

*Minutes*

**CSA Community Advisory Group  
To Western Forest Products  
November 18<sup>th</sup>, 2009  
Minutes  
Western Forest Products Boardroom**

Attendance: refer to attached sheet

6:00pm: Meeting called to order  
Quorum noted

**Safety Review**

Facilitator noted fire exits and first aid attendants in case of emergency. Meeting place in case of emergency was noted.

**Code of Conduct**

Code of Conduct for Community Advisory Group was reviewed.

**Welcome and Introductions**

Chair welcomed Stuart Glen, Larry Henkelman, Bruce McKerricher, and CAG members. Larry Henkelman introduces himself as the manager of timber appraisals and pricing for WFP working corporately out of Gold River. His job includes handling cutting permit applications, stumpage, and interaction with the MoF revenue branch. Bruce McKerricher is the timber sales manager for BCTS Strait of Georgia business area.

**Review and Acceptance of Agenda**

Agenda was accepted

**Bruce McKerricher – BC Timber Sales**

BC Timber Sales has been around since 2003 formed by a piece of legislation called Bill 28. Before that Bruce was with the small business program. He ran the small business program out of Campbell River starting in 1985. He has been with the Forest Service in Campbell River since 1979. Bruce was born in Nanaimo and has spent his entire career with the Forest Service in this part of the world. BC Timber Sales was created by the government in 2003 to work with the stumpage system to provide data for market pricing so that the stumpage that is calculated for the major licensees is calculated using data that BCTS creates. This is in part what makes up the softwood lumber agreement with the United States. Bill 28 took away 20% of the Allowable Annual Cut (AAC) from most of the major licensees in the province. Half of the 20% take back went to BCTS, the other half was distributed to First Nations and communities. The key mandate of BCTS is market pricing. They have built a data point so that they can calculate stumpage points for the major licensees. They are also supposed to make money. BCTS is a self financed organization. BCTS has a special account in the government that holds their stumpage revenue that they generate for a period of time. BCTS is run from that account. They do their silviculture, planning, road building, pay their salaries and everything out of this account. Anything left over is given to government as a dividend. Up until last year BCTS provincially has given the government a dividend of \$600 million since 2003. A significant portion of this money comes from all of the Strait of Georgia business area which encompasses the Sunshine Coast forest district, the

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Campbell River forest district and the South Island forest district. Within that geographic area BCTS has about 16% of the AAC of all crown land which is from 1.4 to 1.5 million cubic metres which they try to sell each year. Currently they are only at 1.2 million cubic metres due to market conditions and some difficulties operating on our land base. For example there are some areas where First Nations questions make it impossible to sell timber at this time, in other areas we are undergoing discussions with private land owners and can't operate until this is settled. They sell from 250 to 300 thousand cubic metres of timber from this area. BCTS has been profitable every year that they have been in business until this year. In the Strait of Georgia a few years ago they made a gross revenue of 52 million, this year they are hoping to make 15 million. Bruce has no doubt that the market will turn around by the end of 2010.

BCTS is operating within their mandate. They have to hit certain data points. How much logging do they do relative to the major licensees? How much is competitively bid so that there is a good representation? One bid on one timber sale does not give good numbers. Five bids on a single timber sale gives a better estimation. The kind of logging BCTS does, where they log, haul distance, and type of timber factor in and they get all of the data points across the spectrum are taken into account when determining stumpage. Bruce believes that BCTS is doing a good job of doing its market pricing, generating revenue for the crown and all of the other things behind it. The Americans watch BCTS closely and are satisfied. In Bruce's opinion this is very important. We do pay a premium to sell wood into the USA, but without the agreement we would sell less. A 15% duty is better than not selling wood into the States. Very little of our wood is sold locally, but some is. There is not very much milling around here. Almost 9% of the wood we sell from the Sunshine Coast ends up being exported. That is a very high percent given the average is about 4%. Considering all of the media attention the number of logs exported off of crown land is quite small. 75 to 76,000 cubic metres have been exported since 2006.

*Question: Is the 9% just referring to BCTS?*

Yes.

*Question: Does that export go mainly to the USA?*

No, it goes mostly to Japan and Korea. Korea has been one of the largest purchasers of our small hemlock that nobody else wants.

Almost all of BCTS work is done by local people. Like in any industry, if we have a cutblock to lay out, roads to build, or silviculture to be done, we tender the job. It is done provincially not locally, but given where we are the lion's share of what we do stays local. Until this year even the road building was done locally. This year a Campbell River company was successful in their bid to do our road building in this part of the world.

For our own program of the Strait of Georgia we have eight or nine staff that live in the area and sell 250 to 300,000 cubic metres per year. This part of the world is for us, one of the most profitable units in the entire province on a net cash basis. This is due to the value of the timber. The cost of lay out is higher, as is the cost of silviculture.

What do we do for the area of Powell River's infrastructure? We build roads and create access to the forest. When Bruce first came to Powell River years ago people asked for access to water. They were not happy with all of the water access in the hands of private interests. BCTS wanted to create a take-in take-out spot so that there would be the opportunity for Powell River people to pull wood out of the

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water as well as put wood into the water. This would have made it easier for some kind of milling to take place. That wasn't easy to do, so they built a log dump at Saltery Bay. It has unfortunately become somewhat of a joke in the industry for BCTS due to the amount of money that was spent on it. There are rumours that up to 1.5 million was spent on the dump. This number is incorrect. It cost a little less than \$800,000. The reasons that the job cost was so high are: the Department of Fisheries and Oceans needed standards met to protect their resource, the dump is next to a ferry terminal, there are expensive houses near by, there is a marina next to it, as well as an estuary. BCTS did things while building this log dump that they have never done anywhere else and will probably never do anywhere else. It cost them a lot of money and the environmental impact is as minimal as it gets for that kind of operation. They are not moving a lot of wood over it because at the time they were building it quite a bit of their wood was taken away by other branches of government and given to other interests. BCTS had a sound business plan but in the middle of construction things changed.

*Question: Who owns the Saltery Bay site?*

BCTS, as part of the government, does. We are trying to set up a pay structure so that any member of the private sector or First Nations can use it when we are not using it for our clients. BCTS is not a Crown Corporation, but we are close. We are an arm of the government. We are part of the Ministry of Forests. We do hold assets and we operate much like a forest company.

*Question: When you say other people could use it, do you mean just for log dumping?*

Yes.

*Question: You are not talking about commercial haul outs?*

We would listen to anybody as long as the risks are minimized and we understand what it is they are doing. The fee structure is based on depreciation; we are not trying to make money which is controversial with the private sector.

Regarding local milling, we try to have a variety of timber sale types and sizes. Our average sale is about 25,000 cubic metres. Our main point is market pricing, but we try to do what we can for the local issues at the same time.

*Question: What about salvage?*

We are not involved with salvage. The government has three main components. Protection, BCTS, and operations division. Most of the people that work for the Ministry are in the operations division. They have people responsible for salvage. Salvage would complicate our cost structure and would make market pricing less pure as for as statistics go.

*Question: How is the competitive bidding system working for market pricing as people are often bidding on futures?*

Our whole structure is designed to not include speculation. We try to get terms on timber sales that encourage people to bid on blocks today and log them today, not log it a few years from now when they hope the market will be better.

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*Question: Has there been many awarded timber sales turned back to you?*

Yes. We have been riding a downward trend for the last two years and we have had a lot of problems selling timber sales and getting them logged. The market pricing mathematical formulas used to derive stumpage rates for the major licensees are fraught with problems. For example, if somebody overbids a timber sale, it doesn't matter if it gets logged or not for a year and a half. Those statistics are in the system for that year and a half influencing the major's stumpage rates. Then our guy throws in the towel, showing the price bid was too high. It still influenced the stumpage rates for that period of time. (Larry interjected and said that the time lines have been reduced to one year, if the sale isn't active in the first year it gets thrown out of the data pool)

*Question: what about ones that are not bid on?*

We don't have that problem here, but it is a huge problem in other parts of the province.

*Question: If it was zero, would it be added into the formula?*

No. The system doesn't have a way to accommodate a block that is not bid on. If a stumpage rate of \$10 is set and nobody bids on it, what is the right stumpage rate? Is it \$7, \$6, or twenty five cents? We just try to resell it as quickly as possible at a different rate if we can.

Larry said there are models that try to predict what the bid might have been. We've argued that those should be part of the data set, but government has not agreed. What they have done is, instead of predicting what the sale would have been and discounting 30%, they can now put the sale out at variable cost to prepare it. We consider that adequate for dealing with our problem.

Larry is right. We look at every sale and decide what the starting stumpage will be. It could be anywhere from \$2 -\$4. If you see that price, that was our cost to develop it and our estimated cost for silviculture. That is our bare minimum cost. If you see \$8 or \$9 it includes our office overhead. If you see \$12 it probably includes Victoria as well.

*Question: If somebody bids on a parcel of land and is after the fir and better wood, but there is 30% Hemlock and 20% whatever, a lot of the times they leave that standing. They are paying for all of the stumpage in that lot aren't they?*

Correct.

*Question: Why doesn't the government change the system so that one company can bid on what it wants and let secondary companies come in after for a lower stumpage rate for the balance?*

We have made the first bidder pay for the whole thing and re-tendered the residual. Multiple tenures on the same land and dealing with all of the other legal implications, such as the day you start logging the clock starts ticking for silviculture obligations, are complicated. Instead of bidding on a per cubic metre basis, we are looking at going more to a bidding on a lump sum system. Rather than bidding \$15.25 per cubic metre, a company would bid \$385,000 for the whole parcel. This gives the company incentive to get every scrap of wood they can off the block.

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*Question: Do you think there will be less waste?*

Time will tell. The distance you are from your selling site will dictate how much waste you have. There is a point where the cost of moving your log will be more than it is worth. Where transportation isn't too expensive you will end up with cleaner sites.

*Question: Have you done many of these transactions?*

They are called innovative timber sales licenses. We've done about a half dozen on the coast and they are working so far.

*Question: If you are getting a lump sum is scaling still necessary?*

No.

*Question: How does it work? Do you get an average of what people are willing to spend per species?*

We don't care. We cruise it, we put out 20,000 cubic metres, somebody bids a million dollars, they pay us on a graduated basis and the wood is theirs.

*Question: How would that reflect for WFP's stumpage?*

We work the math backwards based on the cruise.

Larry said there is some concern that there isn't enough data collected for these to derive a stumpage rate, but time will tell.

*Question: Could you go to something like that with WFP?*

Interfor already has. I don't know about WFP.

Larry said they haven't done any cruise based sales, but they are looking at it.

In some areas, when you figure out what it costs to appraise timber, what it costs to scale it, and all that goes behind it, it can cost \$8 per cubic metre or more to determine that the log is worth \$0.25.

*Question: You can move those logs without scaling?*

Yes. We've already been paid. It still has to be stamped.

*Question: How do you track that for CSA?*

Timbermark. Same as now. In fact, one of our SFI items is, what are you doing to reduce the amount of waste? This is one of our answers.

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*Question; Have you looked at portable chippers?*

Yes. It is being done a lot in the interior. There are lots of problems with it because the chips don't make good pulp as they are the wrong kind of wood.

*Comment: But it could be used for biomass.*

Yes. It will be interesting to see how bioenergy goes on the coast because Hemlock is not good fibre. It does not have the BTUs. Plus our transportation costs are high. Fir is better, but not as good as pine.

*Question: Is everybody paying their stumpage bills?*

I've been selling timber for twenty five years. I have been watching on a monthly basis what our scale out is and our actual cash revenue is. I have been pretty happy for most of the time. Our actual bad debts run between 2 – 4%, which is better than most large industries. In the last year there have been more people in trouble both on their stumpage and waste bills. Waste bills can be as much as \$200,000. After everything else is done and paid.

Question: Do you have an AAC for each parcel of land you control?

No. There are two different kinds of management units. The first is the timber supply area, within which the AAC is determined by the chief forester. They will come up with a number for the Sunshine Coast timber supply area taking into account the growing potential, the timber inventory, constraints on the land base and social economic needs. The minister will apportion the area giving a certain volume to WFP, Interfor, BCTS, etc. AAC's are not set for each operating unit within the Sunshine TSA that BCTS might operate on. The second is tree farm license areas. BCTS has been involved in tree farm licenses (TFL) since 1988 on the coast. We just got a percent of the AAC. Since bill 28 we took out pieces of TFLs all over the coast. All of the pieces have gone into a new management unit called Pacific Timber Supply Area. It goes from the southern tip of Vancouver Island up to the Charlottes. The AAC will be set for the entire Pacific TSA, not the individual units that comprise the whole TSA. Bruce would like to move towards setting AAC's on a more local basis but not BCTS's decision. The take aways in Bill 28 were supported by all of the major companies at the time. The heads of all of the major companies met with the Minister in the early 2000s because the existing system wasn't working. The head of Weyerhaeuser at the time suggested taking away 50% of the AAC from all of the companies to create BCTS. Most heads of most companies agreed to the take back to create the market pricing system to deal with the American situation.

*Question: What percent of the AAC has been harvest over the last few years?*

Right now BCTS is harvesting 30% of the AAC provincially. Our target is 20%, but because major licensees largely are not logging especially in the Interior, they are relying more on BCTS to supply their mills. There are reasons for that. They carry no inventory; they don't have the silvicultural obligations, so it's cheaper for them to do that. On the South Coast pricing unit we are only harvesting 16% of the AAC.

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*Question: Is BCTS able to carry forward its undercut?*

Nowhere in legislation is BCTS mentioned as to how its cut control is managed, but we have a policy that says we will do exactly the same as the licensees.

In 2007-08 BCTS spent \$10,000 Forest Investment Account (FIA) money on Westcoast trail maintenance through PRPAWS. In 2008-09 they spent \$10,000 FIA money on the Dinner Rock recreation trail maintenance through Sliammon Nation. This year they have spent an addition \$10,000 on Dinner Rock in addition to \$15,000 on trail monitoring. They partnered with ANA Trading to do some mountain bike trail maintenance in Mount Elphinstone. They also do water quality monitoring on Haslam and Lang Creek through Powell River Salmon society at \$10,000 per year for the past few years.

*Question: Are you going to help the Sliammon people rehabilitate the run in Theodosia?*

We would love to help them out with that. I'll look into it.

*Question: When you have a tenure and there are neighbours, do you talk to the neighbours or is that up to the successful bidder?*

We do a lot of work. Knocking on doors, letting people know what we are up to, and modifying our plans. We leave a lot of timber standing as we have a lot of urban interface land.

*Question: Might you look at CSA certification in the future? I know that you like it.*

I love certification. It will be our savior. When the next global up swing happens on the BC coast will be one of the major good quality certified fibre producers of the world. There is fibre elsewhere, but we have certification and the world when it is rich again will pay a premium for that. I like CSA and was willing to start the process here and in Port Alberni, but other issues came up and one of them was the cost. We went with Sustainable Forestry Initiative (SFI) instead. It has some shortcomings that CSA doesn't, one of which is it doesn't have a community involvement component. Unfortunately, SFI was cheaper and the shortcomings were not great enough to merit the extra expense of CSA.

*Question: Can you see BCTS taking more land back from the majors?*

No. The industry has been hurting since then and I don't think it would go over well if we went back to them now and took more.

*Question: You paid for it didn't you?*

Yes. We paid twice. On a per cubic metre basis for AAC and in most circumstances we paid for infrastructure such as roads and mapping.

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*Question: What happens to licenses if a company goes broke?*

When somebody bids a timber sale they are obligated to give us a deposit of a certain percentage of stumpage payable. Once they start logging they are on the hook for the take or pay for the whole cut. If they go broke we will bill them for whatever they have left behind and that bill is added to their creditor list. There are a number of clients on a list of doubtful accounts that we will hound.

### **Larry Henkelman - Stumpage for Experts**

Larry Henkelman of Western Forest Products participates in several stumpage committees. One of them is with the government coast timber pricing advisory group. He is the co-chair of a sub group of the advisory group working on the market price system equation used to calculate stumpage. They take Bruce's timber sales, run it through equations and try to predict what someone may bid on a stand of timber.

Presentation Coastal Stumpage from an Industry Perspective attached.

*Question: I've wondered how BC can be competitive on a global scale considering how much time that is spent on the appraisal system. Does the rest of the world do this as complicated as we do in BC?*

Other provinces and the Pacific Northwest use similar methods to price timber. Communities use rate tables based on the stumpage paid by major licenses during the previous year. It is simple, but it is not fair to someone logging in Bella Coola compared to someone logging in Chilliwack. The stumpage system is trying to fairly distribute the stumpage burden across the coast looking at the factors for that area.

Bruce said that they don't do it this way in Russia, but Russia does not have any regulations. When the world rebounds, Russia will be somewhat spurned because of this. They will come around and they will probably end up with a scaling system that makes ours seem simple. In New Zealand they sell tracks of timber for three rotations and get away from the whole scaling thing. Most of the USA is private. British Columbians demand that the land remain crown in long term tenures. He thinks that things will change because for too much money is being spent to determine the log value. They are looking at laser scaling where the log will run through a machine and be scaled perfectly.

### **Correspondence**

Copies of recent correspondence was provided and reviewed

- Emails inviting First Nations to meetings
- September and October letters to PRPAWS
- WFP letter to Lars Hawkes
- Letters from CAG inviting FNs, Sechelt, Sliammon and Klahoose to meetings
- Email inviting Bruce McKerricher to meeting

### **Review and Acceptance of Minutes**

Minutes from Island Timberlands October 14th meeting were reviewed and accepted.

Meeting adjourned early at 8:05 because there power had been out for 1.5 hours.

**Stillwater CSA Community Advisory Group  
Western Forest Products  
November 18th  
Attendance**

<b>Name</b>	<b>Position</b>	<b>Member Seat</b>
<b>PRESENT</b>		
<b>Jane Cameron – Chair</b>	Primary	Member at large
<b>Mark Hassett</b>	Alternate	Contractor
<b>Dave Rees</b>	Primary	Tourism
<b>Bill Maitland</b>	Primary	Local Business
<b>George Illes</b>	Alternate	Environment
<b>Doug Fuller</b>	Primary	DFA Worker
<b>Colin Palmer</b>	Primary	Local Governments
<b>Paul Goodwin</b>	Alternate	Forest Dependent
<b>Read English</b>	Alternate	Local Business
<b>Ken Jackson</b>	Primary	Recreation
<b>Dave Hodgins</b>	Alternate	Recreation
<b>Wayne Borgfjord</b>	Primary	Forest Dependent
<b>9 Seats represented</b>		
<b>ABSENT MEMBERS</b>		
<b>Nancy Hollmann</b>	Alternate	Tourism
<b>Rory Maitland</b>	Primary	Contractor
<b>Barry Miller</b>	Primary	Environment
<b>Ron Fuller</b>	Alternate	DFA Worker
<b>Andy Payne</b>	Alternate	Member at large
<b>Dave Formosa</b>	Alternate	Local Governments
<b>PRESENT</b>		
<b>Resource – others</b>		
<b>Stuart Glen</b>	WFP	
<b>Larry Henkelman</b>	WFP	
<b>Walter Cowlard</b>	WFP	
<b>Bruce McKerricher</b>	BCTS	
<b>Valerie Thompson</b>	Secretary/Facilitator	