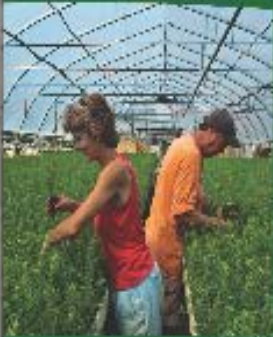


# BC Timber Sales

## QUARTERLY PERFORMANCE REPORT

*For the period April 1<sup>st</sup> to December 31st, 2013  
Fiscal 2013/14*

ECONOMIC PROSPERITY - SUSTAINABLE RESOURCES - EXCELLENCE



Ministry of  
Forests, Lands and  
Natural Resource Operations

# BCTS

BC Timber Sales

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# INTRODUCTION

BC Timber Sales (BCTS) presents its third 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

BCTS is projecting auction sufficient representative timber sales to provide statistically credible data to the Market Pricing System.

However, a lack of staff resources and operational issues are adversely impacting overall performance. BCTS is projecting to develop 1.1 million cubic metres or 8% less timber and sell 0.7 million cubic metres or 5% less than its target by year end.

Overall demand for timber continues to grow. The prices being paid by BCTS licensees on timber harvested are exceeding original projections. As a result, BCTS is projecting to exceed its target Net Revenue for the year earning \$47.7 million.



## Safety: Summary of Highlights

The BCTS Safety Working Group received leadership team endorsement of new Safety Program goals. The new goals are as follows:

- Enhance safety values and beliefs.
- Improve Safety Practices.
- Enhance Safety Performance.
- Apply Continuous Improvement principles to the Safety Program.

A Lean Kaizen improvement workshop was undertaken in Q1 in order to improve the safety issue reporting, and investigation processes. The recommendations from the workshop have now been fully implemented and a new issue reporting and investigation process is now in use. The new process is expected to increase the number of safety issues which are reported and improve the quality of our investigations.

# 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. ( 80% SFI, 19% CSA, and 1% FSC).

- The Babine Business Area (TBA) has recertified its operations in the Morice TSA to the SFI 2010-2014 Standard under the BCTS provincial SFI multisite certificate. The TBA Morice TSA was previously certified to CSA.
- The Chinook Business Area (TCH) was suspended from the FSC Certificate held by and managed by Taan Forest LP, as of July 04, 2013. Suspension was a result of the inability to demonstrate that the management objectives of Husby Forest Products Ltd. within Timber Supply Area 25 satisfy the objectives of the FSC Management Plan and the FSC Principles and Criteria. During Q3 both parties agreed to continue to follow the current FSC Management Plan as signed by the parties and to work together to develop a long-term agreement to maintain FSC certification over the FLTC License area.
- BCTS continues participation in the CSA User Group, the CSA Technical Committee, the PEFC Canada National Governing Body, the Western Canada SFI Implementation Committee (WCSIC), the SFI Standard Revision Process and the FSC National Standards Revision Process.

## High Performing Organization: Summary of Highlights

In October 2013, BCTS employees participated in the 2013 Work Environment survey. This survey, which is part of the BC Public Service commitment to understanding and improving employee engagement, forms a valuable tool for the organization to use as a high performing organization. Future work will continue as the WES results are communicated across the branch.

Work on the BCTS Role & Effectiveness Review continued during the quarter. The review is divided into two phases – Phase 1 Role, Phase 2 Effectiveness. Phase 1 recommendations are expected to be presented to Cabinet in the fourth quarter. Phase 2 of the review will be conducted in the fourth quarter





## Effective Relationships: Summary of Highlights

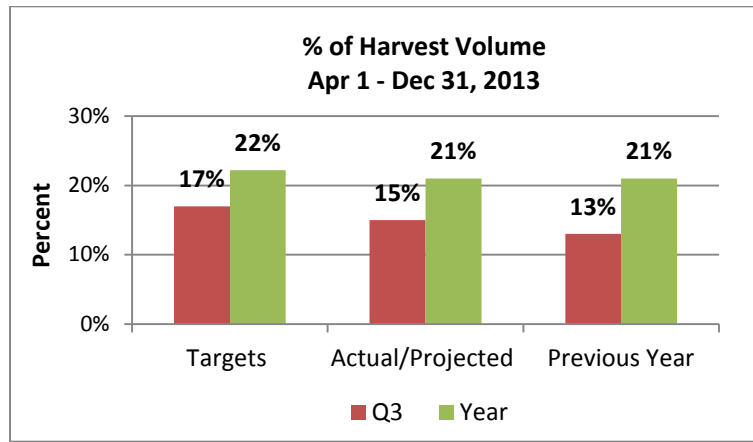
“Effectiveness in building and maintaining strong relationships is critical to ensuring BC Timber Sales continues to meet government’s objectives and deliver superior and enduring performance. To that end, there are a range of collaborative agreements that the program has and will continue to pursue across the province that strengthen relationships with First Nations and rural communities. Virtually all of BC Timber Sales Business Areas have some form of business to business agreement, totalling over 85 agreements. Agreements range from protocol agreements - most commonly in the form of memoranda of understanding- and good neighbour agreements, including joint Forest Stewardship Plans, and basic service agreements. BC Timber Sales is initiating and being called upon to engage in an increasing number of more sophisticated service, co-operative management and other forms of business agreements.

BC Timber Sales continues to collaborate 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. The students are being mentored by staff from local BC Timber Sales offices across the province. Three of these students are continuing into the second year of summer work experience with BCTS as part of the two-year pilot program. An additional six students will be hired to gain summer work experience, and will also be mentored by BCTS staff, through a separately funded program.

# PROVIDING A CREDIBLE REFERENCE POINT

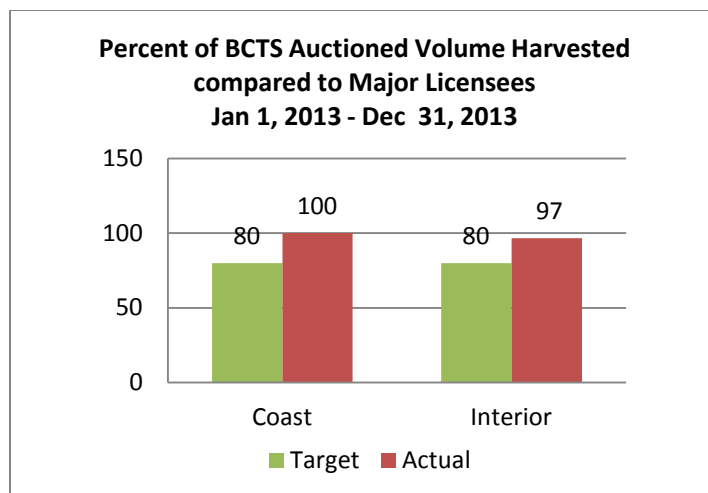
for costs and pricing of timber harvested from public land in B.C.

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



The volume of timber advertised by BCTS must be at a level sufficient to support the Market-based Pricing system. By the third quarter BCTS had advertised 15% of the projected annual provincial harvest volume. This is two percentage points less than target and two higher than last year's performance. BCTS is projecting to advertise 21% 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 December 31<sup>st</sup>, 2013 BCTS has delivered a representative harvest in both the interior and the coast regions. Coast BCTS volume harvested was within both 10 and 5 percentage points of the Major Licensee harvest volume by species and grade 100% of the time. In the Interior the harvest volume was within 5 percentage points 87% of the time and 10 points 97% of the time.

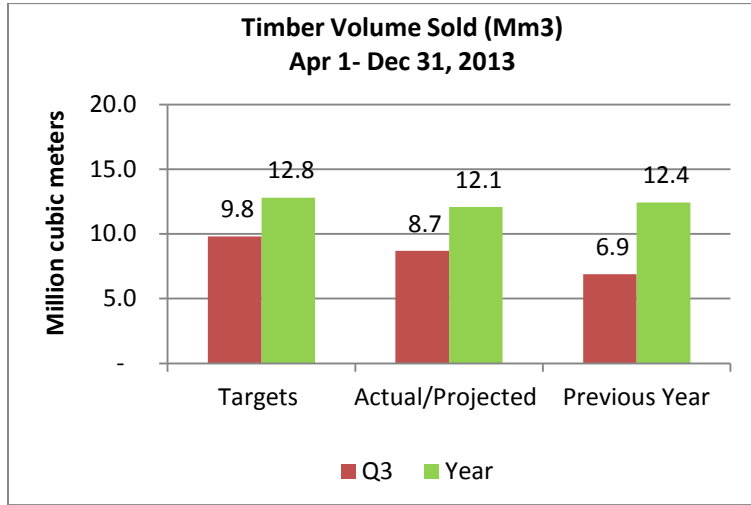
There is no single measure that completely demonstrates our success in providing sufficient data. However, the percent of volume harvested from BCTS auctioned volume as a percentage of the total timber volume harvested from BCTS auctioned volume is within 10 percentage points of the volume harvested 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

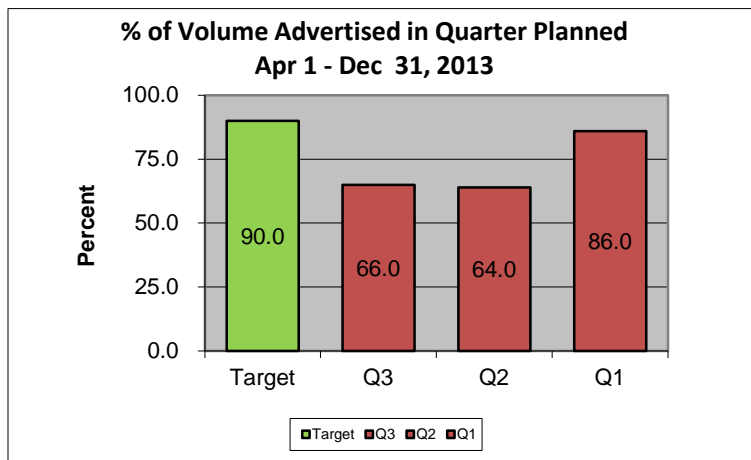
to the market, through open and competitive

## 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 8.7 million cubic metres of timber through competitive auctions in the first nine months. This is 13% less than target and 26% higher than the prior year's performance. A lack of staff resources and operational issues are adversely impacting performance. BCTS is projecting to sell 5% less than its target volume sold by year end.

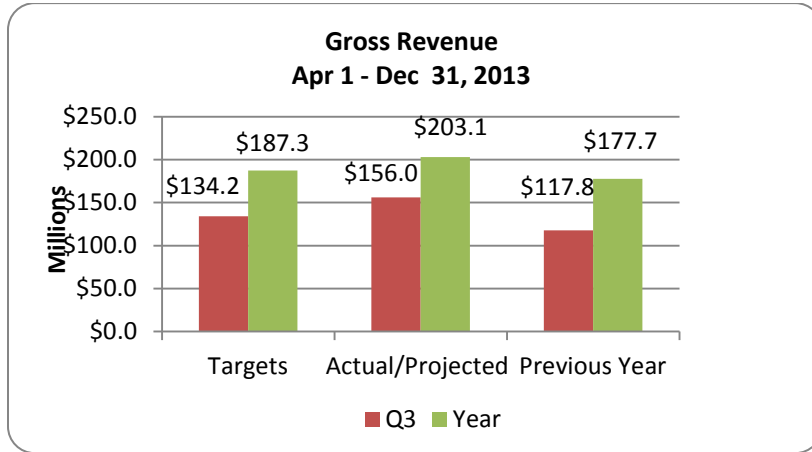
## The volume of timber supplied to the market is reliable



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. BCTS did not achieve its target in the third quarter. Only 4 of 12 business areas achieved the target – resourcing issues delayed sales

# MAXIMIZING NET REVENUE FOR THE PROVINCE

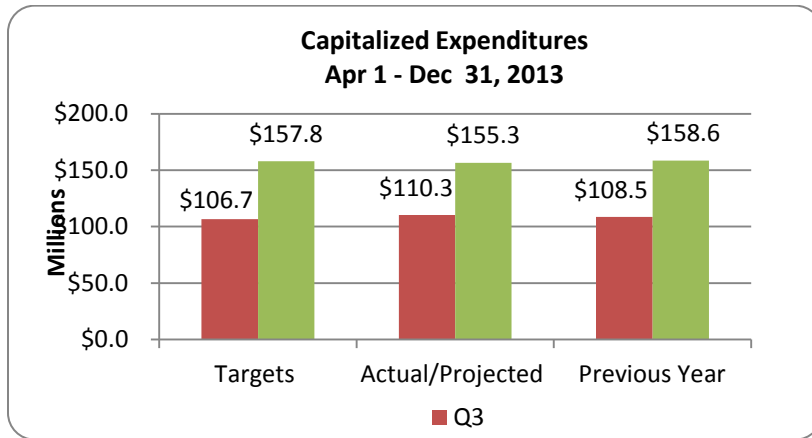
## Gross Revenue



BCTS gross revenue for the first nine months was \$156.0 million – \$21.2 million more than target. Compared to the same period in the previous year, gross revenue earned has increased \$38.2 million or 32%.

BCTS is projecting to exceed its target gross revenue for the year by \$15.8 million or 8%. The increase to gross revenue is due to higher than expected billed rates.

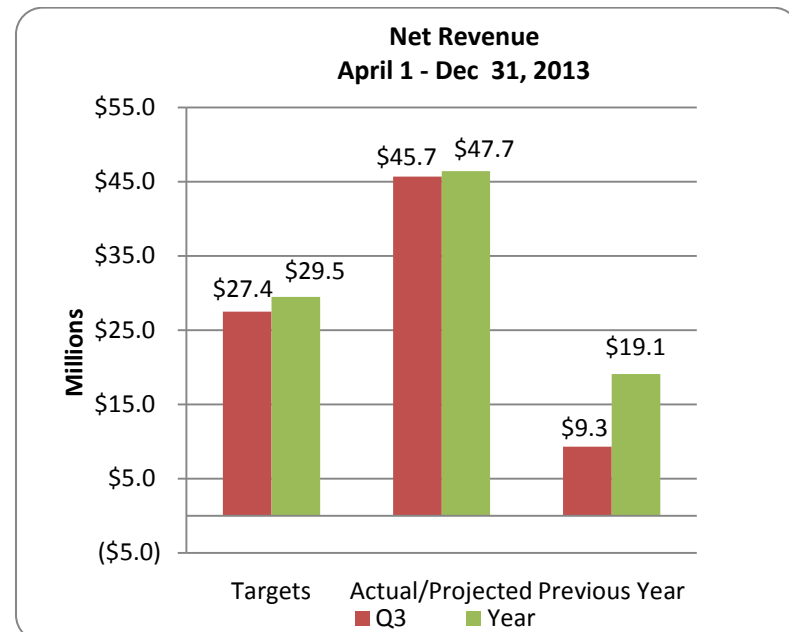
## Less: Capitalized Expenditures



Capitalized expenditures for the first nine months were \$1.8 million higher than the previous year due to increased harvest volumes over the previous year.

BCTS is projecting year end expenditures of \$155.3 million which is 1% less than target due to cost savings.

## Equals: Net Revenue

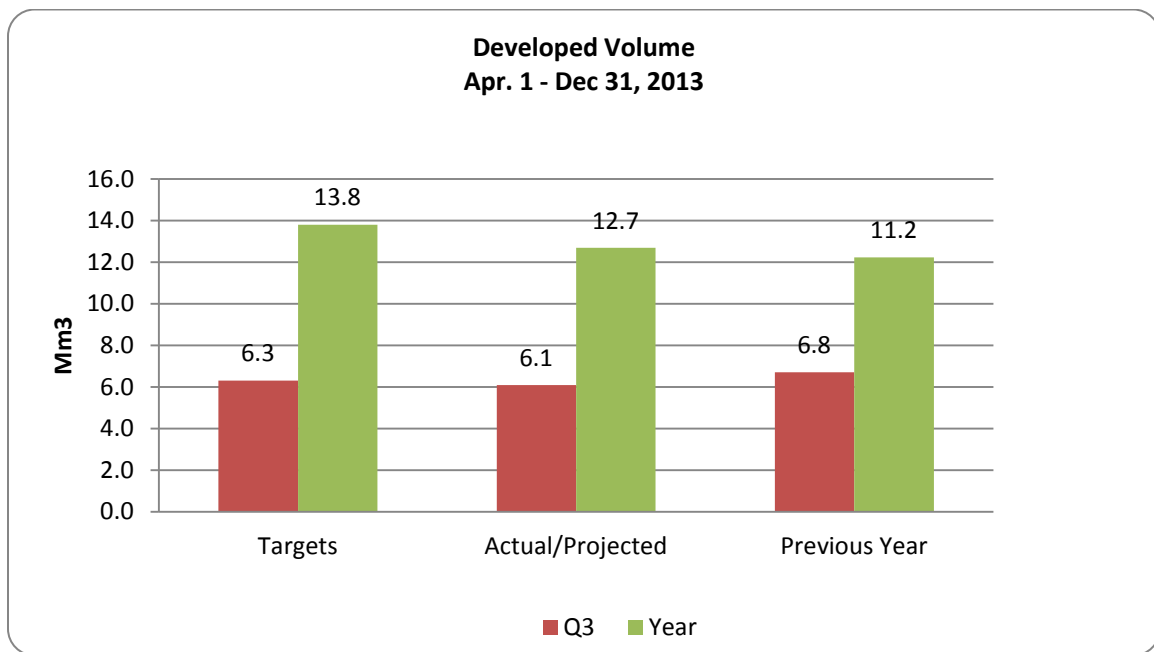


Net revenue for the first nine months was \$18.3 million higher than target and \$36.4 million greater than last year as a result of higher than expected revenues.

BC Timber Sales is projecting to over achieve its net revenue target by \$18.2 million by year end as a result of higher than expected billed rates and cost savings.

# 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 6.1 million cubic metres of timber ready for sale and is behind schedule by 0.2 million cubic metres. A shortage of staff and contracted resources is impacting performance and BCTS is projecting to under achieve its target for the year by 1.1million cubic metres or 8%. Continued staffing restrictions are expected to further impact production performance in quarter 4.

# APPENDIX 1 - OUTPUTS

## Key Year to Date Results by Coast and Interior Areas April 1<sup>st</sup> to Dec 31<sup>st</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>	10.9	9.8	2.3	4.1	3.4
Less: No Bid Sales/No Sale	(1.1)	(1.3)	(0.1)	(1.0)	(0.2)
Less: Timing Variance (note 1)		(0.2)	(0.0)	(0.0)	(0.2)
Plus: YE Timing Variance		0.4	0.1	0.2	0.1
<b>Volume Sold (Mm3)</b>	9.8	8.7	2.3	3.3	3.1
<b>Volume Harvested (Mm3)</b>	8.0	8.1	2.2	2.8	3.1
<b>Roads (km constructed)</b>	187	96	11	5	80
<b>Bridges (number installed)</b>	100	0	0	0	0
<b>Deactivation (km deactivated)</b>	218	212	9	37	166
<b>Site Prep (Ha)</b>	5,017	4,941	0	614	4,327
<b>Planting (Millions of seedlings planted)</b>	32.7	34.2	3.4	15.7	15.1

<b>Lump Sum Timber Sale Licences</b>	<b>Number (TSL)</b>	<b>Volume (Mm3)</b>
Advertised	138	4.09
• Less: No Bid/No Sale	(22)	(0.63)
Total Sold	116	3.46

## APPENDIX 2 - REPORT ON FINANCIAL PERFORMANCE

April 1, 2013 – Dec 31, 2013

	2013/14 First quarter (Millions)	2013/14 Second quarter (Millions)	2013/14 Third quarter (Millions)
Revenue from External Sources	\$41.1	\$52.4	\$62.5
<b>GROSS REVENUE</b>	<b>\$41.1</b>	<b>\$52.4</b>	<b>\$62.5</b>

### Capitalized Expenses:

#### Cost of Timber Inventory Harvested

Administration / Salaries	\$4.1	\$8.2	\$9.8
Planning & Sales	\$3.0	\$6.3	\$7.8
Access - Amortization	<u>\$7.1</u>	<u>\$7.0</u>	<u>\$7.1</u>
<b>Sub-Total Cost of Timber Inventory Harvested</b>	<b>(\$14.2)</b>	<b>(\$21.5)</b>	<b>(\$24.7)</b>

#### Other Costs

Silviculture Liability Expense	\$8.8	\$8.7	\$8.8
Road & Bridge Maintenance	\$0.7	\$3.7	\$1.6
Road Deactivation	\$0.0	\$0.0	\$0.0
Harvest Conformance	\$0.2	\$0.1	\$0.1
Operational & Administrative Overhead	\$8.2	\$6.1	\$3.6
Land Base Investment/ Forest For Tomorrow (FFT)	\$2.0	\$3.1	\$1.8
Land Base Investment/ FFT Recoveries	<u>(\$2.2)</u>	<u>(\$3.4)</u>	<u>(\$2.0)</u>
<b>Sub-Total Other Costs</b>	<b><u>(\$17.7)</u></b>	<b><u>(\$18.3)</u></b>	<b><u>(\$13.9)</u></b>

<b>NET REVENUE/(LOSS)</b>	<b><u>\$ 9.2</u></b>	<b><u>\$ 12.6</u></b>	<b><u>\$23.9</u></b>
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Selected Balance Sheet Items	2013/14 First Quarter (Millions)	2013/14 Second quarter (Millions)	2013/14 Third Quarter (Millions)
<b>Silviculture Liability</b>	<b>\$ 93.7</b>	<b>\$ 90.5</b>	<b>\$ 92.3</b>
<b>Inventory Value of Developed Timber</b>			
Timber Inventory – Opening Balance	\$122.5	\$126.6	\$126.5
Timber Developed	<u>\$ 11.2</u>	<u>\$ 14.4</u>	<u>\$16.6</u>
Timber Available for Sale	\$133.7	\$141.0	\$143.1
Cost of Timber Inventory Harvested	<u>(\$7.1)</u>	<u>(\$14.5)</u>	<u>(\$17.5)</u>
<b>Timber Inventory – Closing Balance</b>	<b>\$126.5</b>	<b>\$126.5</b>	<b>\$125.6</b>
<b>Roads</b>			
Book Value	\$702.3	\$709.1	\$719.7
Accumulated Amortization	<u>(\$450.0)</u>	<u>(\$457.0)</u>	<u>(\$464.1)</u>
<b>Net Book Value</b>	<b>\$252.3</b>	<b>\$252.1</b>	<b>\$255.6</b>
<b>Deactivation Liability</b>	<b>\$ 5.2</b>	<b>\$ 5.2</b>	<b>\$ 5.3</b>
<b>Seed Inventory</b>	<b>\$ 22.0</b>	<b>\$ 22.1</b>	<b>\$ 23.0</b>

(Unaudited)

# APPENDIX 3 - Key MPS Variables Distribution Comparisons—Interior

**Table 1: Interior BCTS Representativeness Analysis\* - Grades**  
January 1, 2013 to December 31, 2013

Species Group	Grade	BCTS Auctions**		Major Licences***	
Coniferous	1	755,262	9.7%	5,000,954	13.7%
	2	1,429,895	18.3%	9,285,450	25.4%
	3		0%		0%
	4	517,420	6.6%	3,692,569	10.1%
	5		0%		0%
	6	17,165	0.22%	122,001	0.3%
	Dead Potential	2,598,485	33.2%	1,1374,309	31.2%
	Live	2,395,693	30.6%	6,210,938	17.1%
	blank		0%		0%
	Coniferous Total		7,713,923	99.5%	35,686,220
Deciduous	1	105	0%	25,977	0.1%
	2	5,627	0.07%	245,893	0.7%
	3		0%	0	0%
	4	9,558	0.12%	385,375	1.1%
	5	0	0%	0	0.01%
	6	70	0%	3,279	0.0%
	Dead Potential	5,009	0.06%	6,434	0.02%
	Live	100,247	1.3%	71,772	0.2%
	blank	0	0%	0	0.0%
	Deciduous Total		120,615	1.54%	738,730
Interior Total		7,834,538	100.0%	36,424,950	100.0%

**Table 2: Interior BCTS Representativeness Analysis\* - Species**  
January 1, 2013 to December 31, 2013

SPECIES_GROUP	SPECIES	BCTS Auctions**		Major Licences***		
Coniferous	Balsam	643,319	8.2%	2,934,414	8.0%	
	Cedar	121,275	1.5%	656,339	1.8%	
	Cypress	57	0%	29	0%	
	Fir	305,525	3.9%	2,568,214	7.0%	
	Hemlock	249,752	3.1%	617,182	1.6%	
	Larch	76,309	0.9%	405,791	1.1%	
	Lodge-Pine	4,839,450	61.7%	19,246,800	52.8%	
	Spruce	1,457,448	18.6%	9,186,137	25.2%	
	White Bark Pine	218	0%	224	0%	
	White Pine	7,837	0.1%	53,013	0.1%	
	Yellow Pine	12,727	0.1%	18,070	0.05%	
	Yew		0%		0%	
	Coniferous Total		7,713,922	98.4%	35,686,220	97.9%
	Deciduous	Alder		0%	-0	0%
Aspen		88,560	1.1%	624,658	1.7%	
Birch		18,972	0.2%	9,304	0.03%	
Cottonwood		13,081	0.1%	104,761	0.2%	
Maple			0%	0	0%	
Willow			0%	6	0%	
Deciduous Total			120,614	1.5%	738,729	2.0%
Interior Total		7,834,537	100.0%	36,424,950	100.0%	

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**

January 1, 2013 to December 31, 2013

SPECIES_GROUP	GRADE	BCTS Auctions**		Major ***	
Coniferous	B	915	0.04%	11,580	0.10%
	C	13,835	0.5%	124,733	1.0%
	D	29,038	1.1%	188,081	1.5%
	E	428	0.02%	3,028	0.03%
	F	35,073	1.3%	211,150	1.7%
	G	1,319	0.05%	8,954	0.08%
	H	491,620	18.8%	2,418,213	20.5%
	I	283,959	10.8%	1,369,632	11.6%
	J	1,158,640	44.4%	5,294,318	44.8%
	K	14,548	0.5%	124,490	1.0%
	L	29,821	1.1%	211,059	1.7%
	M	28,928	1.1%	117,713	1.0%
	U	345,516	13.2%	1,145,488	9.7%
	W			0%	
	X	95,856	3.6%	298,568	2.5%
	Y	61,014	2.3%	222,021	1.8%
Coniferous Total		2,590,518	99.3%	11,749,036	99.5%
Deciduous	W	14,308	0.5%	46,720	0.4%
	Y	2,160	0.08%	2,550	0.02%
Deciduous Total		16,468	0.6%	49,270	0.4%
Coast Total		2,606,98	100.0%	11,798,307	100.0%

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

January 1, 2013 to December 31, 2013

SPECIES_GROUP	SPECIES	BCTS Auctions**		Major Licences***	
Coniferous	Balsam	262,009	10.0%	1261,404	10.6%
	Cedar	601,526	23.0%	2,468,748	20.9%
	Cypress	63,861	2.4%	348,162	2.9%
	Fir	555,957	21.3%	2,387,487	20.2%
	Hemlock	997,596	38.2%	4,935,326	41.8%
	Lodge-Pine	2,4188	0.9%	9,758	0.08%
	Spruce	83,707	3.2%	330,977	2.8%
	White Bark Pine		0%	0	0%
	White Pine	1,671	0.06%	7,170	0.06%
	Yellow Pine		0%	0	0%
	Yew		0%		0%
Coniferous Total		2,590,518	99.3%	11,749,036	99.5%
Deciduous	Alder	14,758	0.5%	47,808	0.4%
	Aspen		0%	0	0%
	Arbutus		0%		0%
	Birch	701	0.03%	265	0%
	Cottonwood	197	0.01%	-8	0%
	Maple	810	0.03%	1,204	0.01%
Deciduous Total		16,468	0.6%	49,271	0.4%
Coast Total		2,606,987	100.0%	11,798,307	100.0%

\*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.



**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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