



BC Forestry Revitalization Trust

Report of the Trustee as of September 30, 2005

General

In March 2003 the province of British Columbia established the BC Forestry Revitalization Trust (BCFRT) and funded it with \$75,000,000. The mandate of the BCFRT is to provide mitigation to forest workers and replaceable contractors that are negatively impacted by timber reallocations resulting from the Forestry Revitalization Act.

In April 2004 the province appointed Eric van Soeren as Trustee. Shortly after that he appointed a seven member Advisory Board, as required by the Trust Deed. That Board developed draft forest worker and contractor mitigation guidelines. In order to develop an estimate of the cost of those guidelines, the Trustee polled all the major licensees that were to lose some of their allowable annual cut. They were asked to provide their best estimate of the effect of the timber reallocation on their workers, their contractors, and their contractors' workers. The Trustee received a 100% response rate from Coastal licensees, and a 90% response rate from the Interior licensees. The main reason for the lower response in the Interior was the lack of a response from New Skeena, which was involved in bankruptcy proceedings.

Utilizing the best estimates of industry, seniority estimates obtained from the IWA pension plan, seniority estimates obtained from contractor industry associations, and the proposed guidelines, the Trustee arrived at an estimated cost of delivering the proposed guidelines. Based on that estimate, the Trustee estimated that the BCFRT required approximately \$50,000,000 more than what was available in the BCFRT accounts, plus what the BCFRT was likely to earn in interest while holding mitigation funds in trust.

The Trustee and the Advisory Board approached the province to attempt to get sufficient extra funds to allow the draft mitigation guidelines to be finalized. As of March 31, 2005, the province had agreed to the request for additional funds, and had received approval from the legislature to provide those funds to the BCFRT.

Based on the commitment from the province for the additional funds, the Contractor Mitigation Guidelines and the Forest Worker Mitigation Guidelines were finalized by the BCFRT Advisory Board. The Guidelines, as well as extensive supporting documentation, have been posted on the BCFRT website.

In early April 2005 the BCFRT received a \$40,000,000 cash injection. The outstanding \$10,000,000 in committed funds has not yet been advanced, and will be held by the province until the need for the additional funds is confirmed.

Account Balances

As of September 30, 2005 the market value of the BCFRT accounts and distribution to beneficiaries was as follows:

Account Balances

Administration Account	\$4,843,356
Contractor Mitigation Account	\$44,728,597
Forest Worker Mitigation Account	\$44,472,480
Funds held in reserve by Ministry of Forests and Range	<u>\$10,000,000</u>
Total value of BCFRT accounts	\$104,044,433

Distributions to Beneficiaries to date

Contractor Mitigation	\$5,087,748
Forest Worker Mitigation	<u>\$20,723,327</u>
Total Distributions to Beneficiaries	\$25,811,075

Total available funds plus distributions **\$129,855,508**

Administration Account

When the BCFRT was created, \$5,000,000 was allocated to administration. To date, administration expenses of the BCFRT have been slightly more than the interest earned by the Administration Account, so the initial principal has been reduced by less than \$160,000. While expenses will increase as the BCFRT becomes more active, it appears likely that a portion of the Administration Account will be able to be transferred to one of the Mitigation Accounts at a later date, and on an as needed basis.

Contractor Mitigation Account

The principle being used for contractor mitigation is that contractors who lose their replaceable contracts as a result of Forestry Revitalization Act (FRA) restructuring will receive mitigation that approximates what the contract might reasonably have been worth at the time it was reduced or eliminated. Generally, this will be based on a per cubic metre value, but contracts that were calculated based on some other measure will be treated accordingly. A detailed description of the calculation to be used is contained in the Contractor Mitigation Guidelines. These Guidelines are posted on the BCFRT website.

As of September 30, 2005, Forestry Revitalization Proposals (FRPs) have been presented and in some cases implemented for some or all of the licenses of Abitibi Consolidated, Canadian Forest Products, Cascadia Forest Products, International Forest Products, Pope and Talbot, Northwest Specialty Wood Products, Tembec Industries, West Fraser, Western Forest Products, and Weyerhaeuser.

Also as of September 30, 2005, \$5,087,748 had been paid in contractor mitigation related to 22 affected contractors. Discussions are underway with numerous other replaceable contractors whose contracts have been or may be reduced or eliminated by the above FRPs. Therefore, numerous contractor mitigation payments will likely be made throughout the fourth quarter of 2005.

One coastal contractor and a group of interior contractors have suggested that the Contractor Mitigation Guidelines do not fairly compensate them for the value of their lost contracts. To date, they have not been able to substantiate their claims by demonstrating that similar contracts have sold for more than the cap imposed by the Contractor Mitigation Guidelines.

Contractor compensation payments and applications to date appear to be close to the projected amounts with respect to loss of contract volume. However, it appears redundant equipment payments may be higher than projected. Also, two licensees were able to get Ministerial Exemptions to allow them to eliminate more replaceable contractors than the original cap on contract eliminations would have allowed. It is too early to tell if these events will become a strain on the available funds.

Forest Worker Mitigation Account

The principle being used for forest worker mitigation is that workers who are severed because of FRA restructuring will receive severance from their ex-employer, and that severance will be funded by the BCFRT. The Advisory Board felt it was fair that all workers who lose their jobs as a result of FRA restructuring be treated the same. Because the Steelworkers (previously IWA) contract mandates that employees affected by a permanent logging camp closure receive severance of 10 regular days pay per year of service, plus 10/12^{ths} of a regular day's pay per completed month of service, that standard was used. The detailed calculation and discussion appears in the Forest Worker Mitigation Guidelines, and can be found on the BCFRT website.

As of September 30, 2005, 404 workers have received severance funded by the BCFRT, for a total cost to the BCFRT of \$20,723,327. The average severance per employee to date is significantly higher than originally projected (\$51,295 as opposed to an estimate of \$39,828). However, the average is likely high because a disproportionate amount of the workers that have already been severed worked for the licensees on the coast, and they tended to be crews with above average seniority. Also, to date it appears the total number of employees to be severed, especially in the interior, will be lower than projected. Therefore, for now it appears there will be sufficient funds in the BCFRT to deal with employee mitigation according to the Guidelines.

Looking Ahead

During the fourth quarter of 2005 I expect the following activity:

1. Forestry Revitalization Proposals (FRPs) will be implemented for more of the coastal and interior licensees.
2. Contractor Mitigation payments will be made to replaceable contractors who lose some or all of their contracts as a result of those FRPs.
3. Severance payments will be made to forest workers for some of the above licensees, and some of their replaceable contractors.
4. The BCFRT Trustee will continue to meet with licensee and contractor industry associations and organized labour, as well as with individual licensees, contractors and worker groups on an as needed basis, to ensure that the mitigation process progresses as smoothly, quickly and efficiently as possible.
5. The Advisory Board will meet to discuss requests by replaceable contractors to breach the cap on how much they can be paid for loss of their replaceable volume.

Eric van Soeren
Trustee