



BC Forestry Revitalization Trust

Report of the Trustee as of June 30, 2006

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 (FRA).

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 Mitigation Guidelines 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 obtain 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 June 30, 2006, the market value of the BCFRT accounts and distribution to beneficiaries was as follows:

Account Balances

Administration Account	\$4,655,249
Contractor Mitigation Account	\$29,028,152
Forest Worker Mitigation Account	\$35,781,000
Funds held in reserve by Ministry of Forests and Range	<u>\$10,000,000</u>
Total market value of BCFRT accounts	\$79,464,401

Distributions to Beneficiaries to date

Contractor Mitigation	\$21,674,352
Forest Worker Mitigation	<u>\$30,397,566</u>
Total Distributions to Beneficiaries	\$52,071,918

Total available funds plus distributions **\$131,536,319**

Administration Account

When the BCFRT was created, \$5,000,000 was allocated to administration. To date, most of the administration expenses of the BCFRT have been covered by the interest earned on the Administration Account balance, so the initial principal has been reduced by approximately \$345,000. It appears likely that a significant 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 June 30, 2006, Forestry Revitalization Proposals (FRPs) have been presented for 89% of the reallocated volume in the Interior, and 98% of the reallocated volume on the Coast. Not all of those FRPs have been implemented, and the affected contractors have rejected one. The licensee involved has not yet indicated how it intends to proceed.

Also as of June 30, 2006, \$21,674,352 had been paid in contractor mitigation related to 96 affected contracts. Discussions are underway with numerous other replaceable contractors whose contracts have been or may be reduced or eliminated. Therefore, many more contractor mitigation payments will likely be made throughout the balance of 2006. At present it appears over 270 contracts will be reduced or eliminated as a result of the Forestry Revitalization Act timber reallocation.

Several coastal contractors 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. The Advisory Board has reviewed the claims that had been made. To date, the view of the majority of the Advisory Board is that the contractors have not been able to substantiate their claims that the formula or the cap used in the Contractor Mitigation Guidelines is unfair.

While the Trustee and the Advisory Board remain open to considering special cases, no change to the previously approved Contractor Mitigation Guidelines has been made with respect to calculating the value of lost contract volume. However, the Advisory Board has accepted the proposition that in some rare cases it may be necessary to compensate replaceable contractors for stranded assets. Discussions are underway with two contractors whose camps have been made redundant because of their loss of fibre appurtenant to the camp. In addition, there have now been two cases where replaceable hauling contractors were able to demonstrate that in their area, recent arms length purchases and sales of hauling contracts had been at a rate slightly higher than what the mitigation formula generated. In those two cases, slightly higher compensation payments were made than would have been made based strictly on the formula. However, this increased payment was contemplated in the Contractor Mitigation Guidelines.

As of June 30, 2006, contractor compensation payments, plus revised estimates based on applications to that date, appear to be approximately 13.9%, or \$8.9 million, above the originally projected amounts. It appears redundant equipment payments may be higher than projected. Also, a higher than projected proportion of replaceable contractors appear to be leaving the industry, and there will likely be some cost to the BCFRT related to stranded assets. Also, two licensees were able to get Ministerial Exemptions to allow them to eliminate more replaceable contractors than the original cap on replaceable contract eliminations would have allowed. It is too early to tell if these events will become a strain on the available funds. Early indications are that employee severances may be lower than originally projected. If that happens, surplus funds from the Forest Worker Mitigation Account may be moved to the Contractor Mitigation Account.

Forest Worker Mitigation Account

The principle being used for forest worker mitigation is that workers who are severed by a Licensee or Replaceable Contractor 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 day's 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 June 30, 2006, the BCFRT had provided funding for the severance of 613 workers, for a total cost to the BCFRT of \$30,397,566. The average severance per employee to date is significantly higher than originally projected (\$50,056 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, it appears there will be sufficient funds in the BCFRT to deal with employee mitigation according to the Guidelines. Further, it appears there may be sufficient surplus, when added to the likely surplus in Administration Account, to cover most of the likely shortfall in the Contractor Mitigation Account. The rest will likely have to be covered by drawing on some of the \$10,000,000 reserve.

Looking Ahead

The third quarter of 2006 will likely include the following activity:

1. Forestry Revitalization Proposals (FRPs) will be implemented for the balance of the outstanding coastal and interior licensees, as the last date to submit an FRP is July 31, 2006.
2. The disputes involving the revised Teal Jones coastal FRP may be resolved, and compensation can start to be offered to the affected contractors and their employees.
3. Contractor Mitigation payments will continue to be made to replaceable contractors who lose some or all of their contracts as a result of those FRPs.
4. Severance payments will continue to be made to forest workers for some of the above licensees, and some of their replaceable contractors.
5. The BCFRT Trustee will continue to meet with licensee and contractor industry associations and organized labour, as well as with individual licensees, contractors, worker groups and their advisors on an as needed basis, to ensure that the mitigation process progresses as smoothly, quickly and efficiently as possible.

Eric van Soeren
Trustee