

Forestry Innovation Investment

# Service Plan

2010/2011 – 2012/2013



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# Message from the Board Chair to the Minister Responsible

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March 2, 2010

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

Dear Minister Bell:

I am pleased to present you with the *Forestry Innovation Investment Ltd. Service Plan 2010/11 – 2012/13*. 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 forest industry throughout North America and Europe continues to suffer through 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 its high dependence on the U.S. housing sector, a goal which has always been at the heart of FII's mandate.

For 2010/11, FII plans to reduce its Vancouver-based internal programming by about five percent, and increase funding to other organizations by about nine percent (not including funding for activities in China). The funding for China and relevant program management will be overseen by a new Board of Directors for the FII China subsidiary. Provincial and federal funding for China is expected to total over \$15 million next year, up from about \$14 million in 2009/10.

Programming will continue to be initiated and delivered by FII's China subsidiary, non-profit trade associations, research institutes, and universities. Most of the work done by FII's funding recipients will continue to be cost-shared not only with each recipient organization, but also with Natural Resources Canada through its *Canada Wood Export Program* and its *North American Wood First Initiative*. FII and the forest industry will urge the Government of Canada to renew both programs before their scheduled expiry at the end of 2010/11. FII will continue to rely upon forest industry trade associations to take the lead in, and deliver, market development activities in all locations except China, where FII's subsidiary company will be prominent.

FII's focus continues to evolve in response to the annual Shareholder's Letter of Expectations, changing circumstances and increased understanding of where the best market development potential lies. Core elements continue to include promotion of:

- wood frame construction in China, Korea, and the non-residential sector in the United States and B.C.;
- the use of B.C. hemfir, spruce-pine-fir lumber, and oriented strand board in Japanese housing;
- value-added products in Japan;
- B.C. species for landscaping in China, Japan and Korea;
- western red cedar and value-added products in the United States; and
- specialty wood products (particularly western red cedar and Douglas-fir) in the European Union, Australia and New Zealand.

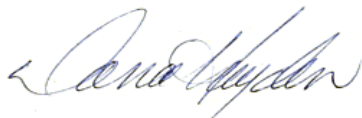
Closer to home, FII expects to financially support the new Wood Enterprise Centre, by which experts in BC Wood Specialties Group and FPIInnovations will collaboratively assist value-added firms to improve their product design, manufacturing and marketing skills, and the Canadian Wood Council will assist with the use of wood products in non-residential construction in B.C.

Across all markets and product lines, FII staff will ensure customers have factual, credible information about our province's forest management and about the environmental and climate change attributes of B.C. forest products. Staff are particularly engaged in the emerging "green building" movement that has grown beyond its roots in the United States.

The remarkable pace of growth in China presents unprecedented potential to create a market for B.C. structural lumber products. FII expects to heavily weight its expenditures to creating new demand in China, with the main focus on low-rise multi-family residential construction and landscaping applications. In particular, this will include delivering the remaining federal/provincial donation of \$3.3 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. In parallel to the earthquake reconstruction, a number of large-scale demonstration projects will be delivered, largely with funding from Natural Resources Canada. These will include a pavilion in the Urban Best Practices area of Expo 2010, a large multi-storey wood frame townhouse project in Shanghai, a multi-storey wood frame apartment building in or near Beijing, and potentially other projects.

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 B.C. forest industry and by extension, the province.

The *2010/11 - 2012/13 Forestry Innovation Investment Service Plan* was prepared under the Board's direction in accordance with the *Budget Transparency and Accountability Act* and the B.C. Reporting Principles. The plan is consistent with government's strategic priorities and fiscal plan. The Board is accountable for the contents of the plan, including what has been included in the plan and how it has been reported. All significant assumptions, policy decisions, events and identified risks as of December 15, 2009 have been considered in preparing the plan. The performance measures presented are consistent with the mandate and goals of Forestry Innovation Investment Ltd., and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of Forestry Innovation Investment's operating environment, forecast conditions, risk assessment, and past performance.



Dana Hayden  
Chair, Board of Directors  
March 2, 2010

## Organizational overview

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Forestry is a \$12 billion industry in British Columbia, with more than 80% of output sold to buyers in other countries. Maintaining strong export markets, therefore, is vital to the sustainability of the sector and to the tens of thousands of British Columbians directly employed by the industry.

As a provincial Crown corporation, Forestry Innovation Investment Ltd. (FII) is mandated to work with the industry and other government agencies to develop and diversify markets for B.C. forest products around the world.

### Enabling legislation and mandate

FII was incorporated under the *Business Corporations Act* on March 31, 2003. As documented in detail later in this document, the most recent *Shareholder's Letter of Expectations* from the Minister of Forests and Range in November 2009 refreshed FII's mandate to support a stronger provincial forest sector by promoting domestic and international sales of B.C. forest products.

FII provides funding for industry marketing programs, supports applied research to improve competitiveness and open up new markets, and delivers marketing programs to supplement those of the industry. FII-based activities vary by market segment, as explained in the following table.

No Significant Existing Demand	Emerging Market Segment	Mature Market Segment
<b>Focus:</b>		
<ul style="list-style-type: none"> <li>Identify potential opportunities for sales of BC forest products</li> <li>Introduce products and applications</li> </ul>	<ul style="list-style-type: none"> <li>Develop market for BC forest products to a robust commercial scale</li> </ul>	<ul style="list-style-type: none"> <li>Maintain or increase BC market</li> </ul>
<b>Roles:</b>		
<b>Forestry Innovation Investment</b>		
<ul style="list-style-type: none"> <li>Conduct market research to identify opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Provide funding for trade association marketing programs</li> </ul>	<ul style="list-style-type: none"> <li>Provide funding for trade association niche marketing programs</li> </ul>
<ul style="list-style-type: none"> <li>Identify key factors or barriers to growth</li> </ul>	<ul style="list-style-type: none"> <li>Partner in specific markets with associations on market development</li> </ul>	<ul style="list-style-type: none"> <li>Position BC forest products as environmentally superior</li> </ul>
<ul style="list-style-type: none"> <li>Develop market entry strategy, when potential market is identified</li> </ul>	<ul style="list-style-type: none"> <li>Promote environmental merits of BC forest practices and products</li> </ul>	

(Continued)

No Significant Existing Demand	Emerging Market Segment	Mature Market Segment
<b>Roles:</b>		
<b>Trade Associations</b>		
<ul style="list-style-type: none"> <li>• Work with FII on market entry strategies</li> </ul>	<ul style="list-style-type: none"> <li>• Build BC's market presence</li> </ul>	<ul style="list-style-type: none"> <li>• Maintain market awareness and preference for BC forest products</li> </ul>
<ul style="list-style-type: none"> <li>• Respond to market access barriers</li> </ul>	<ul style="list-style-type: none"> <li>• Overcome market access barriers</li> </ul>	<ul style="list-style-type: none"> <li>• Intervene to prevent new market access barriers</li> </ul>
<ul style="list-style-type: none"> <li>• Provide technical transfer, quality assurance and support for updating codes and standards</li> </ul>	<ul style="list-style-type: none"> <li>• Provide technical transfer, quality assurance and support for updating codes and standards</li> </ul>	
<b>Individual Firms</b>		
<ul style="list-style-type: none"> <li>• Minimal activity</li> </ul>	<ul style="list-style-type: none"> <li>• Market entry sales activities</li> </ul>	<ul style="list-style-type: none"> <li>• Build sales/market share to a profitable and sustainable level</li> </ul>

More than half of FII's budget is made available to industry trade associations, universities, and research institutes for market research and development activities. Their activities are typically funded by FII, Natural Resources Canada through its *Canada Wood Export Program* and its *North American Wood First Initiative*, and the funding recipients themselves.

In 2009/10, FII's \$11.4 million in funding to other organizations leveraged over \$17 million of contributions from industry and the federal government, so that the total value of their product and market development activities was approximately \$29 million.

For 2009/10 the projected cost sharing of the activities delivered by other organizations and to which FII contributed funding was:

FII:	40%
Natural Resources Canada and other federal agencies:	41%
B.C. forest industry:	19%

In addition, FII will have directly delivered some \$15 million worth of programming in Canada, China and elsewhere.

## Vision, Mission and Values

FII's vision, mission and values reflect its mandate as the forest products marketing agency of the provincial government:

**Vision:** Forestry Innovation Investment is an effective catalyst in positioning British Columbia as the leading global supplier of environmentally superior 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.

## Core business areas

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



Two significant changes occurred in 2009/10:

- FII’s Market Development and Market Outreach programs were combined into one business unit under one Vice President, thus more fully integrating all marketing activities and improving the efficiency of program delivery.
- A Board of Directors composed primarily of senior forest industry executives was created to govern the subsidiary company in China. See the Governance section of this document for more details on the change.

## Benefits to British Columbia

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 for B.C. forest products and creating the potential for new jobs to service these markets;
- building awareness of B.C. internationally, particularly in the Asia-Pacific region, which helps strengthen and grow trade ties; and
- supporting the growth of a sustainable and green economy by promoting the environmental benefits of wood in structural and non-structural applications and greater use of renewable wood products from B.C.

## Principal partners, clients and stakeholders

The following table lists the many and varied organizations with which FII frequently inter-relates:

Organization	Relationship
<b>Government</b>	
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 and investment promotion 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 the <i>Canada Wood Export Program (CWEP)</i> and the <i>North American Wood First Initiative</i>
Western Economic Diversification Canada	Provides funding for the Business Innovation Program
<b>Other</b>	
B.C. forest industry associations: <ul style="list-style-type: none"> <li>• APA – The Engineered Wood Association</li> <li>• BC First Nations Forestry Council</li> <li>• BC Shake and Shingle Association</li> <li>• BC Wood Specialties Group</li> <li>• Canada Wood Group</li> <li>• Canadian Wood Council – WoodWORKS! BC</li> <li>• Cedar Shake and Shingle Bureau</li> <li>• Coast Forest Products Association</li> <li>• Council of Forest Industries</li> <li>• Western Red Cedar Export Association</li> <li>• Western Red Cedar Lumber Association</li> <li>• Wood Products Council</li> </ul>	Funding recipients that initiate and deliver domestic and international marketing programs and that may also receive funding from Natural Resources Canada and/or other partner organizations



Organization	Relationship
<b>Other (continued)</b>	
Post-secondary and research institutions: <ul style="list-style-type: none"> <li>• University of British Columbia</li> <li>• British Columbia Institute of Technology</li> <li>• FPInnovations (Forintek, FERIC and Paprican Divisions)</li> </ul>	Partners and/or funding recipients that initiate and deliver product development and technical research, and overseas training programs to build local capacity in wood frame construction
<ul style="list-style-type: none"> <li>• Forest Products Association of Canada</li> <li>• Department of Natural Resources, Government of Canada</li> <li>• Department of Foreign Affairs and International Trade, Government of Canada</li> <li>• FPInnovations (Forintek Division)</li> <li>• B.C. Forestry Climate Change Working Group</li> <li>• Sustainable Building Coalition</li> </ul>	Partners in developing and delivering programs promoting B.C.'s sustainable forest practices and the environmental benefits of wood products and the forest sector

In Asia, a federation of trade associations known as Canada Wood Group leads market development activities in Japan and South Korea, with funding provided by FII, Natural Resources Canada and the associations. Activities involve building relationships with government officials, developers and the building sector, and research institutions on topics related to market access (e.g., acceptability of B.C. species and grades in local building and fire codes), market development (marketing and promotion) and related issues.

In China, FII and Canada Wood Group collaborate on a suite of activities including market research, marketing, government relations, demonstration buildings, quality assurance and training. Key relationships are maintained with government agencies, the architectural faculties of several universities, developers and builders.

In the United States, trade associations, including the Wood Products Council, Western Red Cedar Lumber Association, and B.C. Wood Specialties Group lead market development activities funded by FII and industry. Activities focus on niche markets in the residential construction and related sectors as well as the emerging market for wood in the non-residential sector.

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

**Corporate locations**

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

# Corporate Governance

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## Board of Directors

The three-member Board of Directors is accountable to the Minister of Forests and Range:

- Dana Hayden, Deputy Minister of Forests and Range (Chair)
- Don Fast, Deputy Minister of Small Business, Technology and Economic Development
- Lori Wanamaker, Deputy Minister of Tourism, Culture and the Arts

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 filled by Lori Wanamaker, Chris Trumpy and John Desjardins.

## 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](http://www.bcfii.ca/about_fii/corporate_governance.htm).

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](http://www.bcfii.ca/about_fii/corporate_governance.htm).

## Industry Advisory Committees

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

- the Strategy Committee offers strategic direction on all of FII's programming, investments and market development goals;
- the Market Acceptance Advisory Group offers strategic direction on FII's Market Outreach programming; and
- the Business Innovation Program (BIP) Advisory Committee offers strategic direction to FII on BIP priorities and program services.

## FII executive management

- Ken Baker, CEO
- Doug Greig, Vice President, Finance and Administration
- Mike Hogan, Vice President, China Operations
- Michael Loseth, Vice President, Operations

## Subsidiary company

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

**Primary business:** Government-to-government relations, demonstration projects and market research.

**Objective:** Create new commercial opportunities for the B.C forest industry, especially by introducing wood frame building technology to China.

**Governance:** To date, led by an Executive Director (FII CEO, Ken Baker) and General Manager (Mike Hogan), but soon to be governed by a Board of Directors reporting to the FII Board of Directors.

**Financial information:** See the Summary Financial Outlook.

# Strategic Context

## Internal operating environment

A restructuring of FII operations in B.C. took place at the start of the fourth quarter of 2009/10 (see Core Business Areas). The change was designed to increase operational efficiency and allow FII to achieve its mandate more effectively in harmony with the industry’s market development activities.

FII and its China subsidiary both rely heavily on temporary consultants and contractors to deliver specific projects. This is especially critical in the Canada – B.C. Wenchuan Earthquake Reconstruction Projects. Management expects that the flexibility inherent in short-term positions will allow programming to quickly adapt to any changes invoked by the new Board of Directors for FII China.

## Economic and Industry Factors

Situation	FII Response
<b>United States market demand</b>	
<ul style="list-style-type: none"> <li>Historically the BC lumber industry’s customer base has been overwhelmingly skewed to the United States residential construction sector. That sector collapsed in 2007 and is not expected to improve substantially until 2011 or later.</li> <li>B.C. lumber exports in the first 11 months of 2009 were down 27% by volume from the same period in 2009.</li> </ul>	<ul style="list-style-type: none"> <li>One of FII’s prime objectives is to diversify the long-term demand for BC wood products. In 2010/11 most country-specific expenditures will be targeted to maintaining and dramatically increasing demand in Asia, and to promoting adoption of wood products in non-residential structures in the United States.</li> </ul>
<b>Asian market demand</b>	
<ul style="list-style-type: none"> <li>China and other countries in Asia offer significant opportunities to diversify sales away from the United States due to their faster rebound from the global downturn and greater prospects for future economic growth.</li> <li>In the first 9 months of 2009, lumber exports to China were double those of the same period in 2008.</li> </ul>	<ul style="list-style-type: none"> <li>Through its subsidiary in China, FII is playing a major role in the Province’s economic development programs in Asia. Examples include delivery of the joint federal/Provincial donation of \$8 million worth of wood frame reconstruction after the Wenchuan Earthquake. This is generating significant Chinese interest in B.C. wood products and design.</li> <li>In support of market diversification in 2010/11, FII anticipates directing over three-quarters of its country-specific expenditures to China, Japan and Korea.</li> <li>In early 2010, a Board of Directors is being created for FII’s subsidiary in China, with members drawn mostly from the executive ranks of the BC forest industry. The new Board will have considerable autonomy in developing and delivering the China market development program, including influencing activities of BC trade association staff in China.</li> </ul>

Situation	FII Response
<b>Global competition</b>	
<ul style="list-style-type: none"> <li>• Competition from the rest of the world’s forest industries is growing every day. Continuing innovation in product development is needed to respond to that, and to ever-changing changing buyer demands and consumer preferences.</li> <li>• The rise in relative value of the Canadian dollar is highly detrimental to Canadian industry revenues because many forest products are sold in U.S. dollars.</li> <li>• Constant improvement in processes at all stages of fibre use – harvesting, manufacturing and delivery – is necessary to continuously improve BC’s product mix and remain competitive.</li> </ul>	<ul style="list-style-type: none"> <li>• Although other organizations are better placed to directly undertake product research and development, and to more substantially fund that kind of work, FII will continue to allocate about four percent of its total budget to product development and technical research of unique interest to BC firms. The scope will continue to span engineered wood products, value-added products and the pulp and paper sector.</li> <li>• One of FII’s fundamental objectives is to create greater long-term diversity in the B.C. industry’s customer base to potentially increase sales denominated in non-U.S. currencies.</li> </ul>
<b>Coastal forest sector</b>	
<ul style="list-style-type: none"> <li>• On the Coast, hemlock and amabilis fir (hemfir) are the dominant species, with unique inherent features but subject to typically high operating costs in harvesting and manufacturing. Market demand for hemfir is not strong enough to make the Coast industry broadly profitable.</li> </ul>	<ul style="list-style-type: none"> <li>• FII continues to place a priority on developing strategic options for hemfir, including research on fibre supply, technical issues and market and product development. As such, FII pays close attention to ensuring that the work it funds is a good fit with FPInnovation’s <i>BC Coastal Forest Sector Hem-Fir Initiative</i>, led by a steering committee of senior industry and government representatives.</li> </ul>
<b>Interior forest sector</b>	
<ul style="list-style-type: none"> <li>• The Mountain Pine Beetle epidemic is having a devastating impact on fibre supply and timber quality.</li> <li>• As the epidemic reduces the availability of pine, the mix of the Interior harvest will shift more towards spruce and fir with potential consequences for solid wood, engineered wood, and pulp and paper products.</li> </ul>	<ul style="list-style-type: none"> <li>• FII will continue investing in MPB-related research through the product development and technical research activities noted above.</li> <li>• The FII Investment Strategy for 2010/11 highlights the need to analyze the impact of the shifting species mix on the Interior industry.</li> </ul>

(Continued)

Situation	FII Response
<b>Non-residential sector</b>	
<ul style="list-style-type: none"> <li>• While wood-frame construction is the preferred choice for residential housing across North America, most commercial, recreational and institutional buildings are built of concrete and steel.</li> <li>• Advanced wood design and technologies, coupled with rising costs of producing cement and steel, are beginning to make wood a practical and more cost-effective solution.</li> </ul>	<ul style="list-style-type: none"> <li>• FII is now funding a major program delivered by the Wood Products Council in three regions of the United States, promoting adoption of wood-based technologies in the non-residential sector.</li> <li>• The 2010 Olympic Games venues, such as the Richmond Olympic Oval, are now being actively promoted as examples of advanced wood technology in the non-residential sector, with an emphasis on Canadian and U.S. markets.</li> <li>• This supports the Province’s <i>Wood First</i> initiative and changes to the provincial building code that now allow six-storey wood-frame buildings.</li> </ul>
<b>Secondary manufacturing</b>	
<ul style="list-style-type: none"> <li>• As with the primary lumber sector, the secondary manufacturing sector is in the midst of a significant downturn in market demand and faces the added threat of competition from low-cost Asian manufacturers.</li> </ul>	<ul style="list-style-type: none"> <li>• Augmented by substantial funding from Western Economic Diversification Canada, FII is providing about \$1.2 million per year to FPInnovations, BC Wood Specialties Group and the University of BC Centre for Advanced Wood Processing to work directly with BC firms to improve their business strategies, product design and manufacturing, and marketing.</li> </ul>
<b>Green building, forests and climate change</b>	
<ul style="list-style-type: none"> <li>• While people remain generally sensitive to how forests are managed, this has been superseded by the general concern about climate change and global warming.</li> <li>• 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</li> </ul>	<ul style="list-style-type: none"> <li>• FII’s communications materials have moved well beyond speaking to forest management issues, and now speak to the overall environmental merits of forest products in the context of carbon sequestration and the forest industry’s dramatic shift away from using fossil fuels.</li> <li>• FII is actively supporting the emerging science of product-specific life cycle assessment, proactively making relevant information known to customers, architects, specifiers and foreign regulators.</li> </ul>
<b>Affordable housing</b>	
<ul style="list-style-type: none"> <li>• The demand for housing in developing economies is growing due to urbanization, population growth and increased wealth.</li> <li>• Wood frame housing offers a solution in regions where systems can be designed to local conditions.</li> </ul>	<ul style="list-style-type: none"> <li>• In 2009-10 a significant milestone was achieved in China when the city of Shanghai agreed to allow the introduction of wood-frame elements in new multi-storey housing.</li> <li>• In 2010-11 this will be reflected in a major commercial demonstration featuring wood in new roofing and wall applications.</li> </ul>

Situation	FII Response
<b>Wood First</b>	
<ul style="list-style-type: none"> <li>In March 2009 the Ministry of Forests and Range launched its Wood First initiative to establish B.C. as a world leader in innovative and higher-value uses for wood.</li> </ul>	<ul style="list-style-type: none"> <li>FII supports the initiative through continued funding of the Business Innovation Program. FII also anticipates providing initial funding for a new Wood Enterprise Centre to assist the private sector in promoting innovative use of wood products under BC’s revised Building Code, primarily in non-residential construction.</li> </ul>
<b>Investment facilitation and promotion</b>	
<ul style="list-style-type: none"> <li>Forestry is a capital intensive industry. Attracting new investment on a continuing basis is necessary for innovation and to remain internationally competitive.</li> </ul>	<ul style="list-style-type: none"> <li>In late 2009/10, FII was directed to actively facilitate and promote investment in the sector, with an emphasis on investors from China and other countries in the Asia Pacific region.</li> <li>In 2010/11 FII will introduce a service to support prospective investors and the in-market promotion activities of the Ministry of Small Business, Technology and Economic Development.</li> </ul>

**Risk and capacity issues**

Global Economic Conditions

The performance of the B.C. forest products industry in international markets is subject to a large number of factors, most falling beyond the ability of either FII, or industry to directly influence. Among these are:

- Canadian exchange rate:** The value of the Canadian dollar is a major determinant of the international competitiveness of BC wood products (and industry profitability). The dollar is currently tracking in excess of \$0.95 US. Projections are that the Canadian dollar will hold at this level or increase in value when compared to the U.S. dollar over the near term. Since wood exports are priced in U.S. dollars, any increase in the value of the Canadian dollar means that B.C. exporters must drop prices to remain competitive. This puts tremendous pressure on industry profitability.
- Energy prices:** Oil prices are trending higher and there are some concerns by economists that these higher prices could stall the global economic recovery. The U.S. economy, in particular, is considered very sensitive to higher energy prices. The value of the Canadian dollar is also closely pegged to the world price for oil. Therefore, higher energy costs could hurt the BC forest sector through weaker U.S. demand (due to a slower economic recovery) and a higher valued Canadian dollar (reducing export earnings), as well as via higher input costs.
- Transportation:** The B.C. and Canadian forest products industry have enjoyed low-cost “back haul” rates on containers being shipped from the west coast of North America to China. Continued increases in Canadian and U.S. exports to China is expected to reduce the excess supply of outbound containers and lead to higher shipping costs for B.C. producers.

- **In-market factors:** Conditions within any market may vary from those discussed previously due to fiscal, political, monetary and regional economic factors. For example, a reduction in stimulus spending in western economies may weaken job creation, leading to lower consumer spending and weaker demand for new housing; tax and trade policies of other countries can directly influence the demand for B.C. wood products (e.g., the impact of increasing Russian log export taxes on Chinese purchasing decisions); and demographic shifts in regional markets can place downward pressure on the demand for housing and, consequently, wood (e.g., Japan's shift towards a smaller, older population).

#### Industry's Financial Capacity

The severe downturn in the forest industry has tightened trade association budgets, which are supported by fees from member companies. As a result, the capacity of associations to share the cost of international marketing programs will remain constrained until the profitability of the industry improves. Carrying a higher share of total costs means that FII will have relatively less funds available for activities that it and others would otherwise deliver.

Continued federal funding under the *Canada Wood Export Program* and *North American Wood First Initiative* is committed to the end of fiscal 2010/11, but is not in place for 2011/12. FII and the BC industry will be urging the federal government to renew its programs well in advance so that program continuity is not disrupted.



## Goals, Key Strategies, Measures and Targets

Strategies in this Service Plan are fundamentally unchanged from prior years. The performance measures shown in the following table relate to the work of FII. Projects funded by FII are managed, in part, by performance measures developed to reflect the targeted outcomes of each activity. These external performance measures are captured in FII's *Performance Management Framework*, [http://www.bcfii.ca/about\\_fii/corporate\\_reports.htm](http://www.bcfii.ca/about_fii/corporate_reports.htm).

<b>GOAL 1: Expanded market opportunities that are beneficial to the B.C. forest sector.</b>	
<b>Strategies</b>	<b>Performance Measures</b>
<ul style="list-style-type: none"> <li>Develop opportunities in new and existing markets</li> <li>Foster acceptance of Canadian wood frame building systems in priority markets</li> <li>Encourage customers to accept B.C. forest products as preferred materials</li> <li>Pursue technical research and product innovation to position B.C. products globally</li> <li>Support B.C.'s Wood First Initiative – making British Columbia a leader in wood use</li> </ul>	<ul style="list-style-type: none"> <li>Softwood lumber exports to priority Asia Pacific markets</li> <li>Incremental sales generated in targeted U.S. non-residential construction markets</li> <li>Incremental sales generated in the B.C. non-residential construction market</li> </ul>
<b>GOAL 2: International recognition of B.C. as the leading supplier of environmentally superior forest products.</b>	
<b>Strategies</b>	<b>Performance Measures</b>
<ul style="list-style-type: none"> <li>Gather market intelligence through research and surveys</li> <li>Monitor and analyze the internet and mainstream and trade media to identify risks and opportunities relating to environmental reputation</li> <li>Produce technically accurate and credible information materials for a broad array of international and domestic audiences</li> <li>Financially support the development of science-based life cycle assessment tools to document the environmental superiority of forest products</li> <li>Provide advocacy support where B.C. forest products are unfairly targeted;</li> <li>Provide international customers with timely, credible information regarding B.C. forest practices and products, including pulp and paper</li> </ul>	<ul style="list-style-type: none"> <li>Percent of customers who feel that choosing products from B.C. (Canada) is a good choice for the environment</li> </ul>
<b>GOAL 3: FII is a highly effective, innovative and responsive organization.</b>	
<b>Strategies</b>	<b>Performance Measures</b>
<ul style="list-style-type: none"> <li>Ensure FII is efficient, transparent and results focused</li> <li>Attract and retain expert staff who are dedicated to the organization's success and committed to continuous improvement</li> <li>Embrace socially responsible practices, including minimizing the organization's carbon footprint</li> </ul>	<ul style="list-style-type: none"> <li>Timeliness of annual funding cycle for trade associations, research institutes, and universities</li> </ul>

## Goal 1

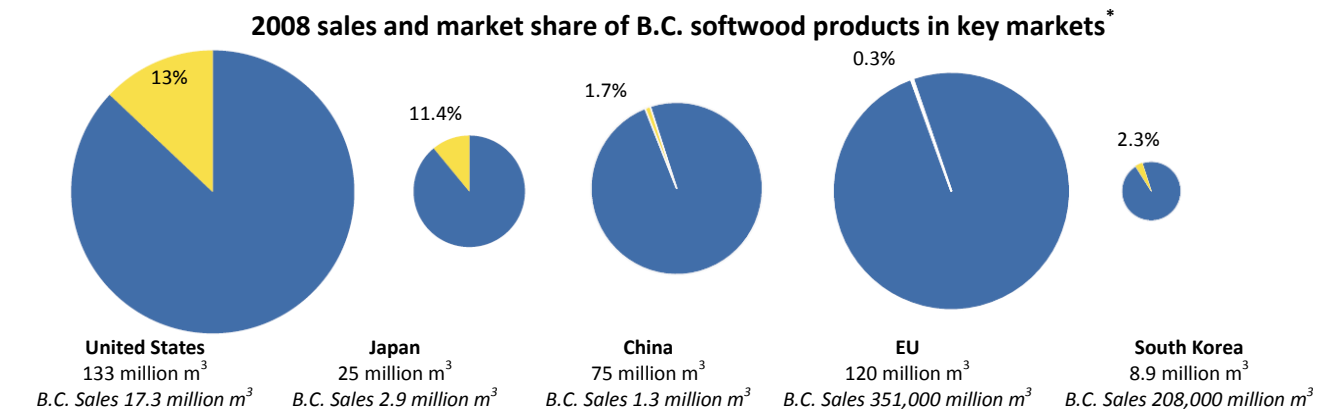
### Expanded market opportunities that are beneficial to the B.C. forest sector

Goal 1 reflects FII’s basic mandate. Three objectives guide the 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 (softwood lumber, plywood, OSB, particleboard and MDF) in major markets as key performance indicators of industry growth and competitiveness:

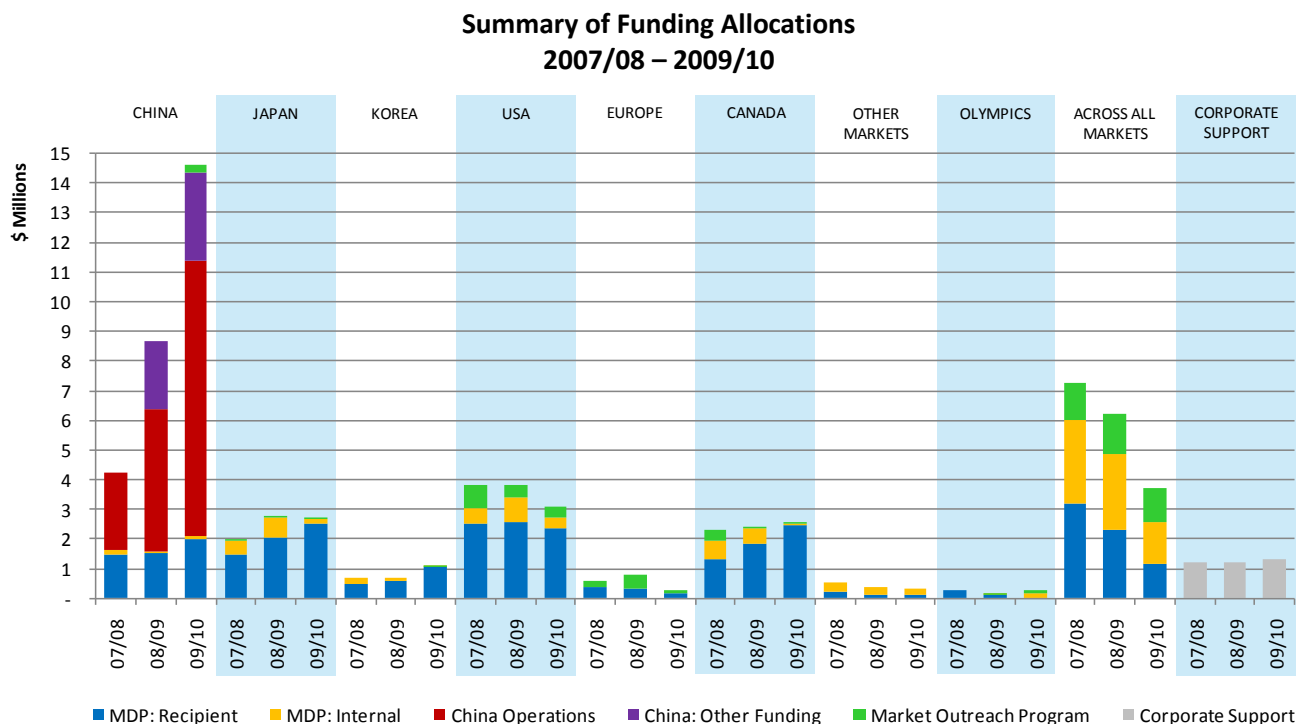
- **United States:** BC’s share of imports increased to 45.6% in 2008 from 44.8% in 2007. To the end of November 2009, sales were 10.93 million m<sup>3</sup>, compared to 14.88 million m<sup>3</sup> for the same period in 2008, reflecting the weak housing market.
- **Japan:** BC’s share of imports increased to 27.3% in 2008 from 25.2% in 2007. To the end of November 2009, sales were 1.79 million m<sup>3</sup>, compared to 2.5 million m<sup>3</sup> for the same period in 2008, reflecting a slowdown in economic growth and a long-term, gradual decline in the housing sector due to an aging population.
- **China:** BC’s share of imports increased dramatically to 24.6% in 2008 from 16% in 2007. To the end of November 2009, sales were 2.27 million m<sup>3</sup>, about double the volume of 1.09 m<sup>3</sup> for the same period in 2008.
- **South Korea:** BC’s share of imports decreased to 8.3% in 2008 from 9.4% in 2007. However, there has been a strong turnaround in sales in 2009. To the end of November, sales were 210,124 m<sup>3</sup>, up from 171,507 m<sup>3</sup> for the same period in 2008, reflecting a rebound in economic growth.
- **European Union:** BC’s share of imports decreased to 0.8% in 2008 from 0.9% in 2007. Due to a glut of supply from European producers, exports to the end of November 2009 were 199,706 m<sup>3</sup>, a drop from 307,807 m<sup>3</sup> for the same period in 2008.



\* 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.

A summary of B.C. exports, import shares and consumption shares, as well as the latest monthly sales reports and historical data on exports are available at: [www.bcfii.ca/industry\\_resources/market\\_research.htm](http://www.bcfii.ca/industry_resources/market_research.htm).

The primary approach for achieving Goal 1 is to provide funding for 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 foreign markets is through association activities. Reflecting the objective to maintain, develop and diversify market demand, funding is spread across major and new markets as illustrated in the following graph:



“MDP: Internal” refers to funding for market development program 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.

“China: Other Funding” In 2008/09, a total of \$1.7 million was provided by the Ministry of Small Business, Technology and Economic Development towards the Sichuan Earthquake Relief Program. In 2009/10, a total of \$7.4 million in funding was provided through the federal government (Natural Resources Canada), with \$3.0 million going towards the Sichuan Earthquake Relief program and \$3.4 million towards other China demonstration projects.

The strategies to achieve Goal 1 are to:

1. Develop opportunities for B.C.'s forest industry in new and existing markets by:
  - Funding association marketing programs in major and growth markets in conjunction with federal and industry contributions
  - Funding product and technical research to develop or improve forest products, manufacturing processes and applications based on industry priorities
  - Undertaking market research to identify new opportunities or barriers to growth in existing markets
  - Expanding wood use in recreational, commercial and institutional sectors across North America
  - Increasing industry competitiveness through access to information on new technologies, products, manufacturing processes and markets
2. Foster acceptance of Canadian wood building systems in priority markets by:
  - Working with foreign officials to incorporate wood use in building and fire codes
  - Resolving non-tariff barriers, such as spread of plant disease or insects via lumber products
  - Building demonstration projects to inform and influence foreign decision makers
3. Encourage customers to accept B.C. wood products as preferred materials by:
  - Ensuring that architects, builders, officials and other key influencers have the information needed to specify and use B.C. wood products
  - Promoting the technical and environmental merits of B.C. forest products
4. Pursue technical research and product innovation to position B.C. products globally by:
  - Funding research projects in engineered wood products, value-added products and the pulp and paper sector
5. Support B.C.'s Wood First Initiative – making British Columbia a leader in wood use – by:
  - Funding of the Business Innovation Program, product development and technical research, and the non-residential program

Performance Measure		2008/09	2009/10	Target		
		Actual	Forecast	2010/11	2011/12	2012/13
<b>A</b>	B.C. Softwood Lumber Exports to Priority Asia Pacific Markets (000's of m3) <sup>1</sup>	4,056	4,575	6,550	8,470	9,190
	<i>Consisting of:</i>					
	<i>China</i>	1,244	2,500	4,400	6,300	7,000
	<i>Japan<sup>2</sup></i>	2,707	1,950	2,000	2,000	2,000
	<i>S. Korea<sup>3</sup></i>	105	125	150	170	190
<b>B</b>	Incremental Sales Generated in U.S. Non-Residential Market (millions of board feet)	n.a. <sup>4</sup>	155	199	243	287
<b>C</b>	Incremental Sales Generated in the B.C. Non-Residential Market (millions of board feet)	36	43	52	62	75

## Importance of measures

Performance Measure A tracks the extent to which the B.C. forest industry shifts its reliance away from the United States, and continues to sell to Asia customers even when demand rebounds in the United States. This is a measure of long-term diversity of the customer base, and greater overall demand. The figures are based on Statistics Canada export data.

The outcome tracked by Performance Measure A is heavily weighted to experience in China, where a particularly large share of FII investments are leveraging joint industry and government (provincial and federal) market development efforts.

Performance Measure B tracks success in introducing wood frame technology to the non-residential construction sector in the United States as a way of lessening the BC industry's overwhelming reliance on U.S. residential construction. The U.S. program figures are based on reports from the Wood Products Council (WPC), which tracks the volume of wood used in U.S. non-residential construction. Figures indicated are incremental wood volumes generated through program activities funded by FII in partnership with the WPC.

Performance Measure C tracks success in increasing wood usage in the B.C. non-residential construction sector, a core objective of the province's Wood First strategy. Figures for B.C. are incremental wood volumes generated through program activities funded by FII in partnership with the Canadian Wood Council.

<sup>1</sup> Performance Measure A is broadly influenced by global economic conditions beyond the control or direct influence of FII or the provincial government (refer to discussion under "Risks and capacity issues"); however, export data provide a helpful indicator of overall progress by FII and its funding recipients in fostering market diversification.

<sup>2</sup> It should be noted that many specialty products formerly shipped from B.C. to Japan (e.g., Douglas-fir, cedar, Sitka spruce) are now exported from B.C. to China, manufactured into value-added products, and re-exported to Japan. This is increasing B.C. export volumes to China while reducing shipments from B.C. to Japan. The trend is expected to continue and is factored into export targets.

<sup>3</sup> Lumber consumed in structural applications (residential and non-residential).

<sup>4</sup> 2008/09 was program start-up year and volumes generated were minimal.

## Goal 2 International recognition of B.C. as the leading supplier of environmentally superior forest products

Goal 2 reflects the fact that customers around the world are increasingly looking for assurance forest products come from sustainably managed forests and that they are environmentally friendly. 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. 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.

The strategies to achieve Goal 2 are to:

1. Gather market intelligence through research and surveys
2. Monitor and analyze the internet and mainstream and trade media to identify risks and opportunities relating to environmental reputation
3. Produce technically accurate and credible information materials for a broad array of international and domestic audiences
4. Financially support the development of science-based life cycle assessment tools to document the environmental superiority of forest products
5. Provide advocacy support where B.C. forest products are unfairly targeted
6. Provide international customers with timely, credible information regarding B.C. forest practices and products, including pulp and paper

Performance Measure		2008/09	2009/10	Target		
		Actual	Forecast	2010/11	2011/12	2012/13
<b>D</b>	Percent of customers who feel that choosing products from B.C. (Canada) is a good choice for the environment	100%	n/a	90%	n/a	90%

### Importance of measures

Performance Measure D tracks the effectiveness of the Market Outreach program to influence customer views and is measured through bi-annual surveys of international customers.

## Goal 3

### FII is a highly effective, innovative and responsive organization

FII 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 of these activities reflect 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.

The strategies to achieve Goal 3 are to:

Ensure 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
  - Ensuring the integrity and timeliness of funding to other organizations for activities that will enhance forest sector well-being
2. Attract and retain expert staff who are dedicated to the organization's success and committed to continuous improvement.
  3. Embrace socially responsible practices, including minimizing the organization's carbon footprint, promoting environmentally responsible business activities, and purchasing environmentally friendly products.

Performance Measure		2008/09 Actual	2009/10 Forecast	Target		
				2010/11	2011/12	2012/13
<b>E</b>	Timeliness of annual funding cycle for trade associations, research institutes, and universities	Competitive funding process is completed by April 1	Competitive funding process is completed by April 1	Competitive funding process is completed by April 1	Competitive funding process is completed by April 1	Competitive funding process is completed 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, detailing specific cost estimates and cost sharing. Proposals are peer reviewed and explicitly point ranked against pre-set evaluation criteria. Performance Measure E tracks how efficient FII's efficiency is in managing the annual funding process, which culminates in funding being available to successful proponents by the start of each fiscal year.

## 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. FII has established two overarching priorities as the basis of its environmental responsibility policy:

- Reducing the intensity of the organization's environmental footprint; and
- Promoting environmentally responsible business activities

Details on the actions being taken in support of the policy are posted at:

[http://www.bcfii.ca/about\\_fii/corporate\\_reports.htm](http://www.bcfii.ca/about_fii/corporate_reports.htm).



# Shareholder’s Letter of Expectations

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FII’s current Shareholder’s Letter of Expectations (SLE) was signed by the Minister of Forests and Range in January 2010. At a high level, the Minister instructed FII 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 world-leading 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 following table summarizes specific direction in the current SLE, and the relevant actions by FII:

SLE Direction to FII	Actions Underway or Planned
Comply with the Shareholder’s requirements to make the Public Sector carbon neutral by 2010, including accurately defining, measuring, reporting on and verifying the greenhouse gas emissions from the Corporation’s operations; implementing aggressive measures to reduce those emissions and reporting on these reduction measures and reduction plans; and offsetting any remaining emissions through investments in the Pacific Carbon Trust, which will invest in greenhouse gas reduction projects outside of the Corporation’s scope of operations.	FII began tracking greenhouse gas emissions in 2008/09, including those attributed to travel even though that is not yet required of Crown corporations. The estimated emissions in 2008/09 totalled about 243 tonnes (carbon dioxide equivalent). 58 percent of that was attributed to heating and cooling the China subsidiary’s office in Shanghai, the figure being so high because of the preponderance of coal-fired power generation in China. FII will purchase off-sets to its 2009/10 emissions from the Pacific Carbon Trust when that figure is known and the Trust is ready to enter into an agreement.
Ensure that market development activities are founded on sound market research and in particular focus FII market development activities in China, Japan, Korea and the United States.	FII, Natural Resources Canada and the private sector routinely collaborate to assess country-specific market potential and develop strategies that are typically updated every three years. The countries named in the SLE account for almost all of FII’s country-specific budget allocations.

*(Continued)*

SLE Direction to FII	Actions Underway or Planned
<p>Establish a Cabinet-approved Board of Directors for FII's China subsidiary populated with forest industry and other BC individuals to ensure that BC firms sell four billion board feet of lumber to China by 2011, maximize the coordination, efficiency and effectiveness of all BC led programming in China through management of FII China's activities and through funding provided by FII China to trade associations working in China, and ensure market development programs comply with recognized Canadian business practices, as well as Chinese law.</p>	<p>Six senior BC forest industry employees are being appointed to the new Board, along with the CEO of FII Ltd. Subject to overarching direction from the Minister and from FII's Board of Directors, the Board will assume full authority over FII's programming in China, including funding to trade associations working in China.</p> <p>Lumber sales to China in 2009 are expected to be double the volume sold in 2008.</p> <p>Internal audits regularly confirm that all business practices meet the standards of normal Canadian business practices and Chinese law.</p>
<p>Maintain or increase British Columbia's share of forest product imports in Japan, Korea and the United States.</p>	<p>With the exception of its subsidiary company's presence in China, FII pursues its market development goals mostly by providing funds to B.C. trade associations with staff on the ground in foreign countries. For 2010/11, of the funding provided to those organizations, FII anticipates directing more than half toward their activities in Japan, Korea and the United States.</p> <p>FII tracks forest product sales in all significant markets, on a monthly basis for lumber, and on an annual basis for other products. It analyses B.C.'s share of each country's total consumption and of total imports on an annual basis. For commodity sales (i.e., lumber, plywood, oriented strandboard, medium density fibreboard and particleboard) in 2008, B.C.'s share of Japanese imports was 27%, up slightly from the previous three years. B.C.'s share of Korean imports was 8%, down slightly from 2007. For the United States, B.C.'s share of imports remained steady at 46%.</p>
<p>Encourage forest industry trade associations to harmonize their activities and programs to ensure the most effective outcomes</p>	<p>With FII support, industry associations are consolidating activities under the Canada Wood brand in Japan and South Korea, leading to operational and marketing efficiencies. In China, the creation of a new industry-led Board of Directors for the China subsidiary will further consolidate activities and should lead to improved efficiencies.</p>

(Continued)

SLE Direction to FII	Actions Underway or Planned
Harmonize all market development programs with those of the Government of Canada.	FII and Natural Resources Canada collaborate closely, along with the private sector, in developing strategies specific to each country. FII and NRCan closely align their policies and processes for making funding available to other organizations, including the use of a common web-based system for accepting proposals, entering into funding agreements, financial and operational reporting, and auditing.
Ensure Asia-related priorities and strategies are driven by the provincial government’s Asia-Pacific Gateway objectives.	FII will continue to be focussed primarily on stimulating the export of forest products to Japan, Korea and China. In addition, and in concert with the Ministry of Small Business, Technology and Economic Development, FII will begin to facilitate and promote foreign investment in the B.C. forest industry.
Intervene whenever necessary to ensure that foreign regulators and customers do not discriminate against B.C. forest products through adoption of unfair procurement policies.	<p>FII assumes the lead role in this function, with three-quarters of its internal Vancouver-based programming dedicated to:</p> <ul style="list-style-type: none"> <li>• monitoring media in other countries as well as in Canada</li> <li>• researching foreign customer and official opinions about B.C. forest products;</li> <li>• promoting the environment merits of B.C. forest products, particularly in the context of the green building phenomenon and public concern about climate change.</li> </ul>
Make approximately half of FII funds available to other organizations through an annual competitive process, and according to cost-sharing rules specified by the Minister	In concert with Natural Resources Canada, FII posts a Call for Proposals in December each year, with harmonized evaluations leading to joint federal/provincial funding to trade associations, research institutes and universities. For 2010/11, FII anticipates slightly over half of its provincial funding (not including for Wenchuan Earthquake reconstruction in China) will flow through to other organizations. The actual outcome will depend significantly on decisions to be made by the new Board of Directors for FII’s subsidiary company in China.

(Continued)

SLE Direction to FII	Actions Underway or Planned
<p>Promote the development of new technologies and wood products domestically and internationally.</p>	<p>In its annual Call for Proposals for 2010/11, FII has earmarked \$1.2 million for product development by qualified organizations, and will provide \$1.1 million to BC Wood Specialties Group, FPIInnovations and the University of BC to assist value-added firms with business planning, product design and manufacturing, and marketing.</p>
<p>Promote the Wood First initiative in Canada, including working cooperatively with the Wood Innovation and Design Centre in Prince George to promote Wood First.</p>	<p>In 2008/09 FII provided \$500 thousand to the University of Northern British Columbia to assist with initial development of the Centre. Discussions about its role in the Province’s <i>Wood First</i> initiative are on-going.</p>
<p>Work with the economic development ministries to promote the government’s trade strategies, and coordinate these efforts with the ministries’ offices abroad, including officials in China, Korea, Japan and both offices in India, recognizing that FII is part of BC’s overall international strategy.</p>	<p>FII is the Province’s key agency in promoting trading of forest products, particularly in Asia. It works closely with the Province’s trade representatives there and elsewhere, as it does with the federal Department of Foreign Affairs and International Trade.</p>
<p>Operate according to the terms of a funding agreement with the Ministry of Forests and Range that provides for, among other things, audit plans, internal audits, monthly, quarterly, and annual reporting, and annual reconciliation statements.</p>	<p>FII operates in accordance with a January 2008 funding agreement with the Ministry, which includes all the elements listed in the Shareholder’s Letter of Expectations.</p>
<p>Follow government best practices in procurement and contracting policies, including ownership of intellectual property.</p>	<p>FII invokes formal policies and contractual content that cause it and its funding recipients to meet this instruction.</p>

# Summary Financial Outlook\*

	Actual 08/09 (000's)	Forecast 09/10 (000's)	Budget 10/11 (000's)	Budget 11/12 (000's)	Budget 12/13 (000's)
<b>Revenue</b>					
Contribution from the Province of BC	\$ 22,359	\$ 22,700	\$ 18,800	\$ 18,800	\$ 18,800
Contribution for China Earthquake Reconstruction	\$ 1,700	\$ 3,000	\$ 3,300		
Federal Contribution for China Demonstration Projects	\$ -	\$ 3,400	\$ 2,200		
Transferred from Deferred Revenue	\$ 2,018	\$ 1,389	\$ 260	\$ 176	\$ 25
	<u>\$ 26,077</u>	<u>\$ 30,489</u>	<u>\$ 24,560</u>	<u>\$ 18,976</u>	<u>\$ 18,825</u>
<b>Expenses</b>					
Market Outreach and Initiatives	\$ 18,341	\$ 19,453	\$ 14,830	\$ 14,830	\$ 14,830
China Program <sup>(1)</sup> <sup>(2)</sup> <sup>(3)</sup>	\$ 6,154	\$ 9,320	\$ 8,300	\$ 2,800	\$ 2,800
Corporate Services	\$ 1,137	\$ 1,330	\$ 1,170	\$ 1,170	\$ 1,170
	<u>\$ 25,632</u>	<u>\$ 30,103</u>	<u>\$ 24,300</u>	<u>\$ 18,800</u>	<u>\$ 18,800</u>
<b>Operating Income</b>	<u>\$ 445</u>	<u>\$ 386</u>	<u>\$ 260</u>	<u>\$ 176</u>	<u>\$ 25</u>
Amortization	\$ 445	\$ 386	\$ 260	\$ 176	\$ 25
<b>Net Income</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Retained Earnings</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Capital Expenditures</b>	<u>\$ 568</u>	<u>\$ 150</u>	<u>\$ 50</u>	<u>\$ 50</u>	<u>\$ 50</u>

<sup>(1)</sup> Includes China Earthquake Reconstruction expenditures (000's)

<sup>(2)</sup> Includes expenditures for China Demonstration Projects to be reimbursed by Natural Resources Canada (000's)

<sup>(3)</sup> Includes DHC Prepaid lease write off (000's)

\* The above financial information, including forecast information, was prepared based on current Canadian Generally Accepted Accounting Principles (GAAP).

# Financial Notes

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## **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**

See the FII financial outlook (previous page). Funding of the company is by way of consulting-fee invoices to the parent company in Canada (FII). In accordance with Chinese law, any monthly expenditures made by the company 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 company has been set by FII at approximately two percent of expenditures. The annual profit is then subject to Chinese corporate income tax at the company's year-end (December 31, as compared to the FII year end of March 31).

Capital expenditures are limited to computer and office equipment and are not material.

## **Capital initiatives**

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

## **Non-disclosure of information**

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

## **Debt**

FII has no debt.

## Information

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Further information on Forestry Innovation Investment is available at [www.bcfii.ca](http://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 available at [http://www.bcfii.ca/about\\_fii/corporate\\_reports.htm](http://www.bcfii.ca/about_fii/corporate_reports.htm)

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

Information on FII operations in China is available at [www.bcfii.cn/](http://www.bcfii.cn/)

Details on the Canada-B.C. Wenchuan Earthquake Reconstruction Project may be found at [www.canada-bc-512quakereconstruction.org/](http://www.canada-bc-512quakereconstruction.org/)

