



Forestry Innovation Investment

# Service Plan 2008/09-2010/11

January 2008



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2008/09 - 2010/11

SERVICE PLAN

**Library and Archives Canada Cataloguing in Publication Data**

British Columbia. Forestry Innovation Investment.

Service plan. -- 2004/05-2006/07-

Annual.

ISSN 1718-2565 = Service plan (British Columbia. Forestry Innovation Investment)

1. British Columbia. Forestry Innovation Investment - Periodicals.
2. Forest products - British Columbia - Marketing - Periodicals.
3. Forest products industry - Economic aspects - British Columbia - Periodicals.
4. Forest products industry - Government policy - British Columbia - Periodicals.

I. Title.

II. Title: Forestry Innovation Investment Ltd. service plan.

HD9764.C7C3 354.5'5'0971105

C2006-960003-1

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# MESSAGE FROM THE BOARD CHAIR TO THE MINISTER RESPONSIBLE

January 15, 2008

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

Dear Minister:

I am pleased to present you with *Forestry Innovation Investment Ltd.'s Service Plan 2008/09 – 2010/11*. 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 a funding level that will be \$2.25 million lower than in 2007/08. This reflects the end of the three-year program for employing funds the Government of Canada had transferred to the Province in 2004 to assist in mitigating the impact of the mountain pine beetle epidemic. Although such funding will no longer flow to FII, the corporation will continue its Mountain Pine Beetle Program at a similar level of activity, drawing from its base budget.

In pursuing its Market Development and Market Outreach goals, FII anticipates that it will continue to allocate about half of its budget to fund activities proposed and delivered by non-profit trade associations, research institutes, and universities. Much of the work done by these organizations will be 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". In this context FII will continue to encourage Canada Wood Group (a federation of trade associations) to take the lead in market development activities in several foreign locations.

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

Nearly 80 percent of the timber harvested in BC is processed by a sawmill, and the BC industry has historically shipped about 85 percent of its lumber to the United States. With demand and prices in the United States having fallen so much this past year, BC firms are expressing renewed interest in diversifying markets for the long term. FII will continue to fund activities that maintain and improve markets in the United States, Japan and Europe, but will also continue to focus more proactively on creating new markets in China and Korea, as well as initiating first steps in Vietnam. All of this will fit with government's overall Asia Pacific strategy.

During the term of the new Service Plan, FII expects to:

- pursue new products that could be made from pine trees which have been dead for some years; this will include documenting reduced lumber recoveries and assessing the feasibility of creating various forms of energy from this biomass.
- assist the Coastal industry in implementing a multi-year program, led by the Coast Forest Products Association and FPIInnovations, to find new uses for the "hemfir" species mix that is predominate on the Coast;

- through its new Business Innovation Program actively assist firms with improving their value-added manufacturing technology, marketing, and business practices;
- share the cost of a new program to promote structural wood products in non-residential buildings in the United States;
- help regain market share in Japan;
- assist the BC industry in marketing products to the nascent wood frame building community in Korea, and to the burgeoning furniture industry in Vietnam;
- subject to satisfactory research findings, begin to market BC wood products in the Middle East;
- continue to pursue development of low-cost housing solutions, not only for disaster-related reconstruction, but also for ordinary situations in the developing world;
- complete the showcasing of wood products in 2010 Olympic Games venues, as well as assisting the BC Olympic Secretariat in incorporating BC wood products into the BC – Canada House for the 2008 Olympic Summer Games in Beijing;
- continue to ensure that international customers receive timely, factual information on BC's world-class forest management practices;
- pro-actively participate in development of a national-scale communications program promoting forest-based solutions to mitigating climate change;
- lead development of 2010-related communications for foreign audiences, concerning BC forest products and the province's forest management system; and
- develop and begin implementing a corporate social responsibility policy, including reduction in the organization's carbon footprint.

The remarkable pace of growth in China implies unprecedented potential to create a market for BC structural lumber products. FII expects to continue devoting one-quarter of its total budget to introducing and promoting North American wood frame building technology and products in that country, with the main focus on low-rise residential construction and landscaping applications. In late 2007, FII's wholly owned subsidiary in China, in partnership with industry representatives in the Canada Wood Group, induced the first commercial uptake of Canadian wood truss technology using BC lumber for apartment re-roofing. We are hopeful that this signals the start of a long-term return on investments in China.

Wood frame residential construction is the norm in North America, but is virtually unknown in China. Introducing a brand new construction system requires dedication and commitment to convince:

- building code and fire code officials that the system is safe;
- housing and land officials that the system is viable and affordable;
- developers and builders that the system is more profitable, and
- building owners that the system is durable and more economical over time.

All of these constituencies must be brought along in parallel, drawing on FII's ability to effect government-to-government relations, and on the Canada Wood Group's technical expertise. The China team is clearly making headway in collaboration with private-sector representatives and FPInnovations, and with the critical financial assistance of Natural Resources Canada.

On behalf of an international coalition of European, South American, Australian, and Canadian bodies, FII's subsidiary in China has employed an expert in the area of third-party certification who has made great strides

in assisting Chinese officials as they develop a made-in-China certification scheme. As of late 2007 it appears that China will adopt a system that readily accommodates virtually all forest products originating in BC. This will be critical to supplying Chinese firms that re-export to North America and Europe.

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 BC 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 will continue to strive to be a highly effective and well-managed organization that makes a strong contribution to the success of the BC forest industry and by extension, the province.

I have reviewed the *2008/09 - 2010/11 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 overall Strategic Plan. All significant assumptions, policy decisions and identified risks as of December 15, 2007, 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.



Doug Konkin

Chair, Board of Directors  
January 15, 2008

# 1. ORGANIZATIONAL OVERVIEW

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

FII operates under a *Shareholder's Letter of Expectations* from the Minister of Forests and Range, dated November 2006 and essentially replacing the previous Administration Agreement with the Ministry of Forests and Range.

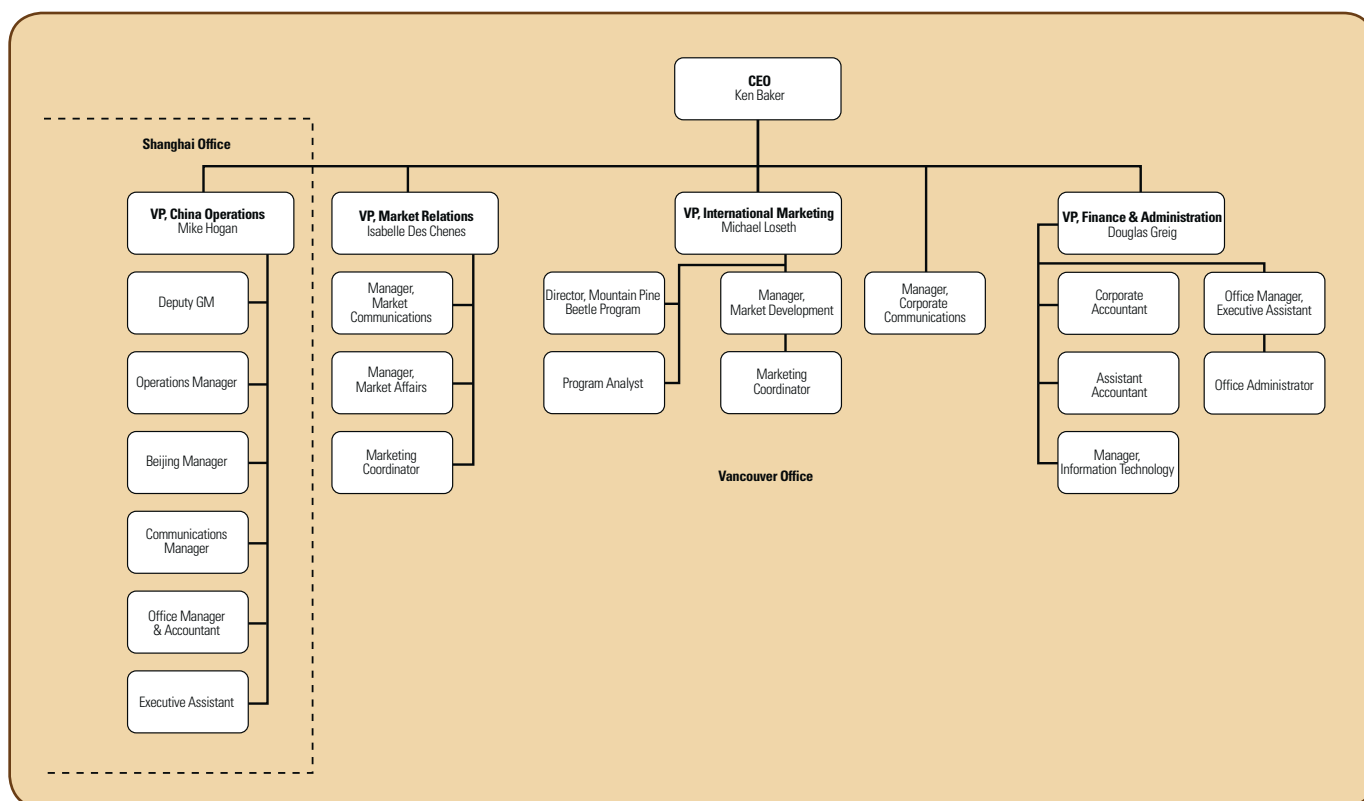
The Letter confirmed FII's mandate to work with the provincial forest industry and with other government agencies to promote BC forest products and practices through market development and market communications programs. The Letter noted that FII must adhere to provincial government procurement and financial management standards.

The Letter instructed FII to assist with a review of the composition of the Board of Directors, to be lead by the Shareholder. With respect to activities delivered by others and partially funded by FII, the Letter instructed FII to review its cost-sharing policies and make recommendations to the Minister.

At the time of writing this document, a review of the composition of the Board had not yet been initiated. In late 2007 the Minister reviewed cost-sharing recommendations and issued his direction to the corporation.

## ORGANIZATION

FII carries out its programs and services with 17 positions in British Columbia, and 7 in Shanghai, as shown in the following chart.



## FII SUBSIDIARY

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

Under Chinese law, a wholly foreign owned enterprise such as FII Shanghai can be governed either by a board of directors, or by a sole executive director. When it was created, FII Shanghai adopted the executive-director model, with FII's Chief Executive Officer filling that position.

#### **CORPORATE LOCATIONS**

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

#### **MINISTER RESPONSIBLE**

The Minister of Forests and Range is responsible for FII.

#### **BUSINESS AREAS**

Based upon the mandate outlined in the Shareholder's Letter of Expectations – promoting BC forest products and practices through programs that adhere to government procurement and financial management standards - FII is organized into three business areas: market development, market outreach, and corporate services.

##### **Market Development**

**Focus:** Expanding markets for BC forest products.

##### **Program activities:**

- *Product Development:* supporting development of new products and manufacturing processes.
- *Mountain Pine Beetle:* providing product and market development support specifically related to timber killed by the mountain pine beetle epidemic.
- *Market Access:* ensuring that foreign regulations accommodate BC forest products.
- *International Marketing:* promoting BC forest products in new and existing markets.
- *China Market Development:* through FII Shanghai, partnering with industry to build a sustainable market for wood products in China.
- *Domestic Market Development:* promoting wood use domestically including the non-residential sector as showcased through the 2010 Olympic and Paralympic Winter Games
- *Business Innovation:* assisting value-added firms to improve product design, manufacturing processes, marketing, and business practices.

**Significant changes:** The Business Innovation Program was introduced in November 2007 to support the valued-added sector (secondary manufacturing) in business planning, product design, manufacturing improvements, and marketing.

##### **Market Outreach**

**Focus:** Internationally promoting BC forest practices and the environmental merits of BC forest products.

**Program activities:** Historically known as the BC Market Outreach Network, the program provides international buyers and other stakeholders with credible information regarding the environmental attributes of BC forest products and forest management practices that underlie those products.

The program includes outreach communication in the United States and Europe, as well as working with industry and other government agencies to respond appropriately in challenging and correcting misleading information and misinformed decision-making.



**Significant changes:** Reflecting the rapid growth of the “green” economy, the scope of communication activities is expanding beyond discussion of forest management practices, to include documentation of why BC forest products are good for the “green building” movement, and good for mitigating the impacts of climate change.

### **Corporate Support**

**Focus:** Ensuring FII’s professional management, accountability and conformance with government policies.

#### **Program activities:**

- Human resources management
- Financial management and controls
- Audit programs
- Information technology support and management
- Office services and lease management

**Significant changes:** No changes occurred in this area, but planning is underway to develop and implement a corporate social responsibility policy for the organization in 2008/09. This will include measures for reducing FII’s net greenhouse gas emissions.

More details on FII programs, including previous Service Plans and Annual Service Plan Reports, are available at [www.bcfii.ca](http://www.bcfii.ca).

### **RESOURCE CAPACITY**

FII’s overall budget is sufficient to achieve its mandate. The company’s basic infrastructure, such as office space and information technology, is in good shape.

FII’s relatively small size poses some risk because every position at FII is unique and highly specialized. There are no redundancies and there is little ability for internal succession planning. This puts the company at risk of program disruption due to staff turnover or extended leaves of absence.

The company mitigates this risk by doing what it can to make every job as interesting and rewarding as possible so that every employee can continuously grow through experience and through being challenged with wider scope. FII relies heavily on contractor organizations and individuals to undertake much of the work needed to deliver outputs and effect outcomes.

### **GOVERNANCE**

FII is governed by a board of directors that exerts high-level strategic direction, monitors performance, and liaises with the responsible Minister. The Board consists of:

- Doug Konkin (chair), Deputy Minister of Forests and Range; and
- Don Fast, Deputy Minister of Economic Development.

A third position previously filled by the Deputy Minister of Finance was vacant at the time of writing because the person in question had recently left that position in Government.

The Board of Directors is supported by an audit committee which reviews, recommends and in some instances, approves financial statements and other financial information. At the time of writing, the members of the committee were:

- Doug Callbeck, Assistant Deputy Minister, Management Services Division, Ministry of Economic Development; and
- Joan Elangovan, Assistant Deputy Minister, Corporate Services Division, Ministry of Forests and Range.

Again, a third position on the Audit Committee was vacant because the Deputy Minister of Finance had recently left her position in Government.

FII's senior management team is composed of:

- Ken Baker, CEO
- Isabelle Des Chenes, Vice President, Market Relations
- Doug Greig, Vice President, Finance and Administration
- Mike Hogan, Vice President, China Operations
- Michael Loseth, Vice President, International Marketing.

#### **BOARD'S GOVERNANCE PRINCIPLES**

The Board of Directors has adopted the guiding principles of the provincial government's Crown corporation Governance Framework. The principles outline the roles and responsibilities of all parties, and relate to:

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

The Province's Board Resourcing and Development Office has promulgated guidelines for Crown corporations, which include a comprehensive description of best practices. FII's status in respect of these guidelines, including points of variance, is included among corporate reports posted on the company's website at [www.bcfii.ca](http://www.bcfii.ca).

#### **INDUSTRY ADVISORY COMMITTEE**

FII is supported by a Strategy Committee of senior executives from the Coast and Interior forest industries representing primary and secondary manufacturing as well as the remanufacturing sector. The committee meets regularly to provide strategic advice to FII on programming, investments and organizational objectives. A separate Market Acceptance Advisory Group provides regular advice on issues related to the environmental attributes of BC forest products.

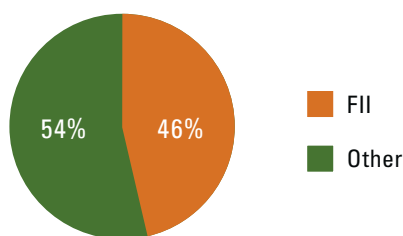
## 2. STRATEGIC CONTEXT

The forest industry is a key driver of the BC economy, accounting for about 15 percent of provincial economic activity and more than 40 percent of provincial exports by value. Forest companies directly employ more than 81,000 people in communities throughout the province, with more than 80 percent of output being shipped to markets outside Canada.

Reflecting the importance of international markets to the forest sector, FII's mandate focuses on expanding and diversifying international markets for BC forest products, and ensuring that customers recognize BC's leadership in forest management practices, as well as the high quality of BC wood products.

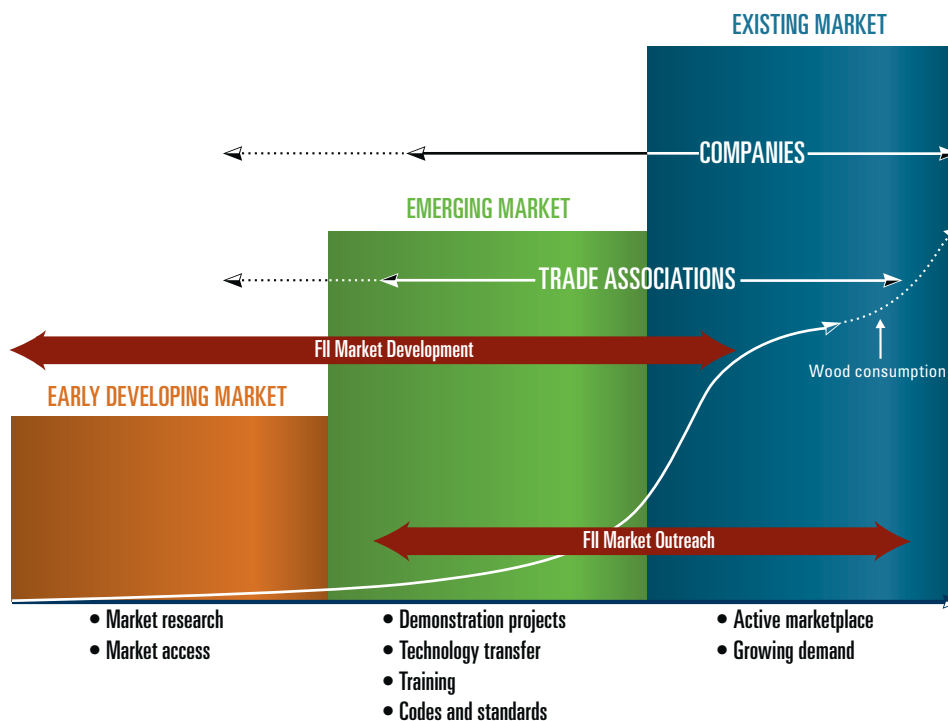
To generate the greatest value for the forest economy, and the best return for taxpayers, about half of FII's budget is used to cost-share activities proposed and delivered by trade associations, universities, and research institutes, and funded jointly with industry and with Natural Resources Canada through its *Canada Wood Export Program*. On a project basis, FII's investments leverage more than \$12.4 million of additional spending by industry and the federal government.

**Project cost share 2007/08**



In addition, FII directly undertakes work that is more effectively delivered by a government agency, such as market outreach activities, preliminary market research and elements of the market promotion activities in China.

As illustrated in the following chart, Market Development programs tend to focus on areas where markets are in the early stages of development, whereas Market Outreach focuses on customers and consumers in already established markets.



## RISKS AND OPPORTUNITIES

As a market development agency, FII's strategic issues relate not only to the markets for BC forest products, but also to domestic factors that influence product supply and quality. The major factors at play, and FII's related actions, are as follows:

### United States market

**Context:** More than 80% of BC 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 late 2009. BC exports in the first six months of 2007 were almost 17% less than in 2006. Lumber prices were also significantly lower in 2007 than a year earlier, in part because the value of the American dollar was so much lower, and BC companies are paid in US currency for their sales in America.

**Action:** FII cannot directly influence macro factors such as exchange rates and global demand for forest products. However, about one-third of spending on Goal 1 (expand market opportunities) is targeted to protect and develop the US market. The remaining funds target other markets, with a focus on Asia, in order to diversify markets for BC wood products and reduce the risk that comes with the heavy dependence on the US.

### Mountain Pine Beetle epidemic

**Context:** The Mountain Pine Beetle is destroying the Interior pine forests of British Columbia. Since pine is a major commercial species in the Interior, the outbreak has significant long-term consequences for the forest sector. FII is one of several government agencies involved in the Province's action plan, with responsibility for developing strategies to maximize the economic value of MPB fibre. Research conducted by FII in 2006 and 2007 demonstrated the extent to which the quality of dead pine trees is deteriorating over time.

**Action:** FII is planning further research to better understand the fibre quality issues of MPB timber and the implications of these findings for milling and manufacturing. FII is also funding product development research, including solid and composite wood products, pulp, and feedstock for bio-energy production, to find new markets for MPB wood. The search for economic utility is addressed in Goal 1.

### Secondary manufacturing

**Context:** The BC forest economy includes a large secondary manufacturing sector that consumes about one-third of the provincial timber harvest. More than half of the companies in the sector are small businesses that face intense competitive pressures from low-cost, overseas suppliers, as well as the high value of the Canadian dollar.

**Action:** In November 2007 FII introduced the Business Innovation Program, designed to make the sector more competitive. The program is expected to be fully in place in 2008/09 and will become a keystone element under Goal 1.

### Market potential in Asia

**Context:** The rapid growth of the Chinese economy grabs headlines, but growth is robust throughout Asia-Pacific, and other countries offer significant opportunities for BC forest products.

**Action:** Since its inception, FII has played a major role in the Province's economic development programs in Asia. FII operates the Dream Home Canada centre in Shanghai and recently opened an office in Beijing. FII plans to invest the majority of its market development (Goal 1) funds in Asian

markets, including Japan (BC's largest export market after the United States), China, Korea, Vietnam and other developing markets.

### **Affordable housing**

**Context:** The demand for basic affordable housing is increasing due to widespread continuing urbanization in many countries, and to natural disasters that displace hundreds of thousands of people every year. Wood frame housing offers a potential solution in many regions where systems can be designed to local conditions, erected quickly, and priced competitively.

**Action:** In 2007, with the assistance of FII and the BC Institute of Technology, the Mongolian government formally adopted the wood frame component of the Canadian Building Code. In 2008 FII is planning to build two demonstration houses in Ulaanbaatar, the capital of Mongolia, where 500,000 people are living in temporary housing. These activities support diversification and expansion of market opportunities (Goal 1).

### **2010 Olympic and Paralympic Winter Games**

**Context:** The Games will provide an opportunity to showcase wood use and advanced wood technologies in large-scale facilities, such as the Richmond Oval and the expanded Vancouver Convention Centre. Wood use for commercial and institutional buildings has a small market share when compared to the dominant use of structural steel and concrete. This provides a significant opportunity to develop a new market in North America and offset the BC forest industry's reliance on the residential housing sector.

**Action:** Wood use is featured in the all-wood roof of the Richmond Oval and internal finishing components (ceilings and walls) of the convention centre. These structures are being used as case studies of advanced wood technology through communication targeted to architects, engineers and other groups in the commercial building sector. These activities will extend through to the 2010 Games and support Goal 1 by developing new markets for BC wood products.

### **Green building movement**

**Context:** Making new buildings more environmentally friendly may be the most significant trend in the North American construction industry. One survey in the United States found that 90% of home builders are now incorporating green ideas into their designs.

**Action:** FII's market outreach program has extended its scope beyond promoting BC's sustainable forest management practices, to promoting wood itself as a green building material. The program is partnering with provincial and national industry groups, and other government agencies, to promote the environmental benefits of building with wood. Plans are to develop a new green image for wood, particularly in terms of mitigating climate change. The extension of the program supports Goal 1 (market expansion) and Goal 2 (recognition of BC as a leader in sustainable forest management).

### **Coastal forest sector**

**Context:** Hemlock and Balsam 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 Canada Tsuga products has been well received in Japan. The product was developed with funding from FII.

**Action:** FII plans to continue investing in research to develop new ways of processing hem-fir and new product lines that reflect market demand. The work will be lead by FPIInnovations, with significant funding from FII. This will support Goal 1 by expanding and diversifying international markets.

**Forests and climate change**

**Context:** Environmental issues continue to be among the most urgent public policy issues in many countries. The debate over global warming has broadened concerns about forest practices from protection of the natural environment to the impact of forestry practices on greenhouse gases. Energy self-sufficiency in the forest industry, and the production of various forms of bio-energy may be significant factors in this regard.

**Action:** FII's market outreach materials are updated regularly to respond to emerging concerns about forest practices. The program is working with industry and other government agencies to strengthen the image of wood as a green building product (see green building movement). These activities support Goal 2 (recognition of BC as a leader in sustainable forest management).

### 3. GOALS, STRATEGIES, MEASURES AND TARGETS

FII expects to fulfill its mission and vision by achieving the following three goals that remain unchanged from the 2007/08-2009/10 service plan:

**Goal 1:** Expanded market opportunities that are beneficial to the BC forest sector.

**Goal 2:** International recognition of BC as a leader in sustainable forest management.

**Goal 3:** FII positioned as a highly effective, innovative and responsive organization.

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

FII is working with its partners to ensure that the BC forest industry:

- can respond to the challenges and changes in traditional markets;
- is positioned to take advantage of market opportunities as they arise;
- offers the products that customers want; and
- is a reliable source of the world’s finest wood products.

FII and its partners provide market research and market intelligence so that the industry can make strategic decisions on where to target products, explore new partnerships, and better understand where the most effective business opportunities lie.

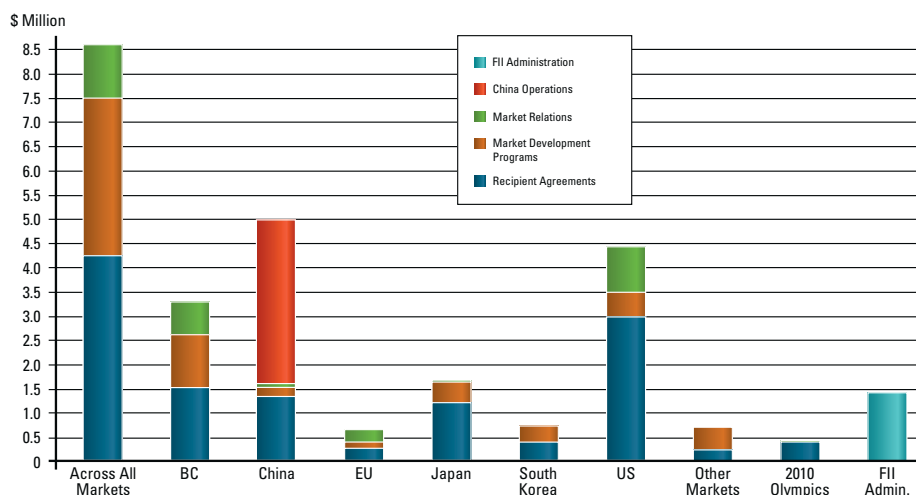
Diversifying BC’s markets for forest products is important to the long-term success and prosperity of the industry. FII assesses progress in this regard by tracking the BC industry’s volume and value of sales, and its market share, in the United States, Japan, the European Union, China and Korea, against a backdrop of changing global wood markets and competition, consumption patterns, currency and exchange rates, and other externally controlled factors.

#### Objectives

- Investments are delivered through a strategic, balanced portfolio designed to enhance the awareness and acceptance of BC forest products internationally.
- Market development activities are developed and delivered collaboratively based on provincial, federal and private-sector contributions and support.

The following graph indicates how FII’s budget was distributed geographically in late 2007.

**Summary of budget by market region**



### Strategies

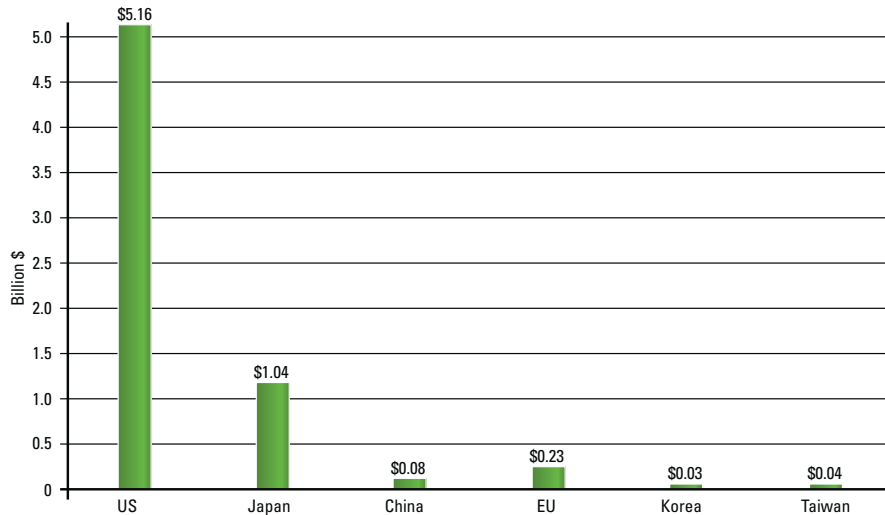
FII intends to:

- increase demand and acceptance of Canadian wood products through promotional activities;
- enable and protect market access for Canadian wood products by:
  - ~ developing or refining foreign codes and standards; and
  - ~ addressing phyto sanitary requirements and other non-tariff barriers;
- ensure that international architects, builders, officials and other key influencers have the necessary skills and information to specify and use BC wood products;
- ensure that overseas office infrastructure is in place to deliver effective programs;
- increase the competitiveness of BC firms by improving their awareness and use of new and existing technologies, markets and marketing information, and products and processes;
- conduct market research to identify opportunities, barriers, market size and strategies for Canadian wood products;
- promote increased wood usage in recreational, commercial, institutional applications;
- foster higher value for BC wood products by improving existing wood products and developing new products and processes;
- maximise opportunities for fibre impacted by natural disturbance agents (e.g., Mountain Pine Beetle, forest fires, etc.); and
- deliver significant demonstration projects as platforms for informing foreign government officials, developers, builders and consumers.

### Market indicators

FII tracks the following indicators of how well BC's forest sector is doing in foreign markets.

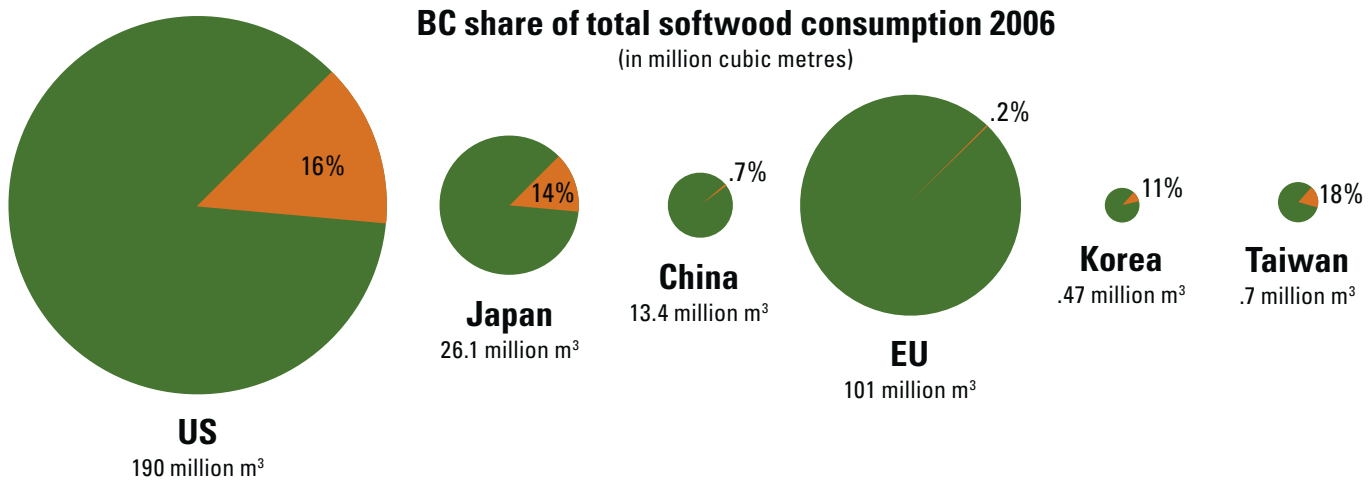
### BC softwood product sales - 2006





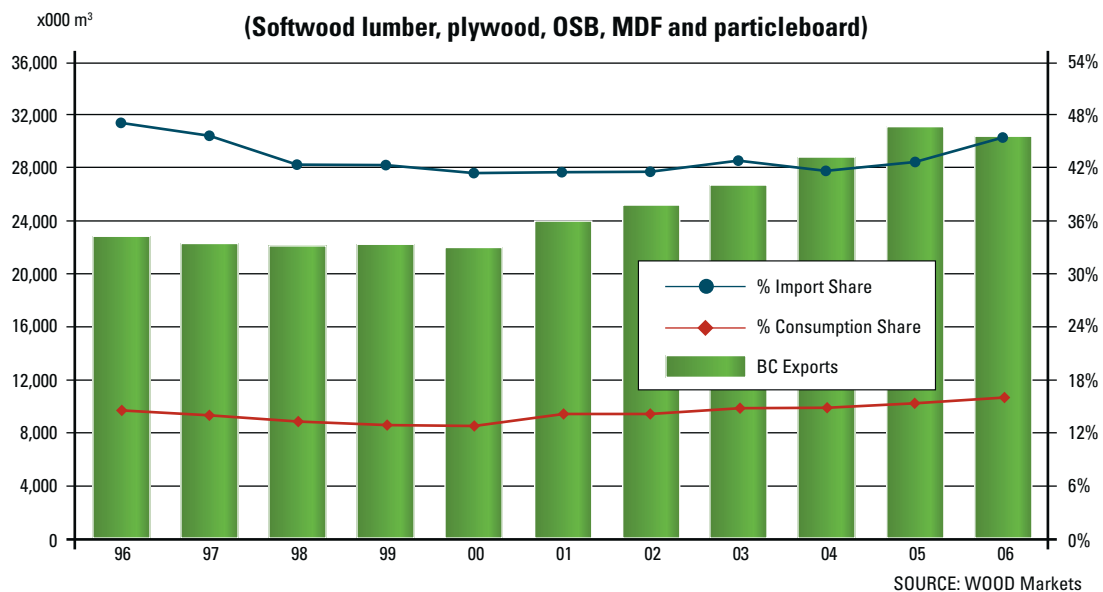
### BC share of total softwood consumption 2006

(in million cubic metres)



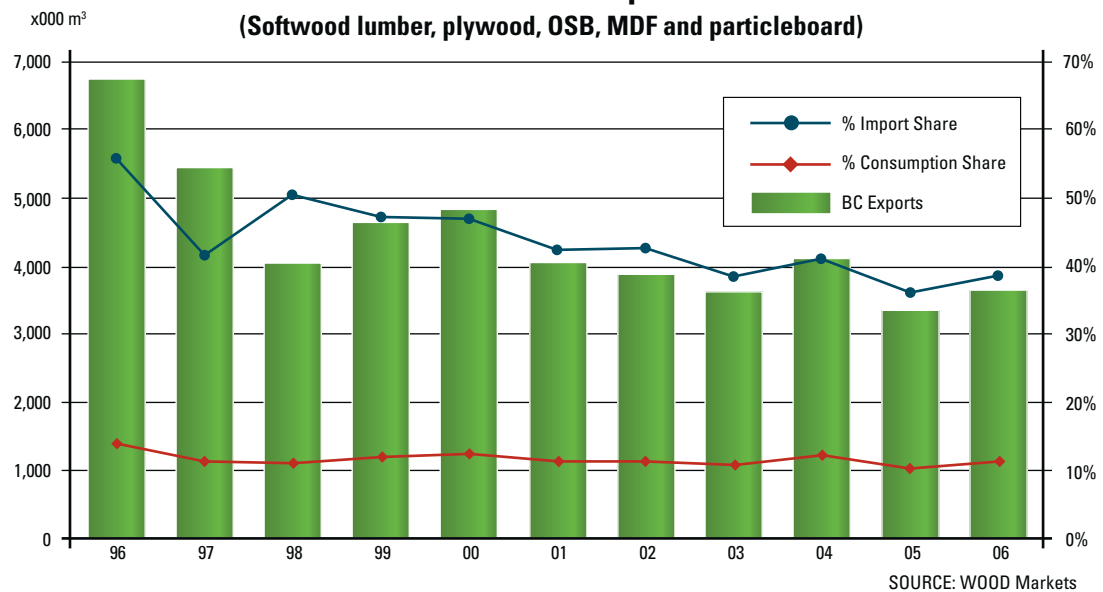
### BC Sales in USA

(Softwood lumber, plywood, OSB, MDF and particleboard)

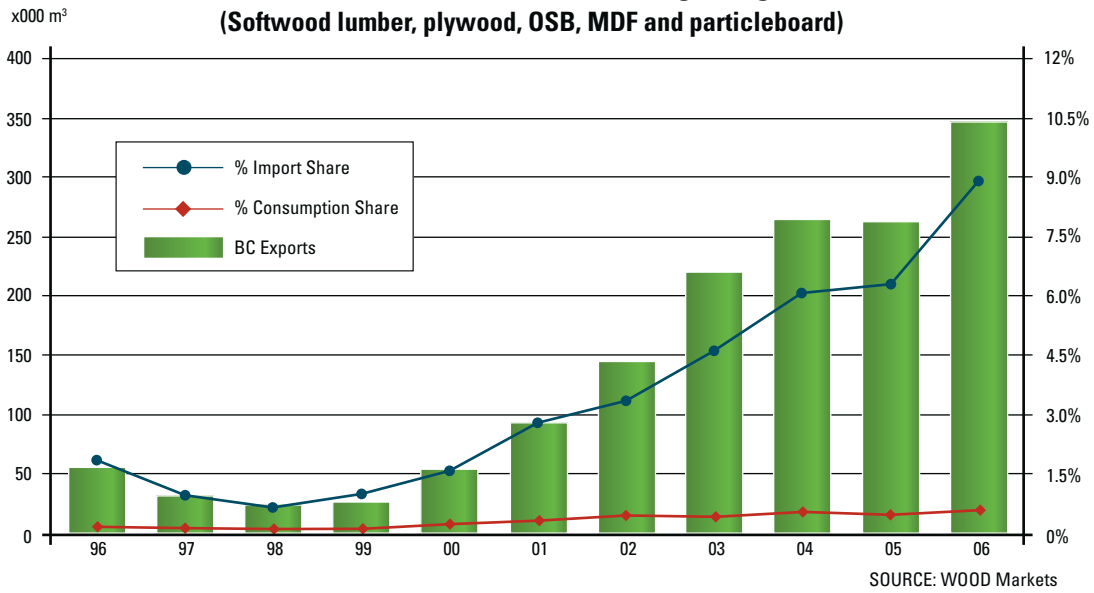


### BC Sales in Japan

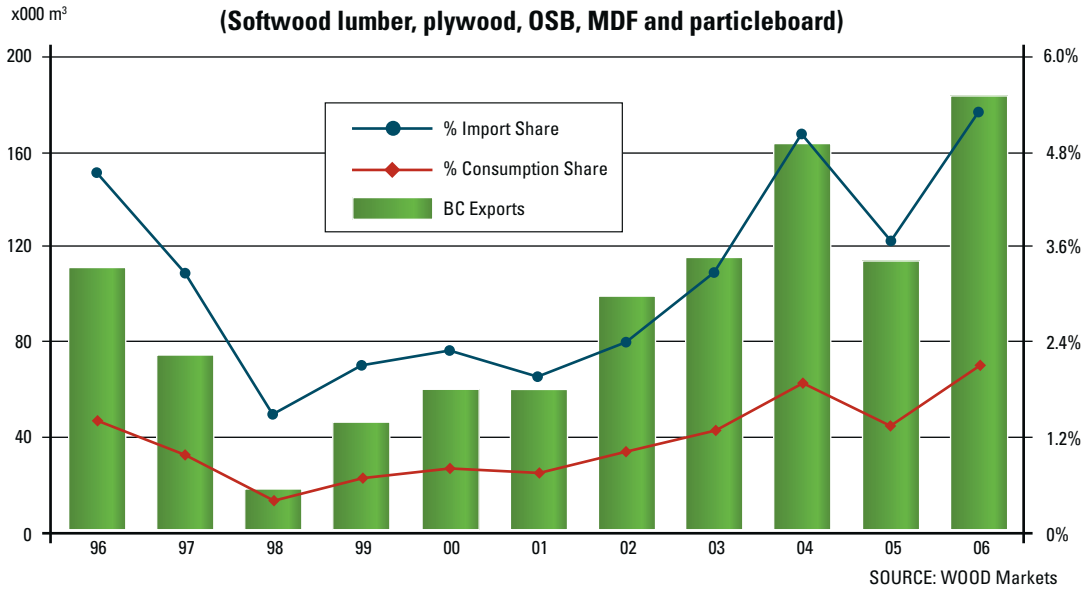
(Softwood lumber, plywood, OSB, MDF and particleboard)



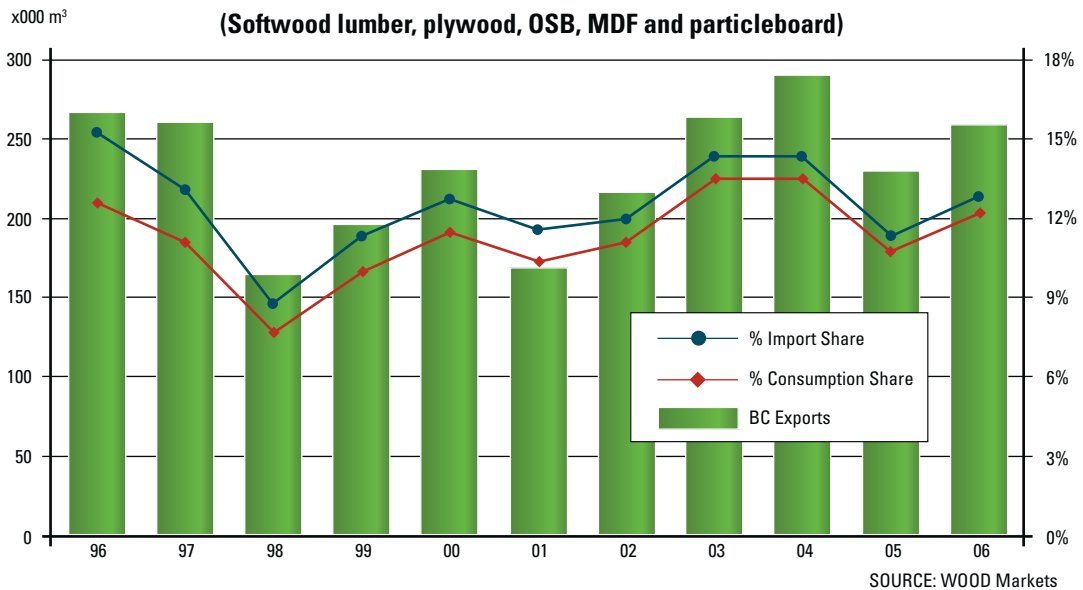
### BC Sales in China (Incl. Hong Kong) (Softwood lumber, plywood, OSB, MDF and particleboard)



### BC Sales in Korea (Softwood lumber, plywood, OSB, MDF and particleboard)



### BC Sales in Taiwan (Softwood lumber, plywood, OSB, MDF and particleboard)



**Performance measures**

All performance measures in this Service Plan are intended to track how well FII is doing with activities under its direct control, as opposed to activities that it funds but which are delivered by other organizations.

The performance measures for Goal 1 are as follows:

Performance Measure		2006/07 Actual	2007/08 Forecast	Target		
				2008/09	2009/10	2010/11
A	On a scale of 1 to 10, level of key stakeholder support for development and delivery of market development programs, as measured in independently conducted bi-annual surveys	n/a	8.0	n/a	8.0	n/a
B	Financial contribution of key partners to projects partially funded by FII	53%	50%	50%	50%	50%
C	Number of demonstration projects completed	4	4	3	3	3

Performance Measures A and B will document the extent to which the BC forest industry values FII’s suite of Market Development activities. FII expects there will always be room for improvement, and that not all stakeholders will always agree with FII’s priorities and funding policies. Hence FII believes that a rating of 8 out of 10 is a reasonable target for Performance Measure A.

Subjective stakeholder support for FII is one thing; actually contributing cash to jointly funded projects is another. Performance Measure B is intended to track how supportive industry and the federal government is on a cash basis. Given that the financial circumstances of the BC forest industry are at an all-time low in late 2007, it will be a challenge to continue attracting private-sector funds at the historical level of about 50-percent of the cost of the relevant activities.

Performance Measure C will document FII’s success in delivering significant demonstration projects in China and elsewhere. As the sophistication of projects grows, and the involvement of foreign participants becomes more complex, the number will likely drop slightly.

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

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

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



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

A new feature of the Market Outreach Program will involve collaboration with other forest-sector stakeholders in making customers and consumers aware of how sustainable forest management and practice can be a major element in combating climate change.

### Objectives

- Customers broadly agree that BC forest products come from well managed forests.
- Customers recognize that the British Columbia forest industry is helping to reduce the impact of climate change mitigation through sustainable forest management and the delivery of green building products.
- Market communications are delivered in a collaborative, coordinated and strategic manner.
- Key stakeholders recognize the program as a leader in the delivery of market acceptance initiatives.

### Strategies

FII's strategies include:

- gathering market intelligence through research and surveys;
- providing international customers with timely, credible information regarding BC forest practices;
- monitoring and analyzing the internet and mainstream and trade media;
- building and maintaining support for BC as world leader in sustainable forest management.
- positioning the Market Outreach Program as a credible source of factual information regarding forest management in BC;
- providing advocacy support where BC forest products are unfairly targeted;
- conducting in-market activities through trade shows, seminars and meetings with customers;
- developing and leading forest tours for customers and key influencers; and
- producing technically accurate and credible information materials for a broad international and domestic audience.

### Performance measures

The performance measures for Goal 2 are:

Performance Measure			Target			
			2006/07 Actual	2007/08 Forecast	2008/09	2009/10
D	On a scale of 1 to 10, level of key stakeholder support for development and delivery of the market outreach program, as measured in independently conducted bi-annual surveys	n/a	8.0	n/a	8.0	n/a
E	Percent of customers who feel that choosing products from BC (Canada) is a good choice for the environment, as measured in independently conducted bi-annual surveys	93%	n/a	90%	n/a	90%

Performance Measure D is similar to Performance Measure A in that it will document the extent to which the BC forest industry values FII’s suite of Market Outreach activities. Again, there is always room for improvement, and sometimes less than unanimous agreement on FII’s priorities or funding policies, and so a rating of 4 out of 5 should be reasonable.

Ultimately, the Market Outreach Program aims to influence the industry’s customer base. Performance Measure E will track their evolving views about the environmental merits of BC forest products.

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

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

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

**Objectives**

- FII is efficient, transparent, and results focused.
- Expert staff are dedicated to the organization’s success and committed to continuous improvement.
- The organization embraces socially responsible practices, including minimizing its carbon footprint.

**Strategies**

FII’s strategies include:

- ensuring the integrity of funding to other organizations, provided in a timely fashion for activities that will enhance forest sector well being;
- implementing a rigorous program of monitoring, auditing and evaluating projects delivered by other organizations, according to explicit risk assessments;
- ensuring regular and accurate reporting on the results of investments in support of corporate goals and objectives and in accordance with government and contractual requirements;
- keeping corporate service costs at or below 6 percent of total budget;
- ensuring that staff are afforded ample opportunities for personal development, as well as for formally and confidentially evaluating the FII workplace; and
- developing and implementing a corporate social responsibility policy.

**Performance measures**

The performance measure for Goal 3 is:

				Target		
	Performance Measure	2006/07 Actual	2007/08 Forecast	2008/09	2009/10	2010/11
F	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

Nearly half of FII's budget is used to fund work delivered by other organizations, who are funded through an annual competitive Call for Proposals. The process is extremely important to FII's funding recipients, and is complex in terms of:

- being harmonized with the federal government,
- accepting a very large number of complicated proposals, and
- involving a rigorous independent evaluation.

One of FII's highest priorities is to administer the competitive process in such a way that funding is available to recipients by the beginning of each fiscal year. Performance Measure F tracks whether that annual target is achieved or not.

## 4. SUMMARY FINANCIAL OUTLOOK

Forestry Innovation Investment Ltd.  
Service Plan Budget 2007-2011

	Actual 06/07 (000's)	Projected 07/08 (000's)	Budget 08/09 (000's)	Budget 09/10 (000's)	Budget 10/11 (000's)
<b>Revenue</b>					
Contribution from the Province of BC <sup>(1)</sup>	\$ 23,506	\$ 26,750	\$ 24,000	\$ 24,000	\$ 23,000
Transferred from deferred Revenue	\$ 924	\$ 1,879	\$ 1,686	\$ 1,220	\$ 79
<b>Total Revenue</b>	<b>\$ 24,430</b>	<b>\$ 28,629</b>	<b>\$ 25,686</b>	<b>\$ 25,220</b>	<b>\$ 23,079</b>
<b>Expenses</b>					
Market Development Programs <sup>(2)(3)(4)</sup>	\$ 20,064	\$ 23,935	\$ 21,320	\$ 20,927	\$ 18,850
Market Outreach Programs	\$ 2,548	\$ 2,785	\$ 2,550	\$ 2,550	\$ 2,550
Corporate Services	\$ 1,236	\$ 1,400	\$ 1,500	\$ 1,550	\$ 1,600
<b>Total Expenses</b>	<b>\$ 23,848</b>	<b>\$ 28,120</b>	<b>\$ 25,370</b>	<b>\$ 25,027</b>	<b>\$ 23,000</b>
<b>Operating Income</b>	<b>\$ 582</b>	<b>\$ 509</b>	<b>\$ 316</b>	<b>\$ 193</b>	<b>\$ 79</b>
Amortization	\$ 582	\$ 509	\$ 316	\$ 193	\$ 79
<b>Net Income</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Retained Earnings</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Capital Expenditures</b>	<b>\$ 529</b>	<b>\$ 142</b>	<b>\$ 25</b>	<b>\$ 25</b>	<b>\$ 25</b>
<b>FTE's</b>					
Vancouver BC	\$ 15	\$ 16	\$ 16	\$ 16	\$ 16
Shanghai China	\$ 5	\$ 7	\$ 7	\$ 7	\$ 7
<sup>(1)</sup> Includes Mountain Pine Beetle funding (000's)					
	\$ 2,250	\$ 2,250	\$ -	\$ -	\$ -
<sup>(2)</sup> Includes Mountain Pine Beetle Program Expenditures (000's)					
	\$ 2,606	\$ 2,790	\$ 2,000	\$ 2,000	\$ 2,000
<sup>(3)</sup> Includes FII Shanghai (China Program)					
	\$ 3,033	\$ 3,393	\$ 3,100	\$ 3,000	\$ 3,000
<sup>(4)</sup> Includes DHC Prepaid lease write off					
	\$ 342	\$ 1,370	\$ 1,370	\$ 1,028	\$ -

### FINANCIAL NOTES

#### 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 the forest investment account (FIA) to FII.

FII's Mountain Pine Beetle Program has been based upon a share of the \$100 million that the Government of Canada transferred to British Columbia in 2005 to assist in mitigating the impact of the epidemic. The Ministry of Forests and Range administered the funds, charging FII with leading research and development related to the best use of pine trees killed by the epidemic. Although the funding ends at March 31, 2008, FII expects to continue delivering its Mountain Pine Beetle Program at a similar level of activity, drawing from its other Ministry-based 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 Shanghai 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 two percent of the WFOE's expenditures. The annual profit is then subject to PRC corporate tax at the WFOE's year-end.

**Capital initiatives**

The capital expenditures projected for the next three years relate to normal replacement of office furniture and computer equipment in all three years.

**Non-disclosure of information**

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



## INFORMATION

Further information on Forestry Innovation Investment is available at [www.bcfii.ca](http://www.bcfii.ca). A *Report to Stakeholders* published in October 2007 highlights accomplishments in major markets around the world. Previous Service Plans and Annual Service Plan 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.bcforestinformation.com](http://www.bcforestinformation.com), with links to many forest-product companies and trade associations.

Information on FII Shanghai and the China Development Program is available at [www.canadawood.cn](http://www.canadawood.cn).

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