Minutes

Timber Sales Advisory Council Meeting

February 12, 2009

Location: Marriott Hotel, Richmond

Council Members:
Shane Garner
Dennis Cook
Brian Brown
Duncan Chisholm
Brian Frenkel
Ken Holden
Les Kiss
Greg Saugstad
Barry Simpson
Bill Markvoort
Steve Kozuki
Scott Marleau

BCTS:
Mike Falkiner (Chair)
Dave Peterson
Jim Sutherland
Graham Archdekin
Peter Jacobsen
Rob Bigalke
Dannielle Kitt (Secretariat - Recorder)

GUESTS:
Pat Plunkett (Ministry of Small Business and Revenue)Dave Clarke

Introduction and Opening Remarks:

Mike Falkiner announced a change in secretariat functions and introduced Dannielle Kitt. Dannielle advised of the evacuation plan and muster point. Mike provided a brief overview of the agenda.

Bill Markvoort advised this will be his final meeting and that Dave Clarke (in attendance today) would represent the TLA from now on.

Report Back on Action Items:

VCU and TCU Sales Locations: Variable Cost and Total Cost Upset Rates – Graham Archdekin

Graham posted a copy of a map for member review. About 60 sales over the past 12 months with approved rates. Additional TSLs have had rates approved but not yet auctioned.
30% of sales provincially were no bids. Some were sold. 80% sold eventually. 70% sold first time around. Many of the sales identified on the maps were no bids.
Includes some Innovative Timber Sale Licences (ITSLs) but not Forest for Tomorrow (FFT).
Question: Are no-bids modified to increase likelihood of future sale? Response: If no bids are modified they are given a new licence number. One member commented that new numbers are not always assigned and provided an example.

Second Growth Fir Log Prices – Peter Jacobsen

Decision to continue to use factored old growth log prices to represent second growth log prices in the model until a more continuous supply of actual second growth sales by species and grade is available. Large volumes of hemlock are being purchased by some members. Question of whether timber is reported as 'second growth'. Brian Brown offered to supply information on second growth hemlock – Peter asked him to send the info. Lump sum sales will be offered on the south coast as a new initiative.

Action: Brian Brown to supply information on second growth hemlock to Peter Jacobsen.

Action: Advise Revenue Branch there appears to be more second growth log sales information available than they are getting and changes need to be made to the reporting system to capture this information.

CAT 2 Volume – Graham Archdekin

Graham distributed the Cat 2 Volume handout which provides actuals and projections to the end of this year. Question: How does it fit into the softwood lumber agreement (SLA)? Response: Restricted pool – not used in MPS. Cat 2 was in place before the SLA. When Cat 2 registration was open there was no commitment to increase volume. There has been a drop in registration from over 400 down to 150 but is now beginning to rise again. Question: Is there or will there be a mandate from BCTS to eliminate Cat 2? Response: Still intend to phase it out eventually – but no – there is not any change in direction at this point.

Discussion about Cat 2 restricted pool and changes in volume available. There has never been any discussion about it being larger – although it did increase due to beetle infestation. No number has ever been identified as an absolute ceiling or a floor.

Road Safety with the Forest Safety Council – Mike Falkiner

Mike provided summary overview from information prepared by Tom Jackson. Discussion about BCTS's Safety Certification and about the efforts being made by companies to be Safe Certified. Comments about WorkSafeBC's requirement for a maintenance plan and the 10% rebate available to companies who participate. Mike extended a public thank you to Shane Garner who assisted with a particularly challenging public safety discussion.

Discussion about Vehicle Identification Number Plates Program. Unless it is endorsed or pushed, it is not as effective as it could be. BCTS has been involved and is supportive of this initiative. It has not made it a requirement for registrants – but assume it will be expanded throughout the province. It is a voluntary program. Discussion about whether the initiative is making a difference. Impact may not be a result of the design of the plate itself – it is a result of the psychological response to those who have it on their vehicle.

http://www2.news.gov.bc.ca/news_releases_2005-2009/2008FOR0171-001894.htm

Phil Zacharatos, ADM, Operations Division, has given direction that Road User Groups are to be implemented in Districts where they don't already exist. BCTS will be part of that process.

Independent Owner/Operators Safe Certification. Question: What is the capacity of the BC Forest Safety Council (BCFSC) to certify these small operators? Response: It has been confirmed that BCFSC advised they would have the capacity to handle the numbers. It was pointed out there is a difference between Registration and Certification.

Standing Items:

Waste billing exemptions/extension fee and deposit forfeiture relief requests – Graham Archdekin

Graham provided a brief overview of the material provided. BCTS is not able to track waiving of waste bills. Floating stumpage issues were discussed. Some members suggested it would be beneficial to have Murray Stech attend a TSAC meeting.

Action: BCTS will request (on behalf of TSAC) that Revenue Branch regularly report out on waste bill waivers.

Standing update of BCTS Certification – Jim Sutherland

Discussion of EMS Single Certification and summary of certification updates was provided. BCTS is not pursuing chain of custody. Jim also provided an overview of the handouts and links associated with the action item from the last meeting regarding certification statistics across BC.

Action: Identify how many hits are received on http://searchtool.bcforestinformation.com - Jim Sutherland.

Discussion about ISO/SFM and their linkage to EMS Single Certification. Attempts were made to establish costs on a cubic meter basis, but certification costs are so intertwined with other initiative costs (e.g. Species at Risk) that it's extremely difficult to identify the costs associated with certification alone. Some effort had been made to complete cost/benefit analysis but results showed cost ranges were huge between geographic locations. Certification is considered to be a cost of doing business by BCTS and most Licensees.

Discussion about certified wood benefits in the market. Some governments (e.g. European) and many large forest products buyers have procurement policy that require or at least prefer certified wood. Some buyers of high end wood products will pay a premium for certified wood - but in general the cheapest wood is still the most desirable.

Q3 BCTS Milestone Report – Rob Bigalke

Les Kiss extended appreciation to Rob and BCTS staff for the large amount of financial and statistical information they have provided to the Coast MPS process. Their efforts are recognized and appreciated.

Rob provided an overview of Q3 highlights: Discussion about the challenges associated with past targets (cannot change this number as it occurred in the past) and previous years' projections (also established in the past). It was agreed that some challenges were not anticipated – e.g. climate change impacts. What we CAN change is current projections into the future. Next years' projections are being adjusted based on known or predictable issues – e.g. economic downturn.

BCTS is being challenged as our model is self-financing based on revenues earned. Currently looking at slowing down sales in areas of weak or no demand. It was acknowledged that there are differences between Interior and Coastal no-bids and these need to be taken into consideration. Also need to consider beetle wood sales. Some stands are so badly damaged they are not worth the cost of planning for sale. The BCTS Q3 Performance Report can be found on the BCTS website at: http://www.for.gov.bc.ca/bcts/about/serviceplan/2008_09_Q3.pdf

Stumpage Collection – Pat Plunkett

Pat provided an overview of the current stumpage and collection linkages and activities, and introduced the subject of proposals and alternatives to Sections 130 & 131. He provided examples of legal liability issues related to stumpage, and discussion ensued about joint liability related to Licensee, Mill/Scale site/Purchaser. He identified remedies available to industry if they are involved in such issues. He also confirmed he works closely with C & E and the Ministry of Forests and Range in general. Pat confirmed industry is not liable for fire or waste when purchasing logs – only stumpage. Some discussion around trust accounts and the challenges of using them in BC.

Discussion about whether or not bidders who are affiliated with Licensees who owe large amounts of stumpage arrears should be allowed to enter into another licence before revenue is paid. An example was provided, and it is agreed it can be a major problem. Discussed the issue of 'non-arms-length relationships' and the challenges they introduce. Pat encouraged TSAC members to provide him with the details of known issues.

Mike advised that when Ministry of Small Business and Revenue (MSBR) presents evidence to BCTS, MSBR recommendations are discussed and reviewed with the appropriate Timber Sales Manager (TSM) (statutory decision-maker). Most often, a decision is made based on the recommendations made by MSBR based on the quality of information provided.

Pat recommends a joint government/industry committee to revisit the issue of alternatives or modifications to Sections 130/131 of the *Forest Act*. MSBR would support this activity.

Action: Ensure this issue is the main focus of the next TSAC meeting and consider striking a task group to make recommendations. Need to include Revenue Branch, Ops Div and perhaps other ministry representatives, as well as MSBR.

TSL Waste Survey Issue – Graham Archdekin

A decision had previously been made to make changes in the process and that has occurred. Licensees are now doing their own waste surveys. Another challenge has arisen related to the difficulties of Licensees being able to hire someone qualified to do the waste surveys.

Some members commented that the new process (in the Interior) is not working. Examples were provided of financial impacts to Licensees and poor client service by BCTS/MFR employees. It was recommended that if there are relationship/employee difficulties at a TSO, report it directly to the TSM or District Manager (DM).

Waste assessments are expensive for a minor amount of revenue. Someone needs to address whether the revenue risk is large enough to warrant the process.

Discussion around ocular assessments. Graham advised that the Waste Manual contains the policy/procedures which are outside BCTS's area of responsibility and authority. Discussion also revolved around the qualifications of individuals doing waste surveys. There are 4 classes of people qualified to do waste surveys outlined in the Waste Manual. Is there potential for a new (5^{th}) class?

Acknowledged there are flaws in the process and work needs to continue to resolve the issues. Need to include C & E and Revenue Branch in order to explore an alternative to the current process. Intent is to expand the opportunity for ocular assessments as a quick win, and there is a need to identify the actual barriers.

Action: Statement on (ocular) waste surveys to be drafted by Steve Kozuki which will be distributed to TSAC for review and formalization with the intent of a TSAC recommendation going forward to Revenue Branch.

Market Update – Bill Markvoot, Duncan Chisolm

Asian Market and North American markets are in decline. Japan's log/lumber market dropped 18% due to decline in housing starts. Demand for BC Hemlock is a victim of our export regulations and has now been surpassed by Russian Red Pine. The US has no market for their fir so are selling as much as possible to Japan. Old Growth Douglas Fir has stronger pricing but is a limited market. Korea is not buying logs right now. New Zealand has Ratiata Pine they use for pallets. Chinese market was our big hope, but the Russian log tax increase fell off the table but will eventually move from 20% to 80%. 25 million m3/year are going from Russia to China. Wood in China is manufactured then exported. Logs going into China need to be fumigated. Our access to the China market is limited. The weak Canadian dollar helps, but if our dollar strengthens, this will create additional problems. Freight rates to ship into those markets are low – that helps us as well.

Indonesia, Vietnam, Thailand – Selling wood at very low prices. Most BC pulp mills cannot compete.

Vaneer/Plywood Sector – End products stood up better than lumber sector until Fourth Quarter of 2008. Some mills are cutting length of work weeks. Mid-January forward has become significantly worse, although confident things will look up at Second Quarter.

Interior – Fourth quarter dropped off. Have a shortage of green logs (fir and spruce). Some mills are working full capacity, some working at 50% depending on location, log availability and market price.

Coastal – Cedar is the one species that has held up the Coast for the past 3 – 4 years. Last Spring – things began to decline. Reasonable export fir market. Some think Second Quarter will be better, some think it will take longer. It's a very difficult market.

Southern Example - Post and Rail being produced from 5 inch top. Very successful endeavour.

Coastal Stumpage Update Issues – Peter Jacobsen

Peter encouraged members to put some thought into the challenges associated with the recent Coastal Stumpage Update. Discussion followed.

- Legislation prevents TSL extension beyond 4 years.
- Annual update of MPS equation – everyone knows that when bidding on TSL's.
- Change the upset rate so it becomes variable?
- If changes are made on the Coast – need to consider making changes across the province.
- Need to consider BA's that have different rates in two zones – Coast/Interior – e.g. Skeena.
- Easier to enter into sales than it is to follow through. That's the result of low bid deposits and no requirement for bonding. We are seeing the results of that now.
- If you take any steps to correct it – is it still a free market?
- Would an intervention be any different than what is happening in other sectors in the world right now (due to economic challenges)?
- There will be a difference of opinion between Quota and Free Market supporters within this group.
- Offer same options as major Licensees?

- Timber sales are supposed to be short term. The intent is to make a contract and be sure you are aware of the market before you sign the contract.
- There is a high road – and there is a reality road. Need to recognize both.
- Need time to think this through so can analyze potential outcomes.

Action – TSAC members to draft thoughts and comments and send to Peter Jacobsen by February 20th.

Sales Schedule – Bill Markvoort

In some sectors there is no use putting up sales on a regular schedule because no one is bidding. However, does BCTS have a mandate to put up a regular sales schedule? Yes, and a sales schedule exists on the BCTS Website. BCTS has tried to be realistic and sell based on demand. BCTS continues to forecast continued losses. No bids are one way of testing the market. Generally agreed that sales need to be going out to some degree to continue testing the market instead of 'just turning off the tap.' If BCTS was run like a 'business' – what would business do? If there was no money – they would stop. When things do pick up – the inventory will continue to be there.

Open Topics:

Lump Sum Sales – BCTS continues to experiment. A few have been sold including one in Quesnel and two in Kamloops. Planning to sell a second growth sale in Strait of Georgia very soon.

Cruising Issue - Suggestion to put up a notice "Buyer Beware" when using old or comparative cruises.

ITSL's – Problem of discrepancy of downfalls between cruise/scale – buyer beware.

FFT – Discussion about FFT and concerns around direct competition with Licensees and administrative issues surrounding timber removal on non-economic rehab sites.

Beetle Area Where Significant Uplifts – Timber availability is constrained, not because shelf life is expiring but because there are so many Licensees and constraints which compromises mid term timber supply. Not a BCTS issue but is compounding the problems.

SUP Liability - Who absorbs the liability on BCTS SUP's – c7lient's should be holding SUP's.

Meeting Recap:

Section 130 – Main topic on next agenda

Next Meeting Date: May 7th