

Humboldt Watershed Council

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February 21, 2007

Evan Flaschen
Kurt Mayr
Bingham McCutchen LLP
Counsel to the Unofficial Noteholders Committee
One State Street
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John D. Fiero
Pachulski, Stang, Ziehl, Young, Jones & Weintraub
Counsel to the Official Creditors Committee
150 California Street, 15th Floor
San Francisco, CA 94111-4500

Re: Pacific Lumber Company and Scotia Pacific LLC

Dear Mr. Flaschen, Mr. Mayr, and Mr. Fiero:

I am writing on behalf of the Humboldt Watershed Council to inform you, as the representatives of the major creditor constituencies in the Pacific Lumber/Scotia Pacific chapter 11 cases, of our interests and concerns regarding the companies' reorganization of Scotia Pacific, and the potential for a change of ownership of the companies and their assets.

The issues surrounding Pacific Lumber and its subsidiaries have strongly divided our community ever since its takeover by Maxxam Corporation in 1985. Since then our small county has been rocked by countless protests and tree-sits, ceaseless litigation, layoffs and mill-closures, the Judi Bari bombing, the Stafford landslide, the pepper spray incident, the death of David Chain, increased flooding and environmental damage, and a deepening polarization of our community. Clearly, business as usual is not an acceptable option. After 22 years and the failure of the \$480 million dollar Headwaters transaction, we simply cannot afford to not fix the problem this time.

The Humboldt Watershed Council has a long-standing interest in these issues. We have worked for many years to address the flooding and property damage suffered by the company's downstream neighbors in the Freshwater and Elk River watersheds. Our efforts have made us keenly aware that the environmental impacts from the company's voracious rate of harvest cannot be addressed without also addressing the company's financial structure.

The Humboldt Watershed Council and the Redwood Forest Foundation recently convened a meeting of 25 community members representing regional and national environmental groups, foresters and forest practitioners, community leaders, and representatives of State and local government, to discuss these chapter 11 cases and to develop as broad of consensus as possible as to what would be necessary for a beneficial outcome for our community. These discussions have just begun, but there are a few points which consistently rise to the top:

1. Scotia Pacific and its lands must be completely severed from the control of Maxxam Corporation and Charles Hurwitz. This appears to be the *sin qua non* for a successful outcome.
2. Scotia Pacific's lands must remain in large, contiguous ownership to prevent their loss to subdivision and development, and to preserve their viability for future management.
3. Scotia Pacific's debt must be reduced to a level which does not force the company's hand in determining the rate, the timing or the location of its timber harvesting.

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4. Scotia Pacific's new ownership must include a defined, active role for the local community in guiding the management of the company's timberlands.

We have identified a suite of associated issues and considerations which will need to be explored in detail before any truly workable and agreeable ownership structure can be determined. Key among these many issues are:

- Appropriate valuation of the ScoPac lands
- Specifics of desired future management
- Potential conservation areas (Hole in the Headwaters, State Park additions, MMCAs)
- Relief for sensitive watersheds (Freshwater, Elk River, Mattole, Van Duzen)
- Restoration of damaged watersheds

Once again, the importance of a beneficial outcome to this long-standing issue cannot be overstated. All parties want a healthy, sustainable timber industry which can provide steady yield and steady employment into the future. All parties also want a healthy environment which includes recovery for our heavily-impacted watersheds. Far from being mutually exclusive, these two goals are, in fact, highly interdependent, as they both require the recovery of the resource upon which both our economy and our environment depend.

We are confident that a model of ownership and management can be developed which will meet all of these critical needs, while also meeting the needs of the company's future owners, whoever they may be. Moreover, we believe that a feasible, successful reorganization is only possible with the participation of all affected constituencies. We are committed to furthering this discussion so that we may finally be able to leave the division and conflict of these past 22 years behind us.

We would welcome the opportunity to exchange views with you on these various issues.

Sincerely,

Mark Lovelace, President
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