


<p style="text-align: center;">Timber Sales Advisory Council (TSAC) Meeting</p>	<p style="text-align: center;">Minutes Thursday, May 7, 2009 9:00AM-3:00PM Marriott Hotel, Richmond Seymour Room</p>	
<p>Participants: Mike Falkiner (Chair), Rob Bigalke, Peter Jacobsen, Dave Peterson, Steve Kozuki, Brian Brown, Russ Cameron, Warren Carter, Duncan Chisholm, Dennis Cook, Brian Frenkel, Shane Garner, Les Kiss, Greg Saugstad, Barry Simpson, Giocinto Alberti</p> <p>Secretariat: Dannielle Kitt</p> <p>Guests: Pat Plunkett, Murray Stech, Grant Loeb, Shawn Hedges</p> <p>Regrets: Jim Sutherland, Ken Houlden, Graham Archdekin, Keith Eslinger, John Hatalcik, Dave Clarke</p>		
<p>1. <u>Introductions and Opening Remarks – Mike Falkiner</u></p> <p>Mike Falkiner welcomed members to the meeting and explained the evacuation route and muster point. He extended thanks to Murray Stech and Grant Loeb for attending this meeting. TSAC member and guest introductions were made. Mike Falkiner then reviewed the agenda</p> <p>2. <u>TSAC Meeting Schedule and Format – Peter Jacobsen</u></p> <p>BC Timber Sales (BCTS) is faced with budget constraints similar to other government agencies and industry. It is critical that BCTS demonstrates fiscal responsibility related to travel and business expenses. Customer and staff interface are priorities for travel and TSAC clearly meets this criteria, but we still need to be aware of costs.</p> <p>Where there are two members from an organization approved to attend TSAC meetings we will pay for two. More are welcome to attend, but we will only reimburse those ‘authorized’ members. Quarterly meetings will continue, but special topic meetings could be conducted via conference call as an alternative to be more cost effective.</p> <p>Members supported this recommendation.</p> <p>3. <u>Action Items / Report Back</u></p> <p>Second Growth Fir Log Prices – Brian Brown and Peter Jacobsen</p> <ul style="list-style-type: none"> ○ Action: Brian Brown to supply information on second growth Hemlock to Peter Jacobsen. <ul style="list-style-type: none"> ✓ Completed. ○ Action: Advise Revenue Branch there appears to be more second growth log sales information available than they are receiving and changes need to be made to the reporting system to capture this information. <ul style="list-style-type: none"> ✓ Completed. Peter Jacobsen confirmed discussion took place with Murray Stech and Grant Loeb, and they had been provided with minutes from the last meeting. 		

- **New Action: TSAC members will submit any additional information for Revenue Branch to Murray Stech, Director, Revenue Branch. (Murray.Stech@gov.bc.ca)**
- **New Action: Murray Stech will forward the format that information should be submitted in to TSAC.**

Waste Billing Exemptions, Extension Fee and Deposit Forfeiture Relief Requests – Shawn Hedges

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

This legislation was implemented in November 2003. Although BCTS has been preparing reports on activity to the best of our ability, it's challenging to report up-to-date information with confidence due to the ongoing activity and because requests sometimes bypass BCTS. Because of the lack of consistent information, BCTS will no longer publish the ledger. Revenue Branch has agreed to prepare a tracking system and report out to TSAC.

- **New Action: Revenue Branch will create a ledger and advise where it will be located and will share the information with TSAC.**

BCTS Certification – Mike Falkiner (on behalf of Jim Sutherland)

- **Action:** Identify how many hits are received on <http://searchtool.bcforestinformation.com>

Unfortunately, most of the web statistics for the site were lost in a web host transfer. However, over the past six months there were over 250 page visits. 35 specific certified product searches; 46 certified forest searches.

BCMON and Metafore are supporting development of enhanced search capabilities for paper products and green building to improve the utility of the site. This should be available soon. BCMON will be tracking the use statistics more closely and Jim Sutherland will provide updates occasionally.

Stumpage Collection – Mike Falkiner

- **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, Operations Division and perhaps other ministry representatives, as well as Forest Revenue Branch, Ministry of Finance.
 - ✓ **Completed.**

TSL Waste Survey Issue – Steven Kozuki

- **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.
 - ✓ **Completed** – Steve Kozuki developed the document and it has been shared with Revenue Branch.

Murray Stech was provided with an overview of the issues discussed at the January 2009 meeting. Licensee responsibility has not made any difference because the problem is a shortage of individuals qualified to conduct this activity. Who hires them is not the issue. Qualifications include previous

certification, licensed scaler, Registered Professional Forester (RPF), or Registered Forestry Technician (RFT). There is lack of clarity about whether the issue is that some individuals don't have the necessary experience, but one problem is that some Timber Sale License (TSL) holders do not have RPF's and RFT's on staff. The system is cumbersome and time consuming for such a low risk, low cost activity. A response to the TSAC recommendation is expected from Revenue Branch, but not in today's meeting. TSAC requests that Revenue Branch give this issue some consideration and bring it back to them for discussion.

- **New Action: Revenue Branch will respond to the TSAC recommendations at or before the next meeting.**

Coastal Stumpage Update Issues – Peter Jacobsen

- **Action** – TSAC members to draft thoughts and comments and send to Peter Jacobsen by February 20, 2009.
 - ✓ **Completed.**

4. Standing Items

- **Extension Fee Waiver and Deposit Forfeiture Relief Requests – Shawn Hedges**
 - Four or five decisions are not on the ledger because of a lag between decisions and posting on the web.
 - There was an even split between fee waiver and forfeiture relief for 2008.
 - 32 items are recorded for 2009 at this point, the majority are extension fee waiver requests.
 - 2009 appears to be a 'normal' year relative to previous years.
 - Waiver relief is due to circumstances where people present a case for exemption.
 - There was discussion about what happens when a waste survey is conducted and approved, but Compliance & Enforcement (C & E) subsequently determines there is a problem, and what the outcome of the decision might be.
- **BCTS Certification – Mike Falkiner (on behalf of Jim Sutherland)**
 - BCTS – 89 percent allocation under Sustainable Forest Management (SFM) – well ahead of our targets of 70 percent. Going forward with current plans, we expect about 51% of our SFM volume will be under Canadian Standards Association (CSA), 48 percent under Sustainable Forestry Initiative (SFI) and 1 percent under the Forest Stewardship Council (FSC).
 - BCTS is developing a Certification webpage for its public website to provide information on the BCTS approach to Forest Certification including Environmental Management System (EMS), SFM and Chain of Custody. It will also provide links to public comment forms and useful links to external websites.
 - In cooperation with other Coast Forest Conservation Initiative Society (CFCI) businesses, BCTS is working towards FSC certification within the Mid-Coast TSA, part of the Mid and North Coast Land and Resource Management Plan (LRMP) areas also known as the 'Great Bear Rain Forest'.
- **BCTS Year End Milestone Update. – Rob Bigalke**
 - Rob Bigalke provided a preview of the Year End Report

5. Pre-call for 2010 – 2012 Legislation – Shawn Hedges

Shawn Hedges provided an overview of the BCTS legislation proposals:

1. **109 Forest Act (BCTS Account)**

- 2008 (Bill 8) legislation fell short of the intent, so a minor amendment is required to enable BCTS to spend funds from this account to pursue forest management projects, but only if there is a reasonable expectation that BCTS will recover the investment. Treasury Board staff support the current proposal.
- BCTS does not intend to compete directly with or displace private sector.

2. **Third party industrial use of BCTS access structures (e.g. roads, bridges)**

- BCTS access structure assets are being degraded by non-BCTS use. This is a common coastal concern (e.g. sorts/log dumps), but problems exist throughout the province. Current system undermines Market Pricing System (MPS) and BCTS revenues and is unfair to our customers who ultimately “pay the freight”.
- *Resource Road Act* might partially/fully address concern, but uncertain if/when it will become law. BCTS proposes to amend legislation as required to enable BCTS to levy a prescribed user fee(s) for third party industrial use of BCTS access structures. A third party industrial user includes anyone who is not exercising authority under a timber sale.
- Integrating with appraisal, administrative, and C & E schemes is potentially problematic, but it is important for BCTS and our customers.
- Will engage the Forest Engineering Steering Committee (FESC) shortly.

Members agreed that although they need details, they find this generally acceptable at the conceptual level. Les Kiss requested that the proposal he put on the table entitled *TSL Use Agreements for Permitted Roads and Facilities* (May 7, 2009) go forward as well. Another member recommended Les's proposal be applied to the entire province rather than limited to the Coast.

3. **TSL Extension and Surrender Changes**

Shawn Hedges provided an overview of the existing system and proposed changes that include a maximum of three year term limits and introduction of a flat extension fee. The existing TSL extension fee mechanism was introduced in November 2003 to support MPS. The current fee is linked to bid price and harvest volume, and the primary intent was to motivate harvest and reveal non-speculative bid price.

TSAC members expressed some concern about speculation activities that might be associated with the proposed changes. Some members believe that this proposal is an erosion of anti-speculation measures. Anti-speculation measures as a suite are important, and there is a need to be cautious about removing specific components of that suite. Maintaining the integrity of the timber pricing system is paramount. There was discussion about TSL's awarded to companies in arrears. There was discussion whether the intent of the fee is revenue generation or impact on MPS.

We want to ensure our current system is working well and the fee waiver and extensions are doing what was intended. Members commented that taking the imperfect system we have now and replacing it with a system that's more diffuse is not a good decision, and there is a need to confirm whether the current system is effective and if not, identify the 'solution'.

Timeframes for submission to the Minister are tight, but TSAC members don't want to be rushed into making a decision. Many feel the current system is working, although don't disagree that it

could be improved. Keeping rigor in the process is important: short and accountable.

One member pointed out that bonafide loggers sometimes need extensions or fee waivers. Deposit forfeitures and fee extension legislative changes will not go forward at this point as we need to discuss further.

Bill 8

BCTS is committed to an appropriate legislative consultation process. This will be discussed further, and TSAC members have the opportunity to provide written comments on any legislation amendments. Send feedback to Shawn Hedges (shawn.hedges@gov.bc.ca) by May 31, 2009. Confidentiality constraints: Information can be shared among industry members.

- **Action: BCTS will send electronic copies of proposed legislation amendments to TSAC tomorrow.**
 - ✓ Documents were distributed to TSAC on May 8, 2009.

6. Stumpage Collection - Alternatives or modifications to Sections 130/131 – Open Discussion – Pat Plunkett, Murray Stech, and Grant Loeb

Alternatives or modifications to Sections 130/131 is a high profile issue. The 1993 review model was a good model with both industry and government involvement as it was a short intense process that came back with a recommendation. This is still an issue on the Regulatory Review agenda and is still a priority there. TSAC is a good vehicle based on the membership from government and industry, and is already a high profile. John Allan and Deputy John Dyble are co-chairs of the Regulatory Review – and if they direct us to take action, we will.

If consensus is achieved on a revision, TSAC can suggest action when the legislative agenda opens up. We need to identify who ought to be liable for stumpage and what the mechanism to get there is. Council of Forest Industry's (COFI) recommendation was on creating fairness and identifying who should be liable for unpaid stumpage. Pat made a recommendation to determine a Terms of Reference (TOR) and begin identifying alternatives for stumpage collection. Government will not want to increase their risk and industry will have some principles they want to include as well.

There are some challenges with government not acting like a regular 'seller'. From a business model perspective, selling with 'credit' may not make sense. The current model is 100 years old. Government does not do any credit checks, and there is no explicit industry experience required to become a licensee. So some licensees view the current process as providing licensees with unlimited credit.

One member pointed out that if industry sells a log boom, the buyer doesn't get possession until it's paid for, and it makes sense for the government to adopt the same model. Pat Plunkett advised that if this model is recommended, it would require significant changes. Only the Forest Revenue Branch (FRB), Ministry of Finance, has the authority to approve payment schedules and that has been a significant improvement for many, including government. Under the existing system, government does not manage credit. If we do not manage credit, we must manage risk.

An Auditor General's estimate is 5 percent of revenue is not billed because of illegal harvesting, under-scaling, mis-marking, etc. Administrative penalties are the major deterrent, however, some are criminal - but criminal prosecutions are time consuming and onerous.

The Energy, Mines and Petroleum Resources (EMPR) model for revenue collection is very simple. If they don't pay, they are shut down. Crown trees are far more complicated because it includes private timber, scaled timber, cruise based timber, etc. One recommendation for action is to

implement larger security deposits. Some discussion ensued about whether this system would eliminate a large segment of the participants. It was suggested that credit worthiness should be assessed. Payment schedules could be based on the amount harvested per month. The Ministry of Forests and Range (MFR) has no authority to approve repayment agreements or terms, the only one who has that authority is the Ministry of Finance.

There may need to be a review to determine whether the legislation is being utilized as intended. Some examples were provided where revenue bills were sent to individuals further down the line, and well after the fact, who had executed a third party deal in good faith. One issue is the value of timber vs. value of stumpage – some interpretations of Sections 130/131 were not upheld in court. It is possible that Government may appeal a decision. Pat Plunkett explained the policy – as soon as an account goes overdue – all third parties are notified. One of the benefits is that third parties may be able to take some action to motivate payment. Information about arrears can be obtained via the Forest Revenue Branch collection website or people can phone them directly and ask about a specific issue.

http://www.sbr.gov.bc.ca/individuals/Natural_Resources/ForestRevenue/forest_revenue.htm

- **Action: A task group will develop some recommendations and submit back to TSAC and Pat Plunkett for comment and consideration. Members include Les Kiss, Duncan Chisholm, Brian Brown.**
- **Action: Pat Plunkett will send links to published material to TSAC.**
- ✓ Documents were forwarded to TSAC members on May 25, 2009.

7. Coastal Stumpage Issues – Update – Peter Jacobsen

Peter expressed appreciation to TSAC members who submitted comments on this issue. The most common comment was “Change the rate”, the second was “Go to a variable rate structure for bidders”. This raises the concern with speculation.

Many issues were reviewed including a re-payment structure that included a payment free period. Technical pricing issues, compliance, and Market Pricing System (MPS) are all challenges. We do not want to lose a segment of market loggers. This is a significant issue. We need to maintain consistency, integrity and transparency and will likely be exercising discretion in certain circumstances to waive extension fees and to a certain point, forfeiture deposits. Everyone recognizes that current market conditions are a catastrophic event that no one could have predicted. Dave Peterson provided an overview of how he makes decisions on fee waiver applications, and the importance of licensees to put forward a strong case when they apply. Current legislation states ‘not related to financial circumstances’, but we are experiencing unprecedented times economically and it may be beneficial to have flexibility. We can discuss the overall structure, but we cannot craft rules about how the statutory decision maker makes the decisions.

TSAC members clearly voiced their support for the current decision-making process.

8. ADM Update – Dave Peterson

Softwood Lumber: MPS is our number one operational goal, but must be balanced with meeting customer needs and revenue. The provincial government is aware that policy changes must be undertaken carefully because of potential impact on the Softwood Lumber Agreement (SLA).

Provincial Election: Dave Peterson discussed government's role in economic recovery. Both parties are aware that 20 percent of the volume in BC is sold through BCTS. We have a significant role in the industry fabric.

Budget: Revenues continue to drop lower than forecasted. BCTS has been doing as much as we can to reduce costs in our program including the implementation of a financial mitigation strategy which reduced costs by \$14 million last year. This equates to a business case evaluation taking place prior to undertaking activities such as road building and developing inventory. At the broader level, government may be revisiting organizational structure, key priorities, and integrating across agencies in the public service. There likely won't be significant changes to our program because we are an integral part of industry as a whole, but in order to minimize any impacts to staff outside of BCTS, government may be asking if some of our contracted work could be done by in-house employees instead. There would likely be a push back by the contracting community if this change was significant, but much of our contracting is specialized and most government employees would not possess those specialized skills anyway.

Priorities: We have a set of operational goals that are:

- 1) MPS
- 2) customer and market needs within constraints of MPS, and
- 3) generating net revenue.

Unfortunately, generating net revenue is challenging at the moment due to external factors such as economic downturn and mountain pine beetle damage.

Comments:

- A question was posed regarding an October 9, 2008 letter to the Minister about movement of BCTS wood to First Nations. How will the New Relationship Strategy affect BCTS? Wood in the hands of First Nations is more undercut than wood in the hands of licensees. Concern that BCTS will not have 20 percent available.
 - The Ministry responded that we are not giving away BCTS volume as it is not compatible with the MPS. However, there are many pressures around how we work with First Nations.
 - We are on the leading edge of figuring out how to collaborate with Haida. That is part of why we are looking at Section 109 of the *Forest Act*. Intention that our volume and their volume both go to market.
 - BCTS sometimes sells based on gross cruise volume rather than net. This is a lump sum TSL. Staff were told to ensure all prospective bidders have a clear understanding of provisions (gross vs. net). BCTS is wrestling with this challenge with the MPS Committee.
- In Industry, 50 percent of people are out of work. MFR has about 3800 people. Will right-sizing be undertaken?
 - Government budget has been published so that information is available. A 212 FTE reduction is indicated. This is partly due to the upcoming demographic change in the labour market. BCTS has not substantially changed what we are doing, so our staff are being fully utilized.

- **C & E Activities:** The Resource Management Coordination Program (RMCP) is an example of the new integrated services model.
- **WorksafeBC:** WorkSafeBC is promoting a new regulation that will impact BCTS - the Radio Use Protocol will impact Forest Service Roads. MFR is on the cusp of posting signs as time and resources allow. A decision may be made to go to an accelerated replacement schedule.
- **Fair Share Program:** Some members are pushing for a taxation based concept. They suggest some BCTS net revenue stay in the local community rather than going to consolidated revenue.
- **BC Pulp & Paper Task Force:** We suspect there will be an increased demand from BC Pulp Mills within the next 6 months.
- **Next Meeting:**
 - Confirmed, TSAC will continue to meet quarterly.
 - Changes occurring related to MPS may require an interim conference call.
 - Next meeting date: **September 10, 2009**
 - Send agenda items to Dannielle (Dannielle.kitt@gov.bc.ca)

Meeting adjourned.