

Minutes

Timber Sales Advisory Council Meeting

February 7, 2008

Location: Best Western Richmond Inn, Richmond

Council Members:

Corey Boilard
 Brian Brown
 Russ Cameron (alternate T. Roberts)
 Duncan Chisholm
 Dennis Cook
 Keith Eslinger
 Shane Garner
 Jon Gibbons (alternate for Mike Breisch)
 Paul Heit
 Ken Houlden
 Les Kiss
 B. Markvoort
 Barry Simpson

BCTS Staff:

Doug Wrean (chair)
 Graham Archdekin
 Mike Falkiner
 Dave Peterson
 Jim Sutherland

Secretariat:

Alison Nicholson

Guests: Don Hudson, BCTS, David Marson, Forest Revenue Branch, Ministry of Small Business and Revenue, Mike Kemp, CIPA

Regrets: Mike Breisch, Todd Roberts

Meeting called to order at 9:00

Topics	Discussion/Actions/Decisions
<p>1. Introductions and Opening Remarks</p>	<ul style="list-style-type: none"> • Round table introductions; Doug Wrean welcomed everyone, reviewed the agenda and noted that a substantive discussion about safety issues was planned for next meeting. • Dave Peterson provided a detailed agenda for the afternoon regarding evolving policy issues. He also noted that it would be valuable to receive an external perspective regarding his performance and would appreciate members taking the time to provide input through an electronic feedback form which will be sent to them shortly. • Les Kiss requested that BCTS; look into providing a representative on coast logging cost survey subcommittee. Action: Graham to follow up with Murray Stech, Revenue Branch.

Topics	Discussion/Actions/Decisions
<p>2. Action Items Report Back/Members Issues</p>	<p><u>Standing Items</u></p> <p>1. Waste billing exemptions/ extension fee & deposit forfeiture relief requests</p> <ul style="list-style-type: none"> • The Register of Timber Sales Licenses affected by extension fee waivers, deposit forfeiture relief and waste assessment relief can be found at http://www.for.gov.bc.ca/bcts/about/tsac.htm. • D. Peterson reported that decisions are pending for a number of relief requests. An applicant may be granted relief when there are unforeseen and extraordinary circumstances beyond the control of the applicant and the circumstances are unrelated to the applicant's financial situation. • Members discussed whether the significant change in market conditions, especially in the interior, was unique enough to warrant special consideration of relief requests. Several points were made: <ul style="list-style-type: none"> • Bidding behaviour will be affected if relief decisions are influenced by market place conditions. Timber sale licensees have to be informed and prepared to assume the risks associated with the market place when they bid a sale. • Every business ends up extending credit to another firm in their supply chain at one time or another; this is comparable to that. • In the interior, where the bankruptcy of one major buyer has resulted in a chain of hardship, there may be situations where relief should be considered, e.g., when a timber sale licensee may not have received complete information about the potential for the bankruptcy or when remoteness and the high cost of transportation precluded any other buyer options. Therefore, relief requests should be investigated thoroughly and decisions made on a case by case basis. • These decisions will represent a major policy direction for BCTS, and should be applied as a blanket approach across the organization. <p>2. Safety update</p> <ul style="list-style-type: none"> • BCTS plans to undergo its' certification audit in the spring. Mike Falkiner reported that in preparation BCTS has completed 10 of 13 internal safety audits of the business areas. The results indicate that they are at or close to the standards required. Action: The next meeting will have a major focus on safety, members were asked to advise Doug of safety-related items they would like on the agenda.

Topics	Discussion/Actions/Decisions
	<p>3. Certification update</p> <ul style="list-style-type: none"> • Jim Sutherland provided a certification report. See Attachment 1. <p><u>Other Items</u></p> <p>a. Results of BCTS Pilot Client Survey on Sales Packaging and the Sales Process</p> <ul style="list-style-type: none"> • Don Hudson reported that the pilot client survey was well received and it was particularly useful to receive input on a business area by business area basis. The results are proving useful for improving the client service related to sales. See Attachment 2. <p>b. Waste Survey Pilot</p> <ul style="list-style-type: none"> • Graham Archdekin reported that over the next six months BCTS will be conducting 4 to 8 pilot sales in each of three business areas – Babine, Chinook and Kamloops – to determine the feasibility of having licensees responsible for carrying out the waste survey. It was noted that waste surveys must be done by qualified waste surveyors. • Members advised that it would be helpful if BCTS made available to licensees a list of qualified waste surveyors. Action: Graham Archdekin to look into having the pilot TSOs compile and keep up-to-date a list of qualified waste surveyors for the province. • It was suggested that BCTS consider piloting other options for advertising sales that may streamline the process, e.g., cruise-based sales where billing is based on the cruised volume rather than scaled volume.
<p>3. Role of the Ministry of Small Business and Revenue and Key Issues Regarding BCTS.</p>	<ul style="list-style-type: none"> • David Marson provided a comprehensive overview of the role of the Forest Revenue Branch. The Branch manages and collects forest revenues invoiced by the Ministry of Forests and Range as well as managing security deposits established in support of tenure agreements. See Attachment 3. The Branch will be posting information about outstanding stumpage accounts to the web site. Members suggested that it would be most useful if these accounts were sorted by region. • David also reported that Pat Plunkett is looking into the feasibility of implementing the Ontario approach whereby buyers put stumpage into trust accounts to be held until the wood is delivered. If feasible, this approach would help reduce the risk to timber sales licensees when buyers get into financial difficulty. Action: Graham Archdekin will invite Pat Plunkett, Forest Revenue Branch, to a future meeting to discuss progress on this option.

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<p>4. BCTS Quarterly Report – 3rd Quarter</p>	<ul style="list-style-type: none"> • Doug Wrean provided an overview of the Performance Report for the 3rd quarter. It will be available on the web February 19, 2008 http://www.for.gov.bc/bcts • BCTS has been significantly impacted by the Canadian dollar, declining fibre quality (Mt. Pine Beetle wood) and poor markets and therefore does not expect to achieve revenue targets. In addition, as discussed last meeting, one time accounting changes, designed to improve financial reporting, will also negatively impact net revenue this year and next.
<p>5. Evolving Policy Issues</p>	<ul style="list-style-type: none"> • Dave Peterson opened the discussion by noting the two roles of BCTS – the business role and the market pricing system support role - are not always compatible and the tradeoffs between the two become more difficult when market conditions are poor. Given the poor market and recent announcements by the premier it would be useful to get the input of members on related strategic matters. <p>Provincial Developments</p> <ul style="list-style-type: none"> • The premier made several announcements at the recent Truck Loggers Association which warrant discussion today: <ul style="list-style-type: none"> ▪ There will be a working roundtable on forestry to generate discussion and ideas around the province for the future of forestry. ▪ There will be a 90 day regulatory review of Ministry of Forests and Range to identify how regulations can be streamlined and costs reduced. It will be due around the end of April. • Planning regarding the implementation process for both of these initiatives is underway. Dave noted that he expects BCTS to play a significant role in the regulatory review and it is an opportunity for TSAC members to provide input. • Members discussed the importance of providing information on a set of key issues where efficiencies could be gained rather than contributing to a long list of issues that may bog the process down. For example, issues such as the proposed resource road act, EBM implementation, cruise-based sales, hazard assessment/abatement, one-stop shopping were viewed as candidates for focusing the review to ensure efficiency gains. Members indicated a willingness to work together to provide input to the process on areas of mutual interest. Action: BCTS will keep members informed as the process develops and think about how to facilitate TSAC's input – this work would be done prior to the next formal TSAC meeting. <p>Reallocation of BCTS Operating Areas</p> <ul style="list-style-type: none"> • Dave raised concern about the ongoing loss of operating area and the impact it is having on the ability of BCTS to meet its'

Topics	Discussion/Actions/Decisions
	<p>target of bringing 20% of the provincial AAC to market. Examples of pressures on BCTS operating area include First Nations tenure issues and Mountain Caribou habitat requirements.</p> <ul style="list-style-type: none"> • The Ministry of Forests and Range, with support from BCTS, is undertaking an analysis focused on the areas required for BCTS to adequately support the Market Pricing System. They are reviewing the original data regarding timber type representation on the coast and interior and comparing it to current representation data to establish what the impact has been to date. • There was some discussion about potential mechanisms for BCTS to recapture operating area, e.g. it was suggested that volume not taken up by the majors should revert to BCTS to sell. <p>Upset Rates</p> <ul style="list-style-type: none"> • Mike Falkiner reported that amendments to the appraisal manual are being proposed to provide more options regarding the upset rates that can be used: <ul style="list-style-type: none"> ▪ On the coast it is proposed that the variable cost upset be allowed for second growth stands; and for mixed deciduous there be a different mechanism for setting upset rate. ▪ In the interior it is proposed that BCTS be allowed to set the upset rate between 70% MPS and variable cost (e.g., could use total cost or 50% MPS or look at recent sales etc.) • BCTS will set the initial upset rate depending on the level of competition, history of no-bids and type of wood. The new policy is designed to provide more flexibility. • There was discussion about the need to cover costs and members noted that in a business model you should not necessarily expect to cover costs on every sale – there may be a good business reason to go ahead with a marginal sale - but overall you do not want to lose money. It was also noted that, where BCTS moves to lower upsets, that could cause issues for existing license holders (TSLs and NRFLs) trying to market their logs. <p>BCTS Volume into the Market</p> <ul style="list-style-type: none"> • BCTS is focused on selling its allocated volume however, there are a number of issues which effect the volume that actually gets to market and how best to schedule volume disposal including: <ul style="list-style-type: none"> ▪ Holdups due to Forest Stewardship Plans and First Nations related issues; ▪ Log dump issues; ▪ Pressures on BCTS' operating areas (see above)

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	<ul style="list-style-type: none"> ▪ No-bid sales. • There was a specific discussion about the situation in the north. There is a growing percentage of the land base with a piece size falling below 0.2 and it is not getting bid on while at the same time there is a shortage of chips for pulp. It was suggested that BCTS look at taking advantage of this window of opportunity with pulp mills to sell the small logs for chipping. Pricing to the chip market would likely cover the costs of getting the wood out while providing an opportunity to rehabilitate the stands. BCTS reported that it is looking at this type of approach. • Dave reiterated the need for BCTS to put out a constant flow of wood in order to provide appropriate data for the market pricing system. In a true business model it would be preferable to follow the market on the amount of wood going out for sale. Furthermore, it is appropriate to maintain investment in developing the stands for sale. Because the market slowdown will inevitably result in more no-bid sales, it will provide an opportunity to get ahead on the development side so BCTS can better respond to the market pace when conditions turn around. The key to BCTS' success continues to be keeping abreast of client needs regarding wood type and timing. <p>Regional Prognosis</p> <ul style="list-style-type: none"> • Discussion turned to the specific situation of the value added sector. Roughly 20 small value added companies have gone out of business over the last 6 years as a result of : <ul style="list-style-type: none"> ▪ Export charges related to the softwood lumber agreement; and ▪ Inability to acquire fibre to process. (There is less fibre available for small companies because reduced harvesting by major licensees has increased competition in the open log market and the market for BCTS timber • The forest sector is losing critical skills and knowledge when these types of firms go out of business.
6. Other Issues	<ul style="list-style-type: none"> • Duncan Chisholm raised the issue of the consistent application of security deposit timeline requirements. Currently you have 10 days to get your deposit in. It is important that this rule be firm but it appears that 10 days may not be enough time which is leading to inconsistent enforcement of the rule. Action Graham Archdekin will review the issue and consider revising the timeline for security deposits so they can be consistently enforced.

Next Meeting: Thursday, May 1st, 2008

Attachment 1 – Certification Update

ISO14001 Environmental Management System (EMS) Certification

- BCTS continues to retain EMS certification in all 12 Business Areas and cycle through re-registration audits for second - 3 year ISO14001 certification term's.
- Recent audits and inspections continue to show a trend of improvement in Licensee compliance and greater EMS awareness among workers. We conclude the BCTS EMS continues to provide good due diligence, particularly with our smaller operators.
- An EMS efficiency review by our primary BCTS internal auditor under contract is nearing completion and should direct future improvement to the system aligned with our safety initiative. Strengthening performance and eliminating unnecessary burden on Licensee's while retaining an arms length relationship will be a main focus.

Sustainable Forest Management (SFM) Certification

- **Current Status:** Yellow highlight indicates achievement since last TSAC Update

Business Area	Management Unit	Volume m3	Standard	Certification Date		
Babine	Morice TSA	339,410	CSA	25/01/2006		
	Lakes TSA	714,837	CSA	06/11/2006		
Kamloops	Kamloops TSA	774,976	CSA	04/01/2006		
	Merrit TSA	421,870	CSA	04/01/2006		
Kootenay	Arrow TSA	789,757	SFI	28/02/2007		
	TFL 03 Little Slokan					
	TFL 23 Arrow Lake					
	Boundary TSA					
	TFL 08 Boundary					
Peace-Liard	Fort Saint John TSA	622,059	CSA	17/10/2003		
	Fort Nelson TSA	203,668	CSA	08/04/2005		
	TFL 48	55,350	CSA	02/11/2006		
Prince George	Prince George TSA	1,168,104	CSA	25/01/06		
	TFL 30	21,312	CSA	22/06/06		
	Mackenzie TSA	718,886	CSA	08/08/2007		
Skeena	North Coast TSA	1,014,191	SFI	25/10/07		
	TFL 41					
	Kalum TSA					
	Nass TSA					
	TFL 1					
	Kispiox TSA					
	Cranberry TSA					
Cassiar TSA						
Stuart-Nechako	PG TSA Vanderhoof	1,076,040	CSA	19/12/2006		
	PG TSA Fort S James	914,637	CSA	19/12/2006		
Subtotal & % of all SFM Vol.	CSA	6,312,263 = 78%	SFI	1,803,948 = 22%	FSC	0
Total BCTS SFM Volume	8,116,211	Total BCTS Allocation	15,189,614	% Allocation Under SFM	53%	

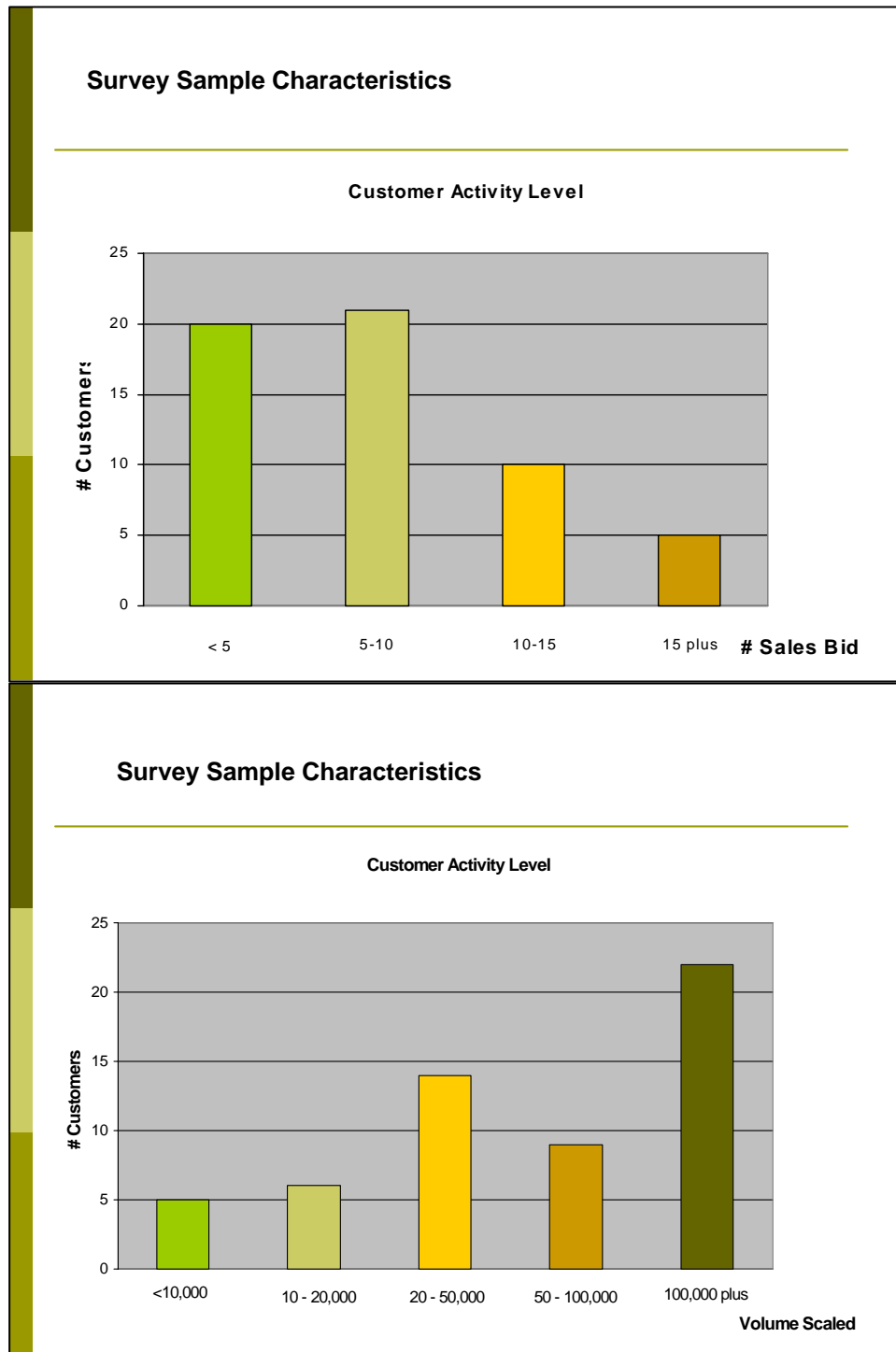
- BCTS remains on track to meet or exceed Service Plan SFM targets Current plans continue to indicate 55% of our SFM volume will be under CSA and 45% under SFI.

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- Cariboo-Chilcotin Business Area has had a successful SFI registration audit and is currently recommended for certification pending completion of a technical review. Estimated SFM volume is 1,769,327m³ representing 100% of the business unit.
 - Okanagan-Columbia Business Area is prepared for a registration audit in early February that should certify approximately 647,243m³ under CSA in the Okanagan area and 215,700m³ under SFI in the Columbia area representing 100% of the business unit.
 - This would complete our SFM achievements for fiscal 2007/08 with BCTS potentially holding or sharing in 16 SFM Certificates.
 - BCTS is finalizing our approach for supporting Chain of Custody (CofC):
 - A SFM certification confirmation statement in the TSL document,
 - Declaration letters verifying certified source and SFM volume transfers on request,
 - SFM certification information in Business Area Sales Plans and corporate data base information for reporting purposes.

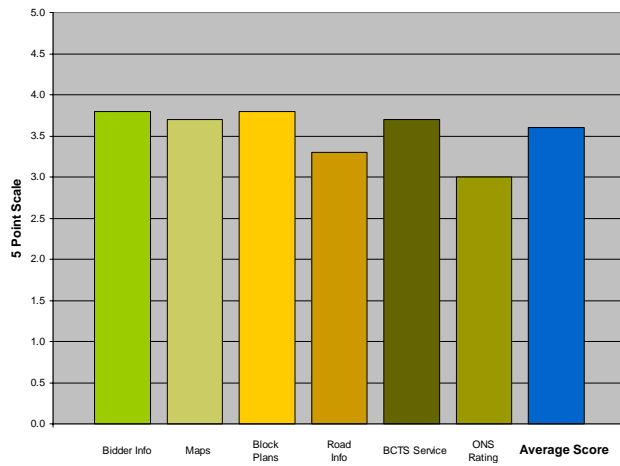
BCTS will not be pursuing CofC certification or provide a CofC system. BCTS will verify SFM certified source of raw material and offer 100% TSL SFM volume credit transfer within certified areas. CofC will have to be through the Licensee's or a third party's CofC system.

- BCTS participates in the CSA User Group and the CSA Technical Committee.
- BCTS participates in the Western Canada SFI Implementation Committee.
- CSA, SFI and PEFC (Programme for Endorsement of Forest Certification Standards) have been active in increasing market recognition and acceptance of their respective standards.
- In cooperation with other CFCI operating businesses, BCTS examining the feasibility of FSC certification within the Mid and North Coast Land and Resource Management Plan (LRMP) areas.

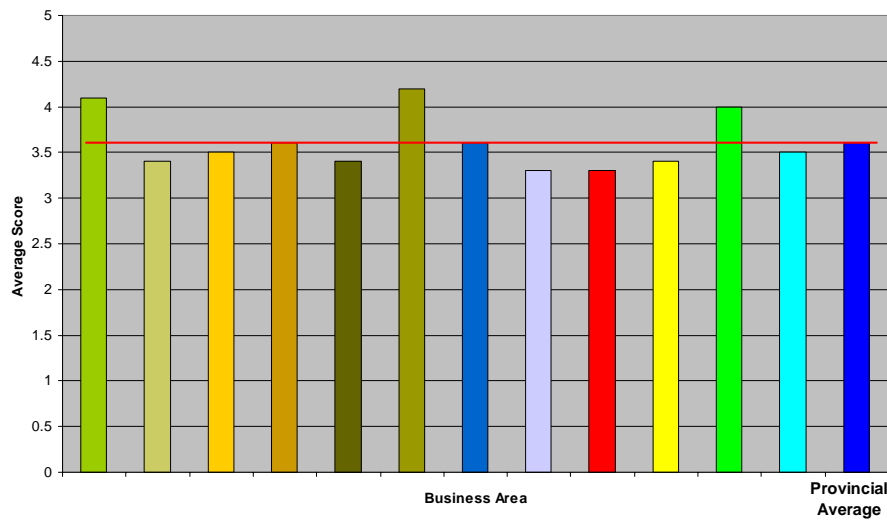
Attachment 2 – Pilot Client Survey Results



Provincial Average Scores by Category



BA Comparison to Provincial Average



Most pleased with...

- Good quality
 - harvest plan maps
 - cruise maps
 - access to the sales for viewing
- Good service
 - Timely posting of bid results
 - Response to questions during advertising

Least pleased with

- Road issues
 - Road use charges not clear, contact info
 - Mandatory vs optional roads
 - Clarity of road construction standards
 - Consistent enforcement of standards
- Bid Deposit (Security)
 - Faster regardless

Top things to do more of...

- ▣ Prefer paper copies of tender packages
- ▣ Sale Timing – ensure snow free access, pre-advertise if necessary
- ▣ Road/Dump Use Charges – ensure correct contact info is available in tender to confirm charges
- ▣ Directions to Sale – getting better, keep going, consider use of GPS technology

Top things to do less of...

- ▣ Sale Timing – spread out sales within quarters, and not so many at year end
- ▣ Multi-sale days – do not have two TSLs within a BA open at the same time, co-ordinate timing between BAs as well

Most frequent random comments

- The following are not relevant to survey objectives but:
 - EMS is too onerous
 - Security Deposit Returns...much faster please

Conclusions & Actions

1. Successes
 - General satisfaction
 - No significant weaknesses
2. Issues
 - Road obligations
 - Sale timing
3. Raising the bar
 - Wide variance in some BAs
 - Model those BAs with consistently high numbers

Attachment 3 - Role of the Ministry of Small Business and Revenue and Key Issues Regarding BCTS.

BACKGROUND

- Forest Revenue Branch (FRB) was part of the Forest Service until 2001 when it was moved to the Ministry Provincial Revenue and subsequently to the Ministry of Small Business and Revenue.
- FRB is responsible for the recording of all forest revenues and receivables, and ensuring that the revenue process operates with clear business rules.
- The Branch manages and collects forest revenues invoiced by the Ministry of Forests and Range to forest industry clients. In addition, the Branch manages trust security deposits established in support of tenure agreements issued by the Ministry of Forests and Range.
- FRB collects over \$900 million annually through three customer service centres located in Kamloops, Prince George and Victoria, and over 45 Ministry of Forests and Range offices. Two of our offices, Kamloops and Prince George will be closing at the end of April 2008.
- The monies collected are applied to forest industry client accounts. Forest statements of accounts are issued to individual forest industry clients every four weeks on a rotating weekly cycle.
- Interest is charged on all overdue accounts. The *Forest Act* establishes the rate and amount of interest charged. The branch also is responsible for all cash management activities of the Ministry of Forests and Range.

REVENUE OPERATIONS

Purpose:

- Manage and control forest revenue from post-invoicing to payment of monies owing.
- Provide a service to the Ministry of Forests and Range in: cash management (non-invoice revenue collection); accounts receivable management; trust management and financial reporting.

Operating Structure:

- Currently, 11 staff located in 3 locations (Kamloops; Prince George; and; Victoria) The Kamloops and Prince George offices will be closed effective April 30, 2008.

Cash Management:

- Receive, record and deposit \$900 million annually in payments on account and non-invoice payments (15,000 payments annually).
- Payments are made directly to our offices or forwarded to us by Ministry of Forests and Range district and region offices and BC Timber Sales offices.
- Payments are also made via electronic funds transfer and PC Tel Banking (10% of payments and over 60% of revenue).

Accounts Receivable:

- Accounts receivable outstanding monthly balance ranges from \$70 to \$150 million (average \$110 million)
- Over 250,000 transactions are posted to the accounts receivable each year Transactions include: invoices; payments; adjustments; interest; etc.
- Number of client accounts: 1,100 – 2,200

- Payments on account are applied to an invoice, or as a credit on account (for later application to an invoice). This is necessary, as it is common to have a third party pay someone else's account.
- Credit balances are refunded to clients regularly.
- All managed with an online system. Invoices are uploaded daily from the Ministry of Forests and Range billing systems.
- Bi-monthly, the accounts receivable transactions including the invoices are uploaded into the Corporate Accounting System.
- Accounts Receivable and Write off accounts on the FRB branch web page.
- http://www.sbr.gov.bc.ca/business/Natural_Resources/Forest_Revenue/forest_revenue.htm

Financial Reporting:

- Responsible for the reporting of all forest revenue transactions into the general ledger
- Monthly and quarterly reconciliations of forest revenue general ledger accounts; including asset accounts; liability accounts (trusts); revenue accounts (stumpage; range; etc)
- Quarterly reporting and fiscal year end reporting to Ministry of Forests and Range, Ministry of Small Business and Revenue, OCG and other central agencies
- Establishing an appropriate provision for bad and doubtful accounts (currently \$19 million) and determining the bad debt expense.

Trust Management:

- Responsible for the management of security deposits received by the Ministry of Forests and Range in relation to licences and tenures
- Security deposits are: cash, letters of credit or safekeeping agreements.
- Currently there are over 2,500 trust accounts representing about \$100 million of which \$27 million is cash.
- Annually we receive and dispose over 2,200 security deposits.
- Responsible for recording the security deposit when received from the Ministry of Forests and Range and disposing of the security deposit in accordance with their instructions.
- Ministry of Forest and Range may require the security deposit to perform work or as a forfeiture.
- If Ministry of Forests and Range advises us to release the security deposit, the security deposit may still be used to pay outstanding accounts on setoff, pay WCB or other third parties, or ultimately released.

COLLECTION SECTION

- A total of 6 staff in the collection section.
- Centralized / Decentralized collection approach.
- Currently 3 regional collection officers (Smithers, Kamloops and Nanaimo), 2 in Victoria and the Collection Manager.
- Collection system built in 1992 (moved to Oracle in March 04)

How Collecting Ministry Of Forests Debt Is Different

- Section 131 of the *Forest Act* - states that anyone dealing in or acquiring crown timber is responsible for the payment of unpaid stumpage.
- Theft of Timber –Once a determination has been made as to who the debtor is, to vigorously pursue that person for payment.
- The only method of forgiving a debt is through the remission process that requires the ministry to prove “great public inconvenience, great injustice or great hardship to a person

has occurred or is likely to occur.” The ministry is required to apply to Cabinet for an Order in Council to remit the debt.

Objectives

- Maximize cash flow to the Crown from debtors and minimize bad debts.
- Maximize the return to the Crown on collections from accounts holders, including bankruptcy and insolvency.
- Deal fairly and be seen to deal fairly with all clients.
- Effectively manage the collection function.

Responsibilities

- Detect action and prevent individual or group problems early.
- Communicate promptly and effectively with account holders and third parties.
- Collect outstanding debt to the Crown.
- Monitor the well being of accounts receivable.
- Identify high risk accounts.
- Analyze risk and worthiness of ministry clients.
- Perform credit checks.
- Report to senior management.
- Prepare submission to write off uncollectible debt.
- Establish and maintain Collection Policy and Procedure.

PROGRAM LINKAGES

- Ministry of Forests and Range
- Ministries of Attorney General – obtain legal opinions, participate in litigation action and provide advice on revenue operations.
- Central Agencies – Office of the Comptroller General, Auditor General and Treasury Board.
- Intra Ministry committees – represent the Branch.
Forest Industry – advise on payment due and payment options.
- Oil and Gas Industry – manage accounts for the invoicing of timber harvested during exploration.

ISSUES AND CHALLENGES

- Determine and consider the credit worthiness of any new tenures, cutting permits, scale sites etc prior to the authority being granted.
- Continue to apply the current non arms length provisions to prevent disqualified or ineligible parties from obtaining additional privileges under the *Forest Act*.
- Formulate clear business rules and policies to halt activity on a license or scale site when there is evidence of significant revenue risk to the Crown.
- Ensure that prior to approving the tenure and extending credit that proper financial records, banking details, corporate structure, etc are obtained.
- Waste billings take too long to bill. The risk of revenue loss increases with time.

