



Forestry Innovation Investment
Service Plan (updated August 2009)
2009/10 - 2011/12



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Cover Image: Nicola Valley Institute of Technology, Merritt, BC, Canada

Structure: Concrete and wood including 256 Douglas Fir glu-lam columns and glu-lam beams. Concrete slab floors and retaining walls. Faceted modular wood frame rainscreen wall. Clad horizontally with Alaskan Yellow Cedar. PVC-framed tilt-and-turn windows. Moveable Yellow Cedar sun shading louvres. Over 50% of construction material locally sourced. Cold, green climate building. Green and sustainable design

Photographer: Nic Lehoux

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Message from the Board Chair to the Minister Responsible

August 24, 2009

The Honourable Pat Bell
Minister of Forests and Range
Province of British Columbia

Dear Minister:

I am pleased to present you with an updated version of *Forestry Innovation Investment Ltd.'s (FII) Service Plan 2009/10 – 2011/12*. This plan sets out the corporation's goals and objectives, the strategies it will use to attain them, and performance measures and targets for the next three years. The Plan is based on an expectation of \$22.7million in funding from the Ministry of Forests and Range, (a reduction of 6 percent relative to 2008/09), augmented by a federal/provincial donation of \$6.3 million for earthquake reconstruction in China, and a federal contribution of approximately \$5 million for demonstration projects in China.


The forest industry throughout North America and Europe is suffering from one of the worst downturns ever, in large part because of the collapse of the United States housing market. More than ever, the industry needs to diversify away from the U.S., a goal which has always been at the heart of FII's mandate.

For 2009/10, FII has reduced its internal programming by about 16 percent and increased by about 10 percent the amount available to other organizations through the annual Call for Proposals process. Some 52 percent of FII's budget will be used to fund activities proposed and delivered by non-profit trade associations, research institutes, and universities.

Historically much of the work done by FII's funding recipients has been cost-shared not only with each proponent, but also with Natural Resources Canada through its *Canada Wood Export Program* and its *North American Wood First Initiative*. FII and the forest industry are pleased that the Government of Canada has renewed both programs for another two years and made substantial funding available for demonstration projects off-shore. FII will continue to encourage forest industry trade associations to take the lead in market development activities in several foreign locations.

Through its annual Call for Proposals process, augmented by self-initiated activities, FII expects to:

- ◆ focus heavily on introducing wood frame building technology in China;
- ◆ stimulate adoption of a "wood first" culture in British Columbia and beyond, particularly through advancing the production and application of value-added products;
- ◆ complete a suite of communications materials for use before, during and after the 2010 Olympic and Paralympic Winter Games; and
- ◆ make international governments, customers and consumers aware of the environmental merits of B.C. forest products.

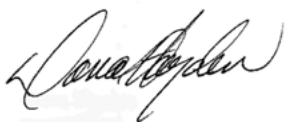


The remarkable pace of growth in China implies unprecedented potential to create a market for BC structural lumber products. FII expects to devote at least one-quarter of its total budget to creating new demand in China, with the main focus on low-rise residential construction and landscaping applications. In particular, in 2009 and 2010 FII will deliver the remaining federal/provincial donation of \$6.3 million worth of wood frame institutional structures in Sichuan Province, location of the devastating earthquake in May 2008. This initiative has the potential to “fast forward” the regular market development program in China. The Shanghai “600 Day” program of renovations to be done before Expo 2010 will be another key focus representing a short-term opportunity that we are well positioned to capitalized on in the coming year.

In its Market Outreach Program, FII will continue to ensure customers have factual, credible information about our province’s forest management and about the environmental attributes of B.C. forest products. Staff are particularly engaged in the emerging “green building” movement that has expanded beyond its roots in the United States. In a similar vein, FII is taking a leadership role in determining how the forest industry can be best positioned in the context of public concern about climate change.

FII is a very small organization, and as a result every position and every employee is critical to its success. Through the dedication and commitment of its employees, the company continuously strives to be a highly effective and well-managed organization that makes a strong contribution to the success of the BC forest industry and by extension, the province.

I have reviewed the *2009/10 - 2011/12 FII Service Plan* and confirm that it accords with the *Budget Transparency and Accountability Act* and the BC Reporting Principles, as well as with government’s strategic priorities and Fiscal Plan. All significant assumptions, policy decisions and identified risks as of August 24, 2009, have been considered in the preparation of the plan. I am accountable for the contents of the plan, including performance measures and targets, and confirm that they are consistent with the mandate and goals of Forestry Innovation Investment Ltd. The performance targets in this plan have taken into account the corporation’s operating environment, forecast conditions, risk assessment, and past performance.



Dana Hayden
Chair, Board of Directors
August 24, 2009

An Overview of Forestry Innovation Investment

Forestry is British Columbia's largest manufacturing sector, directly employing more than 65,000 people across the province. The large size of the sector is due to the export markets that buy more than 70 per cent of the softwood commodity products the industry produces, valued in excess of \$10 billion.

Reflecting the importance of international markets to the forest economy, Forestry Innovation Investment Ltd. (FII) was created to assist the industry in developing and diversifying markets for B.C. forest products around the world.

GOVERNMENT DIRECTION

FII was incorporated on March 31, 2003 under the *Business Corporations Act* as a provincial Crown agency. A Shareholder's Letter of Expectations from the Minister of Forests and Range, most recently updated in January 2009, confirmed the organization's mandate to:

- ◆ position British Columbia as a global supplier of world-class environmentally friendly forest products;
- ◆ actively maintain, create and diversify demand for B.C. forest products in Canada and in key world markets;
- ◆ help break down non-tariff trade and market barriers to ensure opportunities for B.C. forest products;
- ◆ work with the forest industry to promote B.C.'s forest products and forest management to the global marketplace; and
- ◆ help ensure that the forest sector, through product development and strong international sales, continues to be a leading contributor to the B.C. economy.

BENEFIT TO THE PUBLIC

FII benefits the people and economy of British Columbia by:

- ◆ working with industry to maintain existing markets for B.C. forest products, and as a result, protecting forestry jobs in resource communities;
- ◆ opening up new markets to B.C. and creating the potential for new jobs to service these markets;
- ◆ building the positive profile of B.C. internationally, particularly in the China and the Asia-Pacific region, which helps strengthen and grow trade ties; and
- ◆ supporting the growth of the green economy by promoting the environmental benefits of building with renewable, sustainable wood products from B.C. and continual improvements in the pulp and paper sector to help lighten its environmental footprint.

CORE BUSINESS AREAS

FII is organized into four business units that reflect the organizational focus on international marketing and communication activities.



Two significant changes occurred in 2008-09:

- ◆ FII assumed responsibility for managing the Canada-B.C. Wenchuan Earthquake Reconstruction Project, an \$8 million donation by the two governments towards the reconstruction of the area of China ravaged by earthquakes in May 2008*. The donation was announced in June 2008 by Premier Gordon Campbell. While FII is managing the project, the \$5 million provincial share of funding comes from the Ministry of Small Business, Technology and Economic Development. The project features wood frame construction using B.C. forest products and fits in with FII's broader marketing strategy in China.
- ◆ FII continued funding its Mountain Pine Beetle program after three-year funding from the *Mountain Pine Beetle Response – Canada-B.C. Implementation Strategy* concluded at the end of the 2007-08 fiscal year. FII is combining the program with its product development efforts since the focus of the MPB program is primarily in research and development.

* \$1.7 million of which was spent in 2008/09.



BUSINESS APPROACH

FII's vision, mission and values reflect its mandate:

Vision: Forestry Innovation Investment is an effective catalyst in positioning British Columbia as the leading global supplier of products from sustainably managed forests.

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

Values:

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

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

Integrity and Credibility – Projects and services are delivered by capable, motivated individuals who focus on ensuring FII programs are credible and useful.

Investments based on knowledge and excellence – FII strives for transparent decision-making and investment processes based on research.

FII FUNDING

About half of FII's funding is used for activities proposed and ultimately delivered by industry trade associations, universities, and research institutes based on each project's alignment with FII's overall investment strategy. Much of this work is jointly funded by FII, industry, and Natural Resources Canada through its *Canada Wood Export Program* and its *North American Wood First Initiative*. For 2008-09 the cost of activities delivered by other organizations were split as follows:

| | |
|--|-----|
| FII | 43% |
| Natural Resources Canada and other federal agencies: | 36% |
| B.C. forest industry: | 21% |

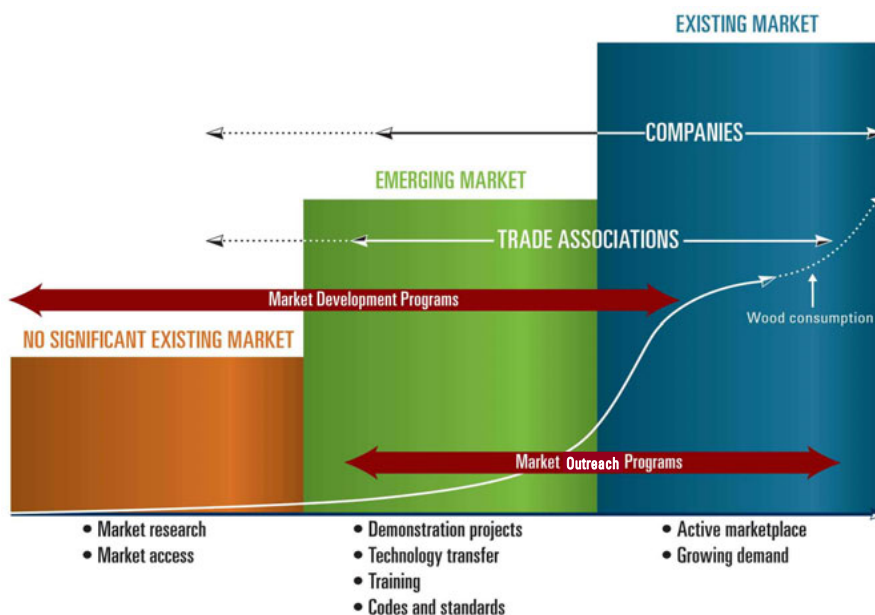
In 2008-09 leveraged more than \$15.9 million of contributions from industry and the federal government, resulting in total product and market development initiatives by other organizations of \$27.8 million.

FII SERVICE DELIVERY

FII does not duplicate the efforts of trade associations or provide business subsidies to individual firms. Rather, the emphasis is on working with the industry and federal government to maintain and grow demand for B.C. wood products. FII provides services of a general benefit to the sector, such as market outreach, research and demonstration projects.

In delivering its programs, FII responds to industry priorities, including how to economically process pine trees killed by the Mountain Pine Beetle epidemic, how to use the 2010 Olympic and Paralympic Winter Games to showcase B.C. products, and how to introduce North American wood frame building technology and B.C. wood products in regions such as China where people are unfamiliar with wood frame construction.

The following graphic illustrates FII's relationship to industry activities:



PRINCIPAL PARTNERS, CLIENTS AND STAKEHOLDERS

| Group or agency | Relationship |
|---|---|
| Government | |
| Government of British Columbia | Sole shareholder, providing most of FII's funding |
| Minister of Forests and Range | Minister responsible for FII |
| Ministry of Small Business, Technology and Economic Development | Co-ordinator of international economic development, trade, and investment initiatives |
| Department of Foreign Affairs and International Trade, Government of Canada | Federal agency supporting in-market trade missions and, in China, representing the Government of Canada in the Canada-B.C. Wenchuan Earthquake Reconstruction Project |
| Department of Natural Resources, Government of Canada | Federal funding agency for international marketing programs through <i>Canada Wood Export Program</i> and <i>North American Wood First Initiative</i> |
| Partners and clients | |
| B.C. forest industry associations: <ul style="list-style-type: none"> ◆ APA – The Engineered Wood Association ◆ BC Shake and Shingle Association ◆ BC Wood Specialties Group ◆ Canada Wood Group ◆ Canadian Wood Council – WoodWORKS! BC ◆ Cedar Shake and Shingle Bureau ◆ Coast Forest Products Association ◆ Council of Forest Industries ◆ First Nations Forestry Council ◆ Western Red Cedar Export Association ◆ Western Red Cedar Lumber Association ◆ Wood Products Council | Funding recipients that initiate and deliver domestic and international marketing programs (may also receive funding from Natural Resources Canada) |
| Post-secondary and research institutions: <ul style="list-style-type: none"> ◆ University of British Columbia ◆ British Columbia Institute of Technology ◆ FPInnovations (Forintek and Paprican Divisions) | Funding recipients that initiate and deliver product development and research, and overseas training programs to build local capacity in wood frame construction |
| <ul style="list-style-type: none"> ◆ Forest Products Association of Canada ◆ Department of Natural Resources, Government of Canada ◆ Department of Foreign Affairs and International Trade, Government of Canada ◆ FPInnovations (Forintek Division) ◆ B.C. Forestry Climate Change Working Group ◆ Sustainable Building Coalition | Partners in developing and delivering programs promoting the environmental benefits of wood products and Canada's sustainable forest practices |
| China | |
| Activities in China involve relationships with dozens of government agencies, the architectural faculties of several universities, the Chinese Academy of Forestry, municipalities, large government contractors, as well as the Canadian embassy and consulates, and B.C. forestry company representatives operating in China and Canada. | |

Corporate Governance

BOARD OF DIRECTORS

The Board of Directors is accountable to the Minister of Forests and Range. The board has three positions:

- ◆ Chair: Dana Hayden, Deputy Minister of Forests and Range;
- ◆ Member: Don Fast, Deputy Minister of Small Business, Technology and Economic Development; and
- ◆ A third position that is currently vacant.

The board appoints the chief executive officer and oversees FII's policies, priorities and strategies.

The board's Audit Committee is responsible for reviewing, recommending and in some instances, approving financial statements and other information. The Audit Committee has three positions, all of which are vacant.

GOVERNANCE PRINCIPLES AND PRACTICES

The 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:

http://www.bcfii.ca/about_fii/corporate_governance.htm.

Except for the temporary vacancies noted above, FII is substantially in accordance with governance best practices published by the Board Resourcing and Development Office. A detailed disclosure of concurrence is posted on FII's website at http://www.bcfii.ca/about_fii/corporate_governance.htm.

INDUSTRY ADVISORY COMMITTEES

Two committees of senior forest industry staff provide continuing advice to FII:

- ◆ the Strategy Committee offers input on all of FII's programming, investments and market development goals; and
- ◆ the Market Acceptance Advisory Group offers input on FII's Market Outreach programming.



FII MANAGEMENT

- ◆ Doug Greig, Vice President, Finance and Administration
- ◆ Isabelle Des Chênes, Vice President, Market Relations
- ◆ Ken Baker, CEO
- ◆ Mike Hogan, Vice President, China Operations
- ◆ Michael Loeth, Vice President, International Marketing

SUBSIDIARY COMPANY

FII operates in China through a wholly owned subsidiary registered under the laws of the People's Republic of China – FII Consulting (Shanghai) Co. Ltd (FII China). The subsidiary's year end is December 31 while FII's year end is March 31. The subsidiary is entirely funded by FII, and the yearly transactions of the subsidiary are reflected in FII's Financial Statements.

FII China does not have its own board of directors. In accordance with Chinese law, it is led by its Executive Director, who is Ken Baker, CEO of FII.

CORPORATE LOCATIONS

FII's corporate office is located at 1200 - 1130 West Pender Street in Vancouver, British Columbia, while the company's China subsidiary office is based in Shanghai, with a satellite office in Beijing.

Strategic Context



INTERNAL OPERATING ENVIRONMENT

The internal operating environment is unchanged from that reported in previous service plans. The added responsibility of managing the province’s participation in the Canada – B.C. Wenchuan Earthquake Reconstruction Project in China creates marketing opportunities to raise the profile of wood frame construction with Chinese officials in ways that align with the overall China market development strategy. Temporary contract staff are being engaged to assist with delivery of the Wenchuan project.

ECONOMIC AND INDUSTRY FACTORS: RISKS AND OPPORTUNITIES

As a market development agency, FII’s strategic issues relate both to the market demand for B.C. forest products and to the domestic factors that influence product supply and quality. The major factors at play, and FII’s related actions, are listed in the following table.

| Situation | FII response |
|---|---|
| United States market | |
| <ul style="list-style-type: none"> ◆ More than 76% of B.C. lumber exports go to the United States, making any weakness in the market of concern to the provincial forest economy. ◆ Currently the market is in a severe downturn that is not expected to turn around until 2010 or later. ◆ B.C. lumber exports in the first four months of 2009 were two-thirds less than the level of the same period in 2008. | <ul style="list-style-type: none"> ◆ About 60 percent of FII’s expenditures in 2009/10 are specific to one country or another. Of that, one-quarter are targeted specifically to maintaining market share in the U.S. in support of Goal 1 (expanded market opportunities). ◆ Remaining funds target other markets, with a focus on Asia, in order to diversify markets and reduce the risk that comes with such heavy dependence on the U.S. |
| Asian markets | |
| <ul style="list-style-type: none"> ◆ China and other countries in the region offer significant opportunities to diversify sales away from the United States. ◆ In the first 6 months of 2009, lumber exports to China were up more than 80% over the same period in 2008 | <ul style="list-style-type: none"> ◆ FII has played a major role in the Province’s economic development programs in Asia, most notably through its wholly owned subsidiary in China, and through funding the private sector’s market development work in Japan, Korea, and China. ◆ In support of Goal 1, FII invests the majority of its country-specific market development funds in Asian markets. |

| Situation | FII response |
|---|---|
| Mountain Pine Beetle | |
| <ul style="list-style-type: none"> ◆ FII is one of several government agencies developing responses to the MPB outbreak that is destroying the Interior pine forests of the province. ◆ Although funding from the <i>Mountain Pine Beetle Response – Canada-B.C. Implementation Strategy</i> concluded at the end of the 2007-08 fiscal year, FII continues its MPB Program, drawing from its regular budget. | <ul style="list-style-type: none"> ◆ FII is combining the program with its product development activities. Research is focusing on fibre quality and manufacturing processes, two areas identified as priorities by the industry. |
| Coastal forest sector | |
| <ul style="list-style-type: none"> ◆ Hemlock and Amabilis Fir (hem-fir) are the dominant species in the Coastal region but have faced weak demand in many markets. However, a new line of kiln dried <i>Canada Tsuga</i> products has been well received in Japan. The product was developed with funding in part from FII. | <ul style="list-style-type: none"> ◆ FII plans to continue investing in research on fibre supply, technical issues and developing new products/markets specific to coastal species and grades. ◆ This supports Goal 1 by expanding and diversifying international markets. |
| Secondary manufacturing | |
| <ul style="list-style-type: none"> ◆ Secondary manufacturing consumes the equivalent of about one-third of the provincial timber harvest. Most firms in the sector are small businesses that face intense competitive pressures from low-cost, overseas suppliers. ◆ In November 2007 FII introduced the Business Innovation Program to assist firms with business planning, technology, and marketing. | <ul style="list-style-type: none"> ◆ The program was fully rolled out in the 2008-09 fiscal year with \$1.8 million of dedicated funding. An industry advisory committee is in place. BC Wood Specialties Group and FPIInnovations (Forintek Division) are delivering the program. |
| Forests and climate change | |
| <ul style="list-style-type: none"> ◆ While people broadly remain sensitive to how forests are managed, that has been superseded by the general concern about climate change and global warming. | <ul style="list-style-type: none"> ◆ FII's Market Outreach materials are continuously updated to respond to any concerns about forest practices. FII is working with other government agencies and the forest industry to strengthen the image of wood as a more environmentally friendly product than many competing products (see green building movement) and to highlight continual environmental improvements in the pulp and paper sector. ◆ These activities support Goal 2 (International recognition of B.C. as the leading supplier of environmentally-friendly forest products). |

| Situation | FII response |
|---|---|
| Green building movement | |
| <ul style="list-style-type: none"> ◆ Making new buildings more environmentally friendly is one of the most significant trends in the construction industry, not only in North America but also in Europe and Asia. | <ul style="list-style-type: none"> ◆ FII's Market Outreach program now extends beyond promoting BC's sustainable forest management practices, to also focus on promoting wood itself as an environmentally friendly building material. ◆ This supports Goal 1 and Goal 2. |
| 2010 Olympic and Paralympic Winter Games | |
| <ul style="list-style-type: none"> ◆ Other than the severe downturn in U.S. house construction, making new buildings more environmentally friendly may be the most significant trend in the North American construction industry. This is true in both residential and non-residential construction. | <ul style="list-style-type: none"> ◆ FII and industry partners are implementing an extensive communications strategy tied to the 2010 Games. ◆ Phase 1 involved working with VANOC to promote the use of BC wood products in Olympic facilities. ◆ Phase 2 involves a promotional campaign to use the 2010 venues as tools for marketing wood use in the non-residential sector; the campaign launched in the fall of 2008 and continues through to the conclusion of the Games. ◆ These activities support Goal 1. |
| Affordable housing | |
| <ul style="list-style-type: none"> ◆ The demand for housing in developing economies is growing due to urbanization and population growth. ◆ Wood frame housing offers a potential solution in regions where systems can be designed to local conditions, erected quickly, and priced competitively. | <ul style="list-style-type: none"> ◆ In 2008 FII built two demonstration homes in Mongolia. ◆ Mongolia is being used as a test market to show how B.C./Canadian wood frame construction can meet local housing needs in a northern climate. ◆ These activities support diversification and expansion of market opportunities (Goal 1). |

Goals, Key Strategies, Measures and Targets

PERFORMANCE MANAGEMENT FRAMEWORK

FII functions as a catalyst across the BC forest sector. Through its annual Call for Proposals process, FII's role is to provide financial support to the private sector in its efforts to develop new products, retain existing markets, and create new demand. Through its internal programming, FII self-initiates market research to assess whether significant potential exists to create new demand, and if it does, FII staff initiate activities to make potential customers aware of the advantages of adopting B.C. products.

In a world that is increasingly attuned to climate-change issues, throughout the full range of funded and internally directed activities, FII places a high priority on promoting the environmental merits of B.C. forest products. This is captured in the organization's new Goal 2 ("International recognition of B.C. as the leading supplier of environmentally-friendly forest products"), which has been broadened from the prior years' Goal of promoting B.C. as a leader in sustainable forest management.

Strategies in this Service Plan are fundamentally unchanged from prior years, but have been consolidated into a smaller number. The performance measures shown in the following table are specific to the work of FII staff, and do not include a host of performance measures that apply to organizations to which FII directs over half of its budget. Those external performance measures are captured in FII's new *Performance Management Framework*, developed last year in close collaboration with all funding recipients and now enunciated in the contracts between FII and each funding recipient, and posted at http://www.bcfii.ca/about_fii/corporate_reports.htm.

In striving for optimum performance measures, FII engaged a consultant in late 2008-09 to search for organizations with a mandate generally similar to FII's, and which might serve as useful benchmarks for assessing FII's performance. The consultant identified three organizations that work to increase forest product exports, namely the Quebec Wood Export Bureau, the European Wood Initiative, and Natural Resources Canada through its Canada Wood Export Program. The consultant also identified Tourism BC as an organization that may provide examples of useful performance measures.

Early in the coming year FII will assess whether it should modify any of its performance measures, and whether it makes sense to benchmark FII's results against those of these other organizations.

| Goals | Strategies | Measures |
|--|---|---|
| <p>Goal 1: Expanded market opportunities that are beneficial to the B.C. forest sector.</p> | <ul style="list-style-type: none"> ◆ Developing opportunities in new and existing markets ◆ Fostering acceptance of Canadian wood frame building systems in priority markets ◆ Encouraging customers to accept B.C. forest products as preferred materials | <ul style="list-style-type: none"> ◆ Quantified level of stakeholder support for market development programs ◆ Financial contribution of key partners to activities partially funded by FII ◆ Number of demonstration projects completed ◆ Number of Wenchuan Earthquake projects completed |
| <p>Goal 2: International recognition of B.C. as the leading supplier of environmentally-friendly forest products.</p> | <ul style="list-style-type: none"> ◆ Gathering market intelligence through research and surveys ◆ Monitoring and analyzing the internet and mainstream and trade media ◆ Financially supporting the development of science-based life cycle assessment tools to document the environmental superiority of forest products ◆ Providing advocacy support where B.C. forest products are unfairly targeted; ◆ Producing technically accurate and credible information materials for a broad array of international and domestic audiences ◆ Providing international customers with timely, credible information regarding B.C. forest practices and products, including pulp and paper | <ul style="list-style-type: none"> ◆ Quantified level of stakeholder support for market outreach programs ◆ Percent of customers who feel that choosing products from B.C. (Canada) is a good choice for the environment |
| <p>Goal 3: FII is a highly effective, innovative and responsive organization.</p> | <ul style="list-style-type: none"> ◆ Ensuring FII is efficient, transparent and results focused ◆ Attracting and retaining expert staff who are dedicated to the organization's success and committed to continuous improvement ◆ Embracing socially responsible practices, including minimizing the organization's carbon footprint | <ul style="list-style-type: none"> ◆ Timeliness of annual funding cycle for trade associations, research institutes, and universities |

GOAL 1: EXPANDED MARKET OPPORTUNITIES THAT ARE BENEFICIAL TO THE B.C. FOREST SECTOR

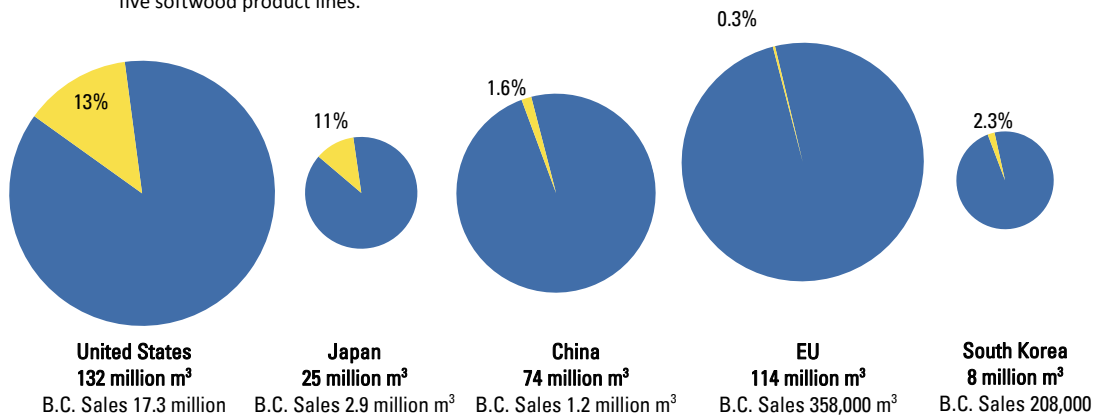
Goal 1 reflects FII's basic mandate. Three objectives guide strategies related to this goal:

- ◆ maintaining market share and presence in major markets, such as the United States and Japan,
- ◆ diversifying into new geographic markets, such as China and South Korea, and
- ◆ developing new products and niche markets.

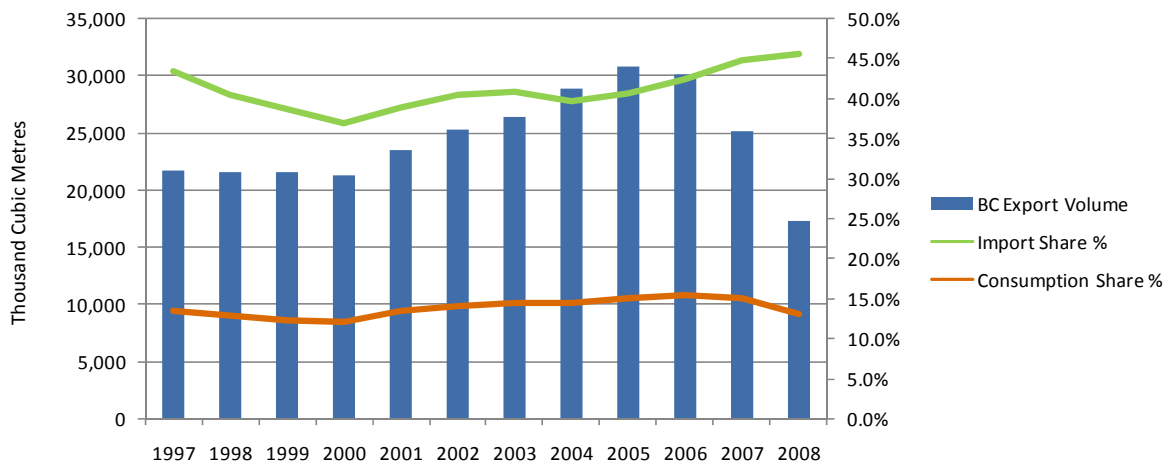
Related to these objectives, FII tracks sales of B.C. wood products in major markets as indicators of industry growth and competitiveness. The following graphics illustrate B.C.'s market share in 2008, as well as trends over the past 12 years.

2008 sales and market share of B.C. softwood products in key markets*

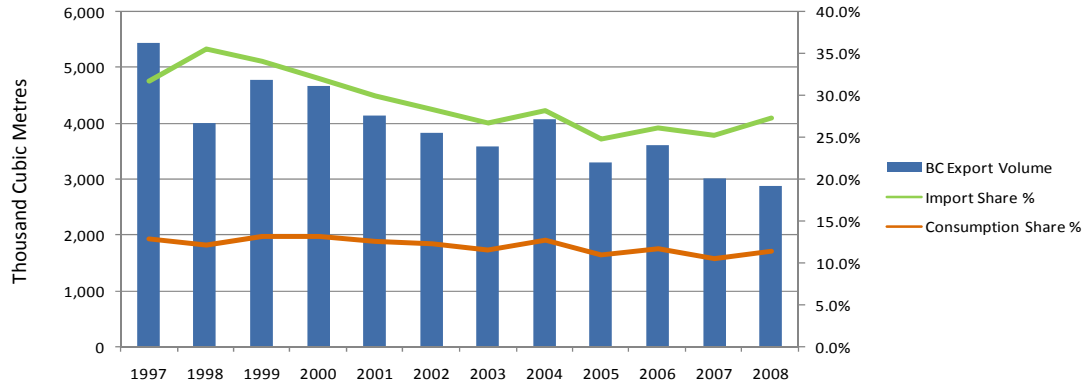
Based on sales of five softwood products (lumber, plywood, OSB, particleboard and MDF) and B.C.'s share of total domestic consumption in each market. The size of the circles is proportional to the total size of each market for the five softwood product lines.



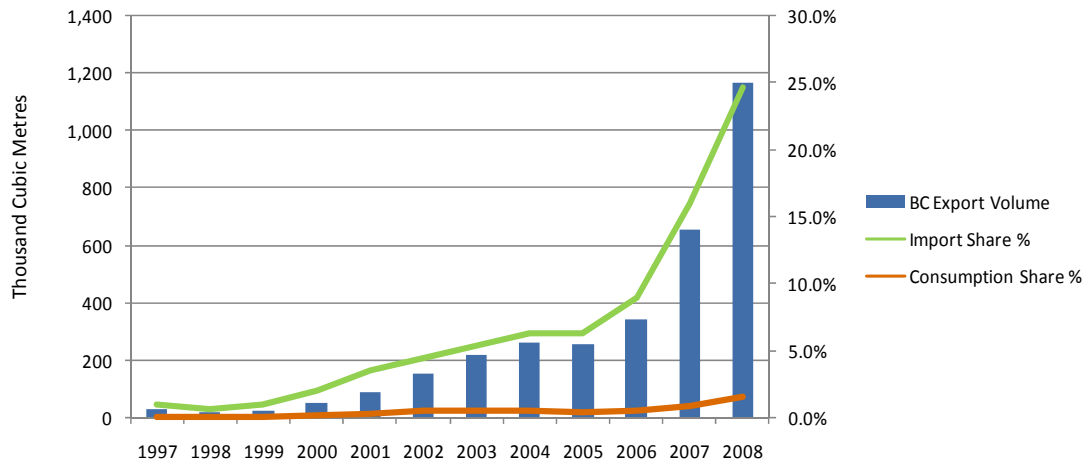
B.C. Softwood Commodity Product Sales in U.S.A.



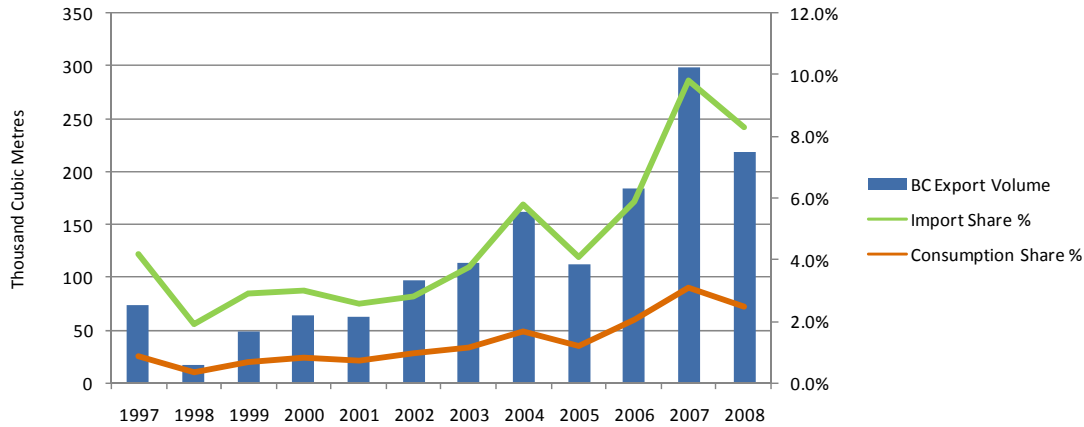
**B.C. Softwood Commodity Product Sales in Japan
(Softwood lumber, plywood, OSB, MDF and Particleboard)**



**B.C. Softwood Commodity Product Sales in China
(Softwood lumber, plywood, OSB, MDF and Particleboard)**

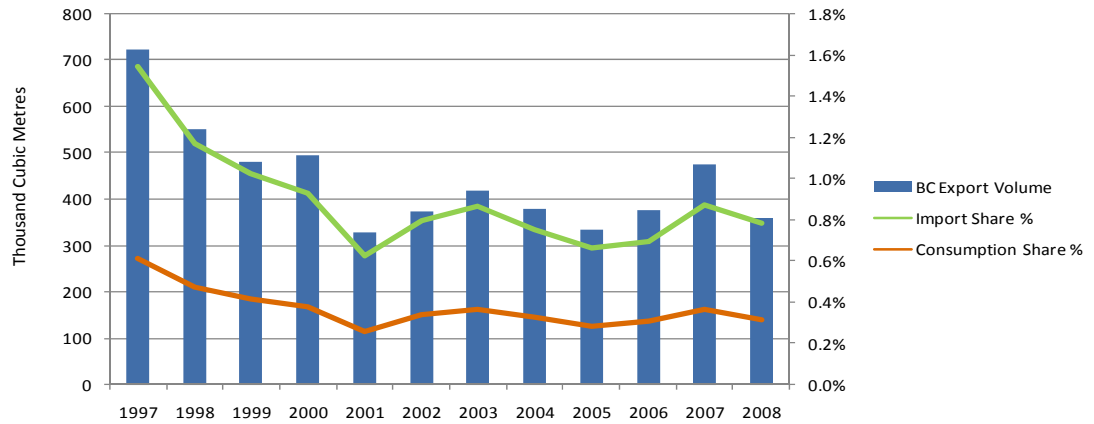


**B.C. Softwood Commodity Product Sales in Korea
(Softwood lumber, plywood, OSB, MDF and Particleboard)**

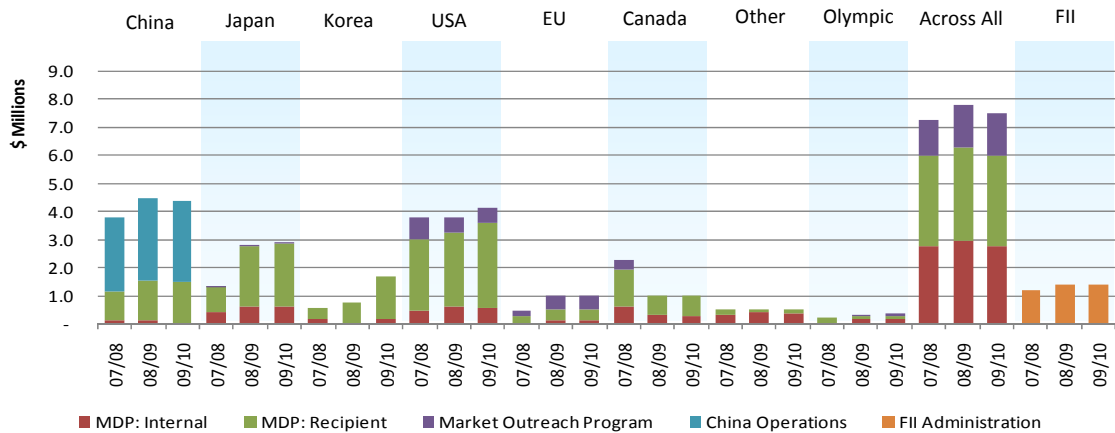




**B.C. Softwood Commodity Product Sales in EU
(Softwood lumber, plywood, OSB, MDF and Particleboard)**



The primary strategy for achieving Goal 1 is to share the cost of marketing programs initiated and delivered by industry trade associations. Each year, roughly half of FII’s budget is directed towards these activities. With the exception of China, the majority of spending in all foreign markets is through association activities. And reflecting the objective to maintain, develop and diversify market demand, funding is spread across major and new markets.



MDP: Internal refers to funding for market development activities managed directly by FII, including market research and demonstration projects.

MDP: Recipient refers to funding provided to industry associations and other groups to carry out market development activities.

FII's strategies to achieve Goal 1 include:

1. Developing opportunities for B.C.'s forest industry in new and existing markets by:

- ◆ Maximizing opportunities for fibre impacted by natural disturbance agents (e.g. mountain pine beetle);
- ◆ Conducting market research to identify opportunities, barriers, market size and strategies for Canadian wood products;
- ◆ Fostering higher value for B.C. wood products by improving existing wood products and developing new products, manufacturing processes, and applications;
- ◆ Promoting increased wood usage in recreational, commercial and institutional applications;
- ◆ Increasing the competitiveness of B.C. firms by improving their awareness and use of new and existing technologies, markets and marketing information and products and procedures; and
- ◆ Developing a strategic, balanced portfolio through collaborative effort based on provincial, federal and private-sector contributions and support.

2. Fostering acceptance of Canadian wood building systems in priority markets by:

- ◆ Delivering significant demonstration projects as platforms to inform foreign government officials, developers, builders and consumers; and
- ◆ Enabling and protecting market access for Canadian wood products by:
 - Developing or refining foreign building and fire codes and standards; and
 - Addressing phytosanitary import requirements (plant health) and other non-tariff barriers.

3. Encouraging customers to accept B.C. wood products as preferred materials by:

- ◆ Ensuring that international architects, builders, officials and other key influencers have the necessary skills and information to specify and use B.C. wood products; and
- ◆ Increasing demand and acceptance of Canadian wood products through promotional activities.

| Performance Measure | | | Target | | | |
|--|--|-------|----------------|----------------|---------|---------|
| | | | 2007/08 Actual | 2008/09 Actual | 2009/10 | 2010/11 |
| Goal 1: Expanded market opportunities that are beneficial to the B.C. forest sector | | | | | | |
| A | Stakeholder support for market development programs (out of 10) | 8.0* | n/a* | 8.0* | n/a* | 8.0* |
| B | Financial contribution of key partners to projects partially funded by FII | 55% | 57% | 50% | 50% | 50% |
| C | Number of regular program demonstration projects completed | 4 | 5 | 3 | 3 | 3 |
| D | Number of Wenchuan Earthquake Reconstruction projects completed | n/a** | 0 | 2 | 2 | n/a** |

* Measured every other year

** Project announced in 2008/09 with target for completing demonstration projects in 2010/11



IMPORTANCE OF MEASURES

FII's programming is mostly discretionary across a wide range of activities, potentially delivered anywhere in the world where a significant demand exists, or could exist, for B.C. forest products. Because FII exists entirely to support the forest industry in creating and maintaining demand for its products, it is largely driven by private-sector priorities. At the same time, FII is a public agency spending public money, and must ensure that its activities are well grounded, efficiently delivered, and stand a good chance of generating a real return on investment.

Reflecting that tension, FII must continuously strive to achieve a reasoned balance between meeting immediate private-sector demands and expectations, and ensuring that all expenditures are well grounded and fiscally responsible. This applies not only to FII's internal programming, but also to activities delivered by other organizations that indirectly spend over half of FII's budget. Performance Measure A documents the extent to which the B.C. forest industry values FII's market development activities, supports the priorities that FII invokes, and accepts the constraints that apply to how the industry uses FII funding. This Performance Measure is determined as part of a comprehensive bi-annual independent survey of stakeholder opinions about numerous aspects of FII's programming. Retaining a rating of 8.0 out of 10 will remain challenging as the industry struggles through the worst market demand in memory.

Subjective stakeholder support is one thing; actually contributing cash to jointly funded projects is another. Performance Measure B tracks how supportive industry and the federal government are on a cash basis, and is determined internally as funding recipients report on operational and financial performance each year. Given the worst-ever financial situation for the forest industry, it will be challenging for the private sector to continue contributing as large a share of the cash costs of work done by FII's funding recipients. Hence FII expects somewhat, but not dramatically, reduced private-sector share in the next few years.

Performance Measure C documents FII's success in delivering significant demonstration projects in China and elsewhere. The nature of each project in the Wenchuan Earthquake region will be much more complex than has been the case with previous demonstration projects. FII anticipates a contribution of about \$5 million from Natural Resources Canada to support demonstration projects in China in 2009/10 and 2010/11. The number and specifics of the projects have yet to be finalized.

Performance Measure D documents progress specifically on the Canada-B.C. Wenchuan Earthquake Reconstruction Project, begun in late 2008 and expected to play out over three fiscal years.

RISK AND CAPACITY ISSUES

The downturn of the forest economy puts pressure on the ability of forest companies to fund industry associations, and thus for associations to fund international marketing programs; reduced industry funding could reduce the ratios in Performance Measure B in 2009/10 and later years by even more than shown in the above table.

Performance Measure B assumes the federal government will continue to provide funding to the private sector under the former's *Canada Wood Export Program* and *North American Wood First Initiative*. Current funding appears committed to the end of fiscal 2010/11. Discontinuance of the programs would severely impact Performance Measure B ratios.

FII has the staff and resources to complete the demonstration projects referred to in Performance Measures C and D.

GOAL 2: INTERNATIONAL RECOGNITION OF B.C. AS THE LEADING SUPPLIER OF ENVIRONMENTALLY-FRIENDLY FOREST PRODUCTS

Goal 2 reflects the fact that forest product customers around the world are increasingly looking for assurance from their suppliers that the products they purchase come from sustainably managed forests and that they are friendly to the environment. As a result, B.C. must be well positioned as a global leader in sustaining forest resources and environmental values.

The province's commitment to sustainable forest management is a significant advantage in world markets. And as customers are increasingly factoring environmental practices into purchasing decisions, there is also considerable value in articulating the benefits of wood as a sustainable, renewable building material, how wood creates a significantly smaller environmental footprint than other building materials, and how wood and pulp and paper products are manufactured by an industry that has made continuous gains in reducing its environmental footprint.

FII's strategies to achieve Goal 2 include:

1. Gathering market intelligence through research and surveys;
2. Monitoring and analyzing the internet and mainstream and trade media;
3. Financially supporting the development of science-based life cycle assessment tools to document the environmental superiority of forest products;
4. Providing advocacy support where B.C. forest products are unfairly targeted;
5. Producing technically accurate and credible information materials for a broad array of international and domestic audiences; and
6. Providing international customers with timely, credible information regarding B.C. forest practices and products, including pulp and paper.

| Performance Measure | | | Target | | | |
|--|--|------|----------------|----------------|---------|---------|
| | | | 2007/08 Actual | 2008/09 Actual | 2009/10 | 2010/11 |
| Goal 2: International recognition of B.C. as the leading supplier of environmentally-friendly forest products | | | | | | |
| E | Stakeholder support for Market Outreach programs (out of 10) | 7.8* | n/a* | 8.0* | n/a* | 8.0* |
| F | Percent of customers who feel that choosing products from B.C. (Canada) is a good choice for the environment | n/a* | 100% | n/a* | 90% | n/a* |

* Measured every other year in concert with Performance Measure A

IMPORTANCE OF MEASURES

Performance Measure E documents the extent to which the B.C. forest industry values FII's market outreach activities. The measure is determined in the same manner as Performance Measure A, through comprehensive bi-annual independent surveys of a wide range of stakeholders. As with Performance Measure A, it will be challenging to attain a rating of 8.0 out of 10 during a period when short-term private-sector interests have to be balanced against longer-term public-sector objectives and normal public-sector fiscal standards.

Performance Measure F tracks the effectiveness of the Market Outreach program to influence customer views on the environmental merits of BC forest products, and is measured through bi-annual surveys of international customers. In a world where international competition is growing, and where people are increasingly concerned about how their purchasing decisions impact climate and the environment generally, it will be challenging to have 90% of the customer base specifically endorse B.C. as a good choice.

RISK AND CAPACITY ISSUES

FII has the staff and resources to achieve Goal 2.

GOAL 3: FII IS A HIGHLY EFFECTIVE, INNOVATIVE AND RESPONSIVE ORGANIZATION

FII responds to emerging forest sector needs while maintaining low overhead and operating expenses. The organization is committed to sound business practices incorporating robust financial controls, a performance management framework and a monitoring, audit and evaluation program built on a comprehensive risk-assessment strategy, all developed in accordance with government policies and guidelines. FII is also committed to a path of environmental sustainability in order to protect the natural environment and the B.C. economy for future generations.

FII's strategies to achieve Goal 3 include:

1. Ensuring FII is efficient, transparent and results focused by:
 - ◆ Keeping corporate support costs at or below 7% of total budget;
 - ◆ Implementing a rigorous program of monitoring, auditing and evaluating projects delivered by other organizations, according to explicit risk assessments;
 - ◆ Ensuring regular and accurate reporting on the results of investments in support of corporate goals and objectives in accordance with government and contractual requirements; and
 - ◆ Ensuring the integrity of funding to other organizations, provided in a timely fashion for activities that will enhance forest sector well-being.
2. Attracting and retaining expert staff who are dedicated to the organization's success and committed to continuous improvement.
3. Embracing socially responsible practices, including minimizing the organization's carbon footprint, promoting environmentally responsible business activities, and purchasing environmentally friendly products.

| Performance Measure | | | Target | | | |
|--|--|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | | | 2007/08 Actual | 2008/09 Actual | 2009/10 | 2010/11 |
| Goal 3: FII is a highly effective, innovative and responsive organization | | | | | | |
| G | Timeliness of annual funding cycle for trade associations, research institutes, and universities | Funding available by April 1 | Funding available by April 1 | Funding available by April 1 | Funding available by April 1 | Funding available by April 1 |

IMPORTANCE OF MEASURES

Half of FII’s budget is used to fund activities proposed through an annual Call for Proposals process, which attracts roughly 70 proposals describing thousands of proposed activities, each with specific cost estimates and cost sharing. They are peer reviewed and explicitly point ranked against pre-set evaluation criteria. Performance Measure G tracks how efficient FII is in managing the annual funding process, which culminates in funding being available to successful proponents by the start of each fiscal year.

RISK AND CAPACITY ISSUES

Drawing on expertise from the private sector, the research community, and academia, FII has the staff and resources to achieve Goal 3, provided that funding proponents submit solid proposals on time.

PERFORMANCE MEASURES

Accountability and responsibilities for performance monitoring and assessment exist at all levels within FII and extend to agencies which have been contracted to provide services or deliver initiatives on behalf of FII.

Over half of FII’s annual expenditures are in funding the work of industry trade associations, forest research institutes, and post-secondary institutions. While the overall responsibility for performance management rests with FII, the accountability for investments and their successful contribution towards program and organizational goals is shared with each of FII’s funding recipients. Furthermore, the accountability for specific areas of progress measurement / data collection and reporting are shared with those organizations.

FII has a comprehensive performance management framework that monitors and evaluates all investments.

CORPORATE ENVIRONMENTAL RESPONSIBILITY

FII is committed to environmental sustainability in order to protect the natural environment and the B.C. economy for future generations. This approach allows FII to continue delivering short- and long-term benefits to stakeholders, employees and the communities where FII operates, while enhancing the capacity to conduct business.

PRIORITIES

- ◆ Reducing the intensity of the organization's environmental footprint
- ◆ Promoting environmentally responsible business activities
- ◆ Purchasing environmentally friendly products

REDUCING THE INTENSITY OF OUR ENVIRONMENTAL FOOTPRINT

As a Crown Corporation of the Government of British Columbia, FII must ensure that its operations are carbon neutral by 2010. To meet this objective, FII will report on its baseline greenhouse gas emissions (the amount it produces in a "business as usual" scenario), reduce these emissions as much as possible, and offset its remaining emissions. Specifically, FII will:

1. Track emissions from operations and buildings in Vancouver, Shanghai, Beijing and quantify office paper, heating, cooling, and electricity consumption. Additionally, FII will track fuel use by its single leased vehicle, and will track travel by staff to develop benchmarks for future reduction and the impact of any reductions against the benchmark (carbon footprint reduction).

Timing: Started on April 1, 2008.

2. Deliver a plan to reduce emissions from overall operations (operations and buildings, procurement, transportation and travel) and begin implementation of emissions reduction initiatives.

Timing: Plan in place by March 31, 2009. Begin reduction initiatives in 2009 with basis for offsets in place by January 2010.

3. Track and report progress to the Ministry of Labour and Citizens' Services.

Timing: Carbon Neutral action report for 2009 due March 2010; Carbon Neutral action report for 2010 due March 2011 including statement of emission offsets.


4. Achieve carbon neutral status by purchasing carbon credits through PCT (Pacific Carbon Trust).

Timing: Tentative date of June 30, 2011.

PROMOTING ENVIRONMENTALLY RESPONSIBLE BUSINESS ACTIVITIES.

FII works with businesses and governments worldwide to promote the use of certified forest products. FII supports an inclusive approach for the use of certified wood and paper that recognizes all credible certification standards are essential, not only from the perspective of fairness and transparency but also to ensure choice and competition, fostering improvement in environmental standards. Our research shows that all the standards currently in use in North America and recognized internationally—Canadian Standards Association (CSA), Forest Stewardship Council (FSC), Programme for the Endorsement of Certification schemes (PEFC), and the Sustainable Forestry Initiative (SFI)—are equally credible in their assurance of legal and sustainable forest management.

Timing: Ongoing.



FII promotes the use of wood in building projects as an environmentally sustainable and “green” choice. Based on internationally accepted life cycle assessment research it is renewable and recyclable, has a lighter environmental footprint than alternatives, and continues to store much of the carbon absorbed and stored originally by the trees.

Timing: Ongoing.

FII will encourage staff to identify opportunities to reduce emissions or engage in more environmentally friendly business practices in their programs, raise awareness for the initiative, disseminate information to their colleagues, and serve as enthusiastic advocates. Staff will be encouraged to submit at least one idea per monthly staff meeting.

Deadline: Program to be implemented early 2009.

FII will encourage its funding recipients to examine ways in which they can reduce the environmental footprint of their own operations.

PURCHASING ENVIRONMENTALLY FRIENDLY PRODUCTS

FII has a forest products procurement policy that aligns with B.C.’s forest management and regulatory system and world leading position with respect to third-party certification.

Timing: Complete.

FII is committed to environmentally responsible purchasing as directed by the Government of British Columbia.

Timing: Ongoing.

FII purchases recycled paper products that include up to 30% post consumer content.

Timing: Ongoing.

Shareholder's Letter of Expectations

FII's current Shareholder's Letter of Expectations (SLE) was signed by the Minister of Forests and Range in January 2009. At a high level, the Minister instructed FII to:

- ♦ position British Columbia as a global supplier of world-class environmentally friendly forest products;
- ♦ actively create, build and diversify demand for B.C. forest products in Canada and in key world markets;
- ♦ help break down non-tariff trade and market barriers to ensure opportunities for B.C. forest products;
- ♦ work with the forest industry to promote B.C.'s forest products and forest management to the global marketplace; and
- ♦ help ensure that the forest sector, through product development and strong international sales, continues to be a leading contributor to the B.C. economy.

The Minister also spoke more specifically about:

- ♦ making FII carbon neutral by 2010 and encouraging contributions towards meeting the government's climate change objectives;
- ♦ harmonizing export promotion programs with those of the Government of Canada;
- ♦ actively participating in the government's Asia-Pacific Gateway initiatives;
- ♦ consulting with the industry Strategy Committee;
- ♦ attributes of FII's Market Development and Market Outreach Programs;
- ♦ ensuring that the wholly owned subsidiary in China complies not only with normal Canadian business practices, but also with Chinese law;
- ♦ operating according to the terms of a funding agreement with the Ministry of Forests and Range; and
- ♦ participating in a review of the composition of the Board of Directors to be lead by the Shareholder.

FII has begun to track its carbon footprint, most of which is due to long-distance air travel by staff working in foreign markets. FII anticipates purchasing carbon credits to make the organization carbon neutral in 2010.

In reflecting the Minister's direction, as described elsewhere in this document FII delivers an array of Market Development programs designed to foster a world-class forest industry that produces a diverse array of products for customers around the world. Much of the work is done by industry trade associations, research institutes, and universities, drawing on closely harmonized funding from FII and Natural Resources Canada. The work is aimed both at maintaining existing markets, and at creating new demand, especially in China and Korea. This fits well with the government's Asia Pacific initiatives. The work is bolstered by FII's in-house Market Outreach Program to make customers, consumers, and foreign regulators aware of the environmental merits of BC forest products, especially in terms so mitigating climate change.

Except for a one-time federal/provincial donation toward rebuilding after the May 2008 earthquake in China, and a pending contribution from Natural Resources Canada for demonstration projects in China, FII's funding continues to come from the Ministry of Forests and Range by way of a funding agreement that invokes normal government discipline in procuring goods and services, financial and performance reporting, and auditing (both external and internal).

As documented elsewhere in this Service Plan, FII continues to conduct its business in accordance with the Minister's direction, with stakeholders recently confirming that the corporation is doing a good job of pursuing the correct strategies and priorities.

Summary Financial Outlook

| | Actual 08/09 (000's) | Budget 09/10 (000's) | Budget 10/11 (000's) | Budget 11/12 (000's) |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| Revenue | | | | |
| Contribution from the Province of BC | \$ 22,359 | \$ 22,700 | \$ 21,800 | \$ 21,800 |
| Contribution for China Earthquake Reconstruction | \$ 1,700 | \$ 3,000 | \$ 3,300 | |
| Federal Contribution for China Demonstration Projects | \$ - | \$ 2,870 | \$ 2,130 | |
| Transferred from deferred Revenue | \$ 2,018 | \$ 1,389 | \$ 260 | \$ 176 |
| | <u>\$ 26,077</u> | <u>\$ 29,959</u> | <u>\$ 27,490</u> | <u>\$ 21,976</u> |
| Expenses | | | | |
| Market Development Programs ^{(1) (2) (3) (4)} | \$ 22,341 | \$ 26,125 | \$ 23,830 | \$ 18,350 |
| Market Outreach Programs | \$ 2,154 | \$ 2,050 | \$ 2,000 | \$ 2,000 |
| Corporate Services | \$ 1,137 | \$ 1,398 | \$ 1,400 | \$ 1,450 |
| | <u>\$ 25,632</u> | <u>\$ 29,573</u> | <u>\$ 27,230</u> | <u>\$ 21,800</u> |
| Operating Income | <u>\$ 445</u> | <u>\$ 386</u> | <u>\$ 260</u> | <u>\$ 176</u> |
| Amortization | \$ 445 | \$ 386 | \$ 260 | \$ 176 |
| Net Income | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Retained Earnings | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Capital Expenditures | <u>\$ 568</u> | <u>\$ 50</u> | <u>\$ 50</u> | <u>\$ 50</u> |
| ⁽¹⁾ Includes FII Shanghai (China Program) funding (000's) | \$ 2,889 | \$ 2,920 | \$ 3,000 | \$ 3,000 |
| ⁽²⁾ Includes China Earthquake Reconstruction expenditures (000's) | \$ 1,927 | \$ 3,000 | \$ 3,300 | \$ - |
| ⁽³⁾ Includes expenditures for China demonstration project to be reimbursed by Natural Resources Canada (000's) | \$ - | \$ 2,870 | \$ 2,130 | \$ - |
| ⁽⁴⁾ Includes DHC Prepaid lease write off (000's) | \$ 1,338 | \$ 1,003 | \$ - | \$ - |

RISKS AND ASSUMPTIONS

The continuity of FII's investments, programming and activities continues to depend upon the Ministry of Forests and Range allocating a given portion of its funding.

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

SUBSIDIARY

FII China was established as a Wholly Foreign Owned Enterprise (WFOE) in accordance with the laws of the People's Republic of China (PRC). It is 100 per cent owned by Forestry Innovation Investment Ltd. Funding of the WFOE is by way of consulting-fee invoices between the WFOE and the parent company in Canada. In accordance with PRC law, any monthly expenditures made by the WFOE must be offset by enough income to cover the expenditures and applicable Chinese sales taxes, and provide for a profit. The profit margin for the subsidiary has been set by the parent company at approximately two percent of the WFOE's expenditures. The annual profit is then subject to PRC corporate income tax at the WFOE's year-end.

CAPITAL INITIATIVES

The capital expenditures projected for the next three years relate to normal replacement of office furniture and computer equipment as well as leasehold improvements for the new Shanghai office location for FII China.

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.

DEBT

FII has no debt.

Information



Further information on Forestry Innovation Investment is available at www.bcfii.ca. *A Report to Stakeholders* published in June 2009 highlights accomplishments in major markets around the world. Previous Service Plans and Service Plan Annual Reports are posted to the “About FII” section of the website.

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

Information on FII operations in China is available at www.canadawood.cn.

Details on the Canada-B.C. Wenchuan Earthquake Reconstruction Project may be found at www.canada-bc-512quakeconstruction.org/.

