



BC Forestry Revitalization Trust

Report of the Trustee as of March 31, 2010

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 was 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.

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 determined that the BCFRT likely 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 and received a commitment for the additional funds, so the BCFRT Advisory Board finalized the Contractor Mitigation Guidelines and the Forest Worker Mitigation Guidelines. The Guidelines, as well as extensive supporting documentation, are posted on the BCFRT website at www.bcfirt.com.

Roll over of the BCFRT

The original BCFRT was slated to terminate effective March 31, 2008. However, for a variety of reasons it was not possible to mitigate all the eligible beneficiaries of the BCFRT by that time. Further, estimates at that time suggested that even once all the existing beneficiaries receive mitigation, there would still be funds left in the BCFRT. Therefore, it was agreed by the Trustee, the Province and the Advisory Board members that the BCFRT should be extended, the group of potential beneficiaries be expanded, and the Trustee be given limited discretion to deem that individuals who would not otherwise be eligible beneficiaries of the BCFRT be included. The Minister of Forests and Range and the Trustee signed a new Declaration of Trust, and all assets and obligations of the BCFRT were assumed by the new BCFRT II. A copy of the Declaration of Trust that created the BCFRT II is posted on the BCFRT website. The new trust is essentially a rollover of the original BCFRT, but with slightly expanded beneficiaries and no fixed termination date. It also allows for mitigation to be made available to workers and replaceable contractors that might be negatively affected by future Provincial Government land use decisions.

Account Balances as at March 31, 2010

Account Balances

Administration Account	\$4,489,958
Contractor Mitigation Account	\$2,534,801
Forest Worker Mitigation Account	<u>\$4,518,862</u>
Total market value of BCFRT accounts	\$11,543,621

Distributions to Beneficiaries to date

Contractor Mitigation	\$69,592,846
Forest Worker Mitigation	<u>\$43,079,279</u>
Total Distributions to Beneficiaries	\$112,672,125

Total available funds plus distributions **\$124,215,746**

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 \$510,000. 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 used for contractor mitigation is that contractors who lost their replaceable contracts as a result of Forestry Revitalization Act (FRA) restructuring received mitigation that approximates what the contract might reasonably have been worth at the time it was reduced or eliminated. This was usually based on a per cubic metre value, but contracts that were based on some other measure were treated accordingly. A detailed description of the calculation that was used is contained in the Contractor Mitigation Guidelines.

As of March 31, 2010, Forestry Revitalization Proposals (FRPs) have been presented and accepted by the affected contractors, or the default condition of proportionate reduction has been imposed, for all the reallocated volume in the Province. The long standing dispute between Teal Jones and its major contractor with respect to the volume of FRA take back to be allocated to that contractor has now been resolved, so mitigation of the affected workers and contractors is proceeding.

As of March 31, 2010, \$69,592,846 had been paid in contractor mitigation related to 311 affected contracts. Discussions are underway with other replaceable contractors whose contracts have been reduced or eliminated. Approximately 11 more contractor mitigation payments should be made by mid 2010.

Contractor compensation payments to March 31, 2010, plus revised estimates based on pending applications, appear to be approximately 12.3%, or \$7.84 million, above the originally projected amounts. This is partially because a higher than projected proportion of replaceable contractors appear to be leaving the industry, partially because there will be some cost to the BCFRT related to stranded assets, and partially because redundant equipment payments are turning out to 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 replaceable contract eliminations would have allowed. These extra contractor costs will be balanced because it is now clear that employee severances will be lower than originally projected. In order to cover the higher than expected contractor mitigation costs, \$20,000,000 has been moved from the Forest Worker Mitigation Account to the Contractor Mitigation Account. Based on current estimates, there are sufficient funds in the Contractor Mitigation Account to cover all outstanding expected contractor mitigation costs.

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 employees 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 March 31, 2010, the BCFRT had provided funding for the severance of 848 workers, for a total cost to the BCFRT of \$43,049,279. The average severance per employee to date is significantly higher than originally projected (\$50,801 as opposed to an estimate of \$39,828). The average is high because a disproportionate amount of the severed workers worked for licensees on the coast, and they tended to be crews with above average seniority. Also, it is now clear that the total number of severed employees, especially in the interior, was lower than projected. A surplus of at least \$20,000,000 was previously expected in the Employee Mitigation Account to deal with employee severance according to the Guidelines. This was moved to the Contractor Mitigation Account to cover the shortfall in that Account. All workers known to have been affected by the Forestry Revitalization Act have now received their BCFRT supported severance, and there is still approximately \$4.5 million remaining in the Forest Worker Mitigation account. These funds will likely be made available at the discretion of the Advisory Board to provide mitigation for other forest workers and replaceable contractors that have been or will be negatively impacted by provincial government land use decisions.

Surplus Funds

It is now clear that there will be approximately \$9,000,000 left in the BCFRT accounts that will not be required for administration or to mitigate the negative impacts of the BC Forestry Revitalization Act. Therefore, the \$10,000,000 reserve that was held by the Ministry of Forests and Range has been released, and the Advisory Board will need to meet to discuss how the remaining \$9,000,000 will be used.

The Deed of Trust does not allow a return of those funds to the Province, but two possible alternate uses of the funds have been suggested. An unknown but likely significant number of contractors and workers are likely to be affected by the implementation of Eco-system Based management. Mitigation of those workers and contractors could be a permitted use of the BCFRT funds, subject to BCFRT Advisory Board approval. Another possible use, again subject to BCFRT Advisory Board approval, would be to change the existing contractor mitigation guidelines to allow the BCFRT to compensate the contractors for taxes they were required to pay on mitigation payments made.

Looking Ahead

The second quarter of 2010 will likely include the following activity:

1. The BCFRT Trustee will continue to work with the Trust Tax Resolution Committee (TTRC) to try to resolve the dispute between the TTRC and the Canada Revenue Agency on the taxability of disbursements made by the BCFRT to replaceable contractors.
2. Contractor Mitigation payments will be made to the remaining replaceable contractors who lost some or all of their contracts as a result of the FRA.
3. 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, and to discuss possible uses of the roughly \$9,000,000 in surplus funds.
4. The Trustee will meet with the Advisory Board to discuss how best to use the increased flexibility afforded in providing mitigation to workers and replaceable contractors that are affected by government land use decisions that have negative impacts on harvesting opportunities.

Eric van Soeren
Trustee