

Forestry Innovation Investment Ltd.  
**Service Plan**  
2007/08 – 2009/10



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# Message from the Board Chair to the Minister Responsible

January 15, 2007

The Honourable Rich Coleman  
Minister of Forests and Range  
Province of British Columbia

Dear Minister:

I am pleased to present you with *Forestry Innovation Investment Ltd.'s Service Plan 2007/08 – 2009/10*. This plan sets out the corporation's goals and objectives, the strategies it will use to attain them, and performance measures and targets for the next three years. Relative to 2006/07, the Plan is based on a funding level that is scheduled to be reduced by \$1.67 million next year, and a further \$2.25 million in the following year. These reductions reflect the fact that FII has paid out most of certain multi-year commitments, and the fact that the first tranche of dedicated mountain pine beetle program funding is scheduled to end after next year.

In pursuing its Market Development and Market Communications goals, FII anticipates continuing to allocate about half of its budget to share the cost of activities proposed and delivered by non-profit trade associations, research institutes, and universities. Much of the work done by those organizations will also be cost-shared by the Natural Resources Canada through its Canada Wood Export Program. In this context, FII will continue to encourage Canada Wood Group (a federation of trade associations) to take the lead in market development activities in several foreign locations.

Through its annual Call for Proposals process, augmented by self-initiated activities, FII continues to aim for a well-balanced portfolio of investments in several respects: geographically, across primary and secondary product lines, across species of timber, between the Interior and Coastal industries in BC, and between short-term and long-term prospects.

With harvesting in BC having dramatically increased to salvage trees killed by the mountain pine beetle

epidemic, and with demand and prices in the United States having fallen so much this past year, BC firms are expressing renewed interest in diversifying markets for the long term. FII will continue to fund activities that maintain and improve markets in the United States, Japan and Europe, but its more proactive efforts will be focused on creating new markets in China and Korea, with first steps also being taken in Vietnam. All of this will fit with government's overall Asia Pacific strategy.

During the term of the new Service Plan, FII will use its remaining year of mountain pine beetle funding to pursue new product lines made from trees that have been dead for some years, for example documenting lumber recoveries and researching the feasibility of creating various forms of energy from that biomass.

FII expects to:

- assist the Coastal industry in finding new products and applications for products made from hemlock, which is the predominate species on the Coast;
- share the cost of a new program to promote adoption of structural wood products in non-residential buildings in the United States;
- continue to pursue development of low-cost housing solutions, not only for disaster-related reconstruction, but also for ordinary situations in the developing world;
- actively encourage the showcasing of wood products in 2010 Olympic Games venues, as well as in a new BC – Canada House in the heart of Beijing for its 2008 Olympic Games.

## Message from the Board Chair to the Minister Responsible

Through its wholly owned subsidiary in China, FII recently introduced wood-truss technology that could displace light steel in existing multi-billion dollar apartment re-roofing programs in Shanghai, Beijing, Qingdao, and other cities. FII Shanghai has also completed construction of two large demonstration villas built to Chinese designs. The company is now targeting the introduction of wood frame technology in ubiquitous six-story apartment buildings that account for about half of the 500 million square metres of new housing in China each year. Finally, in the coming year FII Shanghai and municipal officials on Guangzhou expect to complete construction of a new BC – Guangdong Pacific Gateway Park, a large-scale public landscaping project using cedar from the Coast, and pressure treated spruce-pine-fir from the Interior. All of these demonstration projects are attracting keen interest from Chinese building and fire code officials, architects, designers, developers, and builders.

In its Market Communications program, FII will continue to ensure customers have factual, credible information about our province's forest management and the environmental attributes of building with wood. Staff will be particularly engaged in the emerging "green building" movement in the United States. On behalf of an international coalition of European, South American, Australian, and Canadian bodies, FII has agreed to hire an expert in the topic of third-party forest management certification, who will reside in Beijing and work with Chinese officials as they develop a made-in-China certification scheme. The objective will be to ensure that China does not inadvertently disfavour certification schemes underlying most timber harvesting in BC and in the jurisdictions who are financially supporting FII's initiative.

FII is a very small organization. Every position and every employee is critical to its success. Through the dedication and commitment of its employees, the company will continue to strive to be a highly effective and well-managed organization that makes a strong contribution to the success of the BC forest industry and through it, the province.

Notwithstanding best efforts by FII, its ability to control outcomes is limited. As mentioned above, approximately half of FII's budget is allocated to funding activities delivered by trade associations, research institutes, and universities. FII is always at risk of those organizations deciding to scale back or even eliminate the relevant activities. In terms of the ultimate impact on sales of BC forest products, FII and its partners have no ability to control major factors like currency exchange rates, national economic growth rates and pricing of competitive products.

The 2007/08 - 2009/10 FII Service Plan was prepared under my direction in accordance with the Budget Transparency and Accountability Act. I am accountable for the contents of the plan, including the selection of the performance measures and targets. The plan is consistent with government's strategic priorities and overall Strategic Plan. All significant assumptions, policy decisions and identified risks as of December 15, 2006, have been considered in preparing the plan. The performance targets in this plan have been determined based on an assessment of FII's operating environment, forecast conditions, risk assessment and past performance.

Doug Konkin  
Chair, Board of Directors  
January 15, 2007

## Overview

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A healthy forest economy is vital to the well being of British Columbia. In 2005, an estimated 80,000 direct jobs and 41 percent of the province's manufacturing output were based on forestry-related activity. Most of this on-going activity – and by extension the livelihood of many resource communities – is driven by exports.

In 2005 British Columbia produced over 41 million cubic metres of softwood lumber, of which 81% was sold to customers in the United States, Japan and other overseas markets. Exports of oriented strand board, medium density fibreboard, and particleboard were all in excess of 90% of production. These huge volumes were more than enough to make the province the world's largest exporter of softwood lumber, and a globally dominant supplier of other solid wood products.

Reflecting the importance of international markets to the provincial forest sector, the Government of British Columbia set up Forestry Innovation Investment Ltd. (FII) in 2003 to promote BC's environmentally progressive forest management and products internationally. Either directly or through funding the work of other organizations, FII:

- informs international markets about BC's sustainable and world-leading forest management practices
- promotes BC wood products in major markets like the United States, Japan, and Europe
- introduces BC wood products to new markets like China, Korea, Taiwan and Australia
- develops new products and uses for wood

- researches better ways of manufacturing wood products
- helps ensure the forest sector, through strong international sales, continues to be a leading contributor to the BC economy.

FII delivers on its mandate through investments in marketing and product development projects designed to give BC a competitive edge in global markets, as well as through direct-delivered programs that promote the province's sustainable forest practices internationally. FII also helps the forest sector deal with major issues through support of major initiatives like the BC Mountain Pine Beetle Action Plan.

## Overview

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In all of these activities, the focus is on adding value and delivering tangible benefits to the industry. In setting and reviewing its business goals, FII consults regularly with forest-sector experts who work for:

- BC forest product companies
- the forest industry trade associations that represent large and small companies around the province
- federal government departments such as Natural Resources Canada (particularly those managing the Canada Wood Export Program) and Canada's foreign consulates and embassies
- academic and research institutions engaged in forest product studies
- municipal governments in rural BC
- the Ministries of Forests and Range, and Economic Development.

To a large extent, FII acts in support of other organizations – encouraging collaboration within the industry, facilitating contact with foreign officials, working in partnership with the Government of Canada, and directing targeted programs in the areas of international marketing and forestry communication. This approach translates into low overhead – fully 95% per cent of the FII budget is expensed on projects, research and marketing programs.

## Core Business Areas and Major Programs

FII IS ORGANIZED IN THREE BUSINESS AREAS:

- **Market Development**
- **The BC Market Outreach Network**
- **Corporate Support**

### Market Development Business Area

The Market Development Business Area is made up of six program areas:

- **International Marketing**
- **Market Access**
- **Product Development**
- **China Market Development**
- **Mountain Pine Beetle**
- **Domestic Market Development.**

Together, these programs use project funding and partnerships with the Government of Canada, forest industry associations and research institutions, to:

- maintain and create opportunities for BC wood products in existing and emerging markets
- ensure BC forest products have access to markets free from regulatory and other barriers
- ensure designers, architects, developers, builders, and consumers, know about BC wood products and the many structural and finishing advantages they bring to residential and other construction
- support the development of innovative new forest products, including products using pine harvested from mountain pine beetle-attacked forests, and
- provide markets and audiences with information on the properties and qualities of BC's premier forest products as well as the BC companies that supply them.

## Core Business Areas and Major Programs

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### International Marketing Program

FII's International Marketing Program supports the promotion of British Columbia's wood products and species to international customers and specifiers of wood building/finishing products. This includes activities such as:

- participating in international wood product tradeshow
- offering technical and promotional seminars and workshops
- developing promotional materials, brochures, multi-media tools, and websites
- running advertising and promotional campaigns, and
- participating in promotional demonstration projects (Street of Dreams, make-over and do-it-yourself television programs, etc.).

FII recognizes that a key to success in International Marketing (as well as in all other program areas listed below) is a strong focus on market research and market intelligence. With an increasingly competitive and evolving global forest industry, timely market research is key to identifying new and evolving market opportunities and maintaining competitive product advantage.

FII typically initiates and undertakes market research for the benefit of the entire BC forest sector. In major trade shows in the United States and Asia, FII provides innovative showcases of BC value-added wood products. Trade associations create and deliver promotional material, with the cost typically shared by FII and the associations.

## Core Business Areas and Major Programs

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### Market Access Program

FII's Market Access Program is aimed at enabling unrestricted market access for BC manufacturers into key forest product markets around the world.

Activities may include:

- support for developing and implementing building and fire codes that accommodate BC wood products
- ensuring markets recognize BC wood species and grades
- identifying and overcoming non-tariff trade barriers, such as product testing and/or product marking requirements
- staying abreast of and addressing plant health regulations and restrictions that might constrain the import of BC products.

Initiatives are typically delivered by experts from the private sector, research institutes and universities on behalf of the BC and the Canadian forest industry and are usually coordinated through Canada Wood Group, which is a federation of industry trade associations.

### Product Development Program

FII recognizes that success requires ongoing innovation and product development to respond to the changing needs of international customers and to take advantage of new and evolving market opportunities for wood products.

Through the Product Development Program, FII supports industry-partnered initiatives to develop existing products or to create new forest products or manufacturing processes. These products may be geared to existing markets or to new and evolving markets. FII supports technical research to quantify product qualities and attributes, and complete product testing for market acceptance.

Product Development projects are typically led by research institutes, universities, or industry trade associations.

## Core Business Areas and Major Programs

### China Market Development Program

Recognizing the rising importance of China to the global economy and the significant potential for developing wood-product demand in China, FII has created a separate program focused specifically on opening the door for BC wood products into China.

Currently, about one percent of BC's solid wood exports are directed to China, 90 percent of which are consumed by China's remanufacturing industry. Despite building some 10 million new residences each year, virtually no wood frame building technology exists in the country. In close collaboration with Canada Wood Group, FII is directly responsible for doing the basic market research to determine where the best potentials exist to introduce BC wood products and North American wood frame technology to China's housing sector. FII is also leading the provision of demonstration projects to showcase BC wood products and wood construction technologies. In its first two years, FII's wholly owned subsidiary in Shanghai has built:

- an 888 square-metre (approximately 10,000 square-foot) wood-products showcase and demonstration centre
- two single-family wood frame homes, known as villas, and
- wood-truss roofs for two older low-rise apartment buildings, of the type in which nearly half of China's population live.

In the coming year, FII expects to complete:

- a landscaping demonstration project featuring cedar and pressure-treated wood in a new British Columbia – Guangdong Pacific Gateway Park in Guangzhou, and
- one or more “hybrid” low-rise apartment buildings, with lower floors built of the traditional reinforced concrete and masonry, and upper floors and roofs built to North American wood frame standards.

FII will also pursue the introduction of BC wood products into existing large-scale apartment renovation programs already initiated by numerous municipal governments. Research and experience in China have confirmed that providing technical demonstration and technical support, combined with showcasing wood and wood-construction technologies, are effective ways to achieve market-development objectives in this market.

### Mountain Pine Beetle Program

FII is the lead Provincial agency responsible for promoting development of new product uses and markets for Mountain Pine Beetle wood. This mandate is part of the BC Mountain Pine Beetle Action Plan announced in April, 2005. The strategy supports forest communities, preserves forests and assists forest companies in recovering the greatest economic value from impacted timber.

## Core Business Areas and Major Programs

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The FII program supports market research, market development, product development, technical and manufacturing research, as well as market communications associated specifically with this issue.

Activities are delivered by forest research institutes, post-secondary institutions and industry trade associations. Given the considerable volume of wood fibre impacted, FII is taking an active role in new market and new product development initiatives by working with BC forest companies and international wood product purchasers to evaluate future opportunities.

### Domestic Market Development Program

While most of FII's investments are focused on international markets and developing opportunities for BC wood products globally, FII also pursues opportunities for market growth within BC.

FII is making investments in projects to expand non-residential construction opportunities for BC wood products within the province. Strategies include providing resources to identify projects that could use wood instead of competing products, and providing technical support to overcome any technical barriers, design requirements, or engineering specifications required to expand wood use in large commercial, industrial, recreational or institutional structures.

As a part of this program, FII is supporting activities to increase the use and showcasing of wood in the Vancouver Convention Centre and 2010 Olympic venues. These venues provide high-profile opportunities to showcase BC's wood products, species, and innovative applications to test out and prove the expanded application of BC's wood products in large non-residential structures. The technical work is intended to help open the door for expansion of wood construction technologies, both in BC and in key export markets.

FII also supports projects that help improve the competitiveness of BC's secondary manufacturing sector by identifying opportunities to improve manufacturing technology and process engineering and to help transfer this technology to the sector. Projects are typically delivered by forest research institutes, post-secondary institutes and trade associations. Some direct investments in projects may be made in order to showcase wood products and address technical constraints to market growth and development.

## Core Business Areas and Major Programs

### BC Market Outreach Network Business Area

Over the past 15 years, environmental campaigns have called into question a range of forest practices around the world, causing some customers to review their buying patterns.

The BC Market Outreach Network (BCMON) is an in-house FII program that provides international buyers and others with credible facts to document that BC forest products come from well-managed forests.

Environmental campaigns that promote misleading or incorrect information are quickly challenged by BCMON and its partners. They monitor the development of draft legislation and procurement policies that could impair the flow of BC forest products into a particular market, making relevant officials aware of frequently unintended consequences if the legislation or policy is adopted.

The BCMON program achieves its goals by:

- working with industry associations, embassies and federal and provincial ministries to ensure a coordinated and strategic approach to market communications
- gathering market research information about customers' environmental concerns which is then used to support the development of communications strategies and methodologies
- distributing information materials, including fact sheets and an up-to-date website [www.bcforestinformation.com](http://www.bcforestinformation.com), to respond to market issues and changes in forest policy
- attending major international trade shows and conferences to ensure customers and others have accurate information about BC's forest management
- monitoring marketplace developments to identify emerging procurement issues
- maintaining a leading, proactive stance in market communications and preparing relevant intervention material when needed.

### Corporate Support Business Area

Corporate support includes responsibility for the financial management and control of the corporation, information systems, human resources and performance management. Corporate services focus on internal management and employees, as well as serving the board of directors, government and partners by ensuring a high level of performance, accountability and adherence to government policies.

## Governance

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FII was incorporated on March 31, 2003 under the Business Corporations Act.

FII operates according to a Shareholder's Letter of Expectations, by which the Minister of Forests and Range has defined FII's mandate and scope. This was the first Shareholder's Letter of Expectations for FII, signed in early November 2006. In the main it:

- replaced the contractual agreement by which the Ministry of Forests and Range had previously specified FII's mandate;
- confirms the mandate to work closely with industry and other government agencies to improve the nature of BC forest products and the market for those products;
- gives high-level direction for implementation of a Market Development Program and a Market Communications Program; and
- requires FII to adhere to provincial government procurement and financial management standards.

On a one-time basis, the Letter instructs FII to assist with a review of the composition of the Board of Directors, to be lead by the Shareholder and likely to be undertaken in early 2007. With respect to activities delivered by others and partially funded by FII, the Letter instructs FII to review its cost-sharing policies and make recommendations to the Minister.

Both of these matters will be addressed in early 2007.

FII staff are accountable to a board of directors, which at January 1, 2007 consisted of:

- Doug Konkin, Deputy Minister of Forests and Range
- Tamara Voorman, Deputy Minister of Finance
- Don Fast, Deputy Minister of Economic Development.

## Governance

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The Board of Directors is supported by an audit committee which reviews, recommends and in some instances, approves financial statements and other financial information. Members of the committee at January 1, 2007 were the:

- Deputy Minister of Finance
- Assistant Deputy Minister of Management Services, Ministry of Economic Development
- Assistant Deputy Minister of Corporate Services, Ministry of Forests and Range.

### Board's Governance Principles

The Board of Directors has adopted the guiding principles included in the provincial government's Governance Framework that outlines the roles and responsibilities of all parties that are part of the Crown corporation governance environment.

The guiding principles relate to:

- stewardship, leadership and effective functioning of the board
- clarity of roles and responsibilities
- openness, trust and transparency
- service and corporate citizenship
- accountability and performance
- value, innovation and continuous improvement.

### Board of Directors

As presently constituted, the Board is at variance with the *Best Practices Guidelines* promulgated by the Board Resourcing and Development Office. That is because Crown corporations normally are led by directors drawn from the private sector based on a formal competency matrix unique to each corporation. The *Guidelines* include numerous recommendations regarding succession plans, Board committees, formal documentation of responsibilities and performance assessments, etc. In the coming year, whether or not the membership of the Board is altered, it expects to introduce the governance elements that are missing relative to the *Guidelines*.

### Strategy Committee

FII is supported by a strategy committee of seven senior executives from the Coastal and Interior forest industries representing primary and secondary manufacturing as well as the remanufacturing sector. The committee members meet regularly to provide strategic advice to FII on programming, investments and organizational objectives.

## Governance

### FII Subsidiary

FII's wholly owned subsidiary in China is called FII Consulting (Shanghai) Co., Ltd. (FII Shanghai.) The company is registered in China to meet the legal requirements of the People's Republic of China. FII Shanghai is able to use facilities constructed in Shanghai to provide consulting services to FII and others. The facilities serve as a common base of operations from which FII and the members of Canada Wood Group are pursuing their marketing and promotional activities in the Chinese market.

### Minister Responsible

The Minister of Forests and Range is responsible for FII.

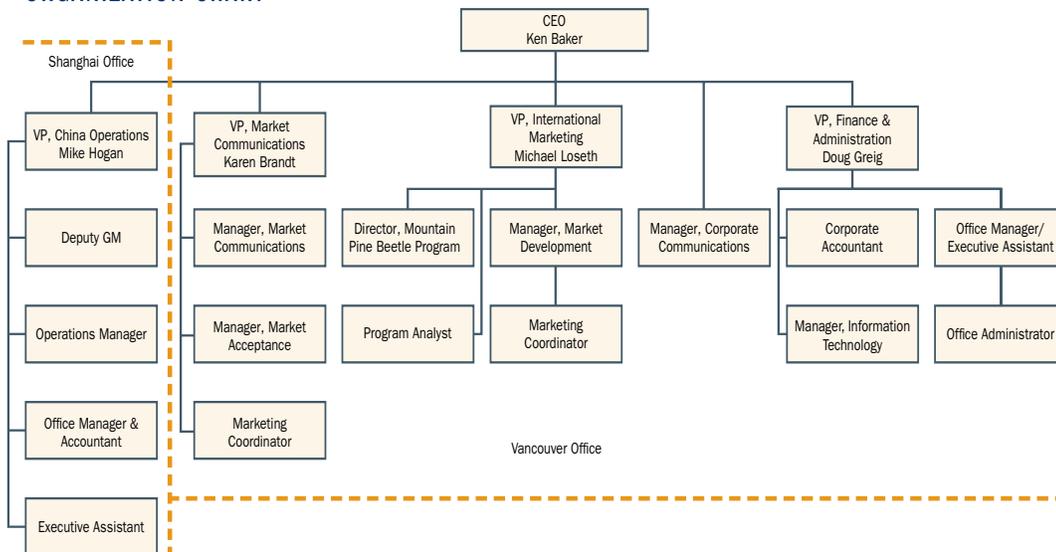
### Organization Chart

FII carries out its programs and services with 21 staff in corporate offices in Vancouver and Shanghai, as shown in the following chart.

### Corporate Locations

FII's corporate office is located at 1200 - 1130 West Pender Street in downtown Vancouver, British Columbia while the company's subsidiary office is located in Shanghai, China in the Dream Home Canada Demonstration Centre.

### ORGANIZATION CHART



## Strategic Context

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### Vision

Forestry Innovation Investment Ltd. is widely regarded as instrumental in positioning British Columbia as a leading global supplier of products from sustainably managed forests.

### Mission

FII's mission is to be an innovative and collaborative forest marketing agency that anticipates and meets the needs of government, the British Columbia forest sector and international markets through well balanced investments that maximize the value to British Columbia.

### Values

**Focus on Partnerships** – FII works in partnership with key stakeholders to develop initiatives and ensure programs are effectively delivered in a coordinated manner.

**Integrity and Credibility** – Projects and services are delivered by capable, motivated individuals who focus on ensuring FII programs are credible, useful, and based on transparent decision-making and investment processes.

**Innovation** – FII encourages innovative programs and responses to changing circumstances. FII staff learn from the past and continuously improve the effectiveness and efficiency of FII programs by consulting widely and optimizing the use of resources.

### Resource Capacity

Barring a dramatic increase in scope, FII's overall budget is sufficient to discharge its mandate. The company is in good shape with respect to its basic infrastructure, such as office space and information technology. However, its relatively small complement of staff does pose some risk.

FII's programs are managed by a total of 14 staff in Vancouver, one in Prince George, one in Quesnel, and five in Shanghai. The company relies overwhelmingly on contractor organizations and individuals to undertake almost all the work needed to deliver outputs and effect outcomes. Every position at FII is unique; there are no redundancies and there is little ability for internal succession planning. This puts the company at risk of program disruption if staff turnover is anything other than slight.

The company mitigates this risk by doing what it can to make every job as interesting and rewarding as possible so that every employee can continuously grow through experience and through being challenged with wider scope.

# Planning Context

## Supporting BC's Forest Economy

In 2005, British Columbia's forest products were worth \$17.7 billion, or 41 per cent of BC's manufacturing shipments. The industry directly employs an estimated 80,000 workers. Including direct, indirect, and induced jobs, an estimated one job in nine<sup>1</sup> in BC is connected to the forest industry.

## Operating in an International Context

In 2005, forest products accounted for 41 per cent (or \$14 billion) of the province's total exports.

80 percent of exported products were directed to two markets: the United States and Japan. Other markets for BC products are in Europe, Australia and New Zealand with smaller volumes to China, Taiwan and South Korea.

There are unique challenges involved in building successful business relationships in international markets, from understanding cultural differences to recognizing different business protocols and laws. Marketing in other countries often involves uncertainties in political or economic environments, differing regulatory constraints, and changing currency exchange rates.

Maintaining access to key existing markets (most notably the United States, Japan and Europe) and developing new markets (especially China and Korea) often depend upon overcoming misconceptions about forest products, wood-construction technologies, and the land management regime underlying BC's forest sector.

Barriers in emerging markets include restrictive building and fire codes, lack of knowledge about seismic performance, phyto-sanitary import constraints, and concerns regarding the durability of wood products in some climates. In some markets, developers, builders and regulators may be unfamiliar with wood products and construction techniques. FII and its forest sector partners continually assess this broader operating context to identify strategic opportunities and potential barriers to be overcome.

## Dealing with Competition

For decades, the world market for forest products was largely supplied by a handful of countries, with Canada accounting for a large share of the world's export trade. Today, many countries are competing to supply key BC customers, putting pressure on prices and exerting strong competition for market share in many product categories.

At the same time, wood products face competition from substitute products such as concrete, steel and plastics. FII and its partners work closely with customers to understand and respond to their needs, investing in research and development of new and improved products to solve product or application problems.

<sup>1</sup> Based on generally assumed multiplier of one indirect and one induced job for each direct job.

## Planning Context

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### **Promoting BC's Sustainable Forest Management**

Many customers want assurance that BC products come from sustainably managed forests. To provide that comfort, FII leads the provision of credible and timely information to document that BC's publicly owned forests are well managed and that products from these forests are an environmentally superior building choice.

As more jurisdictions embrace the green building movement and customers more closely examine the source of their forest products, BC is well positioned due to its stringent forest policies and high level of independent third-party forest certification.

FII will continue to work with industry partners so that BC can solidify and capitalize on its reputation as a leader in the sustainable management of forests and producer of high-quality and competitive forest products.

## Key Strategic Issues

### Mountain Pine Beetle Epidemic

BC is responding to an unprecedented Mountain Pine Beetle epidemic in much of the Interior of the province. FII has created a program specifically focused on how to make maximum use of timber killed by the epidemic, so that the industry can continue to supply high-quality products that meet customers' needs. The objectives of the program are to:

- determine processing and product performance properties of dead pine trees for key wood and pulp and paper products
- eliminate any trade barriers to export of pine products
- identify new market opportunities for existing products
- identify new product opportunities
- extend information to complement production decisions and to maintain markets for manufactured products from beetle-attacked pine.

### Coastal Industry

British Columbia's Coastal forest industry has experienced a decade or more of market difficulties due to changing customer preferences, coupled with the relatively high cost of harvesting and processing old-growth timber. Marketing issues have been most pronounced in Japan, where customers for Hemlock and Balsam Fir (Hem-Fir) post-and-beam materials have shifted heavily to kiln dried whitewoods from Scandinavia. To regain market share, BC's coastal

industry has developed a new line of kiln dried Hem-Fir products, which received Japanese regulatory approvals in September 2006. In furtherance of recapturing markets, the Coastal industry is embarking upon major strategy development work, mostly funded by FII.

### New "Specialty Wood Products Network"

Hundreds of BC firms are involved in manufacturing "value-added" wood products that range from log homes, to kitchen cabinets, to doors and windows. Many of those firms have been assisted by Forintek Canada Corporation's technology transfer program, and by the international marketing expertise of BC Wood Specialties Group. FII has historically provided considerable funding to both organizations, and in the coming year it is anticipated that they will draw their operations closer together in a virtual network of excellence in manufacturing and marketing.

### Asia Pacific Strategy

British Columbia has embarked on the strategic promotion of relations with numerous Asian nations, including market development strategies across a wide range of economic sectors. Led by the Ministry of Economic Development, the Asia Pacific Trade Council and a host of committees and volunteers, steps are being taken to advance British Columbia's objectives in the Asia Pacific region in concert with various federal government departments and recent "gateway" strategies. FII places a high priority on investments that are consistent with and support BC's Asia Pacific strategy.

## Key Strategic Issues

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### Forest Certification in China

China's woodworking industry relies heavily on imported logs and lumber, frequently as the raw material for making products that are re-exported to North America and Europe. In those latter regions, many customers are highly attuned to the original source of the timber in question, often relying on independent third-party certification of the relevant forest management regime. Recognizing this factor among its customer base, as well as in the interests of promoting sound forest management generally, China's national forestry agencies are embarking upon the creation of a made-in-China forest certification scheme, a process which may involve preference for certain schemes that exist elsewhere in the world.

On behalf of an international coalition of interested parties from North and South America, Europe, and Australia, FII Shanghai is engaging a forest certification expert to lead discussions with Chinese officials, with an objective of ensuring that new Chinese procurement policies do not dis-favour the certification schemes that predominate in those regions, including those in British Columbia.

### Demonstration Projects in China

FII Shanghai is a key partner in the collaborative China market development program. Its role is to initiate basic market research throughout the country, and to lead with demonstration projects to illustrate real-world application of BC wood products and North American wood frame

technology. Over the past two years this has involved construction of the Dream Home Canada demonstration centre, two single-family villas, and the first-ever wood truss roofs for apartment buildings in Shanghai. The next suite of demonstration projects is expected to include municipal-level landscape projects using cedar and other pressure treated species, as well as hybrid low-rise apartment blocks built partly with traditional concrete/masonry, and partly with BC structural lumber. Each demonstration project will be closely tied to Canada Wood Group's technology transfer program aimed at making regulatory officials, architects, designers, developers and builders aware of the advantages of building with wood.

### The Green Building Movement

"Green Building" refers to the emerging trend to ensure that new buildings are environmentally friendly in terms of the kinds of materials used for construction, and the impact that a given building has on the environment over time. The green building trend is most evident with relatively large non-residential buildings, but is emerging in the residential construction sector as well. FII is working with its industry partners to widely document that wood products from natural forests are among the most environmentally friendly, particularly when a project is subject to a full life-cycle analysis.

## Key Strategic Issues

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### **2010 Olympics and the Vancouver Convention Centre**

The 2010 Olympics and Paralympics Games will turn the world's attention to British Columbia. On behalf of the province, FII is working to ensure that the games venues showcase a wide range of forest products in structural and finishing applications. Similarly, FII is working with Vancouver Convention Centre Expansion Ltd. to incorporate BC wood products throughout the expanded facility, ultimately leading to some 800,000 delegate-days of visibility each year.

### **Disaster-Related Reconstruction**

Two recent major natural disasters, the tsunami that struck Southeast Asia at the end of 2004 and the earthquake that devastated northern Pakistan in October 2005, have triggered the BC forest industry's interest in providing wood products for broad reconstruction. In Indonesia, FII has been involved in testing the economics and logistics of providing a wood-frame technology solution, as well as funding wood frame instruction being delivered by the British Columbia Institute of Technology. FII continues to investigate the possibilities in Pakistan.

### **Risk and Capacity**

The demand for BC's forest products is influenced by a host of factors, the most important of which are the strength of the Canadian currency against the U.S. dollar and the Japanese yen, and the demand for new housing in those countries. In tracking BC's success in established and emerging markets, FII readily recognizes that its control over marketplace outcomes is limited.

FII continues to devote about half of its budget to funding work undertaken by industry trade associations, research institutes and universities. Success in delivering FII's programs depends heavily on the willingness of those parties to propose worthwhile activities with a strong focus on results, and their ability to deliver approved projects in ways that achieve the intended objectives. FII will continue to rely heavily on those other parties and will closely manage the relevant investments to support the achievement of results. This is the essence of FII's partnership-based approach to business.

## Goals, Objectives, Strategies and Targets

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FII expects to fulfill its mission and vision by achieving the three goals outlined below. Goals 1 and 3 have been modified slightly this year to clarify what FII aims to achieve, as well as to more accurately reflect its partnership arrangements and activities.

With the refinement of its goals, FII has also updated its performance measures to provide a more concise, higher-level statement of expectations and to make activities more easily understood by non-industry readers.

FII's Goals for 2007/08 are:

**GOAL 1: EXPANDED MARKET OPPORTUNITIES THAT ARE BENEFICIAL TO THE BC FOREST SECTOR**

**GOAL 2: INTERNATIONAL RECOGNITION OF BC AS A LEADER IN SUSTAINABLE FOREST MANAGEMENT**

**GOAL 3: FII POSITIONED AS A HIGHLY EFFECTIVE, INNOVATIVE AND RESPONSIVE ORGANIZATION**

These Goals are somewhat changed from those in the previous Service Plan. Goal 1 now targets expanded market opportunities, rather than diversified market opportunities. This change is the result of input from FII's industry Strategy Committee, which made the point that diversification of itself is not necessarily helpful; what is really needed is expansion of the markets for BC forest products both geographically and in terms of the product mix.

The previous Goal of achieving collaborative delivery of market development activities, has been dropped because this has in fact become cemented as FII's basic way of doing business. It is captured later in this document as one of FII's on-going objectives.

The objectives and strategies outlined in the following pages have been refined from those of the previous Service Plan, but have not changed in substance.

## Goals, Objectives, Strategies and Targets

### GOAL 1: EXPANDED MARKET OPPORTUNITIES THAT ARE BENEFICIAL TO THE BC FOREST SECTOR

The success of BC's forest industry is largely dependent on its being well informed, diverse and responsive to customer preferences and market opportunities. The global marketplace for forest products is becoming more competitive with CIBC World Markets pointing to a world oversupply of wood. Moreover, markets are seeing an influx of lower-priced and lower-quality products as well as timber believed to be illegally harvested in some countries.

FII is working with its partners in a strategic and long-term way to ensure that BC producers:

- can respond to the challenges and changes in traditional markets
- are positioned to take advantage of market opportunities as they arise
- offer the products that customers want
- are a reliable source of the world's finest wood products

FII and its partners are working to inform marketing decisions with thorough market research and market intelligence. With such information in hand, the industry can make strategic decisions on where to target its products, where to explore new partnerships, and where the most effective business opportunities lie.

Diversifying BC's markets for forest products is important to the long-term success and prosperity of the industry. FII assesses progress in this regard by tracking the BC industry's volume and value of sales, and its market share, in the United States, Japan, the European Union, China and Korea.

#### Objectives:

FII's objectives include:

- a strategic, balanced portfolio of investments designed to enhance the awareness and acceptance of B.C. forest products internationally
- collaborative development and delivery of market development activities based on provincial, federal and private-sector contributions and support.

#### Strategies:

FII intends to:

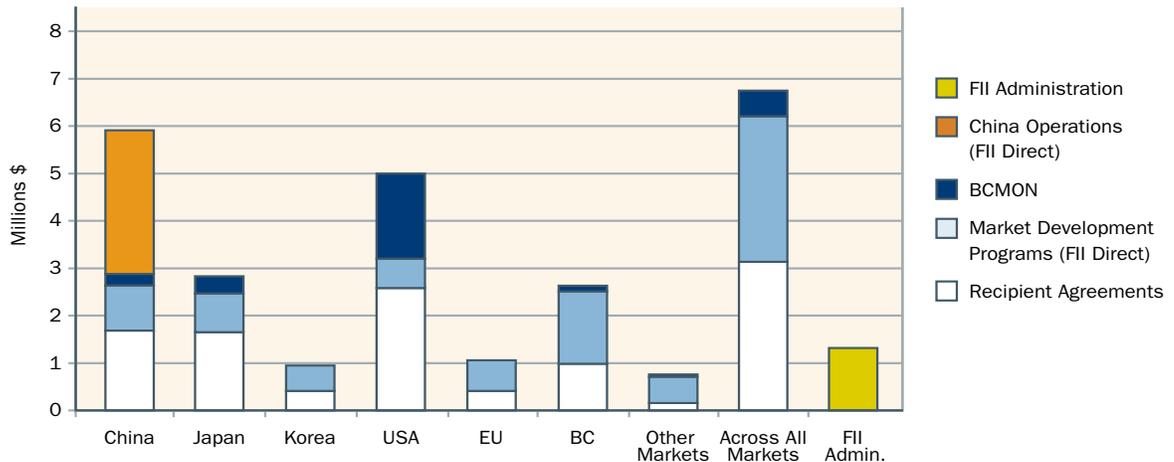
- increase demand and acceptance of Canadian wood products through promotional activities
- increase the level of, or prevent the loss of, market access for Canadian wood products by developing or refining foreign codes and standards, and dealing with phytosanitary issues and non-tariff barriers.

## Goals, Objectives, Strategies and Targets

- ensure that international architects, builders, officials and other key influencers have the necessary skills and information to specify and use BC wood products
- ensure that overseas office infrastructure is in place to deliver effective programs
- increase the competitiveness of BC wood products firms by improving their awareness and use of new and existing technologies, products and processes
- conduct market research to identify opportunities, barriers, market size and strategies for Canadian wood products
- promote increased wood usage in recreational, commercial, institutional applications
- obtain higher value for BC wood products by improving existing wood products and developing new products and processes
- maximise opportunities for fibre impacted by natural disturbance agents (e.g., Mountain Pine Beetle, forest fires, etc.).

### Summary of Budget by Market Region

In mid 2006/07, the geographic focus of FII's expenditures was reflected in the following graph.



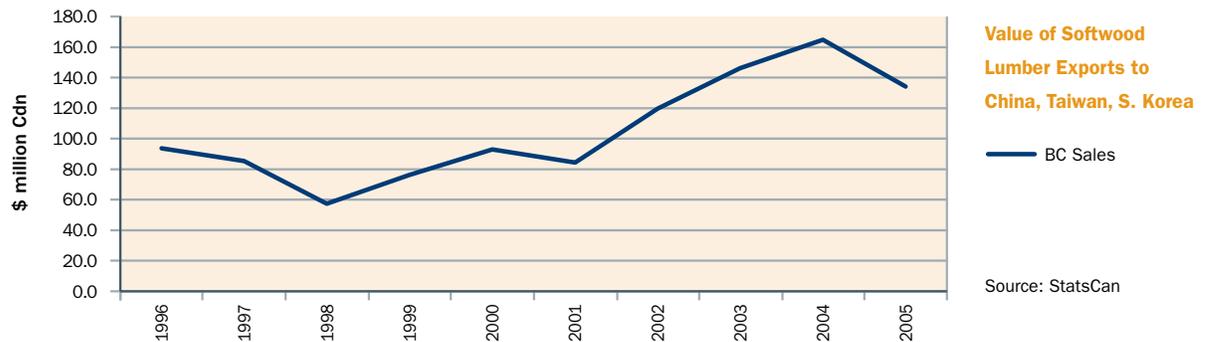
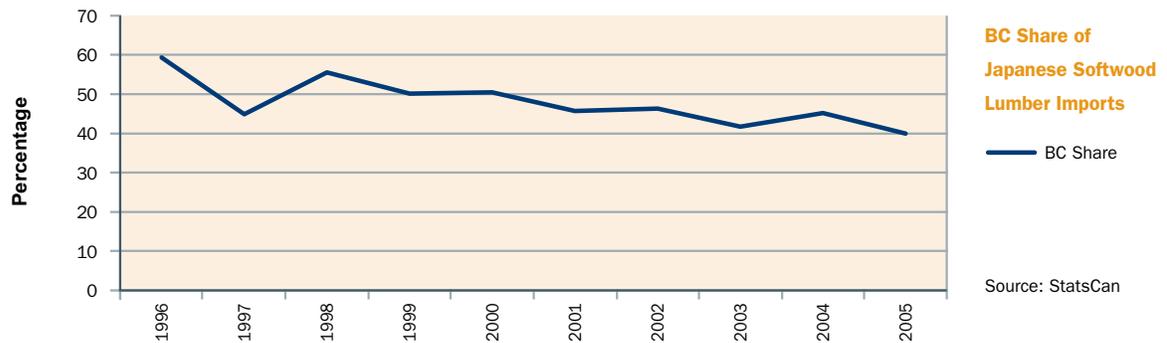
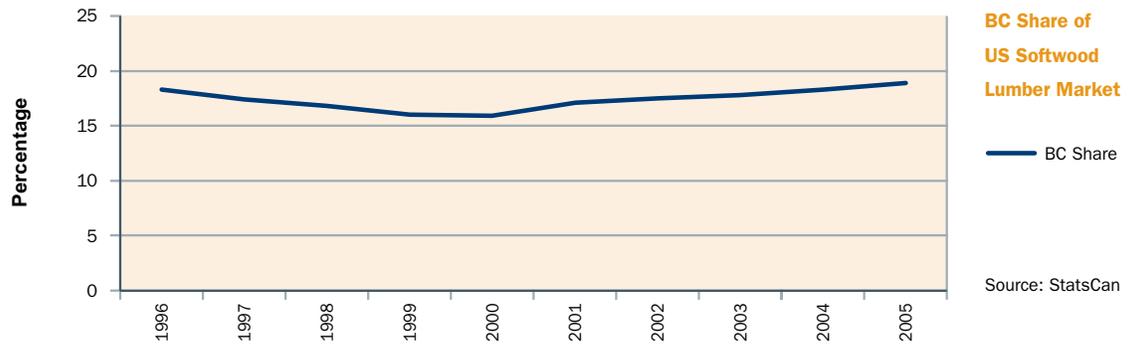
FII anticipates a similar distribution next year. The total value of expenditures portrayed above is \$518,000 less than the Total Expenses listed for 2006/07 in the Financial Outlook (page 29) because not all of the budget had been allocated at mid year.

## Goals, Objectives, Strategies and Targets

### Indicators and Performance Measures:

FII will track the following indicators of how well BC's forest sector is doing in foreign markets:

- United States: BC share of softwood lumber market
- Japan: BC share of softwood lumber imports
- China, Taiwan and Korea: value of BC wood exports



## Goals, Objectives, Strategies and Targets

FII's performance measures for Goal 1 will be:

Performance Measure	2005/06 Benchmark	2006/07 Forecast	2007/08	TARGET	
				2008/09	2009/10
A Level of key stakeholder support for development and delivery of market development programs, as measured in bi-annual surveys (on a scale of 1 to 5)	3.8	No survey this year	4	No survey this year	4.5
B Financial contribution of key partners to projects partially funded by FII	Funding recipients: 34% Canada: 22% Total: 56%	51%	50%	50%	50%
C Number of new products developed from timber killed by the mountain pine beetle epidemic	3	4	4	To be developed when MPB funding is renewed after 2007/08	
D Number of demonstration projects completed in China	Nil	2	2	2	2

Data for Performance Measure A will be collected through bi-annual surveys of roughly 50 key stakeholders. The surveys will be conducted by an independent research firm, as was the case in 2005/06.

Data for Performance Measure B will be obtained in-house based on FII's actual expenditures at each year-end. There are two reasons why the financial contribution from partners will likely have dropped in 2006/07:

1. FII's requirement for cost sharing varies by type of activity delivered by funding recipients. For example, if they do pure market research, FII is willing to pay 100 percent of the cost. If they

do retail-level promotion, FII is willing to pay 35% to 50% of the cost depending on the level of federal government participation. The mix of activities changes from year to year, and hence the aggregate cost-share percentage varies from year to year.

2. Having said that, lumber prices have fallen dramatically over the past year, many companies are losing money, and they are less willing to contribute funds to the trade associations involved in FII-funded activities. Hence there is pressure in the private sector to back away from activities where the industry absorbs a relatively high share of the cost.

## Goals, Objectives, Strategies and Targets

### GOAL 2: INTERNATIONAL RECOGNITION OF BC AS A LEADER IN SUSTAINABLE FOREST MANAGEMENT

Forest product customers around the world are increasingly looking for assurance from their suppliers that the products they purchase come from sustainably managed forests. As a result, BC must be well positioned as a global leader in sustaining environmental values and forest resources.

The province's commitment to sustainable forest management represents a significant advantage as customers are increasingly factoring environmental practices into purchasing decisions. FII is committed to providing a broad audience, especially forest product customers in the U.S., Japan and Europe, with accurate and factual information about forest management in British Columbia to support their purchasing decisions.

Surveying customers, influencers and decision makers is basic to understanding customers' preferences and measuring the effectiveness of FII's activities. Through its BC Market Outreach Network (BCMON) program, FII conducts customer surveys, in partnership with other organizations, to determine trends in the marketplace, customer perspectives and the effectiveness of market communications materials. The results of these surveys guide BCMON's activities. In addition, FII regularly surveys the forest sector to determine the usefulness of the BCMON activities and recommendations for action.

#### Objectives:

FII's objectives include ensuring that:

- customers agree that BC forest products come from well managed forests
- market communications are delivered in a collaborative, coordinated and strategic manner
- key stakeholders recognize BCMON as a leader in the delivery of market acceptance initiatives.

#### Strategies:

FII intends to:

- gather market intelligence through research and surveys
- produce technically accurate and credible information materials for a broad international and domestic audience
- monitor and analyze the internet and mainstream and trade media
- build and maintain support for BC as world leader in sustainable forest management
- position the BC Market Outreach Network as a credible source of factual information regarding forest management in BC

## Goals, Objectives, Strategies and Targets

- provide advocacy support where BC forest products are unfairly targeted
- conduct in-market activities through trade shows, seminars and meetings with customers
- develop and lead forest tours for customers and key influencers.

### Performance Measures:

FII's performance measures for Goal 2 are:

Performance Measure	2005/06 Benchmark	2006/07 Forecast	2007/08	TARGET	
				2008/09	2009/10
E Level of key stakeholder support for development and delivery of market communications program, as measured in bi-annual surveys (on a scale of 1 to 5)	4	No survey this year	4	No survey this year	4.5
F Percent of customers who feel that choosing products from BC (Canada) is a good choice for the environment	91% (from survey done in late 2004/05)	93% (actual)	No survey this year	90%	No survey this year

Data for the above Performance Measure E will be collected through bi-annual surveys of roughly 50 key stakeholders. Performance Measure F will be based on bi-annual surveys of approximately 140 customers. The surveys will be conducted by independent research firms, as was the case in 2005/06 and 2006/07.

## Goals, Objectives, Strategies and Targets

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### GOAL 3: FII POSITIONED AS A HIGHLY EFFECTIVE, INNOVATIVE AND RESPONSIVE ORGANIZATION

FII is a highly focused and dynamic organization that maintains flexibility to respond to emerging forest sector needs while maintaining low overhead and operating expenses.

FII is committed to the development and implementation of sound business practices incorporating sound financial controls, a performance management framework and a monitoring, audit and evaluation program built on a comprehensive risk-assessment strategy, all developed in accordance with government policies and guidelines.

#### Objectives:

FII's objectives include ensuring that:

- the organization is efficient, transparent, and results focused
- expert staff are dedicated to the organization's success and committed to continuous improvement.

#### Strategies:

FII's strategies include:

- ensuring the integrity of funding to other organizations, provided in a timely fashion for activities that will enhance forest sector well being
- implementing a rigorous program of monitoring, auditing and evaluating projects delivered by other organizations, according to explicit risk assessments
- ensuring regular and accurate reporting on the results of investments
- keeping administration costs below 6 percent of total expenditures
- ensuring that staff are afforded ample opportunities for personal development, as well as for formally and confidentially evaluating the FII workplace.

## Goals, Objectives, Strategies and Targets

### Performance Measures:

Because nearly half of FII's budget is used to fund work delivered by other organizations, FII gives a very high priority to administering a rigorous competitive process of evaluating proposals and ensuring that funding is available to recipients by the beginning of each fiscal year.

FII's performance measure for Goal 3 is:

Performance Measure	2005/06 Benchmark	2006/07 Forecast	2007/08	TARGET	
				2008/09	2009/10
G Timeliness of annual funding cycle for trade associations, research institutes, and universities	Funding available by April 1				

# Financial Outlook

## Forestry Innovation Investment Ltd. Service Plan Budget 2006 - 2010

	Actual 05/06 (000's)	Projected 06/07 (000's)	Budget 07/08 (000's)	Budget 08/09 (000's)	Budget 09/10 (000's)
<b>Revenue</b>					
Contribution from the Province of BC	\$ 21,398	\$ 27,520	\$ 25,850	\$ 23,600	\$ 23,600
Transferred from deferred Revenue	\$ 652	\$ 1,050	\$ 1,600	\$ 1,600	\$ 1,100
	<u>\$ 22,050</u>	<u>\$ 28,570</u>	<u>\$ 27,450</u>	<u>\$ 25,200</u>	<u>\$ 24,700</u>
<b>Expenses</b>					
Market Development Programs <sup>(1)</sup>	\$ 17,564	\$ 22,470	\$ 21,150	\$ 18,800	\$ 18,800
B.C. Market Outreach Network	\$ 2,496	\$ 3,700	\$ 3,300	\$ 3,300	\$ 3,300
Corporate Services	\$ 1,338	\$ 1,350	\$ 1,400	\$ 1,500	\$ 1,500
Total Expenses	<u>\$ 21,398</u>	<u>\$ 27,520</u>	<u>\$ 25,850</u>	<u>\$ 23,600</u>	<u>\$ 23,600</u>
<b>Operating Income</b>	<u>\$ 652</u>	<u>\$ 1,050</u>	<u>\$ 1,600</u>	<u>\$ 1,600</u>	<u>\$ 1,100</u>
Amortization	\$ 652	\$ 1,050	\$ 1,600	\$ 1,600	\$ 1,100
<b>Net Income</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Retained Earnings</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Capital Expenditures</b>	<u>\$ 919</u>	<u>\$ 400</u>	<u>\$ 100</u>	<u>\$ 50</u>	<u>\$ 25</u>
<b>FTE's</b>					
Vancouver BC	13	13	16	15	15
Shanghai China	5	5	5	5	5
<sup>(1)</sup> Includes Mountain Pine Beetle Program (000's)	\$ 1,440	\$ 2,250	\$ 2,250	\$ -	\$ -
<sup>(1)</sup> Includes FII Shanghai (China Program)	\$ 1,550	\$ 3,032	\$ 3,000	\$ 3,000	\$ 3,000

Note: Funding flows to FII from the Forest Investment sub-vote of the Ministry of Forests and Range. Decisions by the Ministry will determine the actual allocation to FII.

# Financial Notes

## Risks and Assumptions

The continuity of FII's investments, programming and activities depends upon:

1. The provincial legislature continuing to vote funds to the Forest Investment (FI) sub-vote of the Ministry of Forests and Range; and
2. The Ministry of Forests and Range allocating a given portion of the FI sub-vote to FII.

FII's Mountain Pine Beetle Program is predicated on continuing funding from the Ministry of Forests and Range, based upon its three-year business plan for allocating the \$100 million received from the Government of Canada in 2005 to mitigate the impact of the epidemic. The Ministry's business plan charges FII with leading research and development related to the best use of pine trees killed by the epidemic.

FII assumes that industry trade associations, research institutes and universities will continue to propose eligible and acceptable projects for FII funding to deliver approximately half of FII's programming.

FII Shanghai has been set up in the People's Republic of China (PRC) as a Wholly Foreign Owned Enterprise (WFOE) 100% owned by Forestry Innovation Investment Ltd. located in Vancouver, Canada. Funding of the WFOE is by consulting fee invoice between the

WFOE and the parent company in Canada. In order to meet PRC law any monthly expenditures made by the WFOE must be offset by enough income to cover the expenditures and applicable Chinese sales taxes, and provide for a profit. The profit margin for the subsidiary has been nominally set by the parent company at 2%. The annual profit is then subject to PRC corporate tax at the WFOE's year end.

## Capital Initiatives

The capital expenditures projected for the next three years relate to furnishings for the demonstration villas in Shanghai in 2007/08, and for normal office furniture and computer replacement in all three years.

## Non-Disclosure of Information

Consideration of the *Freedom of Information and Protection of Privacy Act* has not caused FII to withhold any information in this Service Plan.

## Alignment with Government's Strategic Plan

FII's mandate, service plan and on-going activities directly support the Province's Five Great Goals and several key initiatives in the areas of forestry, international trade, and economic development.

**Five Great Goals:** FII supports Goal 5 - **To create more jobs per capita than anywhere else in Canada** - by promoting international sales of BC forestry products. Since about 80 per cent of BC's forest product sales are exported to customers in the United States, Japan, Europe and other foreign markets, job creation in the forest sector depends on maintaining and building demand for our products globally. And because every forest sector job creates two more jobs through indirect and induced employment, the jobs protected and created through international sales have a ripple effect throughout the province.

**Mountain Pine Beetle Action Plan (Ministry of Forests and Range):** FII plays a key role in the BC Mountain Pine Beetle Action Plan and the Government's strategy to mitigate the impact of the pine beetle infestation on resource communities, the Interior forest economy, and the environment. Within the strategy FII is the agency leading efforts to develop new products and international markets for blue stain lumber. Through \$5.85 million in projects over three years, FII is supporting technical and product research to maximize opportunities for MPB-impacted fibre in both new and existing product lines, and supporting market development and market communications activities to maximize international opportunities for MPB-impacted products.

**Asia Pacific Initiative (Ministry of Economic Development):** As Canada's Pacific Gateway, British Columbia is building the capacity of provincial infrastructure and the provincial economy to fully engage with Asia Pacific. FII supports this initiative by directing a large portion of the organization's budget towards international marketing activities in Japan, China, South Korea, Taiwan, Australasia, and the developing economies of Southeast Asia.

Through the Dream Home Canada centre in Shanghai, FII is showcasing advanced wood-building techniques. The site is the cornerstone of a strategy to introduce consumers and the home building industry to wood frame construction. FII is also targeting niche markets, including the extensive renovation market in major cities like Beijing and Shanghai.

**Research and Innovation (Ministry of Advanced Education):** British Columbia is developing an integrated and dynamic approach to research and innovation to support economic and social development. FII supports these efforts by funding primary and applied research into new wood products, manufacturing processes, productivity enhancements, and adapting product lines to new or emerging markets.

## Contact Information:

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