. BCTS staff need to focus on the BCTS goals and building the BCTS business.
- 6) BCTS needs to heighten awareness of operational safety amongst its own staff. The level of awareness and exposure to operations is much greater in BCTS than in filed services consequently a higher level of attention is required on the part of BCTS staff.

I support many of the recommendations in the report, particularly:

- 1) BCTS having a clear and distinct identity
- 2) Distinct Offices - preferably separate offices with own resources.
- 3) Distinct Mandate that is separate from MoFR
- 4) Alternative Authorities that are separate from MOFR and accounting systems that are distinctly separate from the government system / General Revenue accounts to ensure revenue and expenses are clearly tracked.
- 5) Clear goals and measures for BCTS.

Overall I think BCTS needs to be established as a Crown Corporation. This will provide BCTS with a higher degree of autonomy and focus on the business.

BCTS needs to be set up as a business. The look, goals, focus of employees and contractors, accounting systems need to function as a business. Government structure and systems are very different from business systems that are set to maximize the return to the shareholder.

I think BCTS has an excellent opportunity to recognize the long-term economic benefits that are associated with intensive forest management practices (much like the forest management perform on Trust fund lands) rather than the short-term practices that are currently prevalent in the forest industry due to the salvage situation. BCTS is different from most majors licensees in that trees are BCTS's capital asset. This is the money maker unlike majors who focus on lumber, pulp, OSB production. BCTS needs to focus on providing high quality Timber sales that are laid out to provide the customer with a safe and efficient setting for operations. This will improve bonus bid margins and returns to BCTS.

Thankyou for the opportunity to comment.

Jason

From: Dickinson, Regan A FOR:EX
Sent: Mon, September 25, 2006 5:09 PM
Subject: BCTS Structural Review

Dave Peterson
Assistant Deputy Minister, BCTS
Attn: Howard Saunders

Dear Mr Peterson, and Mr Saunders

Enclosed is my review of the "Alternative Structural Models and Opportunities for Improvement", I hope you find some of the comments interesting!



BCTS Structural
Review Comment...

Best Regards

Regan Dickinson, RPF
Practices Forester
BC Timber Sales, Dawson Creek Office
Phone: 784-1246, Fax: 784-1259
Email: Regan.Dickinson@gov.bc.ca

BCTS Structural Review Comments:

I see a definite need to move more away from the MOF structure, to something more like a Special Operating Agency or a Crown Corporation for the following reasons:

- 1.0 Distinct visibility** –own signs...still seems to be linked to MOF-BCTS.
- 1.5 Community sponsorship**, BCTS should take 3-5% of profits and provide funding for the communities it works within. This would also help living and stability in small to large communities. This would allow for more public support of BCTS and ability to provide better amenities in small communities
ie. pool supported by BCTS, soccer fields supported by BC Timber Sales, just like companies, Fish Lake recreation site built and access provided by BC Timber Sales.
- 2.0 Distinct Office** or same office but separated in sections, L/R, Up/Down. Where office tags can stand out...they do not now, ie. I see no BCTS displays at the MOF offices? Why pay BCBC for office space?
-Office space, in this office we are crammed in like sardines, who knows where BCTS is? The office is out of date, needs updating, rugs are 1980's or older, BCTS should be looking to the future, better/modern office= better moral, health, a place that is a good place to work, less turnover. Is BCBC making money off not making any changes to the office, seems like we pay a pretty nice dollar rent for a low product? Cost of buildings/changes amortized over many years.
- 3.0 Costing:** There should be more separation between MOF Costs and BCTS, thus the accounting is for the real cost of computers, trucks, printer, but we as a large business should get the same discounts as the MOF anyways if we buy in bulk, and we want the best products. The MOF many times buys cheap equipment that is a good deal but out of date. In BCTS we want to buy the best equipment that is the most technologically up to date. BCTS has actually pushed the MOF to become modern or updated...some of the purchasing has not been in the best interest of BCTS...ie. GIS , MOF cheaply bought Microstation and an old mainframe for info...both were quickly outdated and looked silly from a corporate point of view, but was dependant on keeping jobs in Victoria rather than on the needs of BCTS, ...
The costing should reflect actual costs, sharing with the MOF doesn't do this from an accounting point of view. ASSESTS -LIABILITIES = EQUITY, where does sharing come into play in this equation? Are we a big business or a small Business? It seems like we are still the second cousin to the MOF, and still used as a cash cow by the MOF in an indirect way (purchasing)? Better Data collection since it is from separate sources than a mixed MOF/BCTS pool.
- 4.0 Budgeting:** Should be based on a system of needs not the govt system of money given out each yr and having it spent by March 31. More of a long term thinking strategy, based on needs and wants, issues over a longer term than 1 yr...ie. 10 yrs where do we want to be, what are our goals, strategies to get there,...more like how a company budgets, what innovative products/ideas do we want to fund in our area. What are we doing for the community/area we live in. Budgeting dictated by the location you live in rather than Victoria, who may not know what our issues are or cares! More regional/ rather than provincial budgeting so that adequate future planning and innovation can take place.
- 5.0 Personnel:** BCTS should be hiring the best and brightest people it can get its hands on, the way we are compensated now doesn't seem to do this. People should be better paid than MOF, since we produce a product and are the more hard working people of the MOF/BCTS.

The salary compensation of the MOF is not conducive being paid what your worth, and there is more chance of people moving to the MOF since you do less work (checking) rather than producing a product to be sold. The hours of work are restrictive for professionals, I would rather work more and receive a higher pay-check and feel better about my job, since it is finished than work 7.5 hr/day in and out. A 7 hr day is not enough time to get the work done that is needed, leading to unsatisfied work...or after-awhile, you do not care, thus cannot take pride or feel like you have accomplished a task before the next one comes along. Professionals should receive any overtime as such or be paid out, the OSS program is problematic, and favours LSO3's (admin) rather than the doers –LSO2's who tend to be overworked. This leads to lower moral, lower productivity and quality of work. The work pay/schedule should follow companies more, able to work harder in the needed time and season and rest in the slower times. Better able to address problematic people or low productive duffers still in the BCTS program...How do you award high performance, and who cares? In areas where pay is high (Oil & Gas) it will get harder to get and keep the best, brightest and productive people. BCTS should be paying a wage grade higher than the MOF..ie..LSO2--- should be LSO3....etc, STO3 should be STO4's...Oil and Gas has gone this way, BC Hydro has always been looked as a good place to work. Structure of job positions still needs changing so that supervisors can manage the program better, they need to be more hand's on, Continuous improvement leadership style, MOF style is don't rock the boat, don't challenge, stable, slow management style that lacks ideas and innovation, or improvements. BCTS needs more change in how we manage from an old style MOF-slow style, to an invigorating younger thinking style, how do we get the best most innovative ideas implemented if you have to go through older managers that are not innovative or follow the same procedures that were valid 20 yrs ago? and after beating your head against a stone, and after awhile who cares, don't care, do the same old stuff, don't care about innovation or saving money...don't care...How do we give power for people to do innovative or better, cheaper activities.- still has to come from innovative and active managers/program The program also has issues from older STO staff that are fairly static and do not like innovation and will resist change where possible. We should be hiring more University trained people, be they in Biology-plants, Agriculture, Hydrology, Engineering, GIS, particularly for inside computer/GIS, etc work, again hiring the best talented people for the job posting, as in companies, full time people are highly educated, computer literate, and provide high quality work, lower skilled people work for consulting firms---hired out.

BCTS should bring back the Silviculture Officer position, or does anyone care about the future forests. I think it is a more important position than the Planning Officer, and I disagree with removing the position, as now the Area Forester has to look after Silv. issues, when most of these managers have not dealt with Silviculture issues or problems, the Silv program still has an convoluted MOF managing style –not a direct line from Professional to field staff decisions have to go up and around to Area Forester, then FOS then to Field staff...kind of clunky.

5.0 Operating Areas: Maybe BCTS should have its own TFL like the companies which would restrict costs and help with planning blocks and roads, more efficient and long term nature. Ie for 30% of cut in the best wood areas, like companies already.

6.0 Marketing, MPS..Big Business Flexibility

BCTS should have flexibility in planning/budgeting for market/other/MPBettle changes and opportunities and not be directed solely by government prerogative which may be counter productive or short-sighted or not interested in local/regional conditions.

7.0 Information Systems:

Should be separate, thus more efficient and productive, not constrained or hit by system problems of the MOF, is it up/down!! STOPPAGES due to the MOF databases/bureaucracy. There are specific requirements for BCTS and more innovation issues, as Per GIS , Genus, databases, GPS....needs flexibility and highly trained people to meet the different needs of BCTS as a company. We also need specialized products, that should not have to go through MOF approval all the time..such as specialized printers, computers, programs that are a high priority for our needs but may be a low priority for the MOF.

8.0 Contracting /Services

More flexibility in hiring staff that is needed to get the job done (in-house hiring for minor or summer work—Auxiliaries, implementation or smaller jobs). Hiring people to allow for a high quality product and a good pool of workers for the BCTS program (100% control). Hiring select contractors for 10yrs to do all work and depending on the work load, they can increase or decrease staff., and produce a good quality job rather than the lowest bidder that can provide poor to good quality or end up squabbling with them to redo projects/sloppy work...There is also an issue of less consultants in the market place and providing a good job and keeping people in the forest industry, rather than loosing them due to a poor lifestyle. Companies have 1-2 contractors that do all there work, why do we need to make 1000 contracts when a large contractor can do all the work for a set rate, we waste a lot of time making contracts for 2 block to 100 blocks to give to poor- good contractors, its not rocket science to do different types of work, and workers can work all year rather than just seasonal work if they want.

In the Silviculture industry it is hard to keep people on for 8 months /layoff and expect them to hang around. For next year = very high turnover rate, unstable, and in the long run detrimental to the industry as a whole. Companies have there field people work in the mill if they want or go on vacation in the winter.

Cat 2 Sales: I would flip this question on its head and state why do we provide sales in this program when half or more of the wood is sold to the big lumber companies =cheap wood, why is good wood at a low price supporting value-added that sells for a high price....production quotes seem kind of goofy accounting when its kind of fixed, did the mill produce all that product? No.

The flipping of the program is getting out and asking the Value added mills for how much wood do they need? what type of wood, piece size, where found and then putting up a TSL for that approx. amount of wood at a good location, rather than 50 ha of wood where 80% of the wood is logged and sent to the lumber mill?, and 20% is milled for the value added mill, actually.

This is not to say that more value added or dimensional mills cannot be set up in BC., since technology has created many advances in mini mills where 2x4 and other dimensions are easily milled...ie. there used to be 100's of small mills in BC before the 80's, and maybe we could expand the program for specialized innovative mini-mills producing different dimensions of wood (different wood types) for different markets around the world, like Japan, but again this would be a request for interest in a set area, say the coast for cedar production for roof shakes,etc

From: Cam Brown [mailto:cbrown@forsite.ca]
Sent: Tue, September 26, 2006 11:14 AM
Subject: BCTS Structural Review

In terms of program efficiency and land management, incorporating logging into the BCTS mandate (ie hiring of contractors and supervision) would be an improvement because they would then sell logs instead of standing trees. This is recommended because:

- sort yards could maximize value to the crown by marketing to niches
- cost structures would be more inline with industry (stump to dump)
- there would be a better matching of sites and equipment and therefore less environmental impacts. Too often sales are designed with one type of equipment in mind and the winning bidder brings something else is and 'makes it work'.
- BCTS would potentially be more accountable to develop economically viable permits - as they would have more \$'s at stake if the wood products did not sell in the sort yard.
- Small value added manufacturers would not have to deal with the issues around logging to get access to wood.
- The log market would be far more transparent and open with all BCTS wood being sold as logs in auctions (much like what RCFC does in Revelstoke).

My two cents....

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From: Voth, Jim E FOR:EX
Sent: Wed, September 27, 2006 5:15 PM
Subject: Comments on BCTS Structural Review

From the standpoint of a person who has served in BCTS since the April 2003 inception, served in the Forest Service as a Finance, Admin and Technical Service Manager for 8 years at the former Prince Rupert Regional office and who has worked in with two integrated oil companies in Accounting, Auditing, Corporate Planning and Marketing for a total of 15 years, I would like to offer my thoughts and suggestions for your consideration. I have read the complete report that was circulated to employees on September 8th, including the comments attached from various stakeholders. Many valid points have been made and need to be considered prior to final decision. My recommendation would be for BCTS to become a crown corporation for the following reasons:

BCTS Mandate:

From my perspective, the only way BCTS can be a "window" for industry and meet a market price establisher for timber, is to replicate the major licensee activities up to and including delivery of timber at the mill gate/log dump. This would entail a auction price that includes stumpage, harvest and transportation. Put simply, we need to be a more viable source of information for MPS to determine the real market price of timber. By expanding our role beyond the auctioning of standing timber, we would be able to:

1. determine tree to truck costs through ethical contracting practices, complying with both EMS - ISO 14001 certification standards and safe contractor practices at the field level.
2. reduce waste and residue costs by a full harvest of the profile obligated on the timber sale licence and reduce the risk of unnecessary "cherry picking", while still allowing the take or pay provision should the registrant decline all of the timber.
3. full completion of all required roading with full deactivation at the close of the sale, and full observation of fish windows/community watershed/endangered species risks.
4. elimination of extensions as all sales will be completed and delivered within the time specified on the TSL document.
5. establish a primary contact for all harvesting activities at BCTS operating areas.
6. expand our customer base significantly and increase demand for our sales. Registrants become recipients of harvested timber and do not require a logging background or expertise. We would be able to determine the end user and target this market exclusively and better forecast economic supply/demand and trends.
7. MPS would reflect actual experience values and be representative of market price.
8. Better accounts receivable management. Eliminate third party transactions where log buyer pays stumpage on behalf of surrogate logger.

BCTS also needs to be involved in the wholesale marketing and promotion of wood alongside industry, including the support of research and development to enhance the end products to increase demand.

Barriers to open bidding and reflection of market values:

1. Eliminate the 3 TSL sale limit. This is a creating a restrictive market and for the most part, our customers have been able to skirt this requirement through third party registrants on their behalf, both when the sale limit is reached and when there are restricted covenants on their ability to bid...i.e. outstanding accounts receivable.
2. Eliminate Cat 2 registrant category. This creates a restrictive market and limited customer base for timber sales. In addition, there are currently several cat 2 registrants in our database that are no longer meeting the initial requirements of this category and take advantage of the restricted

entry through side deals with major licensees and log brokers. Contrary to a free market pricing system, manufacturers should not have a price advantage on raw materials versus other customers. We are subsidizing these businesses not helping them be more competitive against their rivals in other areas. From an economic development point of view, if a subsidy is required to develop a business in BC, BCTS should not be perceived as the source. Perhaps Economics and Trade or Small Business and Tourism needs to address this as part of their mandates.

Organizational Structure:

Again, from an industry window perspective, overhead costs for BCTS are indistinguishable due our close link with MoFR. While a separate infrastructure will be initially costly to establish, it is a necessity to determine the real costs for the organization to be reflected in MPS. On the other hand, efficiencies we assume are cost beneficial because of economies of scale are a misconception in specific areas.

Our current service agreement with MoFR is far from an accurate reflection of the service levels provided, as each Business Area office receives a different level of service dependent on the resources of the host district. As Region offices distribute service agreement apportionments to the respective districts, there are instances where the host district is not being provided the full allotment of the agreement due regional priorities and this is reflected in the level of service. Regional services to the Business Areas also vary and in many cases the services are not delivered per the agreement.

From a facilities point of view, MoFR, like the majority of government offices pay a premium for office space because of the higher overheads levied by BCBC/WSI. In the Campbell River area alone, office space is leased at \$225/m² per month versus an average of \$135/m² that local business can secure office space for. This was also clearly evident in the recent government restructuring where downsized Ministry offices had vacant sections that were left unleased for long periods of time, primarily due price. A BCTS facilities specialist would be more focussed on the bottom line.

From a vehicles perspective, MoFR abides by the government policy of the lowest bid for vehicles wins the contract, regardless of past service/maintenance performance. No recognition for reliability history, resale value or fuel consumption is considered in the purchase decision. History has shown that the savings recognized in the short term leads to higher overall costs to operate the fleet.

Systems needs are grouped with MoFR unless BCTS is willing to pay separately for different operational needs. Software standards are limited to Ministry specifications and require an exemption before acquisition and installation online is granted.

Purchases must be channelled through Shared Services and are charged a high service fee for little work done.

Security deposits and holdbacks on contracts that are governed by the Ministry's contract admin procedures are often too onerous for new entries or existing smaller contractors and we pay a premium in prices for the ones that have the resources to make a bid.

Bureaucratic red tape and multiple authority levels challenge the timeliness to act quickly on an opportunity that does not fit into current policy directives.

Our legal staff are often slow to respond and heavily focussed on defensive/reactive manoeuvres rather than proactive/offensive ones.

MoFR policies and procedures are intended for use by a non-profit orientated government organization, not an industry focussed organization.

BCTS needs the ability to establish service agreements only for the services it requires and negotiate for the best price/quality. We should not be paying for overhead that does not directly benefit our operational needs.

Highly motivated staff:

Many mentions were made of our restriction to the current collective agreement. To be truly effective and efficient, we need to recognize our successes through bonuses or promotion. The job competition process does not recognize past achievement, it better recognizes the ability of the candidates to answer questions about general competencies associated with the job description. A linkage of EPDP's with salary increases/promotions would provide more of an incentive to meet deliverables/goals.

Better negotiation on the collective agreement to allow for more flexible working schedules would allow staff to more effectively work with contractors on the ground without having to worry about whether their supervisor will approve the overtime to allow them to work outside of regular office hours.

BCTS job descriptions and classifications need to be separate from MoFR to allow more flexibility for compensation and recognition of unique roles and responsibilities.

Victoria may be the seat of government, but it would be far more advantageous for the BCTS HQ to be located in a central location with lower lease costs, not to mention access to a greater labour pool for recruitment/transfer/promotion due lower real estate costs for housing.

Long Term Planning:

BCTS must have a greater focus on the long term to ensure continuity of its operations. Significant events like the Bark Beetle aftermath, succession planning, product innovation and change in wood demand must be anticipated and planned out in advance. Organization structure must recognize a need to contract or expand as the demand/supply cycles change. The workforce will need to be trained to be more adaptive to change in order to meet these challenges. Innovation needs to be encouraged and awarded, particularly in instances when we need to redefine our business as the value of standing timber diminishes in beetle areas.

Thank you for your consideration.

Jim Voth,
Business Officer,
BC Timber Sales, Strait of Georgia Business Area,
Campbell River, BC
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VIAWP

Vancouver Island Association
of Wood Processors

September 27, 2006

By Email

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) Structural Review and Alternative Models

Dear Mr. Peterson,

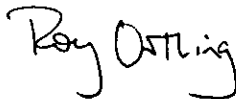
The Vancouver Island Association of Wood Processors has benefited from its involvement on the BC Timber Sales Advisory Committee and appreciated the opportunity to participate in Stakeholder Workshops during the BCTS Structural Review process. BCTS has taken advantage of the experience and diversity of the TSAC participants and has incorporated their input into the review.

As a TSAC member we have gained insight into BCTS operations and the challenges it faces. We believe the BCTS organization is focused on its objectives, showing leadership, and fulfilling its mandate. Although the BCTS has worked hard to deliver its target volumes and serve the needs of its diverse customer base, the value-added sector is still struggling to get fibre access. We know BCTS is committed to ensuring that there is open and fair market to provide all sectors of the forest industry access to this fibre and will continue to work towards that direction.

The BCTS program has operated for less than three years and is still implementing its Market Pricing System. With regard to Alternative Models, we believe that because of MPS it is too early to consider any radical changes to the current BCTS operating structure. We strongly urge that BCTS should continue to operate in its present form.

While the Structural Review process provided a good opportunity to step back and examine the BCTS organizational structure, we believe it was implemented prematurely. Our Association recommends that the BCTS maintain its current structure and have the time needed to fully develop and refine its program. We would support a further review of BCTS in two to three years.

Yours truly,

 for

Gio Alberti, President
Vancouver Island Association of Wood Processors

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

From: Lara & Doug Beckett [mailto:druid@pgweb.com]
Sent: Thu, September 28, 2006 9:58 PM
Subject: BC Timber Sales Structural Review

Dave Peterson,
Attached is my public input with respect to the restructuring of BC
Timber Sales.

The input is from me as an individual. Please be advised that my
employer (the Ministry of Forests and Range) is sensitive to having the
name of employee's connected to public input. As such, please ensure
you check with the BC Government prior to releasing my name and contact
information with respect to this review.

I would appreciate your confirmation of receipt of my input.

Yours truly,
Doug Beckett
14305 Westbe Road,
Prince George, BC
Home Phone: 250-560-5556
Permanent Email Address: whitewater.canoe@unb.ca

14305 Westbe Road
Prince George, BC
V2N 5C2

September 28, 2006

Dave Peterson
Assistant Deputy Minister of Forests, BC Timber Sales
By e-mail: Dave.Peterson@gov.bc.ca

Dear Mr. Peterson,

Re: Structural Review of BC Timber Sales

Thank you for this opportunity to provide input on how BC Timber Sales could be improved.

The review assessment and comparison you have completed to date raises concern.

Your assessments indicate a disregard as to whether the changes that are occurring with respect to resource management and the values the public desires would be enhanced or restricted. Considering the forest industry has proven a propensity to resist resource management changes that more favourably respect values other than the harvest of trees, it is no surprise (though very discouraging) to see models of change that will provide further hindrances to the current resource management trends.

Your assessments also do not discuss how the balance between short-term Vs. longer-term risk to cost and revenue would be affected. Much of the changes discussed would place even greater emphasis on short-term revenues even though greater future expense or reduced future revenue would be incurred.

It is disappointing to see government has restricted it's partnerships in performing this review of BC Timber Sales to mainstream forest industry organizations and forest companies. In so doing, government is at risk of implementing changes that are to the benefit of the existing mainstream forest industry even though these changes are at the detriment of the public (the owners of the resource). Government must improve it's inclusion of other segments of our society in the discussions regarding the proposed changes. By being more inclusive, government will better ensure the changes are in the public's interests and that the most creative of changes have been considered.

To further reduce the perception of bias and concerns regarding conflict of interest, the chair (or co-chairs) of this public process should be a representative who does not have perceived vested interests with the existing structure of BC Timber Sales nor with any forest company. This would also promote a willingness to accept more creative improvements and to more constructively evaluate the advantages and disadvantages of the potential changes to BC Timber Sales.

That said, I do believe there is a "business case" to implement changes to make BC Timber Sales more efficient and effective. Though I stress the only changes that should be contemplated are changes that will benefit the public of BC (the owners of the resource and shareholders of BC Timber Sales) over the longer term.

The original intent to have BC Timber Sales to be a credible reference point for costs and pricing of timber was an honourable objective. Especially in light of concerns the vulnerable stumpage system was possibly being abused and company costs were possibly being inflated. I suspect BC Timber Sales assisted to either dispel these concerns or assisted in finding ways to better monitor and control such abuses. As such, having BC Timber Sales as a credible reference point is likely not as much as a necessity as it once was. More so, continuing to have BC Timber Sales primary function to be a credible reference point for costs and pricing of timber will continue to handcuff the organization from being the high performance

organization it could otherwise be. An organization that is more cost-effective over the longer-term and an organization that improves stewardship standards through example - examples that would challenge the forest companies to improve to comparable standards. And if it is believed there is still a need for BC Timber Sales to be a credible reference point for costs and pricing of timber, maybe the solution in the best interest of the public is to consider changes to the way forest companies have the rights to harvest timber.

Please do not be misguided by making changes solely in the interest of achieving a status of free trade with the United States of America. Considering the US placed duties of 5 to 7.5% on Canadian (British Colony) logs and other wood products as far back as 1789 - to increase the price and to encourage market access of US grown wood - it is unreasonable to expect changes made with the sole intent of appeasing the US to have any lasting effect. It is also likely changes with the sole intention of appeasing the US would be to the detriment of the BC public.

The following ramblings is my attempt - in less time than required to prepare in an organized, comprehensive and coherent fashion - to raise suggestions as to how BC Timber Sales could be more efficient and effective:

1)

First and foremost, changes need to be made to remove policies or actions that restrict the entry of new forest industry processors. Improving the ability for new entrepreneurs to begin a business will promote a more diversified and healthy globally competitive BC economy. Such changes would move BC closer to the free market selling of our wood. After all, companies that can make the most profit will be willing to pay more for BC's wood than their competitors, thus increasing net revenues to the public. Companies with ingenuity will:

- utilize differing qualities of wood;
- develop new products, specialty product and marketing niches;
- develop more efficient processing systems;
- increase the demand and competition for BC wood;
- bid higher for that wood than other companies, thus promoting the maintenance and expansion of the best processors (free market competitiveness); and
- improve the economic health of our province.

Over time the BC forest industry will become more diversified and the boom bust cycles of our past will be mitigated.

Part of this solution is to have BC Timber Sale begin to sell wood profiles.

Selling standing trees as is current BC Timber Sales practice creates a disincentive to new entrants from purchasing logs and initiating new business endeavours. In order to begin a new business, the individual is required to hire fallers to cut and sort the trees and truckers to transport the logs. The individual then needs to sell or trade all of the logs which are not suitable for making the product they are interested in. The existing alternative of purchasing wood profiles from forest companies has it's share of disadvantages relative to being able to make such purchases through BC Timber Sales.

If BC Timber Sales were to sell wood profiles, then new entrants could purchase the logs they are interested in. There is no necessity to hire fallers nor to get rid of the logs they are not interested in. All they need to do is clearly state the quantity and quality of the logs they desire, and pay more for these logs than any other interested parties. The individual is responsible to arrange and pay the extra trucking distance to their processing facility.

Having a good sense of the standing inventory, BC Timber Sales could advertise and sell commitments for various wood profiles. After the wood profiles are sold, BC Timber Sales then performs block layout, harvesting, sorting and trucking of the wood profiles to the various wood profile purchasers. Only very high value logs, specialty logs and miscellaneous or incidental logs would experience the extra handling and costs of selling through a log sort yard. Efficiencies would be realized through reduced trucking, reduced handling, reduced trading of wood between facilities, and increased volume being sold to be

processed to the highest value product. This will be especially important with the increasing volumes of deteriorating pine mixed with other sound trees with in the same stand. This approach will mitigate the extent the harvest levels must decline in the near future.

Generate efficiencies and net revenues by selling sorted logs to processing facilities. The facilities no longer have the expense of trading and selling the logs they do not want. Removes the barriers between competing companies from ensuring the log gets made into the most appropriate product. Reduces the transportation and handling costs, which in turn will improve the net revenues to BC Timber Sales.

Pre-selling wood profiles would improve the responsiveness of BC Timber Sales to market opportunities. The necessity for BC Timber Sales to log the timber profile the forest companies are harvesting would create inefficiencies, reduce the ability to meet new market opportunities and hamper the responsiveness of BC Timber Sales to market opportunities.

2)

Changes should be made to improve the ability of BC Timber Sales to make decisions which will reduce operating and management costs, while increasing the value of product sold and maintaining or enhancing the other benefits we receive. This will result in the greatest net revenue and benefit to the public over time that is reasonably possible.

Part of this solution is to disassociate BC Timber Sales from short-term political influence and interference. This could be done in a similar manure as is currently the case for the BC Chief Forester. This would permit BC Timber Sales to operate with longer-term business objectives and benefits.

For example, had a politically independent BC Timber Sales existed in the early 1990s, it is possible the spread of the Mountain Pine Beetle epidemic would have been slowed. As BC Timber Sales would likely had seen the economic wisdom to expend increased expense to harvest green infested areas. BC Timber Sales would likely had also seen the wisdom to increase the proportion of the harvested volume to pine. As a consequence, less volume would currently be killed by the Mountain Pine Beetle today, less of the pine being harvested would have deteriorated economically, less pine volume would end up deteriorating such that it is not economic to harvest, the AAC would not have needed to be increased in response to the MPB as it has - which has apparently reduced the price paid per cubic metre of pine.

Other considerations with respect to potential changes presented in the BC Timber Sales structural review documents:

A)

Prior to removing measures that ensure the value added sector has access to wood, the volume of wood sold through free market mechanisms must be increased significantly from current levels. The longer-term objective of the province should be to shift all of the crown volume to be sold through free market mechanisms. Thus, the volume controlled through monopolistic or oligostic volume based and area based tenures should be reduced to zero over time. At such time, the removal of the measures to ensure the value added sector has access to wood would place all purchasers of BC wood on an equitable playing field.

B)

Disassociating BC Timber Sales from the other government agencies would create greater inefficiencies and create barriers to managing in the best interest of the public. Government agencies, such as the Ministry of Forests and Range have many knowledgeable individuals and world class experts as employees. Disassociating BC Timber Sales from this expert knowledge would hamper the ability of BC Timber Sales to improve resource management in the interest of the public. Employees of BC Timber Sales would face delays and waste time, money and energy jumping through administrative processes to obtain such expert advice and knowledge under a disassociated structure. Thus increasing the planning costs, reducing net revenues to the public and making the evolution of resource management less responsive to the public's interest. To create greater efficiencies and to make resource management more responsive to the public's interest, changes should be made to improve the communication between BC Timber Sales and other government agencies.

C)

BC Timber Sales is well positioned to take advantage of the efficiencies made available through recent changes to the "Results Based Approach" which relies upon "Professional Reliance". Unlike Forest Companies, the employees of BC Timber Sales receive their pay cheques directly from the public of BC; and are hired, promoted and fired by individuals responsible solely to the public of BC. It is more likely the "Results Based, Professional Reliance Approach" will be successful under this structure. It is more likely the public (owner's of the resource) will have more confidence that management decisions are being made in their interest.

Considerations should be made to change the management structure of the Forest Companies to be more similar to the BC Timber Sales structure. Doing so would in effect create a second economic bottom line in the Forest Company structure - the current bottom line in the interest of the short-term shareholders, and a new bottom line in the interest of the public's land base for which they are managing.

In conclusion:

I would like to end by congratulating BC Timber Sales on being open, transparent and accountable to the public. I recently reviewed a BC Timber Sales FSP and a Forest Company FSP. The BC Timber Sale FSP was much easier to understand and management objectives were more clearly stated. BC Timber Sales also appears to have been receptive to my request to obtain all public input that was submitted with respect to the FSP, while the Forest Company rejected my request for such input.

It would be a pleasure and an honour to continue my discussions with you as to how to improve the way resource management is carried out in British Columbia. I also look forward to receiving a copy of the report that is to be provided to the Minister.

Yours truly,
Doug Beckett
Permanent Email Address: whitewater.caneo@unb.ca
Home Phone: 250-560-5556

cc: Doug Konkin, Deputy Minister of Forests and Range
by email: Forests.DeputyMinistersOffice@gems3.gov.bc.ca

From: shane Garner [mailto:shanengarner@hotmail.com]
Sent: Fri, September 29, 2006 2:18 PM
Subject: Cat 2 Concerns

I am deeply concerned with the current Cat 2 Structure.

1. The BCTS "Current Mandate Statements" as per your website states that the "BCST Mission is to market Crown timber to establish market price and capture the value of the asset for the public", as well as "Provide a credible reference point for costs and pricing of timber harvested from public land in B.C."

I do not see this happening with the Cat 2 isolated sales. From my research, the Cat 2 sales typically sell for a lower bonus bid of approx \$4.00/m3 than that of the open Category sales. How does this capture the value of the asset for the public, and how does this provide a credible reference point for costs and pricing of timber? In addition, does Cat 2 accurately create a fair MPS system?

2. The BCTS Strategic Goals states "Provide opportunities for customers to purchase timber in an open and competitive market"

How is this achieved when a large portion of the timber sales are isolated to Cat 2 Registrants only?

In closing, I strongly suggest and earge you to delete the Cat 2 component of BCTS and open all timber up to all registrants.

Yours truly,

Shane Garner



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September 29, 2006

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

Attention : Gail Brewer, Manager of Program Planning and Business Practice

Dear Ms. Brewer

Re: BCTS Structural Review

Thank you for providing Ainsworth with an opportunity to respond to the recent public discussion papers generated through the BCTS structural review. We ask that you consider our comments related to the first two principle themes specified in Discussion Paper #2, September 8, 2006.

Theme 1: Clear Goals and Objectives

- The goal of providing a credible reference point for pricing of tenured volume has at times been in conflict with optimization of net revenue. Where these goals are not mutually achievable, it must be clear that the primary goal is that of a credible pricing reference. While still important, 'optimization of revenue' must not stand in the way of the BCTS obligation to sell and harvest a full range of timber profiles in each TSA. This is critically important in areas such as the Lillooet TSA, where social and geographic challenges may limit the financial returns to BCTS relative to other areas. In order to provide a reference pricing basis for other crown timber, especially in difficult TSA's, BCTS must be principally obligated to sell and harvest their TSA volume allocation, even where they believe they can make more money by focusing harvest in less difficult TSA's.
- In reference to BCTS's third goal of providing opportunities for customers to purchase timber in an open and competitive market, we believe it is incumbent upon BCTS to make timber sales available that will meet the product needs of local consumers. This is fully compatible with the goal of optimizing net revenues as bids on timber sales will generally be highest where (a) there is a local demand for the type of logs being offered for sale and (b) hauling costs from the sale site to the consumer are minimized.

Theme 2: Timber Sales Program Designed to Support MPS

- As noted under Theme 1, it is incumbent upon BCTS to not only sell their TSA quota volume, but harvest it as well. If the sales are overbid and not harvested, they add nothing to the MPS database.
- In order that the MPS database be reflective of the full profile across the Province, there must be sufficient samples from the full range of timber types, geographic and social constraints experienced by the major tenure holders across British Columbia. To ensure this is the case, ongoing gap analysis should be undertaken cooperatively by BCTS and Revenue Branch to identify dataset weaknesses. There will rarely be issues with representation in the common types and areas that typify average conditions (e.g. conventional roadside pine sales in the Central Interior). Particular attention, however, must be paid to filling the gaps in the "database tails" that still represent licensee profiles priced under MPS. This is an essential requirement in construction of a comprehensive,

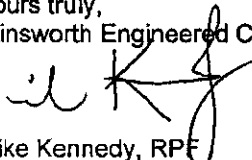
Ainsworth Group of Companies



inclusive and reliable equation. This analysis should be done proactively on an ongoing basis, rather than waiting until the time of MPS equation preparation. This way, sales plans can then be put in place to address data weaknesses before they become unsupported pricing profiles.

If you have any questions regarding this submission, please contact me at 250-373-5643. Ainsworth appreciates the opportunity for input to the structural review.

Yours truly,
Ainsworth Engineered Canada LP



Mike Kennedy, RPE
Forestry Manager, BC Timberlands



September 29, 2006

To: Dave Peterson, Co-chair, BCTS Structural Review
Howard Saunders, Co-chair, BCTS Structural Review

From: BC Timber Sales Leadership Team

Re: BC Timber Sales Structural Review

Thank you for the opportunity to provide input into the BC Timber Sales Structural Review.

In the relatively brief period since BCTS was established, the organization has consistently demonstrated the ability to meet and exceed challenging volume and revenue targets, meet legal obligations and address the needs of clients and stakeholders in such areas as certification and the implementation of land use plan objectives. This success is due largely to the hard work, dedication and talent of BCTS staff, but is also a reflection of the organization's commitment to continuous improvement. The Timber Sales Leadership Team (TSLT) welcomes the structural review as an opportunity to gather feedback and ideas from our colleagues, customers and stakeholders as means to further improve the effectiveness and efficiency of our operations.

After considerable discussion internally and with our colleagues in the Ministry of Forests and Range (MoFR) and our customers, TSLT would like to present you with our perspectives and recommendations on key issues raised during the Structural Review process.

For reasons described below, it is not clear to TSLT that, on balance, the benefits of significant structural change to BCTS would outweigh the potential costs, and for this reason TSLT recommends that BCTS remain a division of the MoFR.

- TSLT recognizes the significant benefits to both BCTS, the MoFR, and the Government of British Columbia in retaining a strong linkage between BCTS and the MoFR. Such benefits include: the ability to ensure transparent, credible and auditable data and linkages to the market pricing system; opportunities to leverage economies of scale; the ability to support government decision making by acting as a source of experience-based, objective, and verifiable information about operational implications; and the ability to maintain relationships within the

MoFR necessary to effectively carry out BCTS' role in policy development, as statutory decision maker and licensor.

- TSLT believes that a significant change to the current structure of BCTS, such as movement to an independent agency or private sector organization, would require significant up-front costs (i.e. associated with having to create a stand-alone infrastructure), and that the effort and time required to implement the change would impact on BCTS' goal achievement during the transition period. In addition, the benefits of linkage to the MoFR identified above would likely be lost and it is not clear how or if they could be regained within another structure.

Having said this, there is a need for greater recognition of BCTS' unique role as an agency within government that is tasked with delivering its mandate under a business model. BCTS is required to plan, oversee, and deliver forestry operations subject to many of the same statutory requirements as forest tenure holders in order to emulate the cost experience of these licensees, and to meet specific delivery targets for volume auctioned in order to generate benchmark data for the market pricing system, achieve revenue targets and meet the needs of program registrants.

In order to preserve the benefits of remaining within the MoFR and at the same time address business targets in an effective and efficient manner, specific changes are required to the current structure within which BCTS operates, including the nature of BCTS' relationship to the MoFR.

1. BCTS Mandate

- A strong, clear, and well communicated mandate is essential to the effective functioning of BCTS. Further consideration is required as to how best to accomplish this, with one option being to enshrine aspects of the mandate in legislation.

2. Distinction within the MoFR

- TSLT does not believe that complete separation of physical infrastructure would necessarily increase business efficiencies (i.e. there are considerable efficiencies in sharing, vehicle pools, building space, office services etc. with MoFR Operations Division staff). However, as noted during the course of this review, there is benefit in clearly distinguishing the operations of BCTS from that of MoFR Operations Division staff where the two occupy the same office space. For example, locating BCTS staff in distinct part of the office such as a separate floor or wing. Where this is not possible, separate buildings may be necessary to accomplish this objective.
- The sharing of resources between BCTS and MoFR Operations Division are currently set out in service agreements and this practice should be continued. To

the extent required, service or operating agreements should be expanded to other divisions of the MoFR to clarify relationships.

- In many respects BCTS' mandate requires that it function at an "arms length" relationship with MoFR Operations Division. This, combined with the need to operate in a business oriented "production" mode, has naturally contributed to the development of a distinct identity and "pride of program" among BCTS staff, a trend which is expected to continue as the program evolves. This is seen as a necessary step, as reflected by feedback from our clients. At the same time, consideration will need to be given to managing this evolution in manner which does not negatively impact on those aspects of BCTS' relationship with MoFR where strong linkages need to be maintained.
- To operate under an efficient business model, BCTS requires control of factors which impacts costs, productivity and delivery targets. Specific examples of such factors include contracting policy, systems and information management infrastructure, and human resources management policy. Although it is recognized that it is incumbent upon BCTS to explore and fully utilize the flexibility which is currently available within existing policies and structures, it is clear that additional flexibility in these areas would be beneficial in supporting achievement of the BCTS mandate.

3. Market Pricing System Linkages

- The auction data that is used for the market pricing system must be clearly identified, generated through a transparent process and widely communicated to affected stakeholders in order to ensure confidence among stakeholders.
- BCTS overhead costs should be used either in conjunction with major licensee costs or as a comparative benchmark for major licensee costs in the stumpage calculations. By nature of its public service accountabilities in the areas of price and cost benchmarking, tenuring, and policy development, and absence of involvement in the forest products industry, BCTS is fundamentally different than forest companies who holds a tenure. In this regard, attempts to refine BCTS overhead costs to correspond precisely with those of a major licensee may not be possible, regardless of the structural model within which BCTS sits. More important is the need to ensure that all BCTS costs are accounted for and that the various cost categories for overhead are clearly defined so that necessary and appropriate comparison can be made to support MPS.

4. Certainty on the land base

- BCTS requires certainty of access to and retention of its defined operating areas if it is to achieve its primary goal of selling 20 percent of the representative harvest profile competitively in order to provide a credible benchmark for the market pricing system. There are continuous pressures to place new tenure opportunities (e.g. community forest licences, First Nations' tenures, bark-beetle oriented forest licences, and small scale salvage licenses) on to the diminishing economically harvestable land base. However, there is evidence that BCTS' operating areas are disproportionately used to accommodate these tenures (as compared to major licensees) and that this inequity needs to be addressed. The "Forestland Trust" concept should be more fully explored as a potential option to address these issues.

Summary of Recommendations:

- BCTS should remain as a division of the MoFR but with a more clearly articulated and firmly established mandate, and formal recognition and support of BCTS' unique and distinct business role and objectives.
- We see considerable benefit in a clear confirmation and articulation of the BCTS mandate by the minister both internally and externally.
- BCTS should continue to realize the benefits that come from its association with the MoFR, but be given a higher degree of operational flexibility and control in areas that impact on its costs, productivity and delivery targets. To the extent possible within government, flexibility around human resource management, contracting, and systems and information management infrastructure should move towards that of an independent agency or private sector organization.
- The use of service agreements as a tool to articulate the relationship between BCTS and MoFR should be expanded to include other MoFR divisions, and government agencies as required.
- Although it is likely impossible for BCTS to mimic overhead costs of a major licensee, there is a need to ensure that all BCTS costs are accounted for and that the various cost categories for overhead are clearly defined so that necessary and appropriate comparison can be made to support MPS.
- BCTS operating areas should not be used a preferential instrument to address tenure allocation or land use issues.



BCTS
BC Timber Sales

Mike Falkiner,
Director, Operations
On behalf of Timber Sale Leadership Team
BC Timber Sales

pc: BC Timber Sales Leadership Team



Canfor Corporation

and subsidiaries

October 5, 2006

FORESTRY & ENVIRONMENT

Mr. Dave Peterson and Mr. Howard Saunders
Co-Chairs
BCTS Structural Review
BC Timber Sales Headquarters
PO Box 9525 Stn Prov Govt
Victoria, BC V8W 9C3

Dear Sirs:

BC Timber Sales Structural Review

The current review of BC Timber Sales (BCTS) arose out of recommendations made by the BC Competition Council to the Premier in March 2006. The Council's report and the terms of reference for the review of BCTS both place particular emphasis on the need for a *structural* review.

The Council's report highlighted the critical importance of an effective and properly functioning Crown timber sales and pricing mechanism to the BC forest sector, and to the BC economy. BCTS now controls a significant volume of the Crown timber annual harvest and plays a pivotal role in commercial timber supply and stumpage pricing.

It is a matter of record that the industry has significant concerns about the effectiveness of BCTS as it is presently structured. As a member of the wood products industry advisory committee to the Council, I am concerned that your review may not be giving sufficient emphasis to alternative structural models.

This is a missed opportunity. We would like to see a much more robust discussion of the alternatives than has been in evidence in the review so far – and in a globally competitive context. The review documents produced to date touch only very lightly on this issue, and are disappointing to many of us in the forest products industry.

At the status report meeting held at COFI on September 27th, some sections of the BCTS' Discussion Paper #2 were reviewed. Industry participants asked if a business case had been prepared for any of the alternative models outlined in concept in the paper. We were told they had not been. Nor did it appear that there is any future intention to evaluate these alternatives.

It does appear that your review has identified many potentially beneficial *operating level improvements*. Most likely, these can help improve the effectiveness of the BCTS within its current structure. Many of these are desirable changes. But ultimately they are "fix-it" solutions.

With implementation of operating improvements, the existing structure of BCTS may be the best business model to achieve its mandate. Without a thorough review and evaluation of other business model options, however, it is not possible to reach this conclusion.

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Mr. Dave Peterson and Mr. Howard Saunders
Page 2

We would like to see your report make a strong recommendation to the Minister of Forests and Range for a thorough review of alternative models.

Yours sincerely,
CANFOR CORPORATION

A handwritten signature in black ink, appearing to read "Kenneth O. Higginbotham", with a long horizontal flourish extending to the right.

Kenneth O. Higginbotham
Vice President, Forestry & Environment

SS

REF:MSWORD\KOH1006



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October 11, 2006

BC Timber Sales
P.O. Box 9525
Stn Prov Govt
Victoria, B.C.
V8W 9C3

Attention: Mr. D. Peterson, ADM, BC Timber Sales

Dear Sir:

Re: BC Timber Sales Structural Review

Thank you for the opportunity to provide input into the review of the BC Timber Sales (BCTS) program mandate and possible structures to deliver the mandate. BCTS currently administers auctions and provides the data for both the Coast and Interior Market Pricing Systems (MPS). At our meeting we were pleased to see that you had prioritized your goals as:

- Establish auction timber value – be a credible reference for both cost and price of timber harvested from crown land (need to ensure timber being auctioned is representative of timber profile being harvested by majors);
- Provide opportunities for customers to purchase timber in an open and competitive process; and
- Optimize net revenue while providing steady flow auctions throughout year.

Clearly for firms bidding on BCTS auctions, market value is established directly – the high bid wins the right to harvest the timber. Stumpage for non-auction licensees on the other hand is determined indirectly by an MPS equation which is reliant on the auction evidence. Licensees, therefore, have a vested interest to assure the MPS equation is based on credible data, optimization rather than maximization of revenue, and delivery of sufficient volume to ensure open and competitive auctions.

The current structure of BCTS constrains the ability of BCTS to deliver on its mandate in a business like fashion for a number of reasons:

- Restrictive contracting out rules and human resources practices;
- Potential for government intervention for non-business reasons;

- Potential for preferential treatment for regulatory changes and policy favouring BCTS operating areas, practices etc.;
- Performance measurables are not specific to mandate deliverables; and
- Linkage with MOFR does not provide opportunity for clear transparency of transfer costs or ability to record costs to meet specific needs of MPS.

The Wood Products Advisory Committee of the Competition Council recommended that a review be initiated and that the review “consider if a market responsive timber pricing system can be achieved through the BCTS, or a similar organization with a corporatized structure (e.g. Crown corporation), or should recommend if some form of privatization should be considered”.

The Competition Council took this recommendation a step further and recommended that the “competitiveness of the industries would be strengthened if the Provincial government took steps to reduce and eventually eliminate its role as operator and seller of timber produced from Crown timber holdings”.


In our meeting we recommended preparation of a business plan outlining the costs and benefits of moving BCTS to a Crown corporation model or a privatized model as part of the structural review. We believe this type of analysis is required to support any decisions on structural changes to BCTS and is required to address the recommendations made by the Competition Council.

At this time we also recommend that as part of the review that you investigate the possibility of pilot testing alternative public-private partnership delivery models to explore the feasibility and efficacy of such an approach.

Thank you for the opportunity for input. We trust we have clarified our views for your consideration in moving the structural review forward. Should you have any further questions please contact us at your convenience.

Yours truly,


R.M. (Rick) Jeffery


John Allan

cc: Howard Saunders