

# BC Timber Sales

## QUARTERLY PERFORMANCE REPORT

*for the period April 1<sup>st</sup> to June 30th, 2013  
Fiscal 2013/14*

ECONOMIC PROSPERITY - SUSTAINABLE RESOURCES - EXCELLENCE



Ministry of  
Forests, Lands and  
Natural Resource Operations



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# INTRODUCTION

BC Timber Sales (BCTS) presents its first quarter performance report for 2013/14. Quarterly performance reports are a key part of the BC Timber Sales Performance Management and Accountability Framework.

## Business Goals

**BC Timber Sales has four business goals:**

Consistent with safe practices, sound forest management, and maintaining effective relationships BC Timber Sales...

1. Is a high-performing organization with skilled, motivated and proud people.
2. Provides a credible reference point for costs and pricing of timber harvested from public land in B.C.
3. Provides a reliable supply of timber to the market, through open and competitive auctions subject to meeting the requirements of cost and price referencing stated in Goal 2.
4. Maximizes net revenue for the Province subject to the requirements of cost and price referencing stated in Goal 2 and supplying timber for auction stated in Goal 3.

## Business Outcomes

**BC Timber Sales' principles and goals support the outcomes of Economic Prosperity, Sustainable Resources and Excellence.**

- Increased safety awareness and a culture of safety in all its practices and operations.
  - BCTS is recognized as demonstrating sound forest management
  - Mutually beneficial working relationships between BCTS and its stakeholders
1. Continuous improvement and long term success of BCTS.
  2. The province's timber Market Pricing System and the Softwood Lumber Agreement with the USA.
  3. Rural economies, jobs and families.
  4. Maximum value for asset and net revenue to support government priorities.

## Key Outcome Indicators

The success of BCTS in achieving its business goals is measured through three key outcome indicators.

- BC Timber Sales' timber volume advertised as a percent of projected provincial harvest volume.
- Volume of timber sold.
- Net revenue earned.

# QUARTERLY PERFORMANCE HIGHLIGHTS



## Overall Performance: Summary of Highlights

2013 marks the ten year anniversary of BC Timber Sales (BCTS). We are proud of our accomplishments over the last ten years. The following are some highlights of our accomplishments.

### Economic Prosperity

- Developed and auctioned **143 million** cubic metres of timber - Sold **117 million** cubic metres.
- Generated **\$360 million** in net revenue for the province and the people of BC.
- Contributed **\$1.1 billion** to rural economies.
- Supported over **10,000 direct & 11,000 indirect jobs** .

### Sustainable Resource Development

- Achieved **Sustainable Forest Management Certification** over 100% of timber volume.
- Planted **425 million** trees to reforest harvested land.
- Deactivated **4,000 kilometres** of road no longer required for harvesting activities.

### Excellence

- Achieved **SAFE Companies Certification**.
- Entered into **79 agreements** with First Nations and Communities.
- Partnered with the Forests for Tomorrow program.
- Implemented a number of **business efficiencies** and **cost reduction** initiatives.
- Adopted the **Lean Philosophy** to continuous improvement.



## Safety: Summary of Highlights

BCTS continues to maintain its SAFE Company Certification and collaborate with industry through the BC Forest Safety Council to promote the achievement of safe and healthy workplaces within the forest sector.

In Q1 BCTS has initiated an internal maintenance audit in order to ensure the Safety Program continues to be effective, and identify potential improvements. In addition a Lean Kaizen improvement workshop was undertaken in order to improve the quality and effectiveness of our issue reporting, and investigation processes.

# QUARTERLY PERFORMANCE HIGHLIGHTS



## Forest Management: Summary of Highlights

BCTS currently has 100% of its apportioned volume certified to one of three major forest certification standards (CSA, SFI and FSC). In this first quarter of Fiscal Year 2013-2014:

- The Stuart Nechako Business Area (TSN) has recertified its operations to the SFI 2010-2014 Standard under the BCTS provincial SFI multisite certificate. TSN was previously certified to CSA.
- After successfully completing its 2012 FSC Annual Audit, the suspension of the Coast Forest Conservation Initiative (CFCI) Forest Stewardship Council (FSC) certification of which BCTS Seaward-tlasta BA (TST) is a member was lifted on May 30, 2013. BCTS continues to work towards ensuring its commitments under the FSC standard are being met. The 2013 CFCI FSC Annual Audit is expected to be in the fall of 2013.

BCTS continues to actively engage with industry and government colleagues in a number of forestry initiatives such as Ecosystem Based Management, Forest Certification, EMS, Species at Risk Management, Invasive Species and Climate Adaptation.

## High Performing Organization: Summary of Highlights

In its pursuit of excellence and a Lean continuous improvement culture 19 Lean champions throughout BCTS were identified to provide local level Lean leadership and expertise. In collaboration with the Lean Program Office initial training was provided to introduce Lean concepts and develop the skills necessary to lead small local projects. The Champions are tasked with completing a minimum of 26 local level Kaizen workshops this fiscal to improve operations. In addition, two corporate level Lean Kaizen workshops to improve efficiency of processes were completed: Safety Issue Reporting, Investigation and Tracking Processes; and Timber Sale Licence Deposit Release Process.

During its June meeting the Leadership Team prioritized corporate initiatives for BCTS that will form the foundations for key business plan strategies for the year. In addition, an examination of the roles and effectiveness of BCTS was announced in the Minister's Letter of Expectations. Recommendations for improvement from the review will be presented to Cabinet.





## Effective Relationships: Summary of Highlights

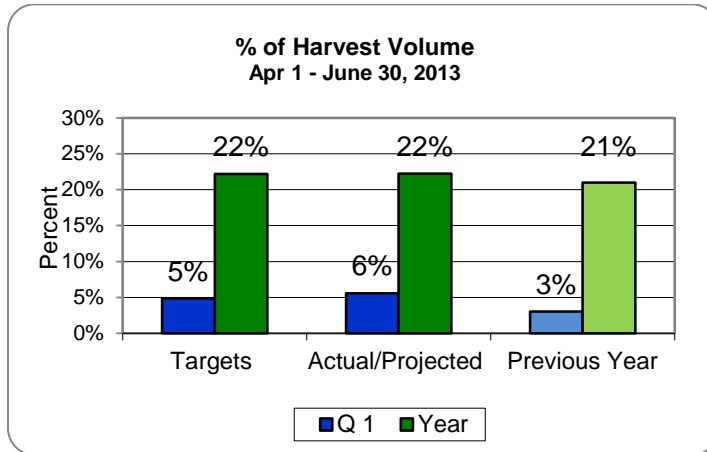
Effectiveness in building and maintaining strong relationships is critical to ensuring BC Timber Sales continues to meet government's objectives and delivers superior and enduring performance. To that end, there are a range of collaborative agreements that the program has and will continue to pursue across the province that strengthen relationships with First Nations and rural communities. To-date these have most commonly taken the form of memorandums of understanding and good neighbour agreements. However, BC Timber Sales is initiating or being called upon to engage in an increasing number of more sophisticated service, co-operative management and other forms of business agreements.

In addition to the business oriented work noted above, BC Timber Sales has also been collaborating with the First Nations Relations Branch of the Ministry of Forests, Lands and Natural Resource Operations and other government agencies to support the BC First Nations Forestry Council "First Nations Forestry Technician Training Program". This program assists First Nations students develop their skills and knowledge of the forest industry with the goal of building capacity for First Nations to be full partners in the sector. At present, the first of two years of summer work experience is underway for five students who are being mentored by staff from local BC Timber Sales offices across the province."

# PROVIDING A CREDIBLE REFERENCE POINT

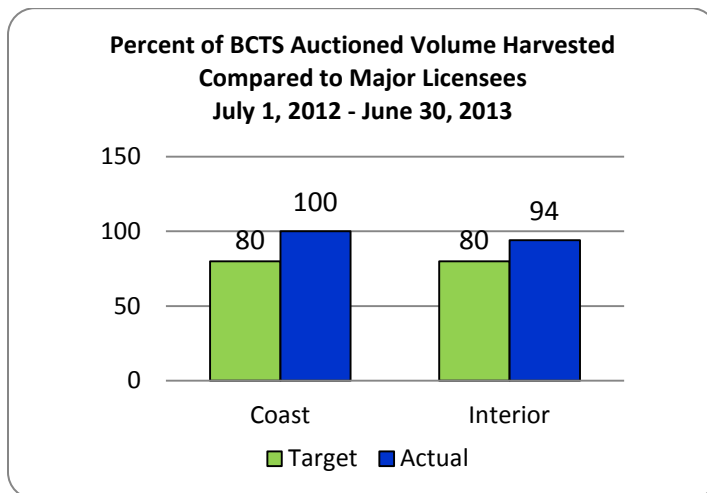
for costs and pricing of timber harvested from public land in B.C.

## BCTS auction volume as a percent of projected provincial harvest



The volume of timber advertised by BCTS must be at a level sufficient to support the Market-based Pricing System. In the first quarter BCTS had advertised 6% of the projected annual provincial harvest volume. This is 20% more than target and 50% higher than last year's first quarter performance. BCTS is projecting to advertise 22% of the projected provincial harvest volume by year end.

## Timber Sales sold, in total, provide sufficient data to support the Market Pricing System.



For BCTS to ensure it provides credible data to establish market-based stumpage rate it has to develop and auction sufficient timber sales to provide statistically credible data to the Market Pricing System. For the year ending June 30<sup>th</sup>, 2013 BCTS has exceeded its target for both the interior and the coast regions. BCTS auction volume harvest was within 10% of the Major Licensee harvest volume by species and grade more than 80% of the time.

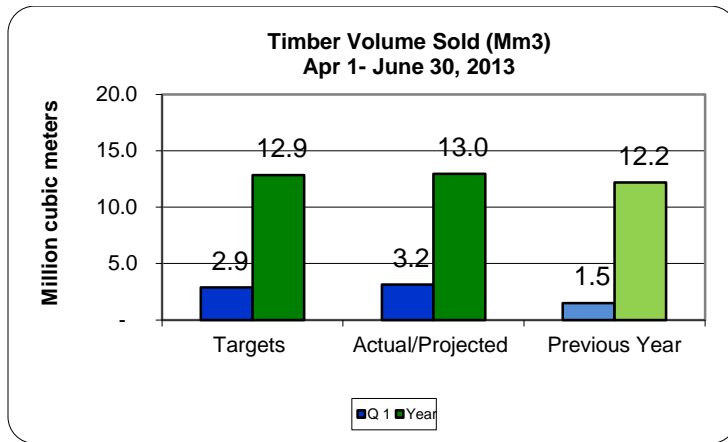
There is no single measure that completely demonstrates our success in providing sufficient data. However, the percent of volume harvested from BCTS auctioned volume as a percentage of the total timber volume harvested from BCTS auctioned volume is within 10 percentage points of the volume harvested by the Major Licensees as a percentage of the total timber volume harvested by the Major Licensees for each major species and grade 80% of the time is a strong indicator of our success in auctioning timber that holistically is representative of the timber species and grades being harvested by the Major Licensees.



# PROVIDING A RELIABLE SUPPLY OF TIMBER

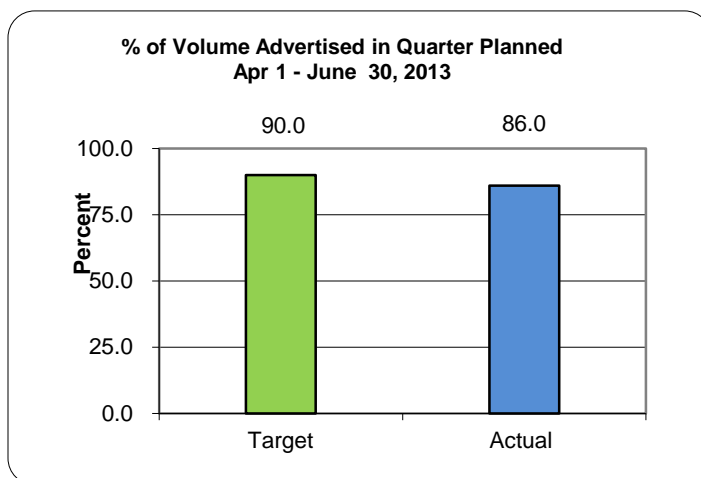
to the market, through open and competitive auctions.

## Timber Volume Sold



A key indicator that BCTS is providing a reliable supply of timber to the market is the total timber volume it sells. BCTS sold 3.1 million cubic metres of timber through competitive auctions in the first quarter. This is 10% more than target and 113% higher than the prior

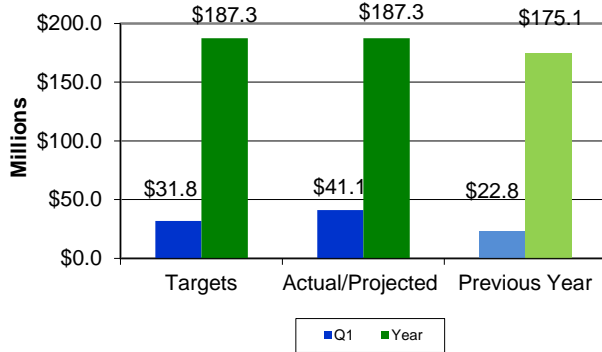
## The volume of timber supplied to the market is reliable



The percent of timber volume advertised in the quarter planned is another indicator of reliability of supply. This measure is also an indicator of the reliability of BCTS' Sales Schedules. In the first quarter, 9 of 12 business areas achieved or exceeded the target. Three business areas under achieved the target. In total, BCTS advertised 86% of timber volume planned.

# MAXIMIZING NET REVENUE FOR THE PROVINCE

**Gross Revenue**  
Apr 1 - June 30, 2013

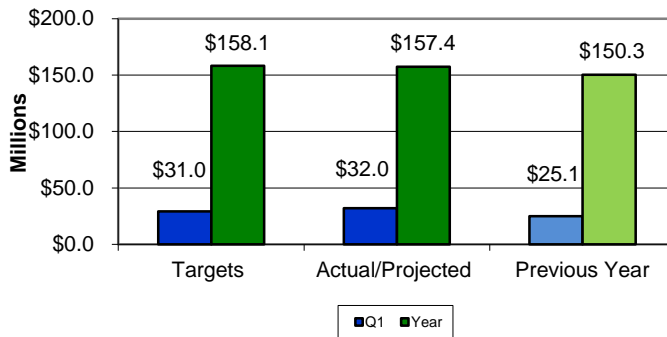


## Gross Revenue

BCTS gross revenue for the first quarter was \$41.1 million – \$9.3 million higher than target. Compared to the first quarter of the previous year, gross revenue earned has increased \$18.3 million or 80%.

BCTS is projecting to achieve or exceed its target gross revenue for the year.

**Capitalized Expenditures**  
Apr 1 - June 30, 2013

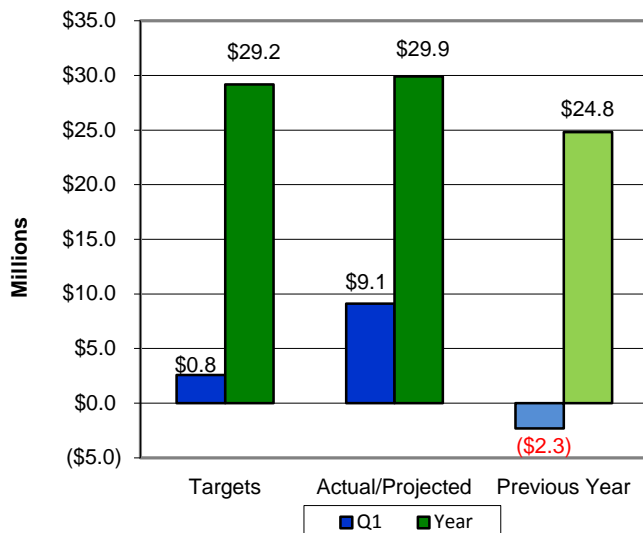


## Less: Capitalized Expenditures

Capitalized expenditures for the first three months were \$6.9 million greater than the previous year and \$1.0 million greater than target.

BCTS is projecting year end expenditures of \$157.4.

**Net Revenue**  
April 1 - June 30, 2013

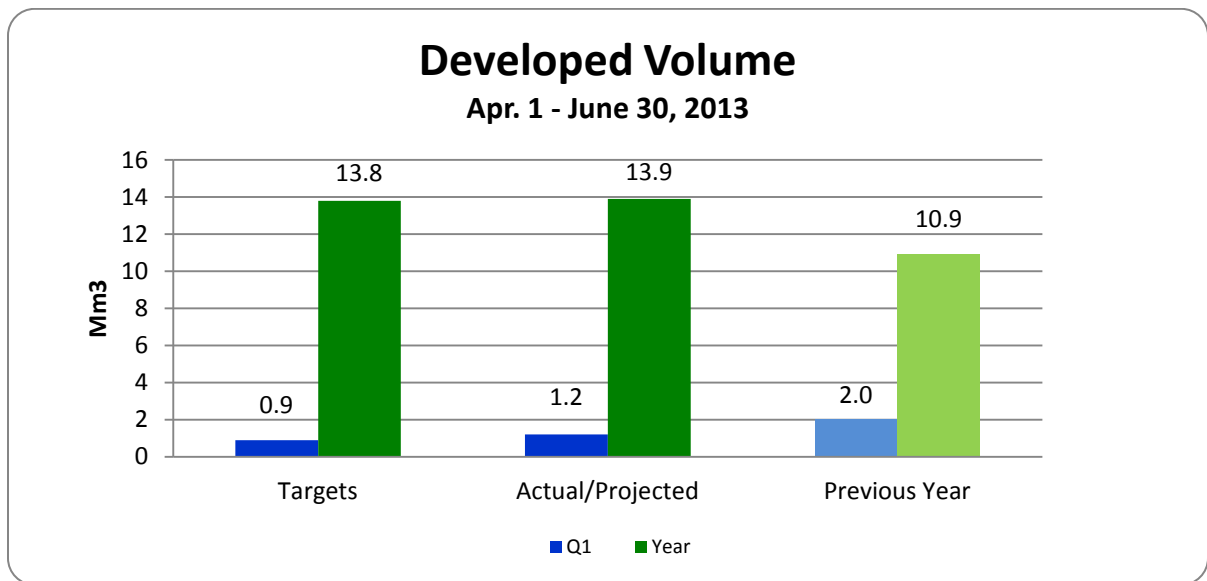


## Equals: Net Revenue

Net revenue for the three months was \$8.3M higher than target and \$11.4M higher than last year. BC Timber Sales is projecting to over achieve its net revenue target of \$29.5M by years end.

# PRODUCTION

## Production of Developed Timber Volume Available for Sale



In order to ensure a future reliable supply of timber to the market, maximise future net revenues and meet future demand for timber sales BCTS must ensure sufficient timber is developed each year.

To date BCTS has developed 1.2 million cubic metres of timber ready for sale, over achieving its target by 0.3 million cubic metres or 33%. Assuming BCTS is able to maintain its budgeted human resources it is projecting to develop 13.9 million cubic metres by the end of the year. Should the current government hiring freeze continue the expected impact to production will be a loss of about 1.0 million cubic metres.

# APPENDIX 1 - OUTPUTS

## Key Year to Date Results by Coast and Interior Areas April 1<sup>st</sup> to June 30<sup>th</sup>, 2013

Note 1: The timing variance is the volume of timber advertised but not yet sold at cut off.

	Target	Total	Coast	Northern Interior	Southern Interior
<b>Volume Offered (Mm3)</b>	3.2	3.7	1.0	1.6	1.1
Less: No Bid Sales/No Sale	(0.3)	(0.4)	(0.06)	(0.3)	(0.04)
Less: Timing Variance (note 1)		(0.5)	(0.0)	(0.2)	(0.3)
Plus: YE Timing Variance		0.4	0.1	0.2	0.1
<b>Volume Sold (Mm3)</b>	2.9	3.2	1.0	1.3	0.9
<b>Volume Harvested (Mm3)</b>	1.8	1.7	0.9	0.3	0.5
<b>Roads (km constructed)</b>	11	0	0	0	0
<b>Bridges (number installed)</b>	7	3	1	0	2
<b>Deactivation (km deactivated)</b>	6	5	0	0	5
<b>Site Prep (Ha)</b>	35	399	0	10	389
<b>Planting (Millions of seedlings planted)</b>	9.7	13.2	1.9	3.0	8.3

Lump Sum Timber Sale Licences	Number (TSL)	Volume (Mm3)
• Advertised	48	1.61
• Less: No Bid/No Sale	(7)	(0.25)
• Total Sold	41	1.36

# APPENDIX 2 - REPORT ON FINANCIAL PERFORMANCE

April 1, 2013 – June 30, 2013

	2012/13 First quarter (Millions)	2013/14 First quarter (Millions)
Revenue from External Sources	\$22.8	\$41.1
<b>GROSS REVENUE</b>	<b>\$22.8</b>	<b>\$41.1</b>

## Capitalized Expenses:

### Cost of Timber Inventory Harvested

Administration / Salaries	\$2.8	\$4.1
Planning & Sales	\$2.1	\$3.0
Access - Amortization	<u>\$7.8</u>	<u>\$7.1</u>
<b>Sub-Total Cost of Timber Inventory Harvested</b>	<b>(\$12.7)</b>	<b>(\$14.2)</b>

### Other Costs

Silviculture Liability Expense	\$4.9	\$8.8
Road & Bridge Maintenance	\$1.0	\$0.7
Road Deactivation	\$0.0	\$0.0
Harvest Conformance	\$0.0	\$0.2
Operational & Administrative Overhead	\$6.5	\$8.2
Land Base Investment/ Forest For Tomorrow (FFT)	\$0.5	\$2.0
Land Base Investment/ FFT Recoveries	<u>(\$0.5)</u>	<u>(\$2.1)</u>
<b>Sub-Total Other Costs</b>	<b><u>(\$12.4)</u></b>	<b><u>(\$17.8)</u></b>

<b>NET REVENUE/(LOSS)</b>	<b><u>(\$ 2.3)</u></b>	<b><u>\$ 9.1</u></b>
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Selected Balance Sheet Items	June 30th 2012/13	June 30th 2013/14
	(Millions)	(Millions)
<b>Silviculture Liability</b>	<b>\$ 84.4</b>	<b>\$ 93.7</b>
<b>Inventory Value of Developed Timber</b>		
Timber Inventory – Opening Balance	\$124.5	\$122.5
Timber Developed	<u>\$ 7.6</u>	<u>\$ 11.2</u>
Timber Available for Sale	\$132.1	\$133.7
Cost of Timber Inventory Harvested	<u>(\$ 4.9)</u>	<u>(\$ 7.1)</u>
<b>Timber Inventory – Closing Balance</b>	<b>\$127.2</b>	<b>\$126.6</b>
<b>Roads</b>		
Book Value	\$694.6	\$702.3
Accumulated Amortization	<u>(\$433.0)</u>	<u>(\$450.0)</u>
<b>Net Book Value</b>	<b>\$261.6</b>	<b>\$252.3</b>
<b>Deactivation Liability</b>	<b>\$ 4.2</b>	<b>\$ 5.2</b>
<b>Seed Inventory</b>	<b>\$ 22.0</b>	<b>\$ 22.0</b>

(Unaudited)

# APPENDIX 3 - Key MPS Variables Distribution Comparisons—Interior

**Table 1: Interior BCTS Representativeness Analysis\* - Grades**

July 1, 2012 to June 30, 2013

Species Group	Grade	Tenure			
		BCTS Auctions**		Major Licences***	
Coniferous	1	680,979	9.5%	4,661,606	12.9%
	2	1,249,261	17.5%	9,010,289	25.0%
	3		0%		0%
	4	428,979	6.0%	3,781,306	10.5%
	5		0%		0%
	6	19,518	0.3%	113,480	0.3%
	Dead Potential	2,436,044	34.1%	11,531,696	32.0%
	Live	2,229,591	31.2%	6,413,249	17.8%
	blank		0%		0%
	Coniferous Total		7,044,373	98.6%	35,512
Deciduous	1	261	0.0%	9,275	0.0%
	2	7,698	0.1%	244,482	0.7%
	3		0%		0%
	4	8,202	0.1%	285,533	0.8%
	5		0%		0.0%
	6	94	0.0%	2,770	0.0%
	Dead Potential	4,210	0.1%	4,118	0.0%
	Live	81,578	1.1%	57,928	0.2%
	blank		0%		0%
	Deciduous Total		102,043	1.4%	604,105
Interior Total		7,146,416	100%	36,115,731	100%

\*all logs, species and grades billed to crown land. Excludes special forest products, Christmas trees, waste, reject, private and federal land. Interior grades only.

\*\* BCTS Sec. 20 = file types 'A20', 'A27' and 'B20' - BCTS indicator = 'Y'

\*\*\* Majors = FL, TFL, TL, FL (sec 47.3) BCTS excluded.

**Table 2: Interior BCTS Representativeness Analysis\* - Species**

July 1, 2012 to June 30, 2013

SPECIES_GROUP	SPECIES	BCTS Auctions**		Major Licences***		
Coniferous	Balsam	518,517	7.3%	2,895,764	8.0%	
	Cedar	157,346	2.2%	603,297	1.7%	
	Cypress		0%		0%	
	Fir	322,078	4.5%	2,252,412	6.2%	
	Hemlock	152,463	2.1%	616,823	1.7%	
	Larch	70,120	1.0%	348,605	1.0%	
	Lodge-Pine	4,486,481	62.8%	19,915,613	55.1%	
	Spruce	1,310,068	18.3%	8,795,969	24.4%	
	White Bark Pine	313	0.0%	4,863	0.0%	
	White Pine	13,775	0.2%	52,849	0.2%	
	Yellow Pine	13,212	0.2%	25,439	0.1%	
	Yew		0%		0%	
	Coniferous Total		7,044,373	98.6%	35,511,626	98.3%
	Deciduous	Alder		0%		0%
Aspen		69,362	1.0%	497,823	1.4%	
Birch		19,097	0.3%	10,165	0.0%	
Cottonwood		13,584	0.2%	96,110	0.3%	
Maple			0%		0%	
Willow			0%	6	0%	
Deciduous Total		102,043	1.4%	604,105	1.7%	
Interior Total		7,146,416	100%	36,115,731	100%	

All logs, species and grades billed to crown land. Excludes special forest products, Christmas trees, waste, reject, private and federal land. Interior grades only.

\*\* BCTS Sec. 20 = file types 'A20', 'A27' and 'B20' - BCTS indicator = 'Y'

\*\*\* Majors = FL, TFL, TL, FL (sec 47.3) BCTS excluded.

# APPENDIX 3- Key MPS Variables Distribution Comparisons— Coast

**Table 3: Coast BCTS Representativeness Analysis\* - Grades**

July 1, 2012 to June 30, 2013

SPECIES_GROUP	GRADE	Tenure			
		BCTS Auctions**		Major ***	
Coniferous	B	1,946	0.1%	10,975	0.1%
	C	25,956	1.1%	119,540	1.1%
	D	24,546	1.0%	181,102	1.7%
	E	121	0.0%	2,222	0.0%
	F	24,530	1.0%	208,464	1.9%
	G	305	0.0%	5,820	0.1%
	H	496,854	20.7%	2,337,586	21.8%
	I	259,305	10.8%	1,235,492	11.5%
	J	978,644	40.7%	4,505,396	42.0%
	K	12,397	0.5%	128,868	1.2%
	L	26,248	1.1%	208,384	1.9%
	M	30,820	1.3%	116,787	1.1%
	U	342,960	14.3%	1,078,072	10.1%
	W		0%		0%
	X	93,690	3.9%	313,142	2.9%
	Y	74,964	3.1%	229,235	2.1%
Coniferous Total		2,393,284	99.6%	10,681,084	99.6%
Deciduous	W	9,369	0.4%	39,936	0.4%
	Y	467	0.0%	1,045	0.0%
Deciduous Total		9,836	0.4%	40,981	0.4%
Coast Total		2,403,120	100%	10,722,065	100%

\*all logs, species and grades billed to crown land. Excludes special forest products, Christmas trees, waste, reject, private and federal land.

Coast grades only \*\* BCTS Sec. 20 = file types 'A20', 'A27' and 'B20' - BCTS indicator = 'Y'

\*\*\* Majors = FL, TFL, TL, FL (sec 47.3) BCTS excluded.

**Table 4: Coast BCTS Representativeness Analysis\* - Species**

July 1, 2012 to June 30, 2013

SPECIES_GROUP	SPECIES	Tenure			
		BCTS Auctions**		Major Licences***	
Coniferous	Balsam	248,758	10.4%	1,232,112	11.5%
	Cedar	634,822	26.4%	2,298,943	21.4%
	Cypress	83,194	3.5%	362,121	3.4%
	Fir	568,333	23.7%	2,074,940	19.4%
	Hemlock	794,244	33.1%	4,423,357	41.3%
	Lodge-Pine	13,237	0.6%	6,902	0.1%
	Spruce	48,420	2.0%	276,026	2.6%
	White Pine		0.0%	6	0.0%
	Yellow Pine	2,276	0.1%	6,679	0.1%
	Yew		0%		0%
Coniferous Total		2,393,284	99.6%	10,681,084	99.6%
Deciduous	Alder	8,054	0.3%	33,912	0.3%
	Aspen		0.0%		0.0%
	Arbutus		0.0%		0.0%
	Birch	578	0.0%	352	0.0%
	Cottonwood	95	0.0%	5,123	0.0%
	Maple	1,109	0.0%	1,594	0.0%
Deciduous Total		9,836	0.4%	40,981	0.4%
Coast Total		2,403,120	100%	10,722,065	100%

\*all logs, species and grades billed to crown land. Excludes special forest products, Christmas trees, waste, reject, private and federal land.

Coast grades only.

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**For more information on BC Timber Sales**

**visit our Web site at**

**[www.for.gov.bc.ca/bcts](http://www.for.gov.bc.ca/bcts)**

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