



FORESTRY INNOVATION INVESTMENT

SERVICE PLAN 2014-15 / 2016-17



Forestry Innovation Investment

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Message from the Board Chair to the Minister Responsible

February 3, 2014

The Honourable Teresa Wat
Minister of International Trade and Minister Responsible for the Asia Pacific Strategy and
Multiculturalism
Province of British Columbia

Dear Minister Wat:

I am pleased to present you with the *Forestry Innovation Investment Ltd. Service Plan 2014/15 – 2016/17*. This plan sets out the corporation's goals and objectives, the strategies it will use to attain them, and the performance measures and targets for the next three years.

In support of the B.C. Jobs Plan, the Province's forest strategy – entitled *Our natural advantage: Forest sector strategy for British Columbia* – includes three priorities that pertain to FII's mandate. They are:

1. A commitment to using wood first;
2. Embracing innovation and diversification; and
3. Supporting prosperous rural forest economies.

In the context of the Ministry of International Trade's mandate to open markets and grow exports, this Service Plan articulates how FII expects to continue its leading role in delivering on these priorities.

Some 80 per cent of the timber harvested in B.C. is processed in a sawmill, making lumber sales critical to the forest sector's well-being. The Government's forest strategy states that "by encouraging Asian markets to choose B.C. forest products for building materials, B.C. can increase demand for lumber and strengthen the forest sector". FII will continue to give its highest priority to achieving precisely this objective, both through sharing the cost of market development activities proposed and delivered by forest industry trade associations, and by the work of FII's own staff in Vancouver, China and India.

After climbing exponentially in prior years, growth in lumber sales to China slowed to about 2.5 per cent in 2012 and 2013 with exports forecast at 7.7 million cubic metres for 2013, equal to about one-quarter of B.C.'s lumber production. The B.C. forest industry's revenue per cubic metre of sales in 2013, however, was about 20 per cent higher than in 2012, confirming the increased utility that Chinese customers find in B.C. lumber products. This augers well for continued diversity of market demand even when the United States housing sector rebounds and demand for Canadian lumber rises accordingly. FII will continue to put a high priority on introducing wood frame construction in China as a way of securing higher-value applications of B.C. lumber, and locking in the long-term market diversity.

During the term of this *Service Plan*, efforts in Asia will be significantly increased by FII's new subsidiary in India. While demand in China is most heavily oriented to Spruce-Pine-Fir lumber from the Province's Interior producers, FII believes the greatest long-term opportunities in India are for species and products from the Province's coastal industry. FII's new office in Mumbai is now a showcase of BC wood products, serving the needs not only of FII, but also of the Province's trade-and-investment representatives in Mumbai. In India the coming year will be dedicated to:

- intensive research to understand customer preferences, distribution networks, and competition;
- prioritizing specific opportunities; and
- linking Indian customers to B.C. suppliers.

Priorities in the United States will be two-fold: (a) working closely with the new Softwood Lumber Board to increase the share of wood building systems in non-residential and multi-family structures, and (b) promoting sales of value-added products. These market segments offer strong growth potential for the British Columbia suppliers, particularly as construction markets in the U.S. recover and expand.

At home in B.C., FII will continue to deliver the *Wood First* program, promoting innovation in manufacturing and the use of B.C. wood products. The goal is to make B.C. a global centre of excellence in wood building technology that can be exported to larger markets as a way of increasing demand in those regions. In particular, FII will stimulate research in the emerging field of “tall wood” structures using heavy timbers and engineered wood products such as cross-laminated timber panels. FII will also collaborate with Canadian and American organizations developing and delivering the *reThink Wood* program aimed at architects, engineers and others who decide whether to use wood technology or some other system for large buildings. Staff are particularly engaged in using the ever growing “green building” movement as a platform for promoting wood products and wood building systems. Across all markets and product lines, FII staff will ensure customers have factual, credible information about our province’s forest management and about the environmental benefits of using B.C. forest products.

FII continuously strives to be a well-managed organization that makes a strong contribution to the success of the B.C. forest industry and by extension, the province as a whole. Achievement of the targets set in this plan will depend not only on the efforts of FII and its funding recipients, but also ultimately on the commitment of B.C. firms to service customers outside North America, and their ability to be competitive in the face of strong international competition.

The *2014/15 - 2016/17 Forestry Innovation Investment Service Plan* was prepared under the Board’s direction in accordance with the *Budget Transparency and Accountability Act* and the *B.C. Reporting Principles*. The plan is consistent with government’s strategic priorities and fiscal plan. The Board is accountable for the contents of the plan and how it has been presented.

To the best of our knowledge the significant assumptions, policy decisions, events and identified risks are current and have been considered in preparing this plan. The performance measures presented are consistent with the mandate and goals of FII, and focus on aspects critical to the organization’s performance. The targets in this plan have been determined based on an assessment of FII’s operating environment, forecast conditions, risk assessment, and past performance.



Dana Hayden
Chair, Board of Directors

Organizational Overview

Forestry Innovation Investment was incorporated in 2003 under the Business Corporations Act as the Government of British Columbia's market development agency for forest products. FII's mandate, as specified in its Government's Letter of Expectations, is to work with the forest industry to develop and diversify markets for B.C. forest products while promoting B.C. as a world-class supplier of environmentally friendly forest products. FII works collaboratively with industry trade associations, other levels of government including the Government of Canada and other provinces, and with research institutions to enhance the value of B.C.'s forest resources and strengthen employment throughout the province. Through these efforts, FII helps to strengthen the forest economy and create jobs in B.C.

Vision, Mission and Values

Vision

The British Columbia forest sector is innovative, diverse and prosperous, based on sustainable forest practices and a commitment to continuous product and market development.

Mission

To develop and diversify domestic and international markets for B.C. forest products by working collaboratively with industry, government and institutional partners, and by making well balanced investments that respond to government and industry priorities while maximizing value to the Province.

Values

Innovation — FII anticipates changing market, economic and geo-political forces that impact the forest economy and invests in new programs, research and product development that offer competitive advantages to the forest sector.

Credibility and integrity — FII activities and funded projects are based on government and industry priorities and strategies developed in partnership with stakeholders. FII services are transparent, timely and openly communicated.

Collaboration — FII works in partnership with key stakeholders in industry, the research sector and government to develop initiatives and ensure programs are delivered effectively.

Engagement — FII is actively involved in the market and product development programs it funds and delivers. FII not only responds to government and industry priorities, but also takes the initiative to identify new market opportunities and counsel industry and government on emerging issues.

Evidence based decision-making — FII is oriented towards growing markets, but recognizes that there are risks in pursuing opportunities. As much as possible, investment decisions are firmly rooted in current, relevant, and comprehensive market information that provides a sufficiently compelling business case for each market initiative.

Accountability — FII strives for transparent decision-making and investment processes. FII staff have a duty to ensure the appropriate use of the public funds entrusted to them. Activities are expected to be founded on clear objectives, generate a positive return and have well-developed performance measures.

Program Areas and Organization Structure

FII programs are delivered through an Operations division that is organized to reflect the corporation’s mandate of product and market development. A Corporate Services division delivers consolidated services and expertise in support of government and internal clients.

Operations	
Market Initiatives	<ul style="list-style-type: none"> • Research opportunities in new and emerging markets, and initiate early market exploration activities • Support industry trade associations in developing and/or expanding markets and market segments for B.C. forest products • Support industry efforts to mitigate market access and plant health issues • On behalf of the forest sector, manage outreach and relationship building with Chinese authorities and central government agencies • Undertake early-stage market development in India
Wood First	<ul style="list-style-type: none"> • Champion the Province’s Wood First priorities and encourage expanded wood use in B.C. • Encourage the development of a pro-wood culture in B.C., and position B.C. as a leader in wood innovation • Encourage product innovation and the introduction of new wood building systems • Encourage a robust valued added sector in B.C., through enhanced capacity and competitiveness
Market Outreach	<ul style="list-style-type: none"> • Promote the benefits of wood as a green building material • Develop factual and science based materials to position wood’s environmental benefits and climate change mitigation potential • Promote B.C. as a world leading supplier of forest products • Ensure markets are aware of B.C.’s sustainable forest practices and high environmental standards
Corporate Services	
Finance & Administration	<ul style="list-style-type: none"> • Ensure financial reporting to government standards • Provide Human Resources, IT and office services to meet organizational needs • Oversee budget and planning controls
Corporate Relations	<ul style="list-style-type: none"> • Compile and share export data and analysis on market trends • Support Government and industry trade initiatives • Provide corporate communication and analytical services to meet internal and external needs

How Services are Delivered

To provide the best value to taxpayers and stakeholders in the B.C. forest sector, FII uses a joint delivery approach for program delivery. This approach takes advantage of industry expertise and marketing networks as well as shares the costs of programs with various partners, including industry and the federal government.

About half of the FII budget funds activities delivered by industry trade associations and other groups. These activities are also funded, in part, by Natural Resources Canada through its Expanding Market Opportunities Program and the delivery organizations themselves.

Third-party programs are selected through an annual competitive call for proposals that is based on investment strategies developed by FII and updated annually to reflect current market conditions and

industry priorities. Each funded activity requires the delivery organization to agree to clear performance criteria, reporting requirements, budget controls, regular monitoring by FII staff, and occasional audits by an independent auditor selected by FII.

FII also directly delivers a number of marketing and communication programs that support government priorities and provide broad-based benefits to the forest sector, but fall outside the mandates of trade associations. These include:

- leading the Province's Wood First initiative;
- conducting market research to unearth potential opportunities and create new demand in emerging markets and segments;
- producing marketing resources for general use by industry, such as publications on wood as a green building material, and the www.naturallywood.com and www.woodfirstbc.ca web sites;
- using market outreach communication to explain B.C.'s forest practices and environmental record to international markets;
- delivering market communications based on science- and fact-based approaches to communicate the merits of wood and wood-based construction technologies in a green building and climate change context;
- collaborating with forest sector stakeholders to encourage consistent and compelling messages in the context of product and building innovations and reducing environmental impacts;
- providing market research and outreach to government agencies in China, where FII represents the interests of the forest sector in interactions with Chinese authorities and state controlled enterprises; and
- supporting market development, communications and outreach in India via a subsidiary office in Mumbai.

Benefits to British Columbia

FII supports *The BC Jobs Plan* strategy to grow our economy for a strong, secure future by promoting wood use across the province and around the world on behalf of the forest sector and the tens of thousands of British Columbians who work in forestry.

Specific benefits provided by FII include:

- working to maintain existing domestic and foreign markets for B.C. forest products in collaboration with the forest industry;
- opening up new markets for B.C. forest products and creating the potential for new jobs to service these markets;
- investing in early stage market development, such as in India, where there is the potential for significant long-term growth;
- building awareness of B.C. internationally, particularly in the Asia-Pacific region; and
- supporting the growth of a sustainable and green economy, and the value-added wood products sector, by promoting the environmental benefits of wood in structural and non-structural applications and greater use of renewable wood products from B.C. in building construction.

Principal Partners, Clients and Stakeholders

Working together

A major strength of the B.C. forest sector is its ability to work together for the best interests of British Columbia and Canada. Through this collective effort, stakeholders are able to leverage their strengths to develop and diversify markets at home and abroad, and to maintain B.C.'s position as a global leader in wood product innovation and export. FII is proud to work with the following principal partners, stakeholders and clients.

STAKEHOLDER	RELATIONSHIP
Government	
Government of British Columbia	Sole shareholder, provides FII's core funding
Minister of International Trade	Responsible for FII and for international trade and investment promotion
Ministry of Jobs, Tourism and Skills Training	Responsible for <i>The BC Jobs Plan</i>
Ministry of Forests, Lands and Natural Resource Operations	Responsible for forest practice regulations and timber sales, and forest and other natural resource management
Department of Natural Resources, Government of Canada	Federal funding agency for international marketing through the <i>Expanding Market Opportunities Program</i>
Department of Foreign Affairs, Trade and Development, Government of Canada	Federal agency supporting in-market trade and investment promotion
Non-Government	
Forest industry associations and organizations: <ul style="list-style-type: none"> • APA- The Engineered Wood Association • B.C. Shake & Shingle Association • B.C. Wood Specialties Group • Binational Softwood Lumber Council • Canada Wood Group • Canadian Wood Council • Canadian Wood Council – WoodWORKS! BC • Cedar Shake and Shingle Bureau • CertiWood • Coast Forest Products Association • Council of Forest Industries • Forest Products Association of Canada • Softwood Lumber Council • Western Red Cedar Export Association • Western Red Cedar Lumber Association • Wood Pellet Association of Canada • Wood Products Council • Independent Wood Processors Association of B.C. 	Organizations that initiate and deliver domestic and international market development programs, typically funded jointly by FII, Natural Resources Canada, and/or other partner organizations. This list also includes agencies not funded by FII, but with which FII interacts to support market and/or product development initiatives.
Post-secondary and research institutions: <ul style="list-style-type: none"> • Athena Sustainable Materials Institute • Consortium for Research on Renewable Industrial Materials • Dovetail Partners • FPIInnovations • University of British Columbia • NEWBuildS (university research consortium) 	Partners and/or funding recipients that initiate and deliver product development and technical research, and assist B.C. value-added firms to improve product design and manufacturing

Canada Wood Group, a consortium of industry trade associations, delivers many market development activities in China, Japan, Korea and the E.U. Funding is provided by FII, Natural Resources Canada, the Government of Alberta (China and Japan program only) and industry members. Activities include market development (marketing and promotion), building relationships with government officials, developers and the building sector, and research institutions on topics related to market access (for instance, acceptability of B.C. species and grades in local building and fire codes), and related issues.

In China, FII works in parallel to Canada Wood Group through an in-market subsidiary focused on government-to-government relations with Chinese authorities and state-owned development companies.

In India, FII leads early stage market development and outreach via its subsidiary operation in Mumbai, while Canada Wood Group is responsible for work on market access issues (codes and standards) and market promotions in partnership with FII and the High Commission of Canada in New Delhi. The India program has received substantial financial support from Natural Resources Canada.

In the United States, trade associations including the Wood Products Council, Western Red Cedar Lumber Association, and B.C. Wood Specialties Group lead market development activities. These programs are funded by FII and by industry through the Binational Softwood Lumber Council, and the Softwood Lumber Board. Activities focus on the non-residential sector, multi-storey/multi-family housing, and niche markets in the residential sector.

In other markets, trade associations lead market development activities with funding from FII, Natural Resources Canada and industry. Activities focus on market development and market access.

Location of Operations

The FII corporate office is located at:

#1200 - 1130 West Pender Street, Vancouver, British Columbia.

The company's China subsidiary, FII Consulting (Shanghai) Co, Ltd., is located at:
425 Hong Feng Road, Jinqiao, Pudong New Area, Shanghai, P.R. China 201206

FII Consulting (Shanghai) also has staff in Beijing located at:

Room 1507, Kuntai International Mansion, No.12 B Chaowai Street, Beijing 100020.

The company's India subsidiary, Forestry Innovation Consulting India Private Ltd., is located at:
Unit No. 1202, A-Wing, Naman Midtown, near Indiabulls Financial Centre, Senapati Bapat Marg, Elphinstone Road, Mumbai - 400 013, India

More information on FII is available at www.bcfii.ca. General information on B.C.'s forest products and sustainably managed forests is available at www.naturallywood.com. Information on the Wood First Initiative is available at www.woodfirstbc.ca.

Corporate Governance

Board of Directors

FII is responsible to the Minister of International Trade through a five-member Board of Directors. The Government appoints the Board to set operational policy for the organization and, in cooperation with senior management, to set strategic direction. The Board also monitors FII's performance based on the Province's planning and reporting principles. The Board appoints the Chief Executive Officer and delegates responsibility to the CEO for the day-to-day leadership and management of the organization.

The members of the Board of Directors are:

- Dana Hayden, President and CEO, B.C. Pavilion Corporation;
- Shannon Baskerville, Deputy Minister, Ministry of International Trade;
- Sandra Carroll, Deputy Minister, Ministry of Advanced Education;
- Dave Peterson, Assistant Deputy Minister, Tenures, Competitiveness and Innovation Division, Chief Forester, Ministry of Forests, Lands and Natural Resource Operations;
- Pat Bell, Executive Vice President, Conifex Timber Inc.

The FII Board has an Audit Committee, which is responsible for reviewing, recommending, and in some instances, approving financial statements and other information. The Audit Committee has three positions of which two are currently filled by Board member Sandra Carroll, Chair and John Desjardins, Partner, KPMG.

Governance Principles and Practices

The FII Board of Directors operates according to six guiding principles related 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; and
- value, innovation and continuous improvement.

Details about how the guiding principles are applied are posted on FII's website at www.bcfii.ca.

The Board incorporates best practices into its governance procedures as guided by the *Best Practices Guidelines on Governance and Disclosure for Public Sector Organizations*.

As recommended in the guidelines, FII's disclosure, including its Status of Concurrence with Best Practices Guidelines is available on the company's website at www.bcfii.ca. As detailed in the *Status of Concurrence* report, FII is substantially in accordance with governance best practices set out by the Province's Crown Agency Resources Office.

FII Executive Management

- Ken Baker, CEO
- Douglas Greig, Vice President, Finance and Administration
- Michael Loseth, Vice President, Operations

Industry Advisory Committees

Three committees of senior forest industry representatives provide continuing advice to FII:

Market Acceptance Advisory Group:

Offers strategic direction on FII's Market Outreach programming

Wood First Advisory Committee:

Offers strategic direction on the *Wood First* program and related priorities for investment¹

Proposal Evaluation Panel:

Evaluates funding proposals received through FII's annual call for proposals process

Subsidiary Companies

FII Consulting (Shanghai) Co. Ltd. (wholly owned by Forestry Innovation Investment Ltd.)

Primary business: Supporting the B.C. forest industry by providing market research, technical wood frame building expertise and related liaison with Chinese government authorities on behalf of industry.

Objective: Work with the B.C. forest industry and the federal government to grow the market for B.C. wood products in China, primarily by creating new demand for structural lumber and related building products.

Governance: Sole Executive Director: Ken Baker, CEO, FII

Senior Management: Lisa Dou, General Manager

Financial information: See the Financial Report

0939031 B.C. Ltd. (wholly owned by Forestry Innovation Investment Ltd.)

Primary business: Non-operational company functioning as the second shareholder in FII Consulting India Private Limited (reflecting India legislation that requires foreign-owned companies to have at least two shareholders).

Objective: To fulfill India laws regarding foreign ownership of India companies.

Governance: Sole Director: Ken Baker, CEO, FII

Senior Management: None

Financial information: See the Financial Report

FII Consulting India Private Limited (wholly owned by Forestry Innovation Investment Ltd. and 0939031 B.C. Ltd.)

Primary business: Supporting the development of the Indian market for B.C. forest products through market research, promoting B.C. wood products and related technologies, providing intermediation with India regulatory authorities, and providing direct support for B.C. companies entering the India market.

Objective: Work with the B.C. forest industry and the federal government to grow the market for B.C. wood products in India by creating new demand for softwood products in the furniture, interior finishing and other segments.

Governance: Three-member Board of Directors:

- Ken Baker, CEO, FII
- Douglas Greig, Vice President, Finance and Administration, FII
- Michael Loseth (Chair), Vice President, Operations, FII

Senior Management: Kant Singh, Country Director

Financial information: See the Financial Report

¹ The Wood First Advisory Committee was established following the transfer of the Wood First initiative to FII from the Ministry of Jobs, Tourism and Skills Training. The committee provides strategic advice to the initiative, including the development of the annual investment strategy that guides *Wood First* investments.

Strategic Context

Internal Operating Environment

As part of a government-wide restructuring In June 2013, responsibility for FII was transferred to the Minister of International Trade. During the year, the Government also initiated a Core Review of government programs and services. At the time of preparing this Service Plan it is not known what impact the review may have on FII and its programs.

FII operations in B.C. in 2013/14 were unchanged from 2012/13 in terms of structure and emphasis. In China, the transition of certain market development activities to Canada Wood Group under an agreement reached with industry in 2011/12 was completed. In 2014/15, FII China will continue to focus on building relations with Chinese government officials and state-owned developers, especially in providing assistance with architectural and engineering design.

FII's subsidiary in India now employs five locally-engaged staff and a technical contractor from B.C. to provide on-the-ground expertise on the B.C. industry and products. For optimum efficiency, the FII office in Mumbai is co-located with the Trade and Investment operation of the B.C. Ministry of International Trade.

Economic, Industry and Market Factors

The B.C. forest economy is heavily weighted towards international trade, with more than 80 per cent of sales in foreign markets. FII programming reflects this market emphasis, with most programming and related performance measures focused on markets outside of the province. International markets are impacted by many factors that are beyond the control of FII. A number of these factors can heavily influence the achievement of performance targets. These factors include:

- **Currency exchange rates:** Because most foreign sales of B.C. forest products are priced in U.S. dollars, the value of the Canadian dollar relative to the U.S. dollar is a major factor in the competitiveness and profitability of the industry. While the Canadian dollar is once again trading below par, it remains above historic levels, making Canadian firms less profitable than when the Canadian dollar was worth substantially less in American currency. Similarly, weakness of the Euro against the Canadian dollar is making European exporters of forest products relatively more competitive against B.C. firms. This has had an impact in foreign markets, including China and the United States.
- **Transportation:** Currently, over 30 per cent of B.C.'s lumber exports are shipped to China. These exports benefit from low-cost "back haul" rates on containers being shipped from the west coast of North America to China. The dramatic increase in B.C. lumber exports to China, however, has led to capacity issues in the transportation system and, as a consequence, an escalation in container costs. With wood exports to China almost double the level of four years ago, the industry's comparative transportation cost advantage in shipping products to Asia has been reduced.
- **In-market factors:** Conditions within any market may vary from those discussed above due to fiscal, political, monetary and regional economic factors. For example, tax and trade policies of other countries can directly influence the demand for B.C. wood products (e.g., Russian log export taxes are now trending lower making Russian fibre more competitive in the Chinese market), and demographic shifts in regional markets can place downward or upward pressure on the demand for housing and, consequently for wood products. Capital investment and national economic growth, in particular, are factors that strongly influence market-by-market demand for wood products.

Risks and Opportunities Analysis

The following risks and opportunities may impact FII performance in 2014 – 2015.

RISKS & OPPORTUNITIES	POTENTIAL IMPACT	FII RESPONSE
U.S. Housing Market		
<p>Risk: U.S. housing market stalls or falters.</p>	<ul style="list-style-type: none"> • Reports of new housing construction indicate that the market is continuing to recover; B.C. exports to the end of September 2013 were at a 2-year high. • As B.C.'s largest export market, continued strength in the U.S. housing market will support industry profits and sales; any slowdown in the rebound will threaten the overall recovery of the B.C. forest industry. 	<p><i>Goal 2 Market Development:</i></p> <ul style="list-style-type: none"> • Continue to develop offshore markets, such as China and Japan, to offset risk of weak U.S. market. • Explore emerging markets, with an emphasis on India. • Continue strategy to build demand in non-residential and multi-family sectors in the U.S., both currently with a low market share of wood construction and products, to offset the heavy reliance on the single-family housing market.
<p>Risk: Rapid increase in U.S. housing demand diverts supply from international markets and sharply increases prices.</p>	<ul style="list-style-type: none"> • Some reports have suggested that sharp increases in demand from the U.S. market will potentially create a "supercycle" of price increases which could limit the available supply of fibre for off-shore markets. • A "supercycle" price increase could make B.C. forest products uncompetitive in price sensitive markets (e.g., India, China, Korea). 	<p><i>Goal 2 Market Development:</i></p> <ul style="list-style-type: none"> • Encourage industry associations to maintain a focus on emerging and international markets. • Support industry collaboration and strategies to address fibre supply issues. • Adjust market development activities to focus on areas supported by industry and fibre availability.
Demand for Wood in Asia		
<p>Risk: Global market uncertainties have reduced growth in key Asian markets.</p>	<ul style="list-style-type: none"> • The pace of growth in the volume of B.C.'s exports to China slowed in 2013 as China's economy cooled. However, the value of exports rose on higher prices driven by recovery in the U.S. housing market. B.C. wood exports to Japan and Korea remained modest as both economies struggle to recover from the global financial crisis. 	<p><i>Goal 2 Market Development:</i></p> <ul style="list-style-type: none"> • Pursue market segments that are less subject to cyclical fluctuations (e.g., affordable housing in China and elder care centres in Japan). • Diversify market development across multiple segments such as multi-family, non-residential and resort development. • In cooperation with the Ministry of International Trade's network of representatives, continue market development initiatives in other Asian markets, including India.

RISKS & OPPORTUNITIES	POTENTIAL IMPACT	FII RESPONSE
Demand for Wood in Asia Continued		
<p>Opportunity: The Chinese Government has called for cooperation with Canada on the adoption of modern wooden structures to address energy conservation and climate change.</p>	<ul style="list-style-type: none"> Chinese authorities are continuing to emphasize energy conservation and climate change in their construction policies. Wood frame construction has been identified as offering potential solutions. 	<p><i>Goal 2 Market Development:</i></p> <ul style="list-style-type: none"> Continue to work under the MOU with the Chinese Ministry of Housing and Urban-Rural Development (MOHURD) to promote the superior environmental performance of wood. Work with major private and state-owned developers to establish the wood as the “greenest” building product and wood-frame construction as an efficient, climate-friendly alternative to traditional concrete, steel and masonry building methods. Engage with provincial counterparts in China to encourage wood frame solutions in select regional markets (e.g., Zhejiang and Hebei Provinces).
Demand for Wood in Europe		
<p>Risk: Weak economic growth in Europe continues to dampen overall consumption of wood.</p>	<ul style="list-style-type: none"> Sales of B.C. softwood products to the EU fell again in 2012 in the face of weak demand and excess domestic supply. Poor domestic markets are forcing EU manufacturers to advance efforts in export markets, aggressively competing with B.C. producers. 	<p><i>Goal 1 Market Development:</i></p> <ul style="list-style-type: none"> Aggressively pursue market diversification by building demand in Asia and in the non-residential sector in North America. <p><i>Goal 2 Wood First / Positioning B.C. Forest Products:</i></p> <ul style="list-style-type: none"> Invest in innovative products and building systems such as CLT and tall wood construction to better position B.C. in the engineered wood segments. Continue to work with EU governments and non-governmental organizations to position forest products from B.C. as good for the environment.
<p>Opportunity: The B.C. forest sector may see benefits flowing from the Comprehensive Economic and Trade Agreement between Canada and the European Union.</p>	<ul style="list-style-type: none"> In October 2013, Canada and the European Union announced agreement in principle on a free trade agreement that will eliminate tariffs on Canadian forest products, including plywood (7-10 per cent), prefabricated wood buildings (2.7 per cent) and OSB (7 per cent). 	<p><i>Goal 1 Market Development:</i></p> <ul style="list-style-type: none"> Collaborate with trade associations to identify and assess market opportunities presented by the pending tariff reductions and potential program responses.

RISKS & OPPORTUNITIES	POTENTIAL IMPACT	FII RESPONSE
Advances in Building Systems and Products		
<p>Risk: Non-wood products threaten value-added wood products.</p>	<ul style="list-style-type: none"> Buildings systems and products are constantly evolving, creating shifts in consumer interest and demand. Innovations in competing materials, such as carbon cement, are entering the green building space. 	<p><i>Goal 3 Wood First:</i></p> <ul style="list-style-type: none"> Through the <i>Wood First</i> initiative support research and development of new wood building systems and related products. <p><i>Goal 1 Benefits of wood:</i></p> <ul style="list-style-type: none"> Counter arguments against wood through science-based arguments on environmental and construction benefits of wood products and building systems.
<p>Opportunity: Innovative new wood products and building systems provide entry into new building segments.</p>	<ul style="list-style-type: none"> Wood products and building systems are more competitive in larger building (commercial, institutional) markets, opening up tremendous growth potential. Greater price sensitivity in multi-family residential and commercial building sectors opens up opportunities as wood construction is cost competitive with concrete and steel building systems. 	<p><i>Goal 3 Wood First:</i></p> <ul style="list-style-type: none"> Research innovative building systems that allow taller, larger buildings to be built with wood. <p><i>Goal 2 Market Development:</i></p> <ul style="list-style-type: none"> Promote cost competitiveness of wood construction and products to the development sector and non-residential developers, highlighting new construction techniques and products, such as cross-laminated timber. <p><i>Goal 1 Benefits of wood:</i></p> <ul style="list-style-type: none"> Align the North America <i>reThink Wood</i> message platform with government and industry programs targeting architects, engineers and other specifiers to promote the benefits of using wood in non-residential construction.
Changing Attitudes Towards the Environment		
<p>Risk: Consumer sensitivity towards global forest practices and resulting drop in demand for forest products.</p>	<ul style="list-style-type: none"> Greater consumer awareness of global warming creates sensitivity on forest practices, which may lead to a reputational risk and consumer resistance in purchasing wood products. 	<p><i>Goal 1 Benefits of Wood:</i></p> <ul style="list-style-type: none"> Promote the high environmental standards of B.C. forest practices to procurement policy makers, customers and consumers in key markets. Promote the benefits of wood as a product that regenerates naturally and, when managed sustainably, supports climate change reduction strategies.
<p>Opportunity: Consumer shift towards green products.</p>	<ul style="list-style-type: none"> Greater consumer interest in green products can increase market demand for B.C. wood products, particularly for value-added products, as B.C. forest products are sustainably harvested. 	<p><i>Goal 1 Benefits of Wood:</i></p> <ul style="list-style-type: none"> Emphasize sustainable, green nature of B.C. wood products and related building systems through targeted programs in key markets.

RISKS & OPPORTUNITIES	POTENTIAL IMPACT	FII RESPONSE
Market Development Funding		
<p>Risk: Federal funding for Natural Resource Canada’s Expanded Market Opportunities Program was renewed through 2014/15, but with a gradual reduction in overall funding level.</p>	<ul style="list-style-type: none"> • Reductions in federal program funding have resulted in some scaling back of program activities by trade associations, and increased contributions from FII and industry. 	<p><i>Goal 4 Organizational Effectiveness:</i></p> <ul style="list-style-type: none"> • Lead discussions with other provinces, particularly Alberta, regarding financial participation. • Work with the North American forest industry to secure cooperative funding under the new softwood lumber check-off program administered by the US Department of Agriculture. • Encourage greater industry financial participation in offshore programming.
<p>Risk: Industry financial capacity and spending priorities.</p>	<ul style="list-style-type: none"> • Beginning in 2013/14, Natural Resources Canada required industry to increase its financial contributions to offshore market development programs. Contribution requirements will rise again in 2014/15. While trade associations and their members have not resisted the increases, the level of overall expenditure by industry has not increased at the same pace, necessitating some scaling back of industry-led activities. 	<p><i>Goal 4 Organizational Effectiveness:</i></p> <ul style="list-style-type: none"> • Continue to encourage industry and related trade associations to increase their financial contributions to support the current level of programming. • Support additional leveraging of funding from other provincial and federal partners. • Support industry association programs to identify additional sources of program revenue (e.g., retaining revenue from attendance fees). • Continue to review and refine programming and investments to focus on opportunities with the greatest growth potential.

Organizational Capacity

FII has the organizational capacity, skills and budget necessary to achieve its performance targets in 2014/15. As noted in the table above, the federal government’s requirement for increased financial contributions by the private sector has acted to reduce some industry-led market development initiatives. A further increase in industry cost-share requirements will be implemented in 2014/15. Reduced overall programming (FII-NRCan-industry) in some markets may have a negative impact on the ability to achieve organizational objectives across the period of this Service Plan, due to continued prioritization of effort within available resources.

Goals, Strategies, Measures and Targets

This section of the *Service Plan* identifies the goals, strategies and performance targets that FII will pursue for the three-year period from 2014/15 through 2016/17. The objective is to ensure that the B.C. forest sector continues to be a global leader in market and product innovation and that the economic benefits generated from the forest resource are maximized.

Over the term of this *Service Plan*, FII programs will continue to focus investments on innovation and market development to strengthen the position of the forest sector in both its conventional product and market mix and in areas of new opportunity. At the same time, FII recognizes that the opportunities presented by the development of a new generation of engineered products and building systems, and the rapid emergence of the “bio-economy” have the potential to be economic game changers for the sector, generating new wealth, more skilled jobs and greater stability for communities and workers. Through its investments, FII encourages industry efforts to move up the value chain thereby creating higher margin products and services that are harder for competitors to copy.

Across the three-year period of this *Service Plan*, FII programming will evolve with the market to reflect new opportunities for traditional solid wood and pulp and paper products, advanced engineered materials and building systems, and where appropriate, non-conventional, next generation bio-products.

Strategic Goals²

To focus activities and guide business planning over the next three years, the following four goals have been adopted:

GOAL 1	Wood is viewed as an environmentally-friendly, preferred building material and B.C. is recognized as a reliable supplier of quality products from sustainably-managed forests
GOAL 2	Sales of B.C.’s conventional and emerging forest products are greatly expanded in markets offering high potential returns
GOAL 3	B.C. is a world-class centre of excellence in developing and using innovative wood products and building systems
GOAL 4	FII serves its stakeholders in a highly effective, innovative and responsive manner

The following sections elaborate on each goal, the outcomes that must be realized to achieve the goals and the specific initiatives that will be adopted to achieve each outcome.

² Two changes to the performance measures associated with these goals are identified in the section “Changes to Goals and Performance Measures since Publication of the February 2013/14 Service Plan” on page 24.

GOAL 1

Wood is viewed as an environmentally-friendly, preferred building material and B.C. is recognized as a reliable supplier of quality products from sustainably-managed forests

The primary objective of Goal 1 is to expand opportunities for B.C. forest products by positioning wood, and wood-based products from B.C., as the first choice for environmentally-friendly building materials. The strategies under Goal 1 create a solid foundation for answering “Why wood?”, and “Why wood from B.C.?” – upon which many of FII’s other market development investments and activities are based.

Goal 1 focuses on taking advantage of two significant trends in the marketplace – the emerging recognition of wood products as “green” and increasing demands from consumers for forest products that are produced in an environmentally-responsible manner. As customers are factoring environmental practices into purchasing decisions, there is considerable value in articulating the benefits of wood as a sustainable, renewable building material; its advantages in creating a significantly smaller environmental footprint than other building materials; and the fact that wood and pulp and paper products from B.C. are manufactured by an industry that has made impressive gains in reducing its environmental footprint. Strategies in support of this goal are designed to build on the growing awareness of the benefits of wood products, and position B.C. as a global leader in sustaining forest resources and environmental values. This dual positioning will help strengthen awareness of, and interest in, B.C. forest products in major markets and, in turn, support greater market share, premium positioning, and easier access to new markets.

Strategies to support Goal 1:

- Provide timely and factual information regarding B.C. forest products and forest practices;
- Champion science- and fact-based approaches to communicate the merits of wood and wood-based construction technologies in a green building and climate change context;
- Collaborate with forest sector stakeholders to encourage consistent and compelling messages in the context of product and building innovations and reducing environmental impacts; and
- Monitor and advocate in international markets for codes, standards and policies that recognize the merits of wood and B.C. forest products.

Performance Targets

Performance Measure		2012/13 Actual	2013/14 Forecast	Target		
				2014/15	2015/16	2016/17
1A	Per cent of customers who feel that choosing products from B.C. (Canada) is a good choice for the environment	n/a*	90%	n/a*	90%	n/a*

* Surveys are conducted bi-annually.

Importance of Measures

1A: Positioning British Columbia as a preferred global supplier

The measure provides an indication of the effectiveness of FII’s international advocacy and communications initiatives to influence customer perceptions of B.C. and its forest management practices. Performance data are gathered through a bi-annual survey of international customers (e.g., large institutional pulp and paper buyers, wood importers and distributors, and carbon market stakeholders) conducted by an independent research firm. FII has seen performance strengthen over the past decade. The survey identifies the percentage of customers who feel that B.C.’s environmental reputation is as good as, or better than, the average of competing forest products jurisdictions.

GOAL 2

Sales of B.C.'s conventional and emerging forest products are greatly expanded in markets offering high potential returns

Goal 2 drives FII's efforts to assist the B.C. forest industry in developing and diversifying markets, with a particular focus on Asia. These efforts build on the strategies, and the science and reputational foundation, developed under Goal 1. They include creating or expanding new market segments within traditional regions (e.g., non-residential uses in the U.S.), as well as fostering demand in regions not currently using high volumes of B.C. forest products (e.g., the multi-family and non-residential market in China and the domestically focused re-manufacturing sector in India).

Strategies under this goal include a mix of activities delivered by third parties and by FII. FII collaborates with industry trade associations, the federal government and other funding bodies to leverage its investments for the greatest potential return for B.C. Working with those organizations, FII's objective is to strengthen demand for B.C. forest products and expand potential end-use applications.

Activities associated with Goal 2 recognize the progress made in diversifying B.C. exports away from historically heavy dependence on the U.S. single family housing sector.

Strategies to support Goal 2

Support the B.C. forest industry to develop and diversify markets for B.C. wood products in new and existing markets by:

- funding trade association market development programs based on priorities outlined in FII's annual investment strategies;
- engaging with industry and foreign government agencies to eliminate barriers to access in foreign markets;
- initiating early stage market development efforts in emerging economies;
- completing disaster reconstruction projects under the Canada-Tohoku Reconstruction Project in Japan;
- partnering with the federal government and working with B.C. and bi-national trade associations to expand the use of wood in the non-residential and multi-family construction sectors in North America; and
- engaging industry and institutional partners to explore market development potential for commercial or near-commercial bio-products.

Performance Targets

Performance Measure		2012/13 Actual	2013/14 Forecast	Target		
				2014/15	2015/16	2016/17
2A	B.C. softwood lumber exports to priority Asia Pacific markets (000's of m ³)					
	<i>China (total exports)</i>	7,506	7,700	7,900	8,100	8,300
	<i>Japan (total exports)</i>	2,442	2,775	2,900	3,000	3,100
	<i>South Korea(exports consumed in wood frame construction)</i>	192	220	265	290	315
2B	Incremental volume consumed in targeted non-residential and multi-storey residential structures in the U.S. (millions of board feet)	115	370	460	580	720

Performance measures and targets for Goal 2 reflect the following inputs:

- Government’s objectives for market diversification;
- intensive third-party research on market potential;
- detailed analysis of foreign government data and projections;
- FII’s internal market research;
- an assessment with industry trade associations of specific segments and market opportunities, and
- other projections made by FII in consultation with industry.

Importance of Measures

2A: B.C. exports of softwood lumber to priority Asia Pacific markets

Performance Measure 2A tracks the extent to which the B.C. forest industry continues to reduce its reliance on the United States and focuses more on selling to Asian customers over the longer-term. This is an indicator of market diversity and greater overall demand. The target is weighted to sales in China, where FII investments are leveraging a significant joint industry and government (provincial and federal) market development effort to position B.C. as the leading exporter of softwood lumber to China. Export volume totals are based on Statistics Canada export data.

The volume of lumber exported to Asia continues to rise, but not at the exponential rate experienced from 2008-2011. On the other hand, the value of those sales has been rising significantly. Total volumes were up 7 per cent in 2013 (year-through November) while values leapt 33 per cent over the same period in 2012. This reflects a worldwide rise in prices for lumber, driven primarily by recovery in the U.S. housing market, coupled with continuing high demand in China.

China:

Exports to China, B.C.’s second largest export market, are now expected to exceed the previous Service Plan’s volume target for 2013/14 (7.7 million m³ versus a target of 7.5 million m³). The updated targets in this Plan anticipate growth in B.C. lumber exports to China continuing at the same pace as over the past two years, reflecting ongoing progress of the joint government and industry market development program. There are, however, substantive near-term risks to the volume projections including an expected increase in demand in the U.S., increased lumber prices world wide, and declining timber supply for sawmills in the B.C. Interior.

As a way of locking in higher values per thousand board feet sold, the FII/Canada Wood Group market development program for China will continue to focus on increasing the volume of construction grade product (No. 2 & Better) consumed in structural applications. FII and its funding recipients are targeting growth from 380,000 m³ in 2012/13 to over 900,000 m³ by 2016/17, an increase of almost 140 per cent. Based on forecast pricing for China, this represents a potential market value of some \$250 million in the wood frame construction segment by 2016/17.

	2012/13	2013/14	2014/15	2015/16	2016/17
B.C. Lumber used in Wood Frame Construction in China (000s m ³)	380	475	594	743	925

Japan:

B.C. exports of softwood lumber to Japan are on target by volume, while values are up substantially (+26 per cent) through October 2013 compared to the same period in 2012. B.C. exports to Japan will remain largely dependent on that country's housing starts; however, an increasing volume of lumber will be directed to non-residential construction over the forecast period. Modest growth in housing starts is anticipated through 2015/16, although an increase in consumption taxes has temporarily softened the market.

South Korea:

Performance in South Korea is based on tracking the volume of B.C. lumber consumed in wood frame applications. Focusing on the wood frame construction market (as opposed to total exports) limits measurement confusion created by fluctuating volumes of low-grade B.C. product consumed in Korea's treated wood industry. Estimates for B.C. lumber consumed in wood frame construction are calculated from Korean government data on housing starts and floor area. Actual volume for 2012/13 was 192,000 m³, up from 168,000 m³ in 2011/12. Total growth potential for B.C. softwood lumber consumed in wood frame applications over the period of this Plan is estimated to be 40 per cent, with the majority of the increase coming from increases in the use of B.C. lumber in Korea's wood frame construction segment.

2B: Lumber consumed in targeted non-residential and multi-storey, multi-family residential structures in the United States

Most single-family housing in North America is wood based, and there are no significant programs for promoting greater use of wood in the structural elements of single-family houses. However, wood enjoys only a small share of non-residential structures and of multi-storey, multi-family residences. Across North America, the forest industry and several governments have a strong interest in seeing wood products secure a much higher share of those structures.

At present, there is insufficient data to establish a benchmark or track the use of wood in the U.S. non-residential structures broadly. As an alternative, Performance Measure 2B tracks the volume of lumber used in projects that were going to be built of non-wood materials until the Wood Product Council, funded in part by FII, intervened to demonstrate the possibilities and benefits of wood construction.

The ability to achieve Performance Measures 2A and 2B is heavily influenced by the performance of the industry market development programs delivered in whole, or in part, by FII funding recipients. As part of the funding approval process, specific performance measures are set for each project. All of these measures are directly linked to FII's broader goals and targets. For more details, please refer to FII's Performance Management Framework at www.bcfii.ca

GOAL 3

B.C. is a world-class centre of excellence in developing and using innovative wood products and building systems

This goal supports the Province's objective to generate greater product value in the forest economy. This objective is based on the realization that long-term sustainability of the forest economy includes maintaining and growing sales, as well as driving up the value of sales through the introduction of innovative forest products, advanced wood technologies, and new building systems.

Strategies to achieve Goal 3 are delivered primarily through the *Wood First* initiative, the need for which was articulated by the Working Roundtable on Forestry in 2008. In 2009, the Province announced the *Wood First* initiative, and followed this with the *Wood First Act* to take a leadership position in utilizing more wood in provincially funded buildings. The *Act* is a key element of the *Wood First* initiative, and further leverages products, technologies and services into the municipal and private sectors.

FII has been responsible for the *Wood First* initiative since June 2011. An independent Wood First Advisory Committee provides strategic guidance on implementation priorities. Strategies for implementation focus on creating demand for B.C. wood-based products and building systems, and developing innovative ways to meet the demand. The goal is to create a cultural preference for building and living with wood.

Strategies to support Goal 3

- Establish a “culture of living and building with wood” in B.C. by encouraging local governments to adopt supportive policies and encouraging development of related education programs.
- Maximize the appropriate use of wood in B.C.'s public and private construction by leveraging Provincial capital projects to showcase wood construction.
- Accelerate the adoption of existing and emerging wood-based products and building systems in B.C. by supporting targeted research and technical case studies and guidelines.
- Strengthen B.C.'s capacity to produce competitive wood-based products and building systems by improving entrepreneurial skills in the value-added wood products industry and enhancing innovative design projects.
- Position B.C. as a world leader in sustainable and innovative wood-based products and building systems by facilitating alternative solutions, showcasing B.C.'s expertise and supporting technology and knowledge transfer.

Performance Targets

Performance Measure		2012/13 Actual	2013/14 Forecast	Target		
				2014/15	2015/16	2016/17
3A	Incremental Sales Generated in the B.C. Non-Residential Market (millions of board feet)	71.5	75	80	88	90

Importance of Measures

3A: Incremental sales generated in the B.C. non-residential market

This measure tracks success in increasing wood usage in the B.C. non-residential construction sector, a core objective of the province's *Wood First* approach. Figures for B.C. are incremental wood volumes generated through program activities funded by FII in partnership with the Canadian Wood Council. As noted for Performance Measure 2B, above, work to rationalize performance tracking methodologies between the U.S. and Canadian non-residential programs will be completed in 2014/15. Any adjustments in targets resulting from this work will be included in the 2015/16 *Service Plan*.

The ability to achieve Performance Measure 3A is impacted by the performance of FII's funding recipients in their delivery of *Wood First* programming (Canadian Wood Council, BC Wood Specialties Group, FPIInnovations and the Centre for Advanced Wood Processing at UBC). As part of the funding approval process, performance measures are established for each project. These measures are directly linked to FII's broader goals and targets. For more details, please see FII's Performance Management Framework at www.bcfii.ca

GOAL 4

FII serves its stakeholders in a highly effective, innovative and responsive manner

FII is committed to sound business practices incorporating robust financial controls, and a performance management framework including monitoring, audit and evaluation built on a comprehensive risk-assessment strategy. FII is also committed to a path of environmental sustainability and minimizing its environmental footprint, in order to protect the natural environment and the B.C. economy for future generations.

FII will continue to place significant emphasis on delivering its primary programs and services in collaboration with the forest industry, the federal government, the research community and other provincial agencies. The objective is to leverage the expertise and financial resources of key players across the Canadian and international forest sectors and to create critical mass in the development and delivery of strategic and focused market and product development programming.

Strategies to support Goal 4:

- Ensure FII is efficient, transparent and results focused by:
 - Keeping corporate support costs at or below 7% of total budget;
 - Implementing a rigorous performance management system;
 - Monitoring and auditing funded projects according to explicit risk assessments.
- Adhere to government finance and administration policies and practices
- Ensure the integrity and timeliness of funding to other organizations for activities that will enhance the forest sector's economic and social benefits to British Columbia
- Continuously review priorities and strategies to ensure that programs and services stimulate innovation in products and markets
- Maximize the financial contributions from key partners
- Minimize FII's carbon footprint and promote environmentally responsible business activities

Performance Targets

Performance Measure		2012/13 Actual	2013/14 Forecast	Target		
				2014/15	2015/16	2016/17
4A	Timeliness of annual funding cycle for trade associations, research institutes, and universities	Competitive funding process was completed by April 1	Competitive funding process will be completed by April 1	Competitive funding process is completed by April 1	Competitive funding process is completed by April 1	Competitive funding process is completed by April 1
4B	Other organizations' aggregate contribution to recipient funding program ³	65%	65%	65%	65%	65%

³ In its recipient funding program FII targets annual contributions of approximately 65% from other organizations; however, contributions from others vary from 0 to 85%, depending on the specific activity. Contributions from individual organizations can also fluctuate considerably across fiscal years, depending on their programming priorities and budgets.

Importance of Measures

4A: Timeliness of annual funding cycle

Over half of FII's budget is used to fund activities proposed through an annual Call for Proposals process. This process typically attracts some 35 proposals describing hundreds of proposed activities and detailing specific cost estimates and cost sharing. Proposals are peer reviewed and point-ranked against pre-set evaluation criteria. Performance Measure 4A tracks how efficient FII is in managing the annual funding process, a key objective of which is to ensure that funding is available to successful proponents by the start of each fiscal year.

4B: Partner contributions

This measure tracks the effectiveness of FII in securing external resources to deliver market development programs on behalf of the Government of B.C. The willingness of industry partners, the federal government and other provincial governments to contribute to market development activities is a direct indicator of the value placed on these activities, particularly at a time of severe resource constraints. Data to support the measure are sourced from the on-line recipient program system, which is co-funded and managed by FII and Natural Resources Canada, and through FII's year-end financial analysis. In addition to industry's contribution to the on-going recipient programming, FII also draws other leveraged funding for its market development programming. For 2013/14, this "other" funding includes up to \$600,000 from Natural Resources Canada for the India market development initiative. FII also leverages significant dollars for the *reThink Wood* initiative against which FII's contributions leverage a total of \$300,000 from the Softwood Lumber Board and \$540,000 from the Binational Softwood Lumber Council. While these "other" funds represent a significant portion of FII's annual programming, FII does include them in the current year's annual Service Plan forecasts but does not include them in future years forecasts as amounts and sources are subject to dramatic change.

Change to Goals and Performance Measures since Publication of the February 2013/14 Service Plan

For the 2014/15 – 2016/17 Service Plan, FII's goals, strategic initiatives and performance measures remain largely unchanged. The only exceptions were for Goal 2, where target volumes for China were adjusted in line with third party forecasts, and for Goal 3, where a performance measure was removed due to fundamental issues of attribution and to difficulties in assembling and interpreting data.

The change to the Service Plan performance measures for 2015/14 is summarized in the following table.

Performance Measure February 2013	Revisions to Performance Measure	Reason for Change
Goal 2 (2A): B.C. softwood lumber exports to China	2014/15 – now 7.9 million m ³ , up from 7.7 million m ³ 2015/16 – now 8.1 million m ³ , up from 7.8 million m ³	Targets revised upwards to reflect higher baseline exports (volume forecast for 2013/14 now anticipates exceeding earlier Service Plan target).
Goal 3 (3B): Per cent of allowable floor area (B.C. Government Buildings) built with wood	Performance measure removed	FII will be undertaking research in 2014/15 to consider a more practical measure of the program's performance in fostering a "culture of wood in B.C." to complement the existing volume measure reported by the Canadian Wood Council.

Government’s Letter of Expectations

The Province of British Columbia is the sole shareholder of FII. The *Government’s Letter of Expectations* (GLE) confirms FII’s mandate and sets out the Province’s annual direction to the organization, including key performance expectations. FII’s planned actions in response to the 2014/15 GLE are summarized in the following table:

GLE Directive	Planned Actions
<p>In collaboration with forest-industry trade associations and the Government of Canada, determine priorities and strategies and deliver programs to significantly enhance international sales of British Columbia forest products, stimulating long-term diversification of the forest industry’s customer base</p>	<p>Collaboration with industry trade associations and the Government of Canada:</p> <ul style="list-style-type: none"> In 2014/15 FII will continue to use a joint funding approach for all externally delivered market development programs. Funding partners and contributions vary by initiative and market, but may include the Government of Canada, other provinces, industry trade associations, the Softwood Lumber Board, the Binational Softwood Lumber Council, and research institutions. On average, FII collaborators contribute more than 65% of the costs of the Company’s annual funded initiatives. FII will rely extensively on industry and stakeholder advice, and input on business strategies through formal advisory committees. Ongoing dialogue and consultations with trade association and industry leadership remain integral to program development and delivery. Technical and research expertise in B.C. will be leveraged through funding for targeted research projects that align with the business objectives of various programs. <p>Market Development Activities – China:</p> <ul style="list-style-type: none"> For 2014/15, FII’s strategic focus in China will continue to emphasize increasing the use of wood in mid-rise and multi-family construction. Efforts are also underway to develop niche opportunities in the villa and townhome markets, both in new resort communities emerging across China, and in districts such as Pudong (Shanghai) where lower density housing is feasible. Extensive outreach will be used to open new avenues in residential construction by informing and educating regulators, architects, engineers and developers on the advantages of building with wood, particularly for mid-rise residential buildings. <p>Market Development Activities – Japan:</p> <ul style="list-style-type: none"> Market development in Japan is led by Canada Wood Group and FII will continue to partially fund its activities through a tripartite funding arrangement (FII, Natural Resources Canada, industry trade associations). The Activities will focus on opportunities in elder care facilities and in non-residential applications of wood-frame construction. At the same time, Coast Forest Products Association is working to raise the visibility of coastal species and to provide technical information to Japanese customers on the suitability of coastal products in commercial and non-residential applications.

GLE Directive	Planned Actions
<p><i>continued...</i></p>	<p>Market Development Activities – South Korea:</p> <ul style="list-style-type: none"> As is the case with Japan, market development in Korea is led by Canada Wood Group and FII will continue to partially fund its activities through its tri-partite funding arrangement with Natural Resources Canada and industry trade associations. Efforts emphasize opportunities in single-family residential 2x4 wood frame construction and non-residential and multi-storey/multi-family construction. Market positioning is focusing on the health and environmental benefits of wood construction, as well as niche opportunities for value-added products and prefabricated building systems from B.C. <p>Market Development Activities – United States:</p> <ul style="list-style-type: none"> The FII market development strategy for 2014/15 will focus on two components. The first is expanding wood use in non-residential construction and in the multi-storey, multi-family residential segment. Much of this effort will be delivered by the Wood Products Council in partnership with Natural Resources Canada and the Softwood Lumber Board (SLB) through the US WoodWorks program. The second component of the strategy will involve high-value niche markets and promoting value-added products, including resort homes, log and timber frame homes, pre-fabricated housing, cabinetry, millwork and finishings, outdoor landscaping and other end-uses supported by B.C. producers.
<p>Lead delivery of the Province’s Wood First initiative by working with the B.C. forest industry, architects, engineers, developers, builders and others to make British Columbia a world-class centre of excellence in manufacturing and using innovative forest products</p>	<ul style="list-style-type: none"> With guidance from the Wood First Advisory Committee of industry and building sector representatives, activities in 2014/15 will focus on accelerating the use of wood-based building systems by developers and other builders. FII will continue its partnership with Natural Resources Canada to pursue wood use in non-residential construction via the WoodWORKS! BC program. Achieving greater penetration of six-storey and other multi-unit construction across the province will be a priority. FII activities will be leveraged through funding to programs delivered by other organizations, including BC Wood Specialties Group, the Canadian Wood Council, FPIInnovations and the UBC Centre for Advanced Wood Processing.
<p>In collaboration with industry organizations in Canada and the United States, develop fact-based and scientific information, and robust electronic communications tools, to make foreign customers and government regulators aware of the environmental and technical merits of British Columbia forest products</p>	<ul style="list-style-type: none"> FII will lead on government-to-government relations with respect to market barriers and market acceptance initiatives, particularly in respect of forest management and environmental impact. FII will deliver independent, fact-based, commercially-neutral promotion of the performance and environmental merits of wood and the B.C. forest sector in order to help maintain a base of support that underpins specific product/market messaging delivered by B.C. companies and industry associations. FII will monitor developments and trends as they relate to environmental and social responsibility policy that may impact the ability of B.C. producers to access domestic and foreign markets.

GLE Directive	Planned Actions
<p>Through subsidiary corporations in China and India, pioneer interest in utilizing British Columbia wood products, paving the way for British Columbia firms and their trade associations to establish commercial linkages</p>	<p>FII China</p> <ul style="list-style-type: none"> The market development program in China will continue as a collaborative effort between FII's subsidiary company in China, FII Consulting (Shanghai) Company Ltd., and Canada Wood Group (CWG) with additional funding support coming from Natural Resources Canada and industry. FII China will be responsible for government relations and liaison with state-owned development companies. CWG will lead training, research and market promotion campaigns to encourage the adoption of wood building systems and structural and appearance grade products. <p>FII India</p> <ul style="list-style-type: none"> The strategy for India will target market segments identified as having the greatest near-term potential, including the manufacturing of doors (solid wood and flush/skin doors), wooden furniture and architectural millwork. For 2014/15, ongoing market research will be a central feature of the strategy as further investigation is required to fully understand the opportunities available to B.C. exporters.
<p>Comply with Government's requirements to be carbon neutral under the Greenhouse Gas Reduction Targets Act</p>	<p>FII will continue with continuous improvement in recycling practices, energy use and consumption, purchasing practices, and behavioural change management.</p>

Summary Financial Outlook

Budget Allocations

For 2014/15, total funding available to FII from the Province is expected to be about \$17.0 million, the same as for 2013/14. FII will also receive \$600,000 from the Federal Government towards the India initiative. On that basis, budget allocations will be approximately as follows:

- \$6.1 million for market development work by trade associations, and \$0.6 million to administer the funding program; this funding will be allocated through the annual Call for Proposals process, with most funds going to B.C. trade associations working in China, the United States, Japan and Korea. Cost-share rules will require funding recipients to provide 20 per cent of the cost of activities they deliver in off-shore locations, up from 15 per cent in 2013/14.
- \$2.8 million for the *Wood First* program, of which \$2.3 million will be made available to other organizations to share the cost of activities they propose and ultimately deliver, largely based on priorities recommended by the Wood First Advisory Committee;
- \$2.6 million to FII China.
- \$1.6 million to FII India.
- \$2.6 million for FII's self-initiated market outreach and development initiatives.
- \$1.3 million for FII's corporate support.

Operations

Based upon the above budget allocations, FII will continue to rely heavily on trade associations to develop and deliver market development programs based on country-specific strategies and quantified sales objectives for each product line and identified end-uses.

In China, the staff will focus on Government-to-Government relations in support of Canada Wood Group as it provides training in wood frame construction, quality assurance for commercialized projects and technical support in the adoption of wood frame building and fire codes. FII China will directly assist Chinese parties with architectural design, engineering and working drawings to encourage broader commercialization of wood frame construction.

Staff of FII India will commission new market research and identify prospective customers for B.C. firms that can supply wood products suitable for manufacturing furniture, doors and doorframes, and interior millwork. A lesser priority will be to assess the potential for using B.C. wood products in structural applications.

To ensure that FII's programming continues to accord not only with the B.C. Government's priorities, but also with those of the B.C. forest industry, staff will continuously consult with expert advisory committees set up to provide program focus and advice to FII.

Financial

Year-over-year financial data for FII and its subsidiaries, FII Consulting (Shanghai) Co. Ltd. and Forestry Innovation Consulting India Private Ltd., are summarized in the tables on the following page.

Forestry Innovation Investment Ltd.
Consolidated Summary Financial Outlook
2011/12 - 2015/16

	Actual 12/13 (000's)	Projected 13/14 (000's)	Budget 14/15 (000's)	Budget 15/16 (000's)	Budget 16/17 (000's)
Revenue					
Contribution from the Province of BC	\$ 17,208 ⁽¹⁾	\$ 17,000	\$ 17,000	\$ 17,000	\$ 17,000
Contribution from the Federal Government	\$ 624 ⁽²⁾	\$ 762 ⁽²⁾	\$ 600 ⁽²⁾	\$ -	\$ -
Other Revenue ⁽³⁾	\$ 1,042	\$ 1,218	\$ 300	\$ 300	\$ 300
	<u>\$ 18,874</u>	<u>\$ 18,980</u>	<u>\$ 17,900</u>	<u>\$ 17,300</u>	<u>\$ 17,300</u>
Expenses					
Market Development by other organizations	\$ 6,993	\$ 6,662	\$ 6,760	\$ 6,755	\$ 6,755
Woodfirst Program	\$ 2,028	\$ 3,010	\$ 2,800	\$ 2,800	\$ 2,800
China Market Development	\$ 2,536	\$ 2,600	\$ 2,600	\$ 2,400	\$ 2,400
India Market Development	\$ 873	\$ 1,600	\$ 1,600	\$ 1,200	\$ 1,200
Government Initiatives and Outreach	\$ 4,442	\$ 3,568	\$ 2,600	\$ 2,600	\$ 2,600
Corporate Support	\$ 1,220	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300
	<u>\$ 18,092</u>	<u>\$ 18,740</u>	<u>\$ 17,660</u>	<u>\$ 17,055</u>	<u>\$ 17,055</u>
Operating Income	<u>\$ 782</u>	<u>\$ 240</u>	<u>\$ 240</u>	<u>\$ 245</u>	<u>\$ 245</u>
Amortization	\$ 128	\$ 240	\$ 240	\$ 245	\$ 245
Excess of Revenue over Expenses	<u>\$ 654</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Retained Earnings, end of year	<u>\$ 1,824</u>	<u>\$ 1,824</u>	<u>\$ 1,824</u>	<u>\$ 1,824</u>	<u>\$ 1,824</u>
Capital Expenditures	<u>\$ 550</u>	<u>\$ 200</u>	<u>\$ 25</u>	<u>\$ 25</u>	<u>\$ 25</u>

Note 1 Contribution received was \$17.6 m of which \$550K has been recorded as deferred revenue as restricted contribution for the capitalization and future amortization of leasehold improvements and furniture purchased to out fit the new India Office

Note 2 Approx \$600K is a contribution from NRCan towards the India Initiative

Note 3 Includes contributions from organizations such as: Industry, Other Governments and Deferred Revenue arising out of restricted capital contributions.

FII Consulting (Shanghai) Co. Ltd.
Summary Financial Outlook
2011/12 - 2015/16

	Actual 12/13 (000's)	Projected 13/14 (000's)	Budget 14/15 (000's)	Budget 15/16 (000's)	Budget 15/16 (000's)
Revenue					
Contribution from Forestry Innovation Investment Ltd.	\$ 2,536	\$ 2,600	\$ 2,600	\$ 2,400	\$ 2,400
	<u>\$ 2,536</u>	<u>\$ 2,600</u>	<u>\$ 2,600</u>	<u>\$ 2,400</u>	<u>\$ 2,400</u>
Expenses					
China Market Development	\$ 2,536	\$ 2,600	\$ 2,600	\$ 2,400	\$ 2,400
	<u>\$ 2,536</u>	<u>\$ 2,600</u>	<u>\$ 2,600</u>	<u>\$ 2,400</u>	<u>\$ 2,400</u>
Excess of Revenue over Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Retained Earnings, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Forestry Innovation Consulting India Private Ltd.
Summary Financial Outlook
2011/12 - 2015/16

	Actual 12/13 (000's)	Projected 13/14 (000's)	Budget 14/15 (000's)	Budget 15/16 (000's)	Budget 15/16 (000's)
Revenue					
Contribution from Forestry Innovation Investment Ltd.	\$ 873	\$ 1,765	\$ 1,765	\$ 1,370	\$ 1,200
	<u>\$ 873</u>	<u>\$ 1,765</u>	<u>\$ 1,765</u>	<u>\$ 1,370</u>	<u>\$ 1,200</u>
Expenses					
India Market Development	\$ 873	\$ 1,600	\$ 1,600	\$ 1,200	\$ 1,200
	<u>\$ 873</u>	<u>\$ 1,600</u>	<u>\$ 1,600</u>	<u>\$ 1,200</u>	<u>\$ 1,200</u>
Operating Income	<u>\$ -</u>	<u>\$ 165</u>	<u>\$ 165</u>	<u>\$ 170</u>	<u>\$ -</u>
Amortization	\$ -	\$ 165	\$ 165	\$ 170	\$ -
Excess of Revenue over Expenses	<u>\$ -</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Retained Earnings, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Financial Notes

Risks and Assumptions

The continuity of FII's investments, programming and activities continues to depend upon receipt of funds from the Ministry of International Trade.

FII assumes that industry trade associations, research institutes and universities will continue to propose eligible and acceptable projects for FII funding and that these proposals will make up approximately half of FII's expenditures.

Subsidiaries

See the FII Consulting (Shanghai) Co. Ltd. and Forestry Innovation Consulting India Private Ltd. financial outlook (previous pages). Funding for these subsidiary companies is by way of consulting fee invoices to the parent company in Canada (FII Ltd.).

Capital Initiatives

The capital expenditures projected for the next three years relate to normal replacement of computer equipment.

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.

Information

Further information on Forestry Innovation Investment is available at www.bcfii.ca. *A Report to Stakeholders* published in November 2012 highlights accomplishments in major markets around the world. Previous Service Plans and Service Plan Annual Reports are available at www.bcfii.ca.

Comprehensive information about B.C.'s sustainable forest management practices and products is available at www.naturallywood.com, with links to many forest-product companies and trade associations.

