



BC Forestry Revitalization Trust

Report of the Trustee as of June 30, 2011

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.bcfrt.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 received 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 other Provincial Government land use decisions that limit logging.

Account Balances as at June 30, 2011

Account Balances

Administration Account	\$4,463,679
Contractor Mitigation Account	\$1,404,978
Forest Worker Mitigation Account	<u>\$2,505,869</u>
Total market value of BCFRT accounts	\$8,374,526

Distributions to Beneficiaries to date

Contractor Mitigation	\$70,748,591
Forest Worker Mitigation	\$43,079,279
Transferred to the Coast Sustainability Trust	<u>\$2,100,000</u>
Total Distributions to Beneficiaries	\$115,927,870

Total available funds plus distributions **\$124,302,396**

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 \$540,000. 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 June 30, 2011, 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. Also as of June 30, 2011, \$70,748,591 had been paid in contractor mitigation related to 317 affected contracts. All replaceable contractors that were affected by the implementation of the FRA have now received the full mitigation for which they were eligible under the Contractor Mitigation Guidelines.

Forest Worker Mitigation Account

The principle used for forest worker mitigation was that workers who were severed by a Licensee or Replaceable Contractor because of FRA restructuring received severance from

their ex-employer, and that severance was be funded by the BCFRT. The Advisory Board felt it was fair that all employees who lost 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.

The BCFRT has provided funding for the severance of 848 workers, for a total cost to the BCFRT of \$43,079,279. The average severance per employee was significantly higher than originally projected. It is \$50,801 as opposed to an estimate of \$39,828 because a disproportionate amount of the severed workers worked for licensees on the coast, and they tended to be crews with above average seniority. However, the number of severed employees, especially in the interior, was lower than projected. All employees known to have been affected by the Forestry Revitalization Act have now received their BCFRT supported severance.

Mitigation of the Negative Impacts of Ecosystem Based Management on Haida Gwaii.

During a February 2011 BCFRT Advisory Board meeting it was agreed that the BCFRT would cost share with the Coast Sustainability Trust (CST) to provide mitigation to workers and replaceable contractors that are negatively impacted by the implementation of Ecosystem Based Management (EBM) on Haida Gwaii. The formulas used to determine the amount of mitigation would be the same as were used in the earlier BCFRT mitigation payments. The estimated cost of mitigation was \$5.2 million, of which the BCFRT would pay half. Work is ongoing with the licensees, contractors, union and workers to determine the actual amounts to be paid. Payments will be made through the CST, with the BCFRT providing half the required funds.

As of June 30, 2011, \$2,100,000 has been transferred to the CST to provide matching funds for worker and contractor mitigation. Also as of June 30, 2011, 22 workers and 2 replaceable contractors have received funds through this program.

Adequacy of Funds

In the above mentioned meeting it was also agreed that the BCFRT would work with the provincial and federal governments to cause any income taxes paid or payable by replaceable contractors on mitigation payments for loss of contract volume or redundant equipment to be refunded to the contractors through the BCFRT. A verbal agreement on the above was reached between the federal and provincial governments, including an agreement that any taxes on those refund payments and any interest or penalties related to non payment of the original taxes was to be waived. Work on that initiative is ongoing, but finalizing the details has been delayed and is not expected to be completed until the fall of 2011.

In addition to the above, an unknown but likely significant number of contractors and workers are expected to be affected by the upcoming implementation of EBM on the Central Coast, North Coast and Haida Gwaii. Mitigation of those workers and contractors is a permitted use of the BCFRT funds.

It now appears that between the offer to assist with the mitigation of the current impacts of EBM on Haida Gwaii, the attempt to provide tax relief to the contractors, and mitigation to workers and contractors to be affected by future implementation of EBM, there may be insufficient funds remaining in the BCFRT. The Advisory Board now feels that the \$10 million that was held back in the original funding for the BCFRT will be required, and it has requested its release.

Looking Ahead

The third quarter of 2011 will likely include the following activity:

1. The BCFRT Trustee will continue to work with the Loggers for Fair Tax Treatment and the provincial and the federal governments to try to firm up the verbal agreement to provide tax relief to the contractors who received BCFRT assistance.
2. The Trustee will work with the workers, contractors and the union on Haida Gwaii to finalize mitigation payments related to the loss of contracts and employment because of the implementation of EBM.
3. The Trustee will continue to work with the Ministry of Forests, Lands and Natural Resource Operations to try to get a release of the \$10,000,000 that was previously withheld from the BCFRT.

Eric van Soeren
Trustee