

# **B.C. TIMBER SALES**

## **QUARTER PERFORMANCE**

### **REPORT**

**April 1, 2020 to June 30, 2020**

Reconciliation • Sustainable Resources • Economic Prosperity • Business Excellence



**BCTS**  
BC Timber Sales



Ministry of  
Forests, Lands, Natural  
Resource Operations  
and Rural Development

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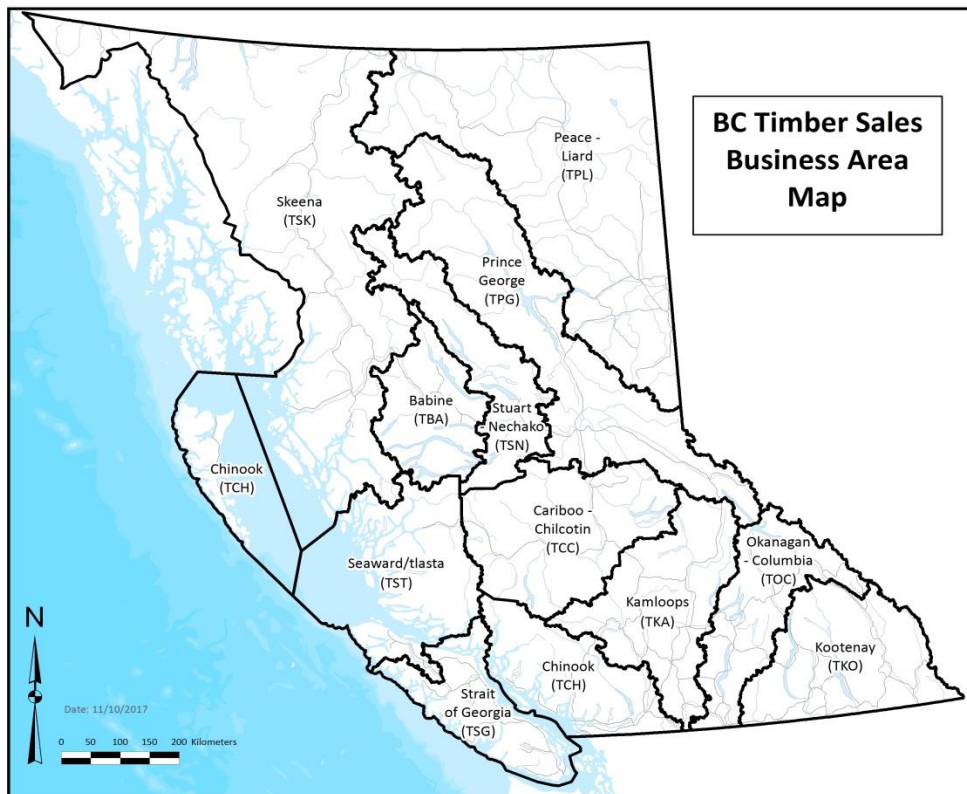
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## BC TIMBER SALES AREA MAP

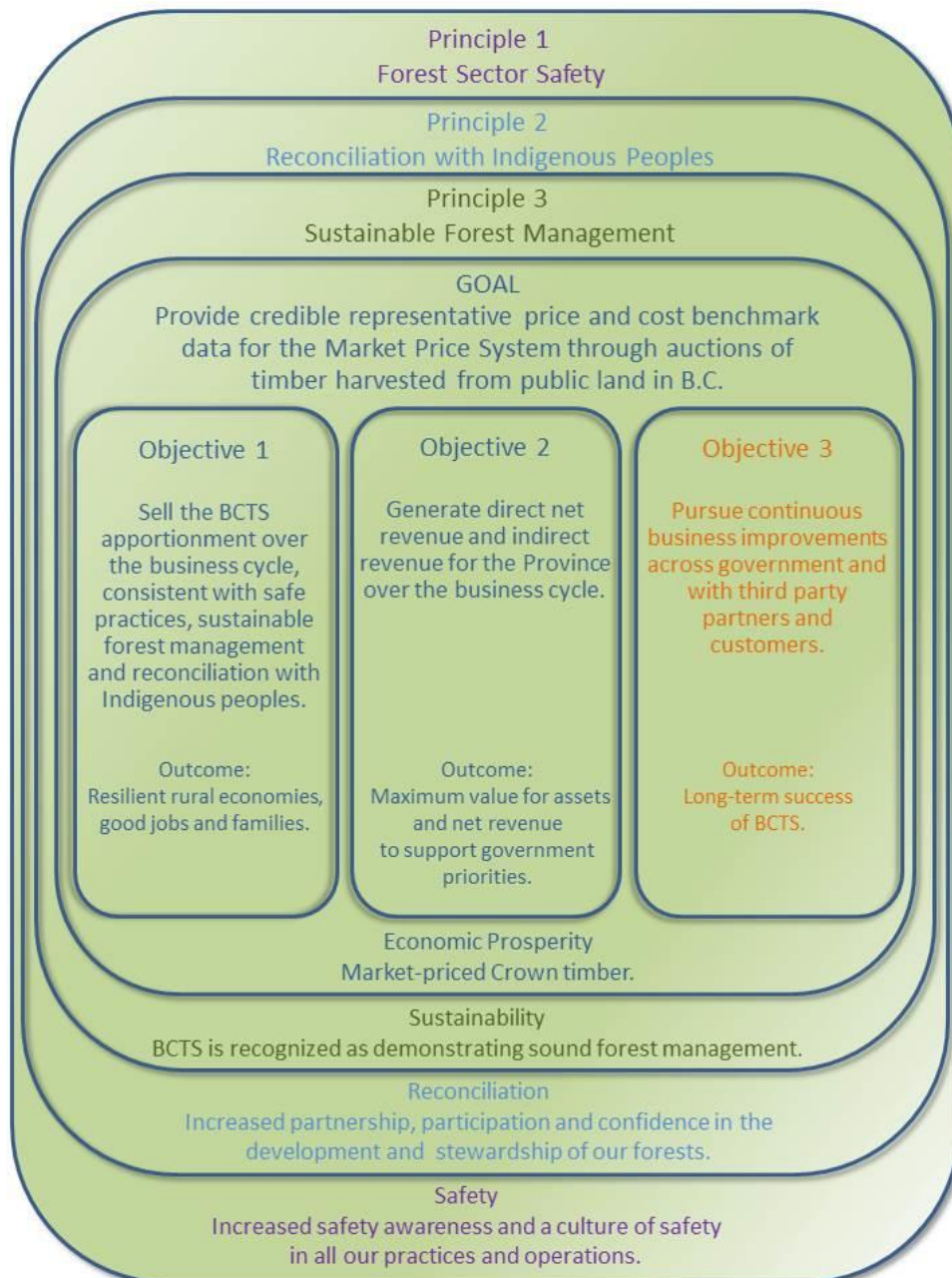


# INTRODUCTION

BC Timber Sales (BCTS) presents its first quarter performance report for 2020/21. Quarterly performance reports are a key part of the BCTS Performance Management and Accountability Framework.

## Our Mission

Committed to pursuing **excellence** in all aspects of our business, maintaining **effective relations** and focusing on **results**, BC Timber Sales generates **economic prosperity** for all British Columbians through the **safe, sustainable, and reliable** development and auction of Crown timber and by playing a pivotal role in the ministry's reforestation strategies.



# QUARTERLY PERFORMANCE HIGHLIGHTS



## Overall Performance: Summary of Highlights

The downturn in the forest sector continues to impact performance. As well, wildlife issues, reconciliation activities, and the COVID-19 pandemic have adversely impacted operations.

As a result, some key performance indicators, including Timber Volume Sold and Gross Revenue were not achieved during the quarter. Annual performance will also be adversely impacted.



## Forest Sector Safety

BCTS has introduced a new Safety Objective for 2020/21:

'Mission Zero' is an ambitious objective that sets a target of zero workplace incidents that require medical attention. This new objective is not a 'Pass or Fail', but it is a target that we are striving to achieve. A strong safety culture that encourages the reporting of issues and an effective investigation process has allowed us to pursue this objective.

BCTS conducts annual audits of our safety program in order to maintain our SAFE Company certification. This year BCTS will undergo an external audit of our safety program. The audit is scheduled to occur in Q3.



## Reconciliation with Indigenous Peoples

BCTS is working in collaboration with the rest of the Ministry on its key priority of implementation of the *Declaration on the Rights of Indigenous Peoples Act* and the Truth and Reconciliation Commissions Calls to Action.

In implementing the Ministry's Learning for Reconciliation Strategy, approximately 91% of BCTS staff have either now taken or are in the process of taking reconciliation training. This training is focused on improving cultural awareness and understanding Indigenous People's history, culture and legal framework. Many of BCTS business areas have Indigenous Relations Liaisons and Indigenous Relations Team Leads who are dedicated to strengthening relationships with local Indigenous Communities.



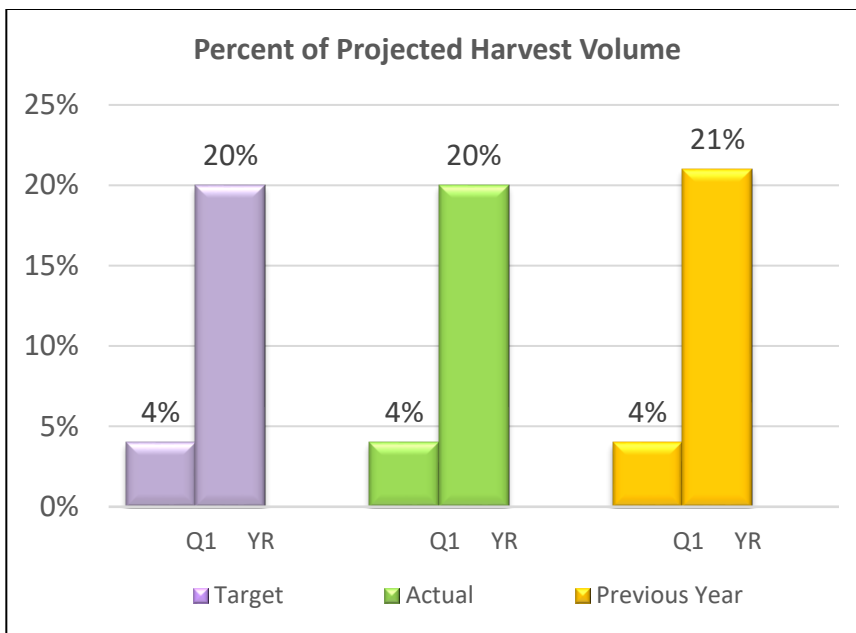
## Sustainable Forest Management

BCTS manages 100% of its apportioned timber volume under the Sustainable Forestry Initiative (SFI) forest certification standard.

BCTS is an active member of the Western Canada SFI Implementation Committee and is participating in the SFI standard revision process.

# GOAL: PROVIDING CREDIBLE DATA FOR MPS

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

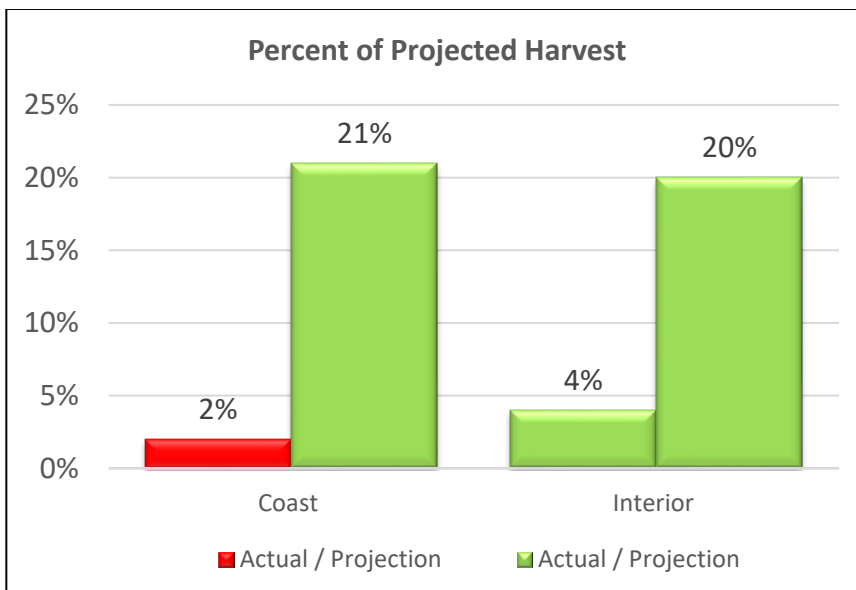


The volume of timber auctioned by BCTS must be sufficient in order to support the Market-based Pricing System.

At the end of the quarter, BCTS had met its target and advertised 4% of the projected annual provincial harvest volume.

BCTS is projecting to auction 20% of the projected provincial harvest volume by year end. This volume is sufficient to support the Market Pricing System.

## BCTS auction volume as a percent of projected provincial harvest volume – Coast and Interior

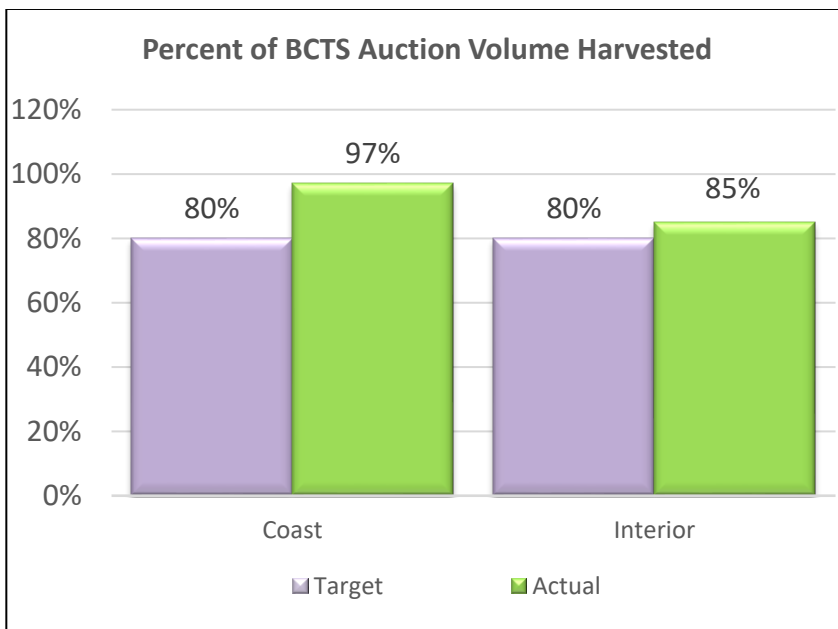


BCTS advertised 2% of the projected annual harvest volume on the Coast, and 4% in the Interior. The Coast underachieved its target for the quarter, and the Interior overachieved. This combined harvest volume was enough for the MPS.

BCTS is projecting to auction 21% of the projected harvest volume on the Coast and 20% in the Interior by year end. This combined level of auction volume for the year will be enough to support the Market Pricing System.

# GOAL: PROVIDING CREDIBLE DATA FOR MPS

## The Percent of BCTS Timber Volume Sold is Within 5 Percentage Points of the Percent of Harvest Volume by Major Licensees for Each Major Species and Grade 80% of the Time



BCTS must develop and auction a representative volume of timber sales to provide statistically credible data to the Market Pricing System. This data is used to establish market-based stumpage rates.

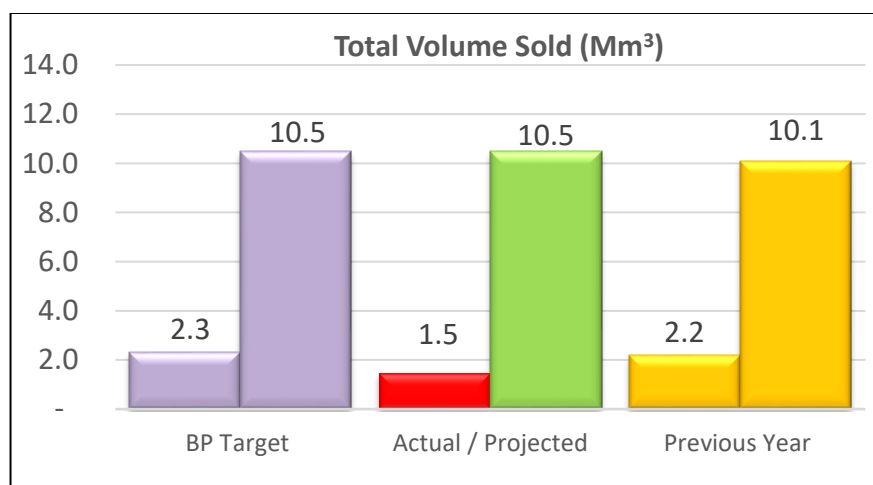
For the twelve-month period ending June 30, 2020, the BCTS auction volume harvested was within five (5) percentage points of the Major Licensee harvest volume by species and grade more than 80% of the time. This indicates good representation of harvest volume provided by BCTS.

**For BCTS to ensure it provides credible data to establish market-based stumpage rate, it also has to ensure its data is complete, accurate, and reliable.**

- BCTS is implementing a data quality management system that is consistent with the International Standards Organization (ISO) 9001:2015 standard. New indicators were also established, and quarterly assurance and performance reviews are done on a quarterly basis.
- For each set of monitored data, the current quality level will be assessed and compared to an expected standard of 95% conformance.
- The overall average performance rating for the quarter was 92.4% and BCTS is working to address those areas of the business where the quality performance indicator is below the required standard. A new internal team has been established to improve performance.

# OBJECTIVE 1: SELLING THE APPORTIONMENT

## Timber Volume Sold (Mm<sup>3</sup>)



Timber volume sold is a key measure that BCTS is selling its apportionment over the business cycle.

In the first quarter, BCTS sold 65% of target. The downturn in the forest sector has adversely impacted sales. Other challenges during the quarter include the COVID-19 pandemic and consultation activities with Indigenous Peoples.

At this time, BCTS is projecting that annual sales targets will be achieved; however, further assessment will be completed during Q2.

## Quarter 1 Timber Volume Sold by Business Area

Volume Sold Coast	Target Mm <sup>3</sup>	Achieved Mm <sup>3</sup>	Variance Mm <sup>3</sup>	Variance %
<b>CHINOOK</b>	0.07	0.05	-0.02	-29%
<b>SEAWARD</b>	0.19	0.03	-0.16	-84%
<b>STRAIT OF GEORGIA</b>	0.22	0.18	-0.04	-18%
<b>Coast Total</b>	<b>0.48</b>	<b>0.26</b>	<b>-0.22</b>	<b>-46%</b>

Volume Sold North	Target Mm <sup>3</sup>	Achieved Mm <sup>3</sup>	Variance Mm <sup>3</sup>	Variance %
<b>BABINE</b>	0.21	0.06	-0.15	-71%
<b>PEACE LIARD</b>	0.28	0.13	-0.15	-53%
<b>PRINCE GEORGE</b>	0.15	0.12	-0.03	-20%
<b>SKEENA</b>	0.28	0.02	-0.26	-93%
<b>STUART NECHAKO</b>	0.20	0.13	-0.07	-35%
<b>TOTAL NORTH</b>	<b>1.12</b>	<b>0.46</b>	<b>-0.66</b>	<b>-59%</b>

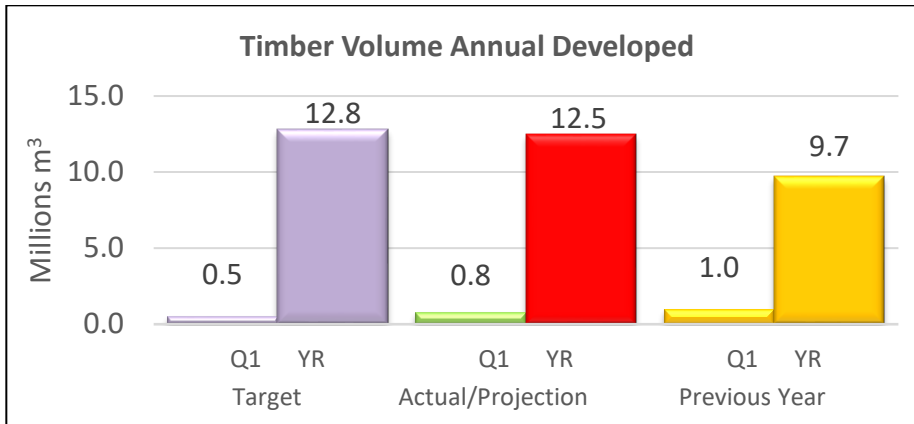
  

Volume Sold South	Target Mm <sup>3</sup>	Achieved Mm <sup>3</sup>	Variance Mm <sup>3</sup>	Variance %
<b>CARIBOO CHILCOTIN</b>	0.10	0.12	0.02	20%
<b>KAMLOOPS</b>	0.08	0.16	0.08	100%
<b>KOOTENAY</b>	0.32	0.27	-0.05	-15%
<b>OKANAGAN</b>	0.18	0.18	0.00	0%
<b>South Total</b>	<b>0.68</b>	<b>0.73</b>	<b>0.05</b>	<b>7%</b>



# OBJECTIVE 1: SELLING THE APPORTIONMENT

## Develop sufficient timber to maximise timber volume offered and sold

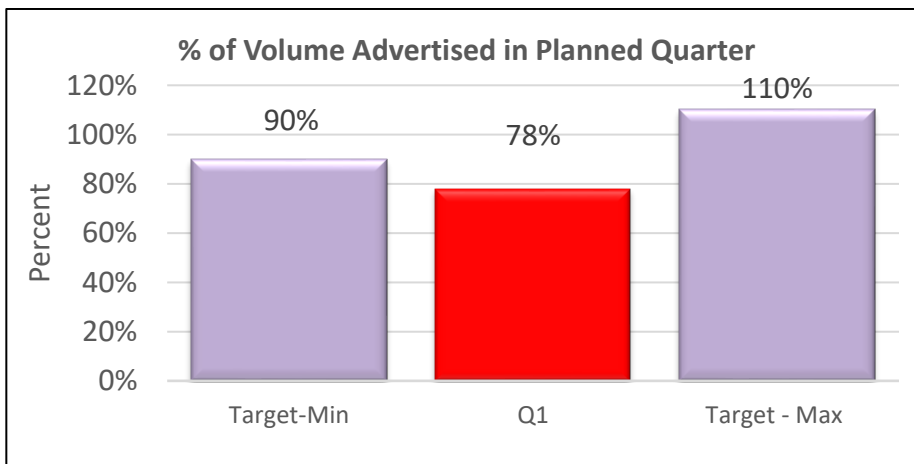


BCTS develops timber in order to have sufficient inventory for future auctions.

During the first quarter BCTS declared 0.8Mm<sup>3</sup> of ready to sell timber.

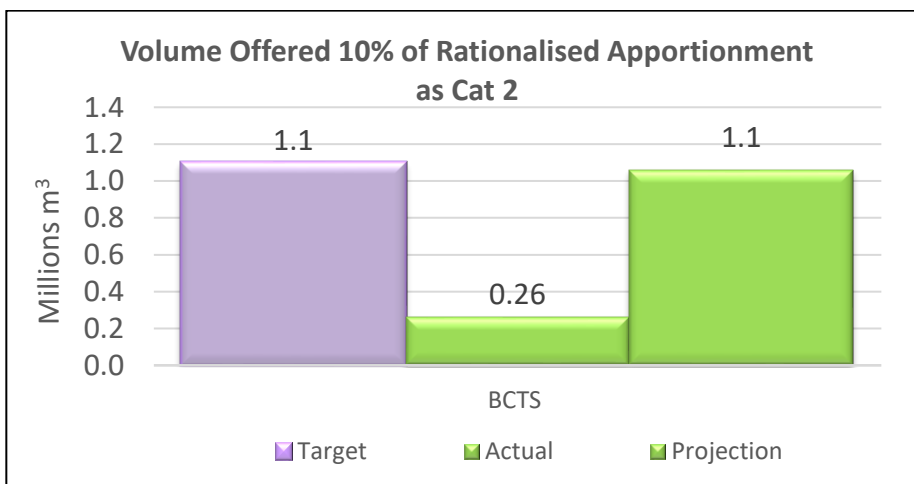
At this time, BCTS is projecting that it will fall short by 0.3Mm<sup>3</sup> of its annual target by fiscal year end.

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



Timber volume advertised in the quarter planned is an indicator of the reliability of timber supply and the reliability of BCTS' Sales Schedules. The overall rating was 78% which was outside the performance indicator for auction volume reliability. The COVID-19 pandemic was the main reason for the underachievement. Consultation activities with Indigenous Peoples was another contributing factor.

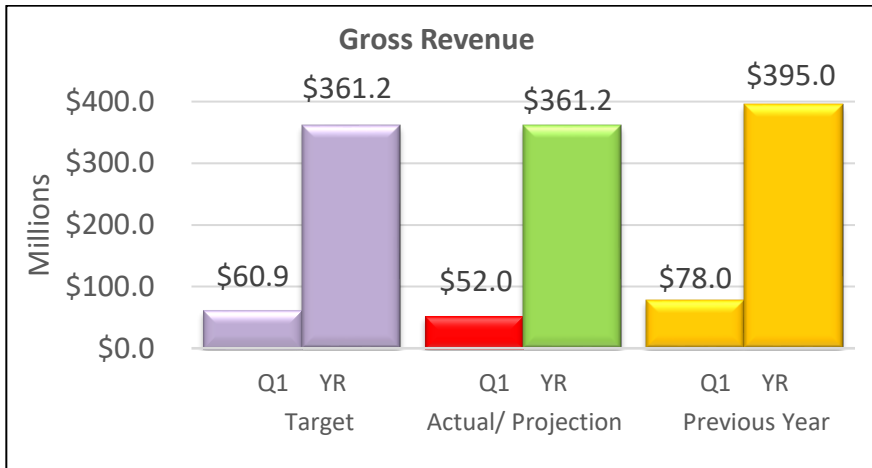
## Offer 10% of Rationalised Apportionment as Category 2 Timber Sales



A key BCTS strategy is to provide open access to Crown timber for non-tenured or insufficiently tenured timber processing facilities. This promotes local employment and supports the value-added sector. In the first quarter BCTS offered 0.26Mm<sup>3</sup> to Category 2 registrants. BCTS is currently projecting to advertise 1.1Mm<sup>3</sup> by year end.

# OBJECTIVE 2: REVENUE

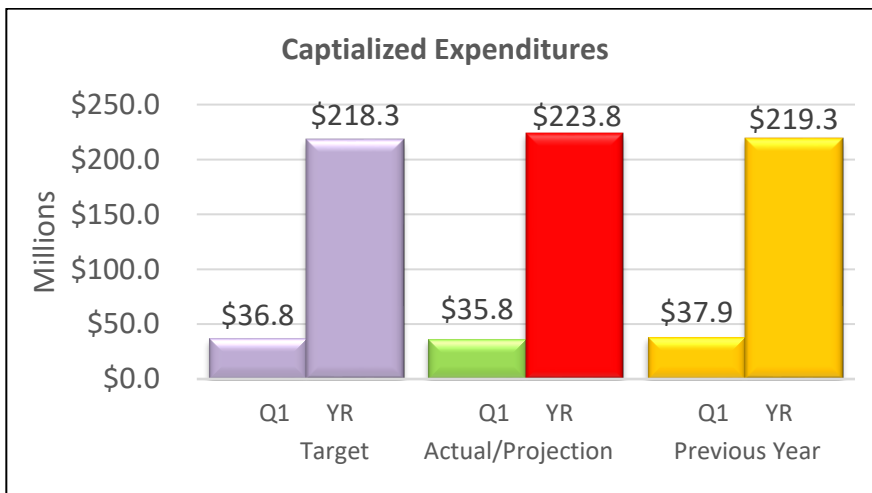
## Gross Revenue



Gross revenue for the quarter was \$52.0M, or 85% of target. The downturn in the forest sector, impacts of COVID-19, and consultation activities with Indigenous Peoples has contributed to this shortfall.

At this time, BCTS is expecting that it will achieve its annual gross revenue target of \$361.2M; however, further assessment of the conditions impacting revenues will be done in Quarter 2.

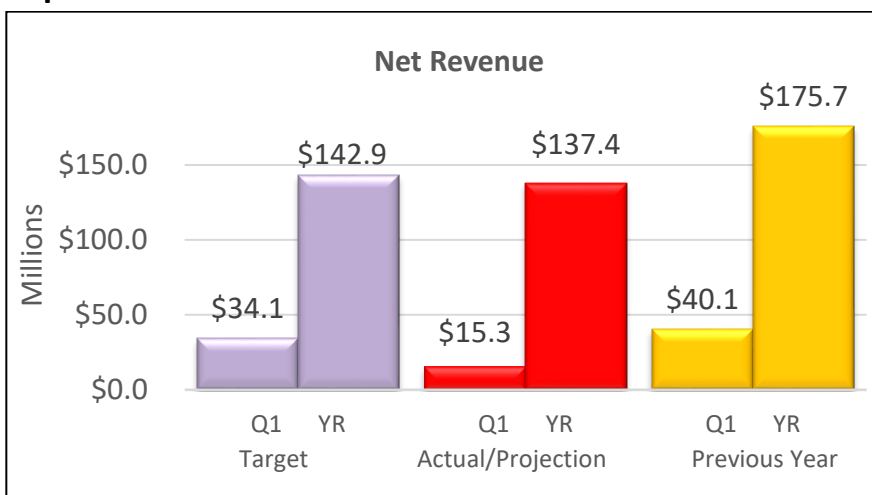
## Less: Capitalized Expenditures



Capitalized expenditures for the first three months was under budget by \$1.0M, or 3%.

At this time, BCTS is projecting that its annual expenditures for the year will exceed budget by \$5.5M mainly due to additional costs for silviculture and the COVID-19 pandemic.

## Equals: Net Revenue



Net Revenue for the three-month period ending June 30, 2020 was \$15.3M, or 55% less than target.

Lower harvest volumes and rates paid for harvested timber during the quarter adversely impacted gross revenues for the period.

At this time, BCTS is projecting that Net Revenue for the year will be \$137.4M, 4% less than the annual target.

## OBJECTIVE 3: CONTINUOUS IMPROVEMENT

To effectively realize its mission, goal and objectives, deliver superior performance, and make a distinct and lasting impact, BC Timber Sales needs to be continuously improving.

**“Only those with Excellent Processes and Excellent People will Truly Excel”**

To achieve this continuous improvement, BC Timber Sales and its people are committed to continuously learn, innovate, and lead through change in the pursuit of excellence. BCTS has embraced **Lean** as the next step in continuous improvement.

### Pursue Excellence in People

Every two years the Work Environment Survey (WES) is completed. The BCTS People Practices Working Group reviews the survey and identifies opportunities for improvement.

The results of the 2020 WES survey have recently been released and are being reviewed and analyzed in order to identify improvement opportunities.

### Pursue Excellence in Operations, Practices and Processes

BCTS is continually looking for new ways to reduce waste and improve efficiency. BCTS applies the Lean philosophy to reduce waste in our business processes.

In Q1 BCTS undertook a Northern Collaboration project that will allow Business Areas to share resources and will support business continuity.

Processes such as hiring, financial reporting and issuance of contracts and Timber Sale Licences will be able to be performed remotely with support from other Business Areas.

## OBJECTIVE 3: CONTINUOUS IMPROVEMENT

### Pursue Effective Relationships

BCTS is actively implementing the Rural Communications and Engagement Strategy and an enhanced communications program across all 12 of our Business Areas.

We continue to engage with forestry sector industry, educational and community partners evening during these challenging times.

In Q1, we engaged communities, industry partners, and Indigenous Peoples using virtual meetings to ensure that natural resource decisions support community needs and provincial priorities.

BCTS continues to pursue mutually beneficial effective business relationships with willing third-partner partners. In many cases, these partners have an Indigenous affiliation (i.e. companies owned in part or wholly by an Indigenous Community).

BCTS Disposition Agreements have proven to be an effective means to enhance business relationships with (non-BCTS) forest tenure holders, whereby BCTS auctions our partners volume in return for negotiated financial and other benefits.

To date in 2020, BCTS has signed one BCTS disposition agreement for approximately 13,000m<sup>3</sup>.



# APPENDIX 1 – OUTPUTS

## Key Year to Date Results by Coast and Interior Areas April 1 to June 30, 2020

	Target	Total	Coast	Northern Interior	Southern Interior
<b>Volume Advertised /Offered (Mm<sup>3</sup>)</b>	2.25	2.04	0.23	0.89	0.92
Volume Advertised- CAT2 (Mm <sup>3</sup> )	0.08	0.26	0.07	0.03	0.16
Less: No Bid Sales/No Sale	0.04	0.59	0.02	0.35	0.22
Less: Timing Variance (note 1)	0.00	0.30	0.08	0.10	0.12
Plus: YE Timing Variance	0.00	0.06	0.06	0.00	0.00
<b>Volume Sold (Mm<sup>3</sup>)</b>	<b>2.29</b>	<b>1.47</b>	<b>0.26</b>	<b>0.47</b>	<b>0.74</b>
<b>Volume Scaled (Harvested (Mm<sup>3</sup>))</b>	<b>1.8</b>	<b>1.12</b>	<b>0.58</b>	<b>0.28</b>	<b>0.26</b>
<b>Lump Sum Timber Sale Licences</b>			<b>Number (TSL)</b>		<b>Volume (Mm<sup>3</sup>)</b>
• Advertised			22		0.606
• Less: No Bid/No Sale			(10)		(0.220)
• Total Sold			12		0.386

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

## APPENDIX 2 – FINANCIAL PERFORMANCE

<b>April 1 – June 30, 2020</b>		<b>2019/20 First Quarter (Millions)</b>	<b>2020/21 First Quarter (Millions)</b>
Revenue from External Sources		\$ 78.0	\$ 52.0
<b>GROSS REVENUE</b>		<b>\$78.0</b>	<b>\$52.0</b>
<b>Capitalized Expenses:</b>			
Cost of Timber Inventory Harvested			
Administration / Salaries	(\$3.2)		(\$3.5)
Planning & Sales	(\$6.0)		(\$4.7)
Access – Amortization	<u>(\$7.8)</u>		<u>(\$8.9)</u>
<b>Sub-Total Cost of Timber Harvested &amp; Amortization</b>		<b>(\$17.0)</b>	<b>(\$17.1)</b>
<b>Other Costs</b>			
Silviculture Liability Expenses	(\$11.0)		(\$11.3)
Road & Bridge Maintenance	(\$1.8)		(\$1.8)
Non- BCTS Roads	(\$0.1)		(\$0.0)
Harvest Conformance	(\$0.1)		(\$0.1)
Operational & Administrative Overhead	(\$8.7)		(\$5.8)
Land Base Investment / FFT Recoveries	\$0.8		\$0.3
<b>Sub-Total Other Costs</b>		<b><u>(\$20.9)</u></b>	<b><u>(\$18.7)</u></b>
<b>Non-operating expenses: COVID-19 Costs</b>		<b><u>(\$ 0.0)</u></b>	<b><u>(\$ 0.9)</u></b>
<b>NET REVENUE/ (LOSS)</b>		<b><u>\$ 40.1</u></b>	<b><u>\$ 15.3</u></b>
<b>Note:</b> Results are Unaudited			

## APPENDIX 2 – FINANCIAL PERFORMANCE

<b>Selected Balance Sheet Items</b>		<b>2019/20 First Quarter (Millions)</b>		<b>2020/21 First Quarter (Millions)</b>
<b>Silviculture Liability</b>		<b>\$ 145.7</b>		<b>\$ 156.8</b>
<b>Inventory Value of Developed Timber</b>				
Timber Inventory – Opening Balance	\$202.9		\$162.8	
Timber Developed	<u>\$ 10.7</u>		<u>\$ 11.1</u>	
Timber Available for Sale	\$213.6		\$173.9	
Cost of Timber Inventory Harvested	<u>(\$ 9.2)</u>		<u>(\$ 8.2)</u>	
<b>Timber Inventory – Closing Balance</b>		<b>\$204.4</b>		<b>\$165.7</b>
<b>Work-in-progress Inventory – Closing Balance</b>		<b>\$0.0</b>		<b>\$54.7</b>
<b>Roads</b>				
Book Value	\$851.2		\$876.3	
Accumulated Amortization	<u>(\$583.2)</u>		<u>(\$601.8)</u>	
<b>Net Book Value</b>		<b>\$268.0</b>		<b>\$274.5</b>
<b>Deactivation Liability</b>		<b>(\$ 11.2)</b>		<b>(\$ 10.8)</b>
<b>Seed Inventory</b>		<b>\$ 19.8</b>		<b>\$ 18.4</b>
<b>Note:</b> Results are Unaudited				



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