



CEP Atlantic Communications Council Membership Bulletin July, 2006

Canadian Industrial Relations Board (CIRB) Decision on Scope of the Bargaining Unit

As many of you may remember, around 2000, the CEP & the AC&TWU filed applications with the CIRB concerning the scope of the bargaining unit. The unions were arguing that certain jobs such as Technical Assistance Centres (TAC), Small Business Associate and some Administrative Assistants who were considered to be outside bargaining unit were actually jobs that should be included in the bargaining unit. We were optimistic at that time that a decision would be handed down before bargaining began. The Chairperson for these hearings was Mr. Hamilton of the CIRB. Considerable time and money was spent presenting our case and we have been waiting for a decision for a ridiculous amount of time. Before Mr. Hamilton wrote a decision on the case, he left the employ of the CIRB. The union has been trying to get answers from the government about these decisions and the only response we were getting is that we may have to do it all over again. This was completely unacceptable! After talks with the CLC and other unions who are experiencing the same problems with the ineffectiveness of the CIRB, a letter was sent to Mr. Hamilton, and he has agreed to file his decision and we should be receiving that ruling by July 25, 2006.

Employment Equity Committee

We are happy to announce that this committee met for the first time on June 22nd.

This is a committee made up of Unionized and management employees representing Equity Seeking Groups as described in Federal legislation.

CEP Telco Bargaining Conference

On June 16th representatives of each Local in our region attended a Conference in Ottawa to discuss the next steps we want to take towards a more concerted effort of Bargaining in the Telco sector. Each CEP Local in the Telco sector gave a report on which direction they chose as an option for bargaining. It was decided at this conference that a Steering Committee would be put in place to sort through the information presented at this meeting and put forth a recommendation for the future of bargaining. The Steering Committee would be made up of 2 representatives from each region (Atlantic, Quebec, Ontario and Western), the Administrative Vice President from each region and the National President. The CEPACC Executive Board decided that the Chair and Vice Chair of our Council will be our representatives on this committee which will meet sometime in November of this year. Currently, the Chair and Vice Chair of the Council are Penny Fawcett and Noel Pauley.

Income Trusts

Please read the Income Trust document below that was composed by the Research Department of the National Office. Hopefully it will help us all better understand the concept of Income Trusts.

In Solidarity,

Penny Fawcett, Noel Pauley, Chuck Rouse, Wayne Walsh, Joyclin Coates, Mary Croke
Representing Locals 401, 410, 506 & 2289



CEP SPECIAL REPORT ON INCOME TRUSTS

As an increasing number of Canadian companies have turned themselves into «income trusts » in the last several years, many workers represented by CEP now face employers operating under this structure.

Trusts have been used by investors for several decades. In the last 10 years income trusts have gained popularity as investment vehicles. Since 2000, this growth has accelerated sharply.

The reason that income trusts, rather than corporations are being used lies in the complexities of Canadian income tax law.

Income trusts are one kind of « flow through entity », a business and tax arrangement that allows business income to « flow through » to investors so that almost no income tax is paid at the business or trust level. All the income is taxed in the hands of the investor known as the unit holder.

This differs from the tax treatment of corporations and their shareholders, where tax is paid by both the corporation on its income and by its shareholders when some of the income is distributed (with some recognition at the shareholder level of the taxes paid at the corporate level).

Corporations derive benefit from public services such as education and health care and should contribute to their funding. Allowing them to avoid paying a part of these social costs is unfair.

In a white paper issued in September 2005, the Department of Finance estimated that income trusts had cost federal coffers \$300 million in lost taxes in 2004, with provincial governments forgoing a similar amount.

Business income trusts are a more recent development in Canada than energy trusts and real estate income trusts, which have existed since the 1980s. Although the first energy trust in Canada was established in 1986, the growth of the sector did not take place until the mid-1990s. In the late 1990s, the popularity of energy trusts began to decline, partially as a result of lower commodity prices and higher interest rates.

\$176 Billion

Before 1995 income trusts were limited to a small number of businesses with total capitalization of only \$1.3 billion. By 2000, that had grown to \$18 billion. In 2001, the

Tax Avoidance

The income trust structure provides a tax avoidance method for corporations. Its existence sets up two systems of taxation for corporations when there should be only one.

By December 2004, the total value of income trusts stood at \$118.7 billion and by November 2005 had reportedly hit \$176 billion, or 10% of the total value of stocks traded on the Toronto Stock Exchange.

The federal government has allowed income trusts to proliferate beyond reason. While it would have been easy to rein them in when they were a marginal phenomenon, it will be much more difficult to do so now. Indeed, many more companies are now looking at avoiding taxation by converting parts of their operations to income trusts.

The Design of Income Trusts

The income trust structure is designed to distribute most of the cash flow of the underlying business to its unit holders. The business must have a steady, predictable cash flow since income trusts distribute all or most of their cash flow. The business should have low capital expenditure requirements since the income trust will generally maintain very little capital for reinvestment or expansion. Growth is typically funded through new unit issues or debt. Trusts that retain earnings would be required to pay the very tax they are intended to avoid.

There are three primary types of income trusts:

- *Business income trusts* are used in many sectors, such as manufacturing, food

number of income trusts began to explode, driven by investors searching for higher returns in the face of very low interest rates, the attractive tax treatment of income trusts, increasing oil and gas prices, and investment dealers looking for commissions earned by selling the trust units.

One peculiarity of business trusts is that when a corporation is converted to the income trust structure, the price of the newly issued trust units increases substantially above the original share price as the tax saving is reflected in the price of the new unit. For example, the price of a share paying a 4% dividend will increase substantially due to tax savings when it is converted to a trust unit paying out 8%.

The temptation to inappropriately convert many businesses with unstable cash flow into income trusts has been difficult to resist for many corporations and their owners. Accordingly, many companies have been converted into income trusts in order to provide cash for large shareholders wishing to liquidate part of their holdings in a company whether it was appropriate or not.

Not Good for Everyone

The recent surge in income trusts has included underlying companies that produce commodities such as oil and natural gas, power generation and distribution, market pulp and other manufacturing, food distribution and restaurants. Some of these are not appropriate areas for the income trust structure.

For instance, market pulp is a commodity product subject to considerable price volatility

distribution, and power generation and distribution.

- *Energy trusts* invest in extraction of oil or natural gas or earn royalty income from resource properties.
- *Real Estate Income Trusts* (REITs) invest in real estate: income producing properties or mortgage-backed securities.

The Darker Side

While many oil and gas trusts are based on companies with adequate reserves, some are making unsustainable distributions in the face of rapidly depleting supplies. When this is combined with price volatility, future distributions cannot be certain. Indeed, one of the oldest energy trusts, Shiningbank Energy Income Fund, has had to cut its distributions recently due to a decrease in the price of natural gas.

Other companies subject to the economic cycle or currency fluctuations have also been converted to the income trust structure. Superior Plus Income Trust is one such entity. Its price, which was \$32 as recently as August 2005, is currently trading at less than \$11 as a result of uncertainty surrounding its future cash distributions. Indeed dozens of income trusts have cut their distributions because they misjudged the stability of their distributions.

A darker side to income trusts is the practice of most of them to pay out more than their net profits. According to a report by Accountability Research Corporation, 75% of the 50 biggest

and currency fluctuations. It is produced in factories requiring large capital investments to maintain and modernize equipment. This is not an appropriate business for an income trust. Illustrating the pitfalls of such an operation is SFK Pulp. In 2002 Abitibi-Consolidated spun off SFK Pulp at \$10 per unit. As market conditions became more difficult the trust was obliged to reduce its cash distribution, suspending it entirely in November 2005. The price of the units subsequently plummeted to only \$3. Pulp markets have recovered somewhat and the price of the unit has risen to more than \$4 but the cash distribution has yet to be restored.

The problem is that cash distributions hinge on subjective adjustments and estimates of management. Figures reported are often odd and even experienced specialists are at a loss to explain the manipulations. The lack of standard ways to measure distributable cash has resulted in some calls for new accounting rules. Yellow Pages Income Fund, Standard and Poor's and the Accounting Standards Board of Canada have made such calls.

In the short run, the income trust structure may enhance bargaining power as management seeks to avoid labour conflicts so as not to jeopardize monthly cash distributions.

CEP and Income Trusts

In March 2006 over 4,300 CEP members worked for companies operating under the income trust structure (see attached list). The largest number, nearly 1,500, were employed by CanWest Media Works, publisher of the Vancouver Sun and Province and TV broadcaster. Next is FP Newspapers Income Fund, the publisher of the Winnipeg Free Press and the Brandon Sun, with more

business trusts pay out more than they earn. Less than two thirds of their cash distributions are profits. The rest is return of investors' capital. In effect these are wasting assets that are not being properly maintained or upgraded.

For workers this is a source of great concern. In the long run a company that doesn't invest enough in its operations will slowly decline and go out of business.

While this is always a danger under the usual corporate structure, it is especially worrisome when the business structure is biased in that direction. In addition, the murky nature of income trust accounting rules makes it difficult to determine exactly what is happening.

It is clear BCE has decided that its landline telephone operations outside of urban areas are a slow growth business requiring little new investment. Putting them into an income trust will result in a relatively high market value of the new trust units as the savings on corporate tax will be included in the value of the units. This move will provide BCE with substantially more capital to invest in other regions and new lines of business than if it had simply spun the operations off into a standard corporate structure.

than 1,200 members, followed by Osprey Media with over 400 workers. Others in the range of 225 to 300 workers were TransAlta Power (power generation), Duke Energy (natural gas production and distribution) and SFK Pulp (market Kraft pulp).

In recent months BCE has announced it will create a large income trust by combining its landline telephone operations outside the big urban centres of Quebec and Ontario. It will have a total of 3.4 million telephone lines and 400,000 high-speed internet subscribers. BCE plans on retaining a 45% interest in the new trust and keep control of it through governance rules. The company's wireless and urban landline telephone operations will remain under the standard corporate structure of BCE.

Canfor has also announced the creation of an income trust for its pulp operations. The operation would group four pulp mills in British Columbia, two of which are with CEP, locals 603 and 1133. The income trust structure is not appropriate for this kind of operation as cash flow fluctuates constantly according to world demand for pulp and the value of the Canadian dollar. Neither is it appropriate for the large capital investments required by pulp mills.



Communications, Energy and Paperworkers Union of Canada - May 2006

CEP MEMBERS AT INCOME TRUSTS

Local	Name of Trust	Product	Number of Members
6.01	Bell Nordiq Income Fund	Telephone services	142
165-Q	Boralex Power Income Fund	Hydro-electric power station	80
1123.30	Calpine Power Income Fund	Power generation	15
697	Canexus Income Fund	Petro-chemicals, caustic and chlorine	105

Local	Name of Trust	Product	Number of Members
867	Canexus Income Fund	Chemicals (Chlorine, caustics) production	46
601.18	Canexus Income Fund	Chemicals	12
1900.10	CanWest MediaWorks Income Fund	T.V. Broadcasting (Edmonton, AB)	109
98.01-M	CanWest MediaWorks Income Fund	T.V. Broadcasting (Saint-John, NB)	15
821-M	CanWest MediaWorks Income Fund	T.V. Broadcasting (Winnipeg, MB)	66
918.01 and .02-M	CanWest MediaWorks Income Fund	T.V. Broadcasting (Dartmouth, NS)	79
2000	CanWest MediaWorks Income Fund	Newspaper publishing – Pacific Newspaper Group: (Vancouver Sun, Province, etc.)	1,200
746	Duke Energy Income Fund	Gas production	52
449	Duke Energy Income Fund	Natural Gas Pipeline	46
5060	Duke Energy Income Fund	Gas Production	23
686.30-G	Duke Energy Income Fund	Natural gas and electric supply, delivery and trading	64
829	Epcor Power L.P.	Electric power generation	65
900.16-G	FP Newspapers Income Fund	Newspaper publisher (Winnipeg Free Press) Pressroom	64
191.13	FP Newspapers Income Fund	Newspaper publisher (Winnipeg Free Press) Carriers	586
191.15	FP Newspapers Income Fund	Newspaper publisher (Winnipeg Free Press) Editorial +	445
900.03-G	FP Newspapers Income Fund	Newspaper publisher (Brandon Sun) Pressroom	19
191.01; .02; .03; .04 and .05-G;	FP Newspapers Income Fund	Newspaper publisher (Brandon Sun) Editorial +	77
87-M	Osprey Media Income Fund	Newspaper publisher (Belleville Intelligencer, etc.)	357
425	Osprey Media Income Fund	Newspaper publisher (Niagara Falls Review)	6
102	Osprey Media Income Fund	Newspaper publisher (Pembroke Daily Observer)	50
777.09	Penn West Energy Trust	Oil and gas processing	22
24.00 and .02-Q	SFK Pulp Fund	Kraft Pulp	226
609.20	Superior Plus Income Fund	(Superior Propane: Distribution of propane)	58
686.40-B	Taylor NGL Limited Partnership	Natural Gas Liquids	22
672.04	TransAlta Power L.P.	Power Generation	163
707.50	TransAlta Power L.P.	Power Generation	120
240.05	Yellow Pages Group	Telephone Directory	3
TOTAL MEMBERS			4,337

