

# Forestry Innovation Investment

## 2017/18 – 2019/20 SERVICE PLAN

September 2017



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## Board Chair Accountability Statement



The 2017/18 - 2019/20 Forestry Innovation Investment (FII) Service Plan was prepared under the Board's direction in accordance with the Budget Transparency and Accountability Act. The plan is consistent with government's strategic priorities and fiscal plan. The Board is accountable for the contents of the plan, including what has been included in the plan and how it has been reported. The Board is responsible for the validity and reliability of the information included in the plan.

All significant assumptions, policy decisions, events and identified risks, as of August 29, 2017 have been considered in preparing the plan. The performance measures presented are consistent with the *Budget Transparency and Accountability Act*, FII's mandate and goals, 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.

A handwritten signature in blue ink, appearing to read 'Tim Sheldon', with a long horizontal line extending to the right.

Tim Sheldon  
Board Chair

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## Strategic Direction and Operating Environment

### Strategic Direction

Forestry Innovation Investment (FII) works with the forest industry to maintain, create and diversify demand for B.C. forest products at home and abroad; communicate the merits of B.C.'s products and forest practices to the global marketplace; and help ensure that the forest sector, through innovation and market development, continues to be a leading contributor to the B.C. economy. In pursuing its mandate, FII engages with the forest industry, the Government of Canada, provincial ministries, research institutions, and other stakeholders to deliver forward looking, innovative market development programs. Through its programs and activities, FII supports the Government's commitment to build a strong, sustainable, innovative economy that works for the people of B.C.

FII's operations also support the Government's strategic direction to JTT and the Ministry of Forests, Lands, Natural Resource Operations and Rural Development (FLNR) to:

- increase employment in the forestry and innovative wood manufacturing sectors
- develop B.C.'s international trade relations
- expand efforts to market innovative manufactured wood products to world markets
- promote the use of wood in public construction projects

By aligning near- and long-term activities with those of Government, FII ensures efficient use of resources and delivers the best value for the B.C. public and forest sector stakeholders. Cost-effectiveness in operations continues to be enhanced through emphasis on a joint-delivery approach with industry, the federal government and other program partners. By leveraging these partnerships, FII leads a comprehensive effort to expand capacity in B.C.'s innovative wood manufacturing sector and increase B.C.'s exports of manufactured wood products to major markets in Asia and North America. Government's strategic direction to Crown agencies on accountability is included in [FII's 2017/18 Mandate Letter](#).

### Operating Environment

Market development efforts led by FII continue to be influenced by a wide range of factors, many outside the control of the organization and its partners. These factors have been particularly volatile over the past year and include currency exchange rates; fluctuating economic growth in target markets; increasing competition; and local market factors that reflect demand for housing and capital construction. Factors influencing demand in the United States, China, Japan and India are the most significant, as these priority markets represent more than 85 per cent of international sales of B.C. wood products and account for the majority of FII program investments.

For 2017/18, economic recovery in the United States is expected to continue; however, anticipated consumption and job growth will be somewhat offset by weak investment, which will have a dampening influence on new construction. The renegotiation of the North American Free Trade Agreement is creating uncertainty for B.C.'s forest industry. In addition, the lack of resolution to the Canada – U.S. Softwood Lumber Agreement, and the subsequent imposition of punitive tariffs and duties, has the potential to significantly impact B.C.'s trade with the United States.

China, B.C.'s largest market for commodity lumber outside North America, is expected to continue to face challenges as it rebalances its economy from manufacturing-led demand toward domestic consumption and services. While high-level drivers—including urbanization, the growing middle class, and escalating environmental concerns—will create new demand for wood in China; competition is increasing and the pace of economic growth has slowed. At the same time, growth in Japan, B.C.'s second largest market in Asia, will remain weak and uneven in the year ahead; however, new, high-value opportunities for wood products are emerging in the multi-family and institutional segments. Among smaller markets, South Korea continues to be promising, with the demand for wood housing growing, and where B.C. has held its position in the face of rising prices. In India, the location of FII's newest operations, demand for softwood continues to grow, which is creating new opportunities for B.C. wood products. FII and industry are aggressively pursuing the Indian market through a comprehensive program of promotion and manufacturing trials. Across all markets, the low value of the Canadian dollar against the U.S. dollar will continue to lessen the impacts of increased competition, particularly from Russia and the European Union.

In B.C., and across North America, acceptance of new generation wood technologies, such as taller wood buildings—where B.C. is a recognized leader—and engineered products such as cross-laminated timber, are gaining momentum. These innovations in technology and engineering are creating new opportunities for B.C.'s wood products manufacturers and strengthening efforts to expand wood sales in the high-potential non-residential construction market, a key performance target for FII.

Across the period of the Service Plan, global market conditions will be monitored using feedback from FII subsidiaries, industry operations in priority markets, and program delivery agencies, as well as through ongoing market research. FII will continue to seek input from provincial and federal government representative offices in key markets. If required, responsive actions will be introduced to mitigate identified risks to forecasts.

For 2017/18, no significant changes are planned in FII's internal operating environment.

## **Performance Plan**

### **Goals, Objectives, Strategies and Performance Measures**

#### **Goal 1: Forest Products are Viewed as an Environmentally-Friendly, Preferred Material, and B.C. is Viewed as a Reliable Global 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 the questions “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 parameters 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. These environmental benefits of wood apply equally to higher-margin wood products manufactured in B.C.

Strategies in support of this goal are designed to build on the growing awareness of the benefits of wood products, and to position B.C. as a reliable supplier of quality forest products and 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; thus, support greater market share, premium positioning and easier access to new markets.

### Strategies

- Proactively create and disseminate 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 communications regarding product and building innovations and reducing environmental impacts.
- Monitor and advocate in international markets for codes, standards and policies that recognize the merits of wood and B.C. forest products.

### Performance Measure 1: Customer Perceptions of B.C. Forest Products

| Performance Measure   | 2016/17<br>Actual | 2017/18<br>Target | 2018/19<br>Target | 2019/20<br>Target |
|---|-------------------|-------------------|-------------------|-------------------|
| Per cent of customers who perceive that forest products from B.C. are a good choice for the environment. <sup>(1)</sup> | n/a               | 90%               | n/a <sup>1</sup>  | 90%               |

**Data Source:** Data will be gathered by an independent third party market research firm

<sup>(1)</sup> Surveys are conducted biennially.

### Discussion

This 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 biennial survey of international customers (e.g., large institutional pulp and paper buyers, and wood importers and distributors) conducted by an independent research firm. The survey, which is focused on environmental perspectives, identifies the percentage of customers who agree that B.C.’s environmental reputation is as good as, or better than,

the average of competing forest products jurisdictions. FII and its partners consider that maintaining a 90 per cent rating represents optimal performance given there will always be some who disagree with timber harvesting of any nature.

### **Performance Measure 2: Prospects Connecting with B.C. Manufacturers**

| <b>Performance Measure</b>   | <b>2016/17<br/>Actual</b> | <b>2017/18<br/>Target</b> | <b>2018/19<br/>Target</b> | <b>2019/20<br/>Target</b> |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| Number of prospects connecting with B.C. manufacturers from the Naturallywood.com Supplier Directory, an online platform developed by FII. | 13,027                    | 13,250                    | 13,500                    | 14,000                    |

**Data Source:** Forestry Innovation Investment Ltd / Google Analytics.

### **Discussion**

Performance measure 2 links FII’s outreach and communications activities to the objective of increasing sales of B.C. forest products. FII, through the [naturally:wood](#) information resource and related paid media, works to promote B.C. forest products and suppliers by featuring the Supplier Directory. The performance metric tracks the number of visitors to the website and the number of those visitors that link through to a supplier email address or website. Collecting data on connections made to suppliers tracks the effectiveness of FII’s online product and supplier sourcing tool—the Supplier Directory—in increasing awareness of, and interest in, B.C.’s forest products by advancing connections with B.C. companies for potential commercial opportunities.

### **Goal 2: Returns from B.C.’s Conventional and Emerging Forest Products are Optimized in Markets Offering High Potential**

Goal 2 drives FII’s efforts to assist the B.C. forest industry in optimizing returns by achieving a balance in the products, species and grades marketed. This goal focuses particularly on Asia. The efforts of FII and its funding recipients build on the strategies as well as the science and reputational foundation developed under Goal 1.

Optimization of the global market development strategy includes creating or expanding new market segments in traditional regions (e.g., non-residential and multi-family/mid-rise construction in the U.S.), as well as fostering demand in regions that have strong growth potential, but are not currently using high volumes of B.C. forest products (e.g., the multi-family and non-residential markets in China and Japan, and the domestically-focused manufacturing sector in India).

Activities associated with Goal 2 recognize the progress made in diversifying B.C. exports away from the historically heavy dependence on the U.S. single-family housing sector. Programs in this goal area also focus on achieving a long-term balance between existing and emerging markets, and traditional and innovative new products, including an increase in sales of higher margin products in traditional markets such as North America.

Strategies under this goal include a mix of activities delivered by third parties and by FII<sup>1</sup>.

### Strategies

- Expand opportunities for B.C. forest products in key Asian markets, with an emphasis on China, Japan and South Korea.
- Open markets for B.C. products in emerging regions offering strong growth potential, particularly India and Southeast Asia.
- Expand the use of wood in North America’s emerging market segments, with an emphasis on the non-residential and multi-family/multi-storey markets, and value-added products from B.C.
- Engage with industry and foreign government agencies to eliminate barriers to access in foreign markets.
- Share the cost of market development activities crafted and delivered by trade associations, based on priorities outlined in FII’s Strategic Plan and annual investment strategies.

### Performance Measure 3: Average Value Generated by Lumber Sales to China<sup>2,3</sup>

| Performance Measure  | 2016/17 Actual | 2017/18 Target | 2018/19 Target | 2019/20 Target |
|--|----------------|----------------|----------------|----------------|
| Average value (CAD) per cubic metre generated by softwood lumber sales to China. | 174            | 196            | 200            | 204            |

Data Source: BC Stats.

### Discussion

The measure tracks the extent to which the B.C. forest industry is successful in diversifying markets, with a particular focus on Asia. The target emphasizes sales to 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 high-quality softwood lumber to China. The average per cubic metre value of exports<sup>4</sup> is based on Statistics Canada export data compiled by BC Stats. In 2016/17, FII shifted from tracking overall volume figures to focusing on value per cubic metre, which reflects demand for higher-grade lumber used in construction—a key objective of the government-industry program in China. While average value weakened across 2016/17 due to

<sup>1</sup> 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. FII’s objective is to strengthen demand for B.C. forest products and expand potential end-use applications.

<sup>2</sup> Performance metrics are tracked for China and India (see performance measure 4) to reflect FII’s direct operations and program delivery in those two markets. In Asia, in addition to China and India, FII also tracks and reports out on data and trends in all other key markets, including Japan and South Korea.

<sup>3</sup> The ability to achieve performance measures 3 is contingent upon the efficacy of market development programs delivered in whole, or in part, by trade associations partially funded by FII. As part of the funding approval process, specific performance measures linked to FII’s broader goals and targets are set for each project. For more details, please refer to [FII’s Performance Management Framework](#).

<sup>4</sup> Total value of lumber exported divided by the total volume of exports measured in cubic metres.

slowing demand in China and increased competition from low-cost producers, values have since rebounded on stronger global prices.

A number of factors have the potential to significantly influence average values over the period of this Service Plan, including the strength of the Chinese economy and construction sector, the rate of economic growth in the U.S., the level of competition from Russia and the E.U., and the Canada-U.S. softwood lumber dispute, which has the potential to impact the volume and composition of B.C.'s lumber exports to China. During 2017/18, FII will work closely with industry in B.C. and China to evaluate performance metrics for China and assess options that are more insulated from factors outside the influence of the market development program.

#### **Performance Measure 4: Product Trials in India**

| <b>Performance Measure</b>  | <b>2016/17<br/>Actual</b> | <b>2017/18<br/>Target</b> | <b>2018/19<br/>Target</b> | <b>2019/20<br/>Target</b> |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| Total number of product trials of B.C. species undertaken in India. | 15                        | 18                        | 24                        | 26                        |

**Data Source:** FII.

#### **Discussion**

India is a new market for B.C. wood product companies, and market development efforts remain in the pre-commercial phase. Product trials continue to emerge as an effective means for FII to encourage Indian manufacturers to convert existing or new production to using B.C. wood, and efforts in this area will continue to accelerate in 2017/18. FII's *Try Canadian Wood* program provides qualified Indian manufacturers with small test volumes of B.C. wood, as well as technical support for trying B.C. wood in new or existing product lines. Trials have resulted in a range of furniture and interior finishing products being produced on a test basis using B.C. wood species. Several of these trials have led to commercial orders for products made with B.C. species. Performance measure 4 directly reflects the interest of the Indian industry to try B.C. species, which is a key objective in early market development efforts.

The expansion of the FII India teams in the north and south of India during 2016/17 will result in the continued growth in the number of annual product trials through 2019/20, by which time almost 90 trials will have taken place in manufacturing centres across India.

The outputs of initial trials are now promoted at tradeshow and are featured at the FII India showroom in Mumbai. FII's success in expanding the number of product trials across India is key to opening the market for B.C. wood species and helping B.C. firms advance commercial sales to India.

**Performance Measure 5: Sales in the U.S. Non-Residential and Multi-Storey/Multi-Family Segment<sup>5</sup>**

| Performance Measure  | 2016/17 Actual | 2017/18 Target | 2018/19 Target | 2019/20 Target |
|--|----------------|----------------|----------------|----------------|
| Total sales (USD, millions) of wood attributable to program interventions – U.S. non-residential and multi-storey/multi-family residential construction markets. | 128            | 130            | 144            | 158            |

**Data Source:** U.S. Woodworks Program.

**Discussion**

Most single-family housing in North America uses wood frame construction as the primary building method. However, wood has a smaller share of non-residential structures and of multi-storey, multi-family residences. The forest industry in B.C., the rest of Canada and in the U.S. has a strong interest in seeing wood products secure a much higher market penetration in this segment. To this end, FII supports the U.S. [WoodWorks](#) program to deliver activities that assist architects, builders and developers to incorporate more wood into their projects, as well as convert their projects to wood from other materials. Efforts will focus on a range of building types (i.e., multi-storey/multi-family, non-residential, taller buildings). This diversification strategy will help expand the influence of the program across the construction sector while protecting suppliers against market fluctuations in any one particular segment of the building sector.

In 2016/17, performance measure 5 shifted from tracking the volume of incremental wood sales in non-residential and/or multi-storey, multi-family projects where FII-funded programs are involved, to focusing on the increase in the value of wood products used in these projects. This provides greater consistency with FII's other program metrics and with the overall strategic shift to emphasizing increasing values.

**Goal 3: B.C. is a Leader in Using Innovative Forest Products and Building Systems**

This goal supports the Government of B.C.'s strategic direction to expand the innovative wood-products sector by addressing barriers hampering the growth of engineered wood production, and ensure public projects prioritize the use of wood. Long-term sustainability of the forest economy requires the active maintenance, creation and diversification of demand for B.C. forest products. By introducing new and advanced forest products, wood technologies and building systems, wood is positioned as a preferred building material and B.C. as a leader in wood innovation. As a result, B.C.'s forest products can be more effectively utilized in construction, interior design, and daily living, at home and abroad.

<sup>5</sup> The ability to achieve performance measures 5 is contingent upon the efficacy of market development programs delivered in whole, or in part, by trade associations partially funded by FII. As part of the funding approval process, specific performance measures—linked to FII's broader goals and targets—are set for each project. For more details, please refer to FII's Performance Management Framework.

Strategies to achieve Goal 3 are delivered primarily through FII’s *Wood First* program, which works to position B.C. as a leader in using innovative forest products and building systems. An independent Wood First Advisory Committee, made up of senior industry executives, will continue to provide strategic guidance on program implementation priorities. To effectively deliver its Wood First mandate, FII relies on existing research and partners with service delivery organizations, promoting integrated planning and coordinated delivery of program activities and initiatives.

### Strategies

- Advance innovation through research and product development.
- Reduce barriers to wood use.
- Educate professionals on opportunities to utilize and innovate with wood.
- Promote B.C.’s wood species, wood products and the benefits of building with wood.
- Advance the competitiveness of B.C.’s value-added wood sector.

### Performance Measure 6: Incremental Value of Wood Consumed in B.C.’s Non-Residential and Multi-Storey/Multi-Family Construction Sector<sup>6</sup>

| Performance Measure  | 2016/17<br>Actual | 2017/18<br>Target | 2018/19<br>Target | 2019/20<br>Target |
|--|-------------------|-------------------|-------------------|-------------------|
| Total sales (CAD, millions) of wood attributable to program interventions – B.C.’s non-residential and multi-storey/multi-family residential construction markets. | 60                | 53                | 58                | 58 or greater     |

**Data Source:** Canadian Wood Council’s Wood *WORKS!* BC Program.

### Discussion

This measure tracks success in increasing wood usage in B.C. in the commercial, institutional and multi-family residential/mid-rise segment. The target is based on the incremental increase in the value of wood sales that are generated in the year and influenced by program activities funded by FII and its funding partners. The methodology used to generate the attributable wood value was revised in 2017 to align with similar programs in North America. This resulted in a restatement of performance targets. These *Wood First* program activities focus on delivering promotional, research, educational and capacity-building initiatives throughout the province.

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<sup>6</sup> The ability to achieve performance measure 6 is contingent upon the performance of FII’s funding recipients in their delivery of *Wood First* programming and on other external factors impacting construction activity in B.C., such as the level of real estate investment and the process for approving and implementing building code changes. Timely funding decisions by FII ensure that funding is available to successful proponents by the start of each fiscal year. 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.

## Goal 4: FII is a Highly Effective, Innovative and Responsive Organization

FII's business practices incorporate 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.

Consistent with its commitment to maximizing value to the B.C. public, FII will continue to deliver its primary programs and services in collaboration with the forest industry, the federal government, the research community and other provincial agencies, including the Ministry of Jobs, Trade and Technology (JTT), and the Ministry of Forests, Lands, Natural Resource Operations and Rural Development (FLNR). By partnering with forest sector organizations from Canada and abroad, FII is able to leverage their expertise and financial resources to create and deliver strategic and focused market development programming that provides the highest value for the B.C. forest sector.

### Strategies

- Ensure FII is efficient, transparent and results-focused by:
  - Keeping corporate support costs at or below seven per cent of the total budget;
  - Implementing a rigorous performance management system; and
  - Monitoring and auditing funded projects according to explicit risk assessments.
- Work with JTT and FLNR to ensure ongoing engagement and program alignment.
- Continuously review priorities and strategies to ensure that programs and services stimulate innovation in products and markets and are delivered in an effective and cost-efficient manner.
- Minimize FII's carbon footprint and promote environmentally-responsible business activities.

### Performance Measure 7: Leveraged Funding

| Performance Measure  | 2016/17<br>Actual | 2017/18<br>Target | 2018/19<br>Target | 2019/20<br>Target |
|--|-------------------|-------------------|-------------------|-------------------|
| Other organizations' aggregate contribution to recipient funding program. <sup>7</sup> | 69%               | 65%               | 65%               | 65%               |

Data Source: FII.

### Discussion

This measure tracks the effectiveness of FII in securing external resources to deliver market development programs at the lowest possible cost to B.C. public. The willingness of industry, the federal government and other provincial governments to contribute to market development activities

<sup>7</sup> In its recipient funding program, FII targets annual contributions of approximately 65 per cent 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.

is a direct indicator of the value they place on these activities, particularly at a time of severe resource constraints.

The 65 per cent target figure reflects the share of funding provided by others (industry and the federal government) to FII's cost-shared recipient funding program across the suite of investments in all programs and markets. While the proportion of funds received from industry and the federal government varies by market and type of activity, FII's goal is to maintain an average of 65 per cent "other" funding in the program<sup>8</sup>. Given this is an average across a suite of investments, where some fluctuation is expected year-to-year, 65 per cent is viewed as an optimal target. Data to support this measure are sourced from the online recipient funding system, which is co-funded and managed by FII and Natural Resources Canada, and through FII's year-end financial reporting.

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<sup>8</sup> The federal government does not fund activities in all markets where FII and industry are active. As a result, FII provides a higher share of overall funding in certain markets, increasing its average annual share of total program costs to just over one-third.

## Financial Plan

### Summary Financial Outlook

|  | <b>2016/17<br/>Actual</b> | <b>2017/18<br/>Budget</b> | <b>2018/19<br/>Budget</b> | <b>2019/20<br/>Budget</b> |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
|  | <b>(\$000)</b>            | <b>(\$000)</b>            | <b>(\$000)</b>            | <b>(\$000)</b>            |
| <b>Contribution from the Province of B.C.</b>                  | 18,459                    | 19,110                    | 19,610                    | 19,610                    |
| <b>Contribution from the federal Government <sup>(1)</sup></b> | 832                       | 600                       | 600                       | 600                       |
| <b>Other Revenue <sup>(2)</sup></b>                            | 2,916                     | 2,600                     | 2,600                     | 2,600                     |
| <b>Total Revenue</b>   | <b>22,207</b>             | <b>22,310</b>             | <b>22,810</b>             | <b>22,810</b>             |
| <b>Funding Recipient Initiatives</b>                           | 9,886                     | 8,900                     | 8,900                     | 8,900                     |
| <b>Market Initiatives and Outreach</b>                         |                           |                           |                           |                           |
| <b>Government Initiatives and Outreach</b>                     | 5,827                     | 5,900                     | 5,900                     | 5,900                     |
| <b>China Market Development</b>                                | 2,219                     | 2,300                     | 2,300                     | 2,300                     |
| <b>India Market Development</b>                                | 2,714                     | 3,810                     | 4,310                     | 4,310                     |
| <b>Corporate Services</b>                                      | 1,297                     | 1,400                     | 1,400                     | 1,400                     |
| <b>Total Expenses</b>  | <b>21,943</b>             | <b>22,310</b>             | <b>22,810</b>             | <b>22,810</b>             |
| <b>Excess of Revenue over Expenses</b>                         | <b>264</b>                | <b>0</b>                  | <b>0</b>                  | <b>0</b>                  |
| <b>Retained earnings, End of Year</b>                          | <b>3,075</b>              | <b>3,075</b>              | <b>3,075</b>              | <b>3,075</b>              |
| <b>Capital Expenditures</b>                                    | <b>172</b>                | <b>50</b>                 | <b>50</b>                 | <b>50</b>                 |
| <b>Total Liabilities</b>                                       | <b>3,196</b>              | <b>2,378</b>              | <b>2,377</b>              | <b>2,377</b>              |

<sup>(1)</sup> Approximately \$600,000 is a contribution from Natural Resources Canada towards the India Initiative.

<sup>(2)</sup> Includes contribution from organization such as industry, other government and deferred revenue arising out of restricted capital contributions.

## **Key Forecast Assumptions, Risks and Sensitivities**

The continuity of FII's investments, programming and activities depend upon receipt of funds from the Ministry of Jobs, Trade and Technology. FII assumes that industry trade associations, research institutes and universities will continue to propose eligible and acceptable activities for FII funding and that partial funding for these activities will account for approximately half of FII's expenditures.

FII funds extensive market development programming in off-shore markets, particularly in Asia. As a result, FII is subject to foreign exchange risk through its program payables and advances, and a portion of FII's program costs, which are denominated in Chinese Renminbi, Indian Rupee, U.S. dollars and other foreign currencies. While FII manages exposure to currency risk by monitoring assets and liabilities denominated in foreign currencies and by purchasing foreign denominated currency when market conditions are favourable, the downward trend in the value of the Canadian dollar against the U.S. dollar has increased exchange rate risk.

## **Additional Financial Notes**

### **Subsidiaries**

See the FII Consulting (Shanghai) Co. Ltd. and Forestry Innovation Consulting India Private Ltd. financial outlook in Appendix B: Active Subsidiaries. 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.

## **Management's Perspective on the Financial Outlook**

### **Revenue and Budget Allocations**

For 2017/18, FII anticipates receiving \$19.1 million in cash funding from the Province, \$0.6 million from Natural Resources Canada to offset costs of FII India and approximately \$2.6 million from other sources. On that basis, the total will be higher (\$1.1 million) than in 2016/17.

As usual, about half of the available funding from the Province will be used to share the cost of activities proposed and delivered by not-for-profit organizations that responded to FII's most recent market development and Wood First calls for proposals. The budget allocation for such funding recipients will be \$8.9 million. Other budget allocations will be:

- FII China: \$2.3 million: about the same as in 2016/17.
- FII India: \$3.8 million: \$1.0 million higher than in 2016/17, due mainly to an uplift in funding from the Province of B.C.

- FII Vancouver’s Government Initiatives and Outreach: \$5.9 million, about the same as in 2016/17.
- Corporate support: \$1.4 million.

### **Operations**

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-use.

In 2017/18, the focus for FII China staff will be to continue to build deeper and broader relationships with Chinese government officials at all levels, as well as with state-owned real estate development companies. Partnering with the B.C. trade associations; Canada Wood Group will continue to provide “downstream” support with technical training, assistance in changing building codes and fire codes, and on-site construction design, engineering and quality assurance support.

In 2017/18, FII will accelerate efforts to advance a strong Canadian Wood brand in India through targeted funds provided in the Provincial budget. Program activities will focus on investing to build market knowledge; expanding FII’s geographical focus into new, high-potential regions; expanding promotional and educational efforts; increasing the number of product trials; and advancing product demonstration activities. These efforts will be supported by the B.C. forest industry which doubled its representation in India in 2016/17. FII will actively encourage the B.C. industry to expand its commitment to, and engagement in, the market as the program accelerates. At the same time, industry will be expected to increase its financial contributions to the program as the market in India becomes more commercially established.

In carrying out its international market development planning and delivery, FII will continue to work in collaboration with the ministries and agencies of the B.C. Government to ensure that activities support broader Government plans for market expansion in Asia and elsewhere.

All budget information in this Service Plan is consistent with funding approved by Government, and with information provided in the Government’s fiscal plan

## **Appendix A: Hyperlinks to Additional Information**

### **Corporate Governance**

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

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](http://www.bcfii.ca).

Full details on FII's governance principles, the role and membership of the Board of Directors, as well as corporate reports, and details on compliance to the requirements of the Board Resourcing and Development Office are available at [www.bcfii.ca](http://www.bcfii.ca). As detailed in the Status of Concurrence report, FII is in full compliance with Governance and Disclosure Guidelines for Governing Boards of B.C. Public Sector Organizations.

### **Organizational Overview**

FII works with the forest industry, B.C. Government ministries, the Government of Canada, research institutions, and other stakeholders to deliver forward looking, innovative market development programs. To provide the best value for B.C. public and stakeholders, FII uses a joint delivery model for program delivery. This approach takes advantage of industry expertise and marketing networks, and ensures that program costs are shared with other organizations.

Details on FII's mandate, its vision, mission and values, and its location and organizational structure are available at [www.bcfii.ca](http://www.bcfii.ca), as are previous Service Plans and Annual Service Plan Reports. Also available on the site is additional information on FII, its programs and its partners, including an annual Year in Review document that highlights accomplishments of the program in major markets around the world<sup>9</sup>.

Comprehensive information about B.C.'s sustainable forest management practices and products is available at [www.naturallywood.com](http://www.naturallywood.com), including links to many forest-product companies and trade associations.

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<sup>9</sup> Previously published as FII's "Annual report to Stakeholders".

## Appendix B: Subsidiaries and Operating Segments

FII operates the following subsidiary companies:

### Active Subsidiaries

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

*Primary business:* Supporting the B.C. forest industry by directing market research and leading government relations and business development, particularly with state owned enterprises.

*Objective:* 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: Michael Loeth, FII CEO

*Senior Management:* Lisa Dou, General Manager

*Strategic Direction and Operating Environment:* The business activities and priorities of FII Consulting (Shanghai) Co. Ltd. are fully consistent with the mandate, strategic priorities and fiscal plan of FII Ltd.

*Risk Management:* FII funds its market development programming in China from Canada and, as a result, FII is subject to foreign exchange risk through its program advances to its subsidiary companies. Program costs for its subsidiaries are denominated in Chinese Renminbi. FII manages its exposure to currency risk by monitoring assets and liabilities denominated in these foreign currencies and by purchasing foreign denominated currency when market conditions are favourable. The lower value of the Canadian dollar against the U.S. dollar has increased FII's exchange rate risk as the value of the Chinese Renminbi is roughly pegged against the U.S. dollar. Consequently, increases or decreases in the value of the U.S. dollar relative to other currencies can affect the value of the Renminbi against the Canadian dollar.

| (\$000)  | 2016/17<br>Actual | 2017/18<br>Budget | 2018/19<br>Budget | 2019/20<br>Budget |
|--|-------------------|-------------------|-------------------|-------------------|
| <b>Total Revenue</b>   | 2,219             | 2,300             | 2,300             | 2,300             |
| <b>Total Expenses</b>  | 2,219             | 2,300             | 2,300             | 2,300             |
| <b>Net Income/Excess of Revenue over Expenses/Annual Surplus (Deficit)</b> | <b>0,000</b>      | <b>0,000</b>      | <b>0,000</b>      | <b>0,000</b>      |

**FII Consulting India Private Limited** (jointly 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, undertaking product trials and demonstration work, and leading communication and education outreach efforts to enhance awareness of B.C. and Canadian softwood species in India.

*Objective:* To establish a new market for B.C. wood products in India by creating demand for lumber suitable for the manufacture of furniture, doors and windows, interior millwork and other non-structural products.

*Governance:* Three-member Board of Directors:

- Michael Loseth (Chair), FII CEO
- Douglas Greig, FII Vice President and Chief Financial Officer
- Pranesh Chhibber, FII India Country Director

*Senior Management:* Pranesh Chhibber, Country Director, FII India

*Strategic Direction and Operating Environment:* The business activities and priorities of FII Consulting India Private Limited are fully consistent with the mandate, strategic priorities and fiscal plan of FII Ltd.

*Risk Management:* FII funds its market development programming in India from Canada and, as a result, FII is subject to foreign exchange risk through its program advances to its subsidiary companies. Program costs for its subsidiaries are denominated in Indian Rupees. FII manages its exposure to currency risk by monitoring assets and liabilities denominated in these foreign currencies and by purchasing foreign denominated currency when market conditions are favourable. Over the past year, the value of the Canadian dollar against the Rupee declined marginally, slightly increasing FII's exchange rate costs for India operations.

| (\$000)  | 2016/17<br>Actual | 2017/18<br>Budget | 2018/19<br>Budget | 2019/20<br>Budget |
|--|-------------------|-------------------|-------------------|-------------------|
| <b>Total Revenue</b>   | 2,714             | 3,800             | 4,310             | 4,310             |
| <b>Total Expenses</b>  | 2,714             | 3,800             | 4,310             | 4,310             |
| <b>Net Income/Excess of Revenue over Expenses/Annual Surplus (Deficit)</b> | <b>0,000</b>      | <b>0,000</b>      | <b>0,000</b>      | <b>0,000</b>      |

## Inactive Subsidiaries

FII maintains a non-operating subsidiary company, 0939031 B.C. Ltd. (wholly owned by Forestry Innovation Investment Ltd.) whose sole purpose is to function as the second shareholder of FII Consulting India Private Limited (reflecting India legislation that requires foreign-owned companies to have at least two shareholders).