Timber Sales Advisory Council (TSAC) Meeting

Agenda

March 12, 2013
9:00AM-3:00PM

Fraser Room - Executive Airport Plaza Hotel
7311 Westminster Hwy, Richmond
Conference Call 1-877-353-9184 ID: 5545002

Participants: **Mike Falkiner (BCTS - Chair),** Tom Jensen (Timber Operations & Pricing Division), Graham Archdekin (BCTS), Rob Bigalke (BCTS), Shawn Hedges (BCTS), Duncan Chisholm (ITMA), Clint Parcher (TLA/Rotary), Wayne Lintott (ILA), Russ Cameron (IWPA – Coast), Shane Garner (CILA), Brian Markin (Coastal Pulp Sector), Les Kiss (CFPA), John Hatalcik (COFI – North), Dennis Cook (ILA), Scott Marleau and Dyon Armstrong (COFI – South), Mike Kemp (Rotary MFG), Warren Carter (IWPA – Interior), Keith Eslinger (VIAWP), Ken Houlden (NWLA) and Andrea Dixon (BCTS – Secretariat)

Regrets: Barry Simpson, Jim Hackett and Dennis Cook

Guests: Murray Stech (TPB), Keith Tudor (TPB), Kevin Kilpatrick (FTB), Mike Watson (BCTS), Bill Dobbs (BCTS), Shane Bowden (BCTS) and Serg Pereverzoff.

	Topic	Time 9:00 – 3:00	Lead	Category	Reference Material & Comments
	Adoption of Agenda and Safety Briefing	**9:00 – 9:05**	**Mike Falkiner**		**Agenda**

A

ADM Comments

- **Review the agenda and emergency exit by Mike Falkiner.**
- **The election is coming up and we are trying to manage through and carry on business as usual.**
- **BC Timber Sales (BCTS) is working to increase our volume to meet the increased market demand.**
- **This is starting to become more challenging due to the staffing restrictions that the government has been working under since September.**
- **The staffing restrictions are starting to have impact on BCTS capacity and there are concerns about maintaining the level of volume in the coming year.**
- **The staffing restrictions will be in place at least until the election. There is no indication at this time as to when the restrictions will be lifted.**
- **There is continued pressure on BCTS operating area as the Ministry of Aboriginal Relations and Reconciliation (MARR) working hard to complete agreements with First Nations.**
- **BCTS is working to develop cooperative management agreements and business to business relationships with First Nations and Communities.**
- **The Ministry of Forests, Lands and Natural Resource Operations (FLNRO) are considering opportunities for third party data to support market pricing system (MPS). Thought is being given to what considerations are necessary and how that would work.**

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	• A renewed interest in Category 2 has been seen recently. BCTS is looking at how we are using this tool, and if it is the right tool. • Work on the Opportunity Review (OR) report is continuing. This will be used as a tool to facilitate a conversation between BCTS and the new government about the future of the organization. • The MPS technical committee is working on July updates, so they are in a position to present information to the Minister. However, due to the election, we are not sure about the timing of these updates. • BCTS has been working with local communities and environmental groups to develop and sell timber sale licenses (TSLs) while being respectful of community needs. • BCTS and Industry will need to continue to support each other as we move into areas closer to communities and recreational areas. We need to be able to demonstrate good works to help support the working forest. • There hasn't been any major work to look at potential alternatives to MPS as the Softwood Lumber Agreement (SLA) is in place until 2015. However, there is awareness of this at the Interior and Coast MPS Steering committee tables. • TSAC members requested that any thoughts or the theoretical discussions be presented at a future meeting.
B	Action Items Review
	Action (B92): Timber Pricing Branch will provide an update on take or pay related to road development on TSLs. ✓ Completed. Action (B93): Carl Jensen, Ministry of Finance, to present the concept paper regarding credit worthiness to be brought to POITT for further discussion. • Deferred to future meeting when Ministry of Finance staff are available to attend.
C	Waste Bill, Extension Fee and Deposit Forfeiture Waiver Ledger • Shawn provided TSAC with an overview of the waiver and relief ledger, as well as a graph and summary of the approval and decline trends between 2004 and 2012. • During the unexpected market downturn there were more approvals, but as the economy has recovered there have been fewer approvals. • Since the last TSAC meeting there have been three requests for waste relief. • One request was granted under criteria B of the policy and the other two requests were declined.
D	Policy Update • The BCTS policy section is currently facing challenge of increased workload as a result of the upcoming election as well as the loss of three staff members. • Carl Jensen is working on the credit worthiness paper and it will be brought to the task team in the next few months.

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	• There will be a Category (Cat) 2 pilot on the coast. This was originally identified as a low priority on the policy matrix, but BCTS need to respond to a request from the Minister and focus on this issue. • The policy section has been working with Brian Quinn on the e-bidding system. This work is progressing and will be brought to the task team soon				
	Break (10:00 – 10:15)				
E	Quarterly Update • Rob gave a presentation to TSAC on the Quarter 3 results. The Quarterly Performance Report will be posted on the BCTS website. http://www.for.gov.bc.ca/bcts/about/serviceplan.htm. • Rob also gave a presentation on the February Revenue Summary. A copy of the presentation will be circulated to TSAC. • Lean is a cross government initiative and if there is interest Rob can give a presentation on it at a future TSAC meeting. • No bids are up from what we projected, but down from last year's numbers. • It is estimated that there is approximately one year worth of sold and unharvested volume. To encourage harvest BCTS is trying to match up business to business relationships – sellers and buyers.				
F	Opportunities Review • About a year ago BCTS began the Opportunities Review (OR). • The purpose of the OR was to check in with our clients, service providers and FLNRO colleagues. • Two Timber Sales Managers (TSMs), Ian Hamann and Serg Pereverzoff, as well as a contractor, Tim Maki completed the OR. • 72 parties were interviewed. They included FLNRO and BCTS staff, major licensees, registrants and some mayors and MLAs. • The BCTS staff response rate was 72 percent. This is a high amount of participation. The number one issue identified by staff was related to recruitment and retention of staff. • The draft report was completed and organized by eight overarching theme with ten recommendations. • The OR report is a reflection of what was said during the interviews. • During the interviews the following messages were communicated it is good to check in; don't compromise the mandate of BCTS; don't compromise SLA; and focus on areas of strength; make sure to provide timber supply; attempt to minimize the risk for licensees as it will bring more revenue; more collaboration with communities, clients and the rest of government. • The OR report is currently being reviewed by legal counsel to ensure any of the content doesn't lead to potential future vulnerability. The review is not about protecting BCTS from criticism, but need to make sure industry and				

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	government isn't vulnerable. • None of the context of the comments will be changed, but we need to have a version that can be distributed widely. • Need to figure out how and to whom the OR report can be shared. The OR report is important to share, but more important is the actions that come out of the report. • At the Timber Sales Leadership Team (TSLT) meeting last week there was discussion regarding identifying the key items currently being worked on from those that aren't. The next steps will be for TSLT to develop an implementation plan. • The eight themes are: meaningful relationships with First Nations and communities; stewardship and sound forest management; responsiveness to customer fibre needs; competitiveness of fibre markets; engaged, skilled and experienced staff; cost-effective supplier relationships; administrative and organizational structure; and governance structure and legal framework.
	Standing Items and New Business
	Working Lunch (Provided) 12:00 – 12:30
G	Coastal Category 2 • As a result of a recent meeting with the Minister there will be some changes around Cat 2. • There will be a two year pilot on the coast beginning in April 2013 and the mandatory processing requirement will be reinstituted. • There will be a 50 percent minimum manufacturing threshold of the volume originating from the TSL or equivalent volume. • The pilot will be assessed after the two years are over. • The first sale will be advertised in the Strait of Georgia Business Area. • TSAC members asked if the registration for Cat 2 will be opened. The registration has been opened for some time now. • TSAC discussed how to determine if licensees are in compliance with the requirements. • Once a TSL is issued there will need to be auditing and enforcement as well as investigations for new registrants. • TSAC requested updates on progress of the pilot. • Cat 2 is more important in some areas than others and it is dependent on the types of and availability of different tenure opportunities. • TSAC members asked if Cat 2 sales could be grouped together or if there a way to search by Cat 2 or find some unique identifier on the sales schedule. BCTS is not sure if this is possible, but will discuss how best to communicate this with folks. • At this time BCTS is not putting any new volume, but will be offering the same volume with processing requirements.

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H	Interior Category 2 • There are no Cat 2 sales in the Kootenay Business Area (KBA) so far this year, but some will be offered in the coming year. • The Babine Business Area (BBA) phased out Cat 2 in 2008 as there isn't any demand for it. • The Stuart-Nechako Business Area (SNBA) has increased the Cat 2 volume due to demand. Some of the additional volume has a 100 percent processing requirement. • SNBA audits all the Cat 2 sales as there were rumours that not everyone was completing the process requirements. TSAC members are encouraged and happy to hear about the audits. • Some of the challenges around the auditing are resources. • If issues of non-compliance arise where the licensee has not met the processing requirements BCTS can keep the deposit and disqualify them from the program. • To meet the proof of facility requirement, the lease has to be exclusive with the registrant over the term of the TSL.				
I	Fibre Supply Update • BCTS is responding to increasing fibre supply demands by offering incremental volume. • This volume will be in the 12/13 and 13/4 sales plans. • There is no hard target for the Interior, but BCTS will ramp up to offer volume closer to the apportionment. There are some Business Areas that are currently exceeding their apportionment. • SNBA has advertise all incremental volume from the fourth quarter, but some of the sales were no-bids. • BCTS is on track to offer the remaining incremental volume in Q1. • The forestry sector is seeing unprecedented increase in development, contracting and silviculture costs as it is losing contractors to the mining sector. • BCTS is currently working to develop Timber Availability Plans (TAP). The TAPs will outline the apportionment, the AAC and what can realistically be offered. It will link business plan projections to concrete areas. • BCTS is also developing a process to review, define and develop a disposition plan for any unused volume. • Once the disposition plan is developed, it will be share with TSAC. • BCTS' role is not to make the market, but mirror it. • There are always gaps between apportionment and offered, and for good reasons like economics viability etc. • Unused volume is volume that is unsold. Sold and unharvested volume is separate to this discussion.				
J	Take or Pay Update • Murray provided TSAC members with a brief background of take or pay. The waste policy manual speaks to requirements and waste relief policy. • Waste relief can be granted if it meets one of the three criteria; A – act of god, B – related to the 2008 economic downturn or C – if it is related to older cutting permits.				

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	• Criteria B and C are time bound and most of the requests for relief made under these criteria have been addressed. • The basic principle of the policy is that once cutting begins, there is an expectation that take or pay will apply. • This is in an effort to reduce speculation. If a licensee doesn't complete harvest take or pay will apply. • At the last TSAC members had questions on how this plays into road development and what stage take or pay is applied. • Instances where harvest has occurred on road permit and no timber harvested on the cutting permit, those have been looked at favourably for waste relief. • TSAC discussed the possibility of have separate roads permits and timber sales licenses (TSLs) if there is substantial road works required. • TSMs try to structure them this way when there is a lot of road work or difficult bridge work. This will be brought back to a TSLT conference call as a reminder. • However, it is not possible to always separate these two pieces. Bidding on TSL includes the right to access the timber. BCTS couldn't give a road permit and once that work is completed grant the TSL. • The road development issue differs from region to region. Licensees on the coast would like less developed TSLs with more road construction, while licensees in the interior would like the opposite. • TSAC members also requested that when determining the term of the TSL amount of road work be considered. • BCTS suggested that licensees bring their site specific concerns to the local TSM.				
K	Area Based Tenures Conversions • Minister announcement today that the bill to amend section 34.1 of the *Forest Act* (the Act) will be pulled and worked over the summer. • The proposed amendment was a result of the recommendations that came out of the Mid-Term Timber Supply review. • In October 2012 Minister Thomson released an action plan for the FLNRO. • Recommendation 5.1 was to create more area based tenure opportunities. • Forest Tenure Branch worked very hard to build the legislation, criteria and process. • Section 135.1 of the Act will most likely be revisited in the new fiscal year. • The legislation would require an existing replaceable forest license, the demonstrated benefit to the public and identify the area being surrendered and requested. • The Minister would have the ability to outline any criteria necessary. He would review the opportunities and invite licensees to submit an application to achieve the goals the Minister is requesting. • There would then be a consultation process, and once the consultation was completed the Minister and licensee would develop and enter into an agreement. • The intent is to identify public, First Nations and other stakeholder concerns and how to address them.				

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9:00 – 3:00</th><th>Lead</th><th>Category</th><th>Reference Material & Comments</th></tr>
<tr><td>L</td><td colspan="5">TSAC members asked the impact on the Lakes mill now that this bill has been pulled.
The Tenures Branch is not sure at this time as the removal of the bill literally just happened.
The owners of the Lakes mill are aware that this is the first step of a long process and didn’t expect that this would happen quickly. Any application would take close to a year to complete.</td></tr>
<tr><td>L</td><td colspan="5">Burns Lake Update
Since the fire of the Babine Forest Products mill there have been some real social impacts. Most of the skilled labourers have left time and housing prices have dropped by approximately 25 percent.
Hampton Affiliates have stated from the very beginning they would support the community and people. They continue to work on constructing a new mill and moving forward.
The foundations are being poured and welding is being done. The projected completion date is 2014. The mill will be approximately 2/3 capacity of the last mill.
The market in the BBA is strong and TSL are selling, but licensees aren’t harvesting.
The context for this situation is we are in a market shed – demand is higher than the supply going forward and mills will be operating to their full capacity.
There has been bidding activity from the exporters and increasing activity from foreign investors, but local market won’t allow timber to be exported.</td></tr>
<tr><td>M</td><td colspan="5">Vanderhoof Update
The SNBA is in the process of changing to Sustainable Forestry Initiative certification and will be working with the Prince George Business Area to have the same certification program.
SNBA has approximately one year worth of sold and unharvested volume. This is leading to a large number of extension requests.
As noted earlier in the meeting, SNBA has been offering increased volume that has resulted in a number of no-bid TSL. SNBA will continue to offer the volume and monitor the no-bids.
SNBA will continue to communicate with their customers to ensure the needs are being met.</td></tr>
<tr><td>N</td><td colspan="5">Kootenay Update
The KBA has consistently over offered their apportionment and has sold close to their full apportioned volume throughout the history of the program.
KBA is looking to slowly build more STI to provide greater flexibility in sales planning.
KBA is doing more comprehensive planning in our operating areas to better understand future fibre opportunities/constraints, future timber profile, harvest systems, etc. Our customers have expressed interest in knowing this kind of information and we intend to share it with them. It is important for customers to understand the profile as KBA is moving into some areas with more difficult development that will increase the costs and in to areas with less lodgepole pine</td></tr>
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	• KBA is working to get better cruise information about mixed stand TSLs. • A pilot on call grading will help bidders understand the potential products available in our stands that are being auctioned as TSLs. • Moving forward there will be steeper ground requiring cable logging and it will be challenging to find companies with the equipment and qualified people to harvest these sales. • KBA is looking to partner with the industry to help with this capacity issue. Skilled labour is getting harder to find and will probably be at higher cost. • Environmental concerns are growing in some areas with the public contesting our plans and looking for greater protection of the land base • Any support by industry for maintenance of the working forest is appreciated.				
O	Professional Estimates • TSAC discussed the use of professional estimates. • Professional estimates are mostly used for lump sum TSLs or when it is unsafe to cruise the TSL. • Professional estimates aren't the norm and not used widely. • An updated cruise manual is in the draft and consultation phase. In the manual there will be a policy for BCTS for cruised-based TSL that mirrors that of major licensees. • The intended use of professional estimate policy is not to avoid check cruise, but to address concerns like safety when cruising dead pine stands. • There is usually a desire for more information from clients and the updated manual is likely to make professional estimates much more restrictive. • In the BBA professional estimates were used when they were beginning to test the bio-fuel markets. • The general trend is that BCTS is moving away from using them, but it is still a tool that can be used where necessary. • This will be raised it with TSLT and this feedback will be provided to them. MPS 70 pricing • TSAC discussed the use of upset rates higher than MPS 70. This issue has also been raised at the interior MPS steering committee table. • It was suggested that rather than raising price from MPS 70 to MPS 100, the price be lowered to attract more bidders. • This approach was tried, but results were still to receive minimal, low bids. • There are no other players in some areas of the province and BCTS needs to be able to find the balance between finding the market and recover costs. • BCTS has the ability to select TSL prices at MPS 70 or above. • The question is how does BCTS price the volume and try to find the market. This is a part of an ongoing discussion and BCTS is working in some areas of the province to find a market.				

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- There is concern that BCTS is being perceived as manipulating the market. Might not be justified, but there is a perception.
- BCTS is trying to finding the market and is receptive to where the market is for industry as well. The price of lumber has increase 28 percent and BCTS has only seen a 13 percent increase in prices.
- MPS 70 is just one factor that is considered. There is control on determining price, but BCTS has the flexibility to find the market.
- It would be uneconomical to sell everything at MPS 70 rates.
- This discussion can be brought back to the interior MPS steering committee and TSAC will updated on this issue as necessary.

Log Supply

- Markets are improving and becoming stronger on the coast. The market hasn't been like this for a while and it is good to see.
- There is no end of demand for the fir products. Domestic manufactures are looking up and building capacity.
- There is an increased investment in facilities, but there are questions about fibre supply.
- There is a place for export, but it is taking away from local and domestic operator and it pushes up the price.
- Issues around log supply, species at risk habitat, access to green fibre, increasing transportation cost and capacity.
- In the interior inventory is tight. Marginal stands are affordable right now which is good.
- There are challenges around accessing green fibre.
- In anticipation of the stumpage increase, some companies are holding inventory in their yards for the short term.
- Transportation cost and labour shortages are also a challenge in the interior.
- There are some small impacts due to the undercuts.
- There is a partnership between industry and the Thompson River University to provide logging equipment training. This will hopefully help to alleviate some of the labour shortage issues.

Future Agenda Items

- Alternate pricing systems presentation
- Credit Worthiness
- Qualified professional/person issue
- Lean presentation

2013 Meeting Dates:

March 12, 2013 | June 6, 2013 | September 12, 2013 | December 5, 2013