



Forestry Innovation Investment

Service Plan

2012/2013 – 2014/2015



Cover Image (top): Completion Ceremony for the Beichuan Maple Leaf Elderly Care Centre, Beichuan County, Sichuan Province, China
Photographer: FII

Cover Image (bottom left): B.C. Forest Products pictured at the Tokyo Lumber Terminal
Photographer: FII

Cover Image (bottom middle): CLT Bell Tower
Photographer: Kevin Meechan, US Woodworks

Cover Image (bottom right): Earth Systems Science Building, UBC
Photographer: naturallywood.com

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Message from the Board Chair to the Minister Responsible

January 27, 2012

The Honourable Pat Bell
Minister of Jobs, Tourism and Innovation
Province of British Columbia

Dear Minister Bell:

I am pleased to present you with the *Forestry Innovation Investment Ltd. Service Plan 2012/13 – 2014/15*. This plan sets out the corporation's goals and objectives, the strategies it will use to attain them, and the performance measures and targets for the next three years.

Forests cover almost two-thirds of B.C.'s land base, and the forest industry remains the province's largest manufacturing sector. *Canada Starts Here: The B.C. Jobs Plan* recognizes the significant role that the forest sector plays in the B.C. economy and commits the Government to working with the forest sector to fulfill its potential to generate new investment, jobs and growth across the province. As articulated in this Service Plan, FII will continue to play a leading role in the Government's strategy to create innovative new forest products and technologies and to build new markets for the B.C. forest industry, particularly in Asia.

As a key priority, FII will remain heavily oriented to helping the B.C. forest industry weather the severe downturn in demand from the United States housing construction sector. With U.S. housing starts remaining very depressed, no one is predicting a significant rebound in the near term, and hence North American demand for wood products is projected to remain below historic averages for at least the next two years.

The 2012/13 – 2014/15 Service Plan continues to focus heavily on increasing lumber sales to Asia, especially to China, as the means to deliver on the FII mandate of supporting the market development of the B.C. forest products sector. FII will also concentrate on introducing wood products into non-residential construction in North America.

Fortunately, the work undertaken in China since 2003 continues to yield outstanding results insofar as fully 25 percent of B.C. lumber production from January through September 2011 was exported to China. The combination of a growing Chinese customer base, along with the upward impact that China's demand is having on world-wide lumber prices, is supporting many thousands of jobs in British Columbia.

The Service Plan reflects a maturing of the market development program in China. With commercial interest taking hold, we do not anticipate any more demonstration projects of the kind that have been so successful in creating market interest and securing basic regulatory building code and fire code approvals.

As a result, FII's subsidiary in China will significantly re-focus its scope and programming. By 2013/14 it will be reduced in size, focusing on providing government-to-government liaison to support the B.C. industry, which will be responsible for all other elements of the China market development program. FII China will be closely integrated with the in-market activities of the Ministry of Jobs, Tourism and Innovation. As in other jurisdictions FII will then rely on the trade associations to develop and deliver the market development strategy and related programs.

On other fronts, FII has begun to work with industry to explore new opportunities emerging in India and to financially support the marketing of wood pellets in Europe and Asia. FII has also assumed responsibility for implementing the government's *Wood First* objectives in B.C. This includes bringing value-added

manufacturers together with architects, engineers, developers and builders to collaboratively make the province a world-class centre of excellence in manufacturing and using wood products.

Across all markets and product lines, FII staff will ensure customers have factual, credible information about our province's forest management and about the environmental benefits of using B.C. forest products. Staff are particularly engaged in leveraging the "green building" movement as it matures in North America and elsewhere as a means of promoting wood products and wood building systems.

Through the dedication and commitment of its employees, FII 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. Achievement of the sales targets set in this plan will depend not only on the efforts of FII and its funding recipients, but also ultimately on the commitment of B.C. firms to service customers outside North America, and their ability to be competitive in the face of strong international competition.

The *2012/13 - 2014/15 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 January 15, 2012 have been considered in preparing the plan. The performance measures presented are consistent with the mandate and goals of FII, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of FII's operating environment, forecast conditions, risk assessment, and past performance.

Finally, the Board looks forward to participating in Government's planned review of all Crown corporations, and a specific assessment of FII's on-going mandate.

A handwritten signature in black ink, appearing to read 'Dana Hayden', written in a cursive style.

Dana Hayden
Chair, Board of Directors

Organizational Overview

Forestry Innovation Investment was incorporated in 2003 under the *Business Corporations Act* as the B.C. Government's market development agency for forest products. FII is tasked with enhancing the value of B.C.'s forest resource and strengthening employment, by delivering programming that responds to two fundamental questions: "Why use wood?" and "Why buy wood from BC?". In response, FII works with the forest industry and federal government in building new markets domestically and internationally 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 highlight the benefits of using wood and to promote B.C.'s forest products and forest management to the global marketplace; and
- help ensure that the forest sector, through product development and strong international sales, continues to be a leading contributor to the B.C. economy.

When FII was created, less than one-sixth of B.C.'s forest product exports were sent to markets outside of North America. Today, more than one-third of exports are shipped overseas. In particular, sales to China have increased more than 1,300 per cent since a joint China market development program was set up by FII and the industry, with generous federal government support, in 2003.

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 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.

Program Areas and Organization Structure

Central to FII’s mandate is its dual function. Firstly, FII develops and delivers a range of programs that respond to government’s priorities for the forest sector. Secondly, FII acts as a catalyst for industry led market development programs and activities, which advance collective interests for stronger, diversified forest product markets and expanded use and consumption of wood products from B.C.

As shown in the following table, there are three components to FII’s Operations business unit, which is supported by two functional areas within the Corporate Services unit.

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

Benefits to British Columbia

Encouraging expanded wood use both in B.C. and around the world is central to all of FII's programs and investments. Whether through introducing new building systems, expanding how wood is used, or exploring and developing new markets for B.C. wood products – FII supports the continued diversification of the B.C. forest sector. A strong and healthy forest industry, with growing markets and market segments, encourages reinvestment and employment in the sector – directly supporting *Canada Starts Here: The BC Jobs Plan*.

FII benefits the families and economy of British Columbia by:

- working to maintain existing markets for B.C. forest products in collaboration with the forest sector, supporting forestry jobs throughout B.C.;
- 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 China and elsewhere 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.

How services are delivered

FII relies heavily on a joint delivery model involving trade associations, research institutions and other government agencies. About two-thirds of FII's budget is used to fund, in whole or in part, initiatives that are designed and delivered by industry trade associations. These activities are typically co-funded by FII, Natural Resources Canada through its *Canada Wood Export* and *North America Wood First Programs*, and industry. Trade associations play an important delivery role in market development and market diversification by representing specific industry sectors, products or species of relevance to their member firms.

Programs delivered by third parties are predominantly selected through a competitive call for proposals process based on criteria set out in an annual investment strategy. Each project investment includes performance criteria, reporting requirements, budget controls, is closely monitored by FII staff, and may be audited by an independent auditor selected by FII.

In addition to its role as a co-funder of market development and research activities, FII pursues provincial government priorities by directly delivering a number of marketing initiatives. These government initiatives are designed to provide broad-based benefits to the forest sector but typically fall outside the mandates of industry associations and other government agencies. They include:

- market research to unearth potential opportunities and create new demand in emerging markets and segments;
- marketing resources for general use by industry, such as publications on wood as a green building material, and the www.naturallywood.com web site;
- market outreach communication to explain B.C.'s forest practices and environmental record to international markets;
- market research and outreach to government agencies in China, where FII represents the interests of the forest sector in interactions with Chinese authorities and state controlled enterprises.

Principal partners, clients and stakeholders

British Columbia maintains its position as a leading global supplier of wood products by continuously delivering innovative, high quality products to buyers in major markets around the world.

Retaining this competitive edge takes coordination and joint effort between the many different groups involved in the B.C. forestry sector - individual businesses, trade associations, various levels of government, post-secondary institutions and research groups. All parties bring significant strengths to the table, and together, the combined efforts have much greater impact than the individual parts.

In Asia, Canada Wood Group (a partnership of trade associations) leads market development activities in China, Japan and Korea, with funding provided by FII, Natural Resources Canada, the Government of Alberta (China and Japan program only) and industry 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, Japan and Korea, FII provides core program support to Canada Wood Group in delivering market research, marketing, demonstration projects, quality assurance and training. Key relationships are maintained with major wood users, 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.

FII is pleased to work closely with the following organizations to sustain B.C.'s global leadership in wood products.

ORGANIZATION	RELATIONSHIP
Government	
Government of British Columbia	Sole shareholder, provides FII's core funding
Ministry of Jobs, Tourism and Innovation	Ministry responsible for FII
Ministry of Forests, Lands and Natural Resources Operation	Responsible for forest practices and forest management as well as managing the sale of about 20% of the annual harvest on Crown land through B.C. Timber Sales
Department of Foreign Affairs and International Trade, Government of Canada	Federal agency supporting in-market trade and investment promotion
Department of Natural Resources, Government of Canada	Federal funding agency for international marketing through the <i>Canada Wood Export Program (CWEP)</i> <i>Wood First initiative</i>
Government of Alberta	Funding contributor to the China and Japan market development programs

ORGANIZATION	RELATIONSHIP
Non-Government	
<p>B.C. forest industry associations and organizations:</p> <ul style="list-style-type: none"> • APA – The Engineered Wood Association • B.C. Forestry Climate Change Working Group • B.C Shake & Shingle Association • B.C. Wood Specialties Group • Bi-national Softwood Lumber Council • Canada Wood Group • Canadian Wood Council • Canadian Wood Council – WoodWORKS! BC • Cedar Shake and Shingle Bureau • CertiWood • Coast Forest Products Association • Council of Forest Industries • Forest Products Association of Canada • Sustainable Building Coalition • Western Red Cedar Export Association • Western Red Cedar Lumber Association • Wood Enterprise Coalition • Wood Pellet Association of Canada • Wood Products Council 	<p>Funding recipients that initiate and deliver domestic and international market development programs and that may also receive funding from Natural Resources Canada and/or other partner organizations</p>
<p>Post-secondary and research institutions:</p> <ul style="list-style-type: none"> • FPInnovations • University of British Columbia 	<p>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</p>

Location of operations

The FII corporate office is located at:

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

The company’s China subsidiary, FII Consulting (Shanghai) Co, Ltd. office is located at:

- 425 Hong Feng Road, Jinqiao, Pudong New Area, Shanghai, P.R. China 201206

FII Consulting (Shanghai) also operates a small satellite office in Beijing located at:

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

More information on FII is available at www.bcfii.ca. General information on B.C.’s high-quality forest products and sustainably managed forests is available at www.naturallywood.com.

Corporate Governance

Board of Directors

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

The members of the Board of Directors are:

- Dana Hayden, Deputy Minister of Jobs, Tourism and Innovation (Chair);
- Lori Wanamaker, Deputy Minister, Ministry of Public Safety and Solicitor General; and
- Dave Peterson, Assistant Deputy Minister, Tenures, Competitiveness and Innovation Division, Ministry of Forests, Lands and Natural Resource Operations

The FII Board has one standing committee, the Audit Committee, which is responsible for reviewing, recommending, and in some instances, approving financial statements and other information. The Audit Committee has three positions. Two are filled by Lori Wanamaker and John Desjardins, Partner, KPMG. One position is currently vacant.

Reflecting the growing importance of China as an export market, and the large share of the FII budget directed towards activities in China, in 2010/11 the Board established a subsidiary Board of Directors for FII China operations.¹ The FII China Board was responsible for overseeing the budget, business direction, and management of FII Consulting (Shanghai) Co. Ltd. (the legal name of the entity in China). By 2011/12, the China market development program had reached a transition point. Over the past eight years, the program has succeeded in securing regulatory acceptance and significant commercial uptake. Commercial inroads have been made with a number of China's larger developers, several of whom are now, along with innumerable small firms, building wood frame construction projects on commercial terms. With the need for development work in China shifting from demonstration initiatives (lead by FII China) to greater technical support for Chinese builders and developers (delivered by industry through the Canada Wood Group), agreement was reached with industry to consolidate the market development efforts in China under the Canada Wood umbrella. As a result, in late 2011, the FII China Board was dissolved and authority for FII China reverted to the FII CEO, who concurrently serves as Executive Director for the subsidiary². The 2012/13 fiscal year will be a transition period during which FII China will re-focus its scope and programming away from direct market development work to concentrate on providing government-to-government liaison in support of the forest industry trade associations.

¹ The subsidiary Board remained in an acting capacity throughout its tenure as Chinese regulatory approval of the Board had not been received prior to the Board's dissolution.

² FII CEO Ken Baker is registered with Chinese regulatory authorities as the senior officer responsible for the operations of FII Consulting (Shanghai) Company Limited.

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/aboutus/corporate/corporate-governance>.

The Board incorporates best practices into its governance procedures as guided by the Best Practices Guidelines on Governance and Disclosure for Public Sector Organizations. As recommended in the guidelines, FII's disclosure, including its Status of Concurrence with Best Practices Guidelines is available on the company's website at www.bcfii.ca. As detailed in the Status of Concurrence report, FII is substantially in accordance with governance best practices set out by the Province's Crown Agency Resources Office.



November 11, 2011 – B.C. Minister of Forests, Lands and Natural Resource Operations Steve Thomson joins federal Minister of Natural Resources Joe Oliver, Canadian Ambassador to Japan Jonathan Fried and senior officials from FII, Canada Wood Group and the B.C. forest industry in Sendai Japan to witness the unloading of the first shipment of B.C. wood products to arrive in the region since the March 2011 earthquake and tsunami.

Industry Advisory Committees

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

- the Industry Strategy Committee offers strategic direction on FII's Market Initiatives programming, investments and related strategies;
- the Market Acceptance Advisory Group offers strategic direction on FII's Market Outreach programming;
- the Wood First Advisory Council offers strategic direction on the *Wood First* program and related priorities for investment; and
- A Proposal Evaluation Panel evaluates funding proposals received through FII's annual call for proposals process.

FII executive management

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

Subsidiary company

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

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

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

Governance: Sole Executive Director (FII CEO Ken Baker), reporting to the FII Board of Directors.

Financial information: See the Summary Financial Outlook.

Strategic Context

Internal operating environment

FII operations in B.C. in 2011/12 were unchanged from 2010/11 in terms of structure and emphasis, with the exception of FII taking on management of the Province's *Wood First* initiative. FII added a management position to oversee this activity as well as research activities and programs in support of the value-added sector.

In the second quarter of 2011/12, FII streamlined the investments it makes within the province of B.C. under a single *Wood First* program. A new industry advisory committee was established to provide strategic direction to FII on the priorities and focus of the program, with an emphasis on expanding wood use in B.C. and encouraging a culture of wood use in the province.

A review of the roles and responsibilities of FII and Canada Wood Group in China was conducted leading to change in the focus and scale of FII's subsidiary company in China. In 2012/13 FII China will transition out of leading the market development strategy in China and re-focus its scope so that by 2013/14 it will concentrate on government-to-government liaison in support of the forest industry and other possible complementary roles.

Economic, industry and market factors

A significant part of FII's mandate involves international market development.

A number of external factors beyond the control of FII can influence the achievement of the performance targets linked to this portion of the mandate, including:

- **Currency exchange rates:** The value of the Canadian dollar relative to the U.S. dollar is a major determinant of how competitive and profitable the B.C. forest industry can be. The dollar is currently tracking close to parity with the U.S. dollar. Since wood exports are typically priced in U.S. dollars, the increased value of the Canadian dollar is having a negative impact on competitiveness. This may impact sales in foreign markets.
- **Energy prices:** Oil prices are trending higher and increased energy costs hurt the B.C. forest sector through higher input costs and by further hindering economic recovery in the key U.S. market.
- **Transportation:** The Canadian forest products industry has enjoyed low-cost "back haul" rates on containers being shipped from the west coast of North America to China. The dramatic increase in B.C. lumber exports to China, however, has led to capacity issues in the transportation system and, as a consequence, rapidly escalating container costs. With wood exports to China almost double the level of a year ago, and three times the exports of two years ago, the industry may face logistical constraints in shipping products to Asia.
- **In-market factors:** Conditions within any market may vary from those discussed above due to fiscal, political, monetary and regional economic factors. For example, tax and trade policies of other countries can directly influence the demand for B.C. wood products (e.g., shifting Russian log export taxes and their impact on Chinese purchasing decisions); and demographic shifts in regional markets can place downward or upward pressure on the demand for housing and, consequently for wood products.

FII constantly monitors its environment and tailors strategies and actions to mitigate risks and leverage opportunities.

RISKS & OPPORTUNITIES	POTENTIAL IMPACT	FII RESPONSE
US Housing market		
<ul style="list-style-type: none"> • Risk: Continued weakness in the U.S. housing market. 	<ul style="list-style-type: none"> • As B.C.'s largest export market, continued weakness threatens the overall recovery of the B.C. forest industry. 	<p><i>Goal 1 market development:</i></p> <ul style="list-style-type: none"> • Continue to develop offshore markets, such as China. • Explore emerging markets, notably by establishing a presence in India in 2012/13. • Build demand in non-residential and multi-family residential sectors, both currently with low market share of wood construction and products.
Demand for Wood in Asia		
<ul style="list-style-type: none"> • Risk: Global market uncertainties may result in reduced growth in key Asian markets. 	<ul style="list-style-type: none"> • Rapid growth in B.C. lumber exports to China has helped mitigate the collapse in US demand and soft global demand. A slowdown in Chinese demand prior to US recovery would create significant challenges for B.C. producers. 	<p><i>Goal 1 market development</i></p> <ul style="list-style-type: none"> • Pursue market segments that are less subject to cyclical fluctuations (e.g., affordable housing). • Diversify market development across multiple segments such as multi-family, non-residential and resort development. • Continue market development initiatives in other Asian markets and in key growth segments in North America.
<ul style="list-style-type: none"> • Opportunity: The Chinese Government has called for cooperation with Canada on the adoption of modern wooden structures to address climate change. 	<ul style="list-style-type: none"> • Chinese authorities are focused on addressing climate change in their construction practices. Wood frame construction has been identified as offering potential solutions. 	<ul style="list-style-type: none"> • Continue to work under the MOU with the Chinese Ministry of Housing and Urban-Rural Development to promote the superior environmental performance of wood in construction.

Coastal Industry		
<ul style="list-style-type: none"> • Risk: Soft market demand for Hemlock and Amabilis Fir (HemFir). 	<ul style="list-style-type: none"> • Weak demand for the major species, by volume, from coastal B.C. seriously weakens the profitability of the coastal forest economy. 	<p><i>Goal 1 market development:</i></p> <ul style="list-style-type: none"> • Support market development in Japan targeted to HemFir products. • Explore new market opportunities for HemFir, especially in India. • Fund Western Red Cedar promotion to strengthen sales of the other major species from the coast.
Advances in building systems and products		
<ul style="list-style-type: none"> • Risk: Non-wood products threaten value-added wood products. 	<ul style="list-style-type: none"> • Buildings systems and products are constantly evolving, creating shifts in consumer interest and demand. 	<p><i>Goal 2 Wood First:</i></p> <ul style="list-style-type: none"> • Through the <i>Wood First</i> initiative promote new advances in wood design technology
<ul style="list-style-type: none"> • Opportunity: New wood products and building systems provide entry into new building segments. 	<ul style="list-style-type: none"> • Wood products and building systems are more competitive in larger building (commercial, institutional) markets, opening up tremendous growth potential. • Greater price sensitivity in multi-family residential and commercial building sectors opens up opportunities as wood construction is cost competitive with concrete and steel building systems. 	<ul style="list-style-type: none"> • Research innovative building systems that allow taller, larger buildings to be built with wood. • Promote cost competitiveness of wood construction and products to the development sector, highlighting new construction techniques and products, such as cross-laminated timber.
Changing attitudes towards the environment		
<ul style="list-style-type: none"> • Risk: Consumers sensitivity towards global forest practices and resulting drop in demand for forest products. 	<ul style="list-style-type: none"> • Greater consumer awareness of global warming creates sensitivity on forest practices, which may lead to a reputational risk and consumer resistance in purchasing wood products. 	<p><i>Goal 2 benefits of wood:</i></p> <ul style="list-style-type: none"> • Promote the high environmental standards of B.C. forest practices to consumers and buyers in key markets. • Promote the benefits of wood as a product that regenerates naturally and, when managed sustainably, supports climate change reduction strategies.

Changing attitudes towards the environment (Cont'd)		
<ul style="list-style-type: none"> • Opportunity: Consumer shift towards green products. 	<ul style="list-style-type: none"> • Greater consumer interest in green products can increase market demand for B.C. wood products, particularly for value-added products, as B.C. products are sustainably harvested. 	<ul style="list-style-type: none"> • Emphasize sustainable, green nature of B.C. wood products through targeted programs in key markets.
Market development funding		
<ul style="list-style-type: none"> • Risk: Federal funding for the Canada Wood Export Program (CWEP) <i>Wood First initiative</i> expires at the end of 2011/12. 	<ul style="list-style-type: none"> • Any change in funding levels for fiscal 2012/13 would have a significant impact on international market development programs, as Natural Resources Canada provides a significant share of these programs. 	<p><i>Goal 3 organizational effectiveness:</i></p> <ul style="list-style-type: none"> • Work with partners to position the <i>Canada Wood Export Program</i> as a priority for the B.C. forest sector. • Lead discussions with other provinces regarding financial participation. • Work with the North American forest industry to secure cooperative funding under the new check-off program administered by the US Department of Agriculture.
<ul style="list-style-type: none"> • Risk: Industry financial capacity. 	<ul style="list-style-type: none"> • The severe downturn in the forest industry tightened trade association budgets and constrained the capacity of associations to share the cost of international marketing programs. 	<ul style="list-style-type: none"> • Postpone increasing program cost-share requirements until associations are able to absorb increased market development costs.

Organizational capacity

FII has the organizational capacity, skills and budget necessary to achieve its performance targets in 2012/13. As noted, a management position was added in 2011 to direct the *Wood First initiative*, research activities, and programs in support of the value-added sector.

FII has no plans to add staff or other resources to operations in B.C. in 2012/13. In China, operations will be scaled back in 2012/13 and thereafter as FII China transitions out of its market development leadership role.

Goals, Key Strategies, Measures and Targets

GOAL 1

EXPAND MARKET OPPORTUNITIES, EMPHASIZING A DRAMATIC INCREASE IN FOREST PRODUCT EXPORTS TO CHINA AND THE REST OF ASIA

Strategies

- Support the B.C. forest industry to develop and diversify markets for B.C. wood products in new and existing Asian markets by:
 - funding trade association market development programs based on priorities outlined in FII's annual Investment Strategy
 - initiating early stage market development efforts in emerging economies
- Partner with the federal government and work with B.C. and bi-national trade associations to expand the use of wood in the non-residential construction sector in North America

Performance Measures

- Softwood lumber exports to priority Asia Pacific markets
- Incremental sales generated in targeted U.S. non-residential construction markets
- Incremental sales generated in the B.C. non-residential construction market

GOAL 2

POSITION WOOD AS A PREFERRED BUILDING MATERIAL AND B.C. AS A GLOBAL LEADER IN WOOD INNOVATION

Strategies

- Establish B.C. as a leader in wood use and innovation by leading B.C.'s *Wood First initiative* to:
 - increase wood use in public construction in B.C.; and
 - advance a "pro-wood" culture in B.C.
- Advocate for the B.C. forest sector by encouraging international regulators to accept B.C./Canadian products and forest practices
- Champion science- and fact-based approaches to communicate the merits of wood and wood-based construction technologies, including wood's environmental and social benefits
- Position B.C. as a leading global supplier of quality, environmentally-responsible forest products and building solutions

Performance Measures

- Percent of allowable floor area (B.C. Government buildings) built with wood
- Percent of customers who feel that choosing products from B.C. (Canada) is a good choice for the environment

GOAL 3

MAINTAIN FII AS A HIGHLY EFFECTIVE, INNOVATIVE AND RESPONSIVE ORGANIZATION

Strategies

- Ensure FII is efficient, transparent and results focused
- Ensure the integrity and timeliness of funding to other organizations for activities that will enhance the forest sector's economic and social benefits to British Columbia
- Maximize partner resources leveraged in the delivery of FII programs
- Minimize FII's carbon footprint and promote environmentally responsible business practices

Performance Measures

- Timeliness of annual funding cycle for trade associations, research institutes, and universities
- Leveraged dollars as a percentage of total annual funding program

GOAL 1

EXPAND MARKET OPPORTUNITIES, EMPHASIZING A DRAMATIC INCREASE IN FOREST PRODUCT EXPORTS TO CHINA AND THE REST OF ASIA

FII's underlying objective is to strengthen demand for B.C. forest products across a range of markets and end use applications. Goal 1 reflects this objective and the primary means of achieving it through focused market development efforts in Asia.

The goal also reflects the importance of diversifying markets for B.C. forest products. In 2003, when FII was established, 83% of lumber exports went to the United States, with 17% to all other markets. This made the industry vulnerable to market cycles in the U.S., as occurred in 2007 when exports dropped 15% and 2008 when a further 30% decline occurred.

Since 2003, FII programs have been a key catalyst for developing new markets and diversifying forest product exports. By 2010, non-U.S. market share had grown to 41% with 37% of all lumber exports flowing to Asia Pacific markets.

During the period of this service plan, FII will continue its focus on growing markets in China, Japan and South Korea. FII will also open a new beach-head in the fast growing Indian market and lead industry in building the foundation for a new market development initiative there. In North America, FII will focus on growing high potential market segments in the commercial, retail, industrial, institutional and recreational construction segments. FII will work with the forest industry to stabilize existing markets, and encourage efforts to strengthen and expand market opportunities to support future growth and employment.

Strategies to support Goal 1:

- Support the B.C. forest industry to develop and diversify markets for B.C. wood products in new and existing Asian markets by:
 - funding trade association market development programs based on priorities outlined in FII's annual Investment Strategy
 - initiating early stage market development efforts in emerging economies
- Partner with the federal government and work with B.C. and bi-national trade associations to expand the use of wood in the non-residential construction sector in North America



Premier Christy Clark and Minister of Forests, Lands and Natural Resource Operations Steve Thomson join industry leaders at the Jinqiao townhouse development, Shanghai, China. November 8, 2011.

The growth B.C.'s softwood lumber trade with China has been phenomenal. In 2003, at the start of the joint provincial-federal-industry market development program in China, BC exported \$69million worth of softwood products to China and Hong Kong. In 2010, after seven years of hard work and clear focus, BC exported \$687 million dollars worth of softwood lumber – an increase of almost 900 percent.

Performance Targets

Performance Measure		2010/11 Actual	2011/12 Forecast	Target			
				2012/13	2013/14	2014/15	
A	B.C. Softwood Lumber Exports to Priority Asia Pacific Markets (000's of m3) ¹²	7,159	9,968	11,504	13,322	15,444	
	<i>Consisting of:</i>	<i>China</i>	4,562	7,400 ⁵	8,900	10,700	12,800
		<i>Japan³</i>	2,447	2,400	2,650	2,775	2,900
		<i>South Korea⁴</i>	152	163	175	187	200
B	Incremental Sales Generated in U.S. Non-Residential Market (millions of board feet)	298	300	400	500	600	
C	Incremental Sales Generated in the B.C. Non-Residential Market (millions of board feet)	61	62	75	80	88	

Performance measures and targets for Goal 1 have been developed based on research on market potential, an assessment with industry trade associations of specific segments and market opportunities, and on projections made by FII. While China has experienced extremely strong growth in recent years, over the three-year planning horizon of this Service Plan, it is anticipated that the pace of growth will begin to slow; however, year-over-year growth will remain very strong relative to other, more mature markets as wood construction continues to take hold. Reflecting a likely continuation of low- to-negative economic growth in the United States, Japan and the Euro-zone over this planning cycle, a situation that is affecting much of the globe, FII is targeting more modest growth in the company's other target markets.

¹ 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 reliable indicator of overall progress by FII and its funding recipients in fostering market diversification.

² FII is currently developing a market strategy for India which will include an assessment of the commercial potential of segments in that market. In 2012/13 a benchmark will be set, and targets developed for future reporting periods. These targets will be reported in the 2013/14 Service Plan.

³ It should be noted that many specialty products formerly shipped from B.C. to Japan (e.g., Douglas-fir, cedar, Sitka spruce) are now often 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.

⁴ Lumber consumed in structural applications (residential, non-residential and additions).

⁵ 6.3 million m³ was the target set for 2011/12 in the February 2010 FII Service Plan. This converts to approximately 4 billion board feet (volume target for China per the 2010 Shareholder's Letter of Expectations for FII) using a net cubic meter to board foot factor of .628.

Importance of Measures:

A: B.C. Exports of Softwood Lumber to Priority Asia Pacific Markets

The measure tracks the extent to which the B.C. forest industry shifts its reliance away from the United States by selling to Asian customers over the longer-term. This is a measure of market diversity and greater overall demand. The target is heavily weighted to sales in China, where a particularly large share of FII investments are leveraging joint industry and government (provincial and federal) market development efforts. The figures are based on Statistics Canada export data and are consistent with industry measurement practices.

While exports to China, B.C.'s second largest export market, exceeded forecast by a wide margin (17% above target) and shipments to Japan remained on target, volumes consumed in Korea's wood frame construction sector did not meet forecast (10% below target) during the period. The variance in actual versus forecast for Korea is due to smaller than anticipated wood frame units being built last year, a shift attributable to the continuing global economic slowdown. Reflecting the shift to smaller units, forecast volumes for SPF lumber consumed in Korea's wood frame construction market for 2012/13 through 2014/15 have been revised downward. While this measure focuses on lumber consumed in structural applications, it should be noted that total exports of B.C. lumber to Korea rose significantly in 2011, up over 30 percent from the previous year. Much of this increase was consumed by Korea's chemical treating industry for production of treated lumber for the landscape market; however, it is expected that some volume is also finding its way into higher-value applications.

B: Sales into the Non-Residential Markets in the United States and B.C.

The measure tracks success in introducing wood frame technology to the non-residential construction sector in the United States as a way of lessening the B.C. 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.

A number of factors are unfavourably impacting the actual incremental sales for the US Non-Residential market. The 2010/11 forecast volume was not achieved and the target for 2011/12 was lowered. This is in part because the US market has seen longer and deeper recessionary effects than originally forecast. It also reflects a reduced program budget (down from \$7 to \$5 million for the US non-residential program) due to delays in receiving federal funding and, consequently, other leveraged funding. This meant that work in the first quarter was delayed which impacted the projected numbers for 2011/12. During the year, the Wood Products Council board directed the program to focus on new initiatives for schools, franchises and mid-rise construction. This adjustment in focus is expected to take some time to gain momentum and has contributed to the lower volume figure estimated for 2011/12 as well as increases in volume targets beginning in 2013/14.

C: Incremental Sales Generated in the B.C. Non-Residential Market

The measure 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.

FII has completed independent third-party evaluations of both the B.C. and U.S. market development programs, and their metrics, and is confident that the data are reliable for performance reporting purposes.

The ability to achieve Performance Measures A, B, and C is heavily influenced by the performance of the industry market development programs supported by FII. As part of the funding approval process, performance measures are set for each project. All of these measures are directly linked to FII's broader goals and targets. For more details, see FII's Performance Management Framework at: http://www.bcfii.ca/about_fii/corporate_reports.htm.

GOAL 2

POSITION WOOD AS A PREFERRED BUILDING MATERIAL AND B.C. AS A GLOBAL LEADER IN WOOD INNOVATION

The primary objective of Goal 2 is to expand opportunities for B.C. forest products by positioning wood, and wood products from B.C., as the first choice for environmentally friendly building materials. The strategies under Goal 2 create a solid foundation for answering “why wood?”, and “why wood from B.C.?” – upon which many of FII’s other market development investments and activities are based.

Advanced wood design and construction technologies, and increasing recognition of environmental factors in purchasing decisions, are significant opportunities for B.C. as a supplier of innovative, renewable building materials. With the construction industry contributing roughly 50% of all green house gas emissions, green building trends are here to stay. With its carbon sequestration benefits and light environmental footprint, wood products from well managed forests are an excellent choice to reduce green house gas emissions and mitigate climate change impacts. For 2012/13, Goal 2 reflects a larger emphasis on leveraging the benefits of using more wood in construction, and British Columbia’s ambition to be recognized world-wide for innovation in wood-related products, services and construction technology.

Major customers and governments are demanding greater scrutiny in their procurement decisions for forest products (wood and paper), particularly in sourcing from sustainably managed forests. Increasingly, independent verification of legal and sustainable forest management practices is being demanded. Over the last decade, British Columbia has developed a reputation as a global leader in sustainable forest management. This position requires ongoing efforts to ensure recognition in existing and new export markets, and to respond to new environmental and social policy developments.

Strategies to support Goal 2:

- Establish B.C. as a leader in wood use and innovation by leading BC’s Wood First initiative to:
 - Increase wood use in public construction in B.C.; and
 - Advance a “pro-wood” culture in B.C.
- Advocate for the B.C. forest sector by encouraging international regulators to accept B.C./Canadian products and forest practices;
- Champion science- and fact-based approaches to communicate the merits of wood and wood-based construction technologies, including wood’s environmental and social benefits;
- Position B.C. as a leading global supplier of quality, environmentally- responsible forest products and building solutions

Performance Targets

Performance Measure		2010/11 Actual	2011/12 Forecast	Forecast		
				2012/13	2013/14	2014/15
D	Percent of allowable floor area (B.C. Government buildings) built with wood	47% ⁶	n/a	49%	n/a	54%
E	Percent of customers who feel that choosing products from B.C. (Canada) is a good choice for the environment	98%	n/a	90%	n/a	90%

Importance of Measures:

D: Percentage of Allowable Floor Area Built with Wood:

The measure tracks actual wood use in publicly funded buildings in B.C. The measure is limited to buildings/floor area that can be built under the existing B.C. Building Code in order to eliminate skewing of data by projects that could not currently be converted to wood. Given the long lead times for major construction projects, including securing funding, design and engineering, project approvals and finally construction, it is not uncommon for 2-3 years or more to pass from project concept to completion. FII anticipates that many projects completed in 2010, and even 2011, will have been started prior to 2009 and too far along for the *Wood First Act* to have any real impact on wood use. Moving into 2012 and beyond, a gradual but increasing impact is projected. FII benchmarked wood use in public construction for 2009 (when the *Wood First Act* was passed) and will measure again for the 2012 calendar year, and every two years thereafter.

E: Positioning British Columbia as a preferred global supplier

The measure provides an indication of the effectiveness of FII's international advocacy and communications initiatives to influence customer perceptions of B.C. and its forest management practices. Performance data are gathered through a bi-annual survey of international customers conducted by an independent research firm. FII has seen performance strengthen over the past decade, with recent results showing that 88% of respondents view Canada, led by B.C., as "favourable" in terms of environmental practices, and a further 10% felt that practices were at least average. None viewed Canada/B.C. as unfavourable.

During 2012/13, FII will be developing an additional performance indicator to assess perceptions of wood with key specifier groups, and wood's acceptance as a preferred building material. This performance measure will be evaluated through bi-annual surveys of architects and engineers in both North America and British Columbia. This direct measurement of the impact of outreach activities on enhancing perceptions of wood, with key target audiences that have the greatest ability to influence design and procurement decisions, is viewed as a direct means to evaluate impact and performance. As current efforts are heavily focused on the North American market and in British Columbia, consistent with Goal 1's objective of growing the non-residential market in North America – measurement will be focused in North America. In 2012/13 FII will benchmark current perceptions of wood, and set appropriate growth targets for future periods. A professional, independent market research firm will be used to gather and evaluate this information.

⁶ Benchmark developed in 2011, but based on construction completed between January and December 2009. FII plans to measure wood use in public buildings every two years, with the calendar year 2012 being the next measurement period. Measure of wood use is relative to total floor area where wood is allowed under existing building codes. Building code changes resulting in expanded opportunities for wood use (changes to the code to allow wood in larger buildings) will affect this metric. In the event of such changes, FII may need to restate results to ensure comparability over time.

GOAL 3

MAINTAIN FII AS 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.

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

The strategies to achieve Goal 3:

- Ensure FII is efficient, transparent and results focused by:
 - Keeping corporate support costs at or below 7% of total budget
 - Implementing a rigorous performance management system
 - Monitoring and auditing funded projects according to explicit risk assessments
- Ensure the integrity and timeliness of funding to other organizations for activities that will enhance the forest sector’s economic and social benefits to British Columbia
- Maximize the financial contributions of key partners to core programming, and
- Minimize FII’s carbon footprint and promote environmentally responsible business activities.

Performance Targets

Performance Measure		2010/11 Actual	2011/12 Forecast	Target		
				2012/13	2013/14	2014/15
F	Timeliness of annual funding cycle for trade associations, research institutes, and universities	Competitive funding process was completed by April 1	Competitive funding process will be completed by April 1	Competitive funding process is completed by April 1	Competitive funding process is completed by April 1	Competitive funding process is completed by April 1
G	Partner contribution to annual recipient funding program	64%	65%	65%	65%	65%

Importance of measures:

F: Timeliness of Annual Funding Cycle

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

G: Partner Contributions

This measure tracks the effectiveness of FII in securing external resources to deliver market development programs on behalf of the Government of B.C. The willingness of industry partners, the federal government and other provincial governments to contribute to market development activities is a direct indicator of the value placed on these activities, particularly at a time of severe resource constraints. Data to support the measure is sourced from the on-line recipient program system, which is co-funded and managed by FII and Natural Resources Canada, and through FII's year-end financial analysis.

Every year, more than half of the budget for FII's funding program is contributed by other parties. FII partners also contribute significantly to other special initiatives. For example, in 2007 B.C.'s \$5 million commitment to the three year Wenchuan Earthquake Reconstruction initiative in Sichuan, China was augmented by a \$3 million contribution by the federal government through Natural Resources Canada. FII subsequently managed the construction of a primary school, a school for the disabled and an elderly care centre on behalf of the funding partners. FII was also able to leverage Government of Canada financial support for constructing and managing the 2010 Vancouver Pavilion, built as a wood frame demonstration project for EXPO 2010 in Shanghai, and for several other demonstration efforts undertaken by FII in China. For 2012/13, FII will flow \$2 million of B.C. Government funding to support wood frame projects as part of Japan's reconstruction after the earthquake and tsunami in March 2011. These funds will leverage a further \$500,000 from industry and \$2 million from the federal government.



Minister of Jobs, Tourism and Innovation Pat Bell attends completion ceremonies for the Beichuan Maple Leaf Elderly Care Centre in Beichuan County, Sichuan Province, China. November 11, 2011.

Change to Goals and Performance Measures Since Publication of the February 2010 Service Plan

2011/12 was a year of evolution for FII. In June FII was charged with leading the province's *Wood First* initiative, which broadened FII's involvement in domestic market and industry development efforts. In addition, in 2011/12 FII agreed to reduce the role of its subsidiary in China, with industry eventually assuming more market development responsibilities. This will unfold over two years. The changes in corporate focus necessitated certain adjustments to FII's goals, strategies and performance measures for the new Service Plan. These changes are included in the following table:

Goal/Measure February 2010	Revised Goal	Revised Strategies/Measures	Reason for Change
Expand Market Opportunities, emphasizing a dramatic increase in forest product exports to China and the rest of Asia	Goal unchanged	<p><i>Strategies:</i> Strategies on wood use/innovation and on positioning wood as a green building material shifted to Goal 2</p> <p>Added strategy to expand wood use in the non-residential sector</p> <p>Removed strategy related to operating subsidiary to reflect transition to a narrower mandate</p> <p>Reduced SPF volume targets for the Korea market.</p>	<p>Mandate for the province's <i>Wood First</i> initiative was transferred to FII in June 2011. Goal 2 was broadened to accommodate this change</p> <p>As above</p> <p>Mandate for FII's China subsidiary will be narrowed in 2012/13</p> <p>Reflects a trend in Korea towards smaller housing units following global economic slowdown</p>
International Recognition of B.C. as the Leading Supplier of Environmentally Superior Forest Products	Position Wood as a Preferred Building Material and B.C. as a Global Leader in Wood Innovation	<p><i>Strategies:</i> Expanded to include <i>Wood First</i> objectives</p> <p><i>Measures:</i> A measure was Added to track wood use in new B.C. Government funded buildings</p>	Goal expanded to reflect FII's mandate to lead the province's <i>Wood First</i> initiative and an increased emphasis on positioning wood as a preferred building product
FII is a Highly Effective, Innovative and Responsive Organization	Maintain FII as a Highly Effective, Innovative and Responsive Organization	<p><i>Strategies:</i> A new strategy was added to reflect priority on attracting partner funding</p> <p><i>Measures:</i> Added a measure to track leveraged funding as an indicator of effectiveness in securing partner funding</p>	<p>Goal wording better reflects organizational objective</p> <p>Funding measure provides indication of the value of FII programming to external partners</p>

Government's Letter of Expectations

FII's sole shareholder is the Province of British Columbia. The Government's Letter of Expectations (GLE) outlines the respective roles and responsibilities of FII and the Shareholder to achieve the corporate mandate. The GLE for 2012/13 confirms the Corporation's mandate to:

- position British Columbia as a global supplier of world-class environmentally friendly forest products;
- actively maintain, create and diversify demand for B.C. forest products in Canada and in key world markets;
- help break down non-tariff trade and market barriers to ensure opportunities for B.C. forest products;
- work with the forest industry to promote B.C.'s 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.

In working to achieve its mandate, FII is directed to ensure operations and performance are consistent with the government's strategic direction and that they meet key performance expectations. Details on these directives are available at (web link to the corporate reports page at <http://www.bcfii.ca/aboutus/corporate/corporate-reports.>)

The following table summarizes the specific corporate accountabilities included in the GLE, and the relevant action response by FII:

GLE Directive	Action Response
<p>Achieve the following sales of softwood lumber in 2012/13:</p> <p>To China: 7.9 million cubic metres</p>	<p>China:</p> <ul style="list-style-type: none"> • FII has placed a priority on expanding market opportunities in Asia, with a particular emphasis on growing the demand for lumber in China. • In 2012/13, FII will support industry in the introduction of wood building systems and structural and appearance grade products to take advantage of high potential construction applications. These include mid-rise and multi-family construction, wood "in-fill" in high rise construction, wood truss roofing, wood-hybrid construction and other high potential structural wood applications. • FII's focus will be to maintain the recent growth in use of B.C. wood products in Chinese building systems and continue to expand this through ongoing promotion, technical training, tradeshow and construction quality assurance. Work is continuing to address barriers to market entry such as building/fire code limitations and competition from products manufactured by B.C.'s competitors. • Inbound and outbound missions will be undertaken to build trade connections between B.C. suppliers and buyers in China. • As the China program continues to take hold in 2012/13 and the commercial uptake of wood frame construction accelerates, FII's subsidiary in China will begin transitioning responsibility for China market development to the industry-lead Canada Wood Group. It is anticipated that by 2013/14 FII China's activities will be primarily focused on providing government-to-government liaison in support of the B.C. forest industry trade associations.
GLE Directive	Action Response

<p>To Japan: 2.4 million cubic metres</p>	<p>Japan:</p> <ul style="list-style-type: none"> • FII will work with industry to develop niche opportunities in elderly care facilities, post-and-beam, and 2x4 wood frame construction and value-added products. Under the FII-funded “Living and Building with Wood” strategy, B.C.’s value-added producers will continue to build market share as they focus on innovative architectural and interior products. • Work in 2012/13 will continue to focus on ensuring optimal building and fire codes and standards to accommodate the use of western red cedar and hemfir. Initiatives to develop construction guides and undertake testing for applications of cedar, hemlock and OSB in Japan will ensure B.C. maintains its position as a preferred supplier • Following the devastating earthquake and tsunami in March 2011, the Government of B.C., committed a total of \$2 million to assist in reconstruction efforts, leveraged by a further \$0.5 million from industry and \$2 million from the federal government. Under the reconstruction program, one or more institutional facilities will be built in the Tohoku region using high quality B.C. wood products.
<p>To South Korea: 204,000 cubic metres</p>	<p>South Korea:</p> <ul style="list-style-type: none"> • Due to economic conditions, efforts in Korea were scaled back in 2011/12; however, Canada Wood Group, with FII funding support, will continue to focus on building markets for structural lumber, panel products and value added products. • The Korean Government has announced plans to expand housing construction in satellite and second-tier cities to relieve some pressure on key urban centres. In 2012/13, FII will support industry efforts to leverage this opportunity for B.C. producers with long standing ties to the market. • Environmental concerns continue to influence Korean consumers as the government works to address carbon footprint and “sick house” syndrome from non-wood construction methods which dominate city developments. In 2012/13, FII plans to support industry in positioning wood frame construction as a sustainable healthy alternative to other building materials and leverage Korean preferences for wood in their traditional home design.

<p>Generate 400 million board feet of incremental lumber sales in the United States non-residential construction sector.</p> <p>Generate 75 million board feet of incremental lumber sales in the B.C. non-residential construction sector.</p> <p>Ensure that 90 per cent of customers feel that choosing forest products from B.C. is a good choice for the environment.</p>	<ul style="list-style-type: none"> • In 2012/13, FII will work closely with the Bi-national Softwood Lumber Council and Natural Resources Canada to provide support for the development of non-residential wood construction in the United States. • FII will also provide core funding for the Wood Products Council (WPC) and its partner agencies to lead this effort by targeting architects and designers, pursuing national level opportunities with major end users, and stimulating the sale of wood products in major national chain stores. • Opportunities will be explored to increase wood use in non-residential construction using both traditional wood frame construction and innovative systems, such as cross-laminated timber (CLT) and hybrid wood-concrete construction. • Current levels of wood use in non-residential construction will be documented as a baseline against which to track the impact of promotional investments. <ul style="list-style-type: none"> • Conversion of major projects to wood use from other materials is a key focus for FII’s <i>Wood First</i> strategy which targets increased wood use in the domestic market. In 2012/13 FII will accelerate <i>Wood First</i> by undertaking research to support the use of wood in commercial and other occupancy classes of buildings in B.C. FII will also work with the Wood Enterprise Coalition to support research into building codes, new building systems, and promotional efforts to expand wood use in the Province. • FII will continue its partnership with Natural Resources Canada to pursue wood use in non-residential construction via the <i>WoodWORKS! BC</i> program. Achieving greater penetration of six-storey and other multi-unit construction across the province will be a priority. <p>In 2012/13, FII will focus on the following activities:</p> <p>Market access and acceptance: Lead on government-to-government relations with respect to market barriers and market acceptance initiatives, particularly in respect of forest management and environmental impact</p> <p>B.C. forestry and wood products communication: Provide independent, commercially-neutral promotion of the performance and environmental merits of wood and the B.C. forest sector in order to help maintain a base of support that underpins specific product/market messaging delivered by B.C. companies and industry associations.</p> <p>Media monitoring and issues management: Monitor developments and trends as they relate to environmental and social responsibility policy that may impact the ability of B.C. producers to access domestic and foreign markets.</p>
<p>GLE Directive</p>	<p>Action Response</p>

<p>Work with the Shareholder to assess the ongoing mandate for FII, including the implications to the FII mandate of closing the FII China portion of the organization in favour of direct industry marketing initiatives.</p> <p>Comply with Governments requirements to be carbon neutral under the Greenhouse Gas Reduction Targets Act.</p>	<ul style="list-style-type: none"> • FII will collaborate with B.C. government agencies in 2012/13, including the Ministry of Jobs, Tourism and Innovation, to conduct a review of the mandate for FII and its subsidiary company, FII China. In preparation for this review, and as part of the process to rationalize the delivery of government-funded market development activities in China, FII has completed an initial assessment of the implications of transferring responsibilities for China market development from FII's subsidiary company in China to the industry-led Canada Wood Group. • FII will continue to focus on initiatives in alignment with the government's climate action policies on carbon neutrality and on what FII can do to reduce its carbon footprint. FII will continue to undertake proactive initiatives on continuous improvements in recycling practices, energy use and consumption, purchasing practices, and behavioural change management. FII will offset any remaining emissions through the Pacific Carbon Trust.
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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/aboutus/corporate/corporate-reports>.

Summary Financial Outlook

Forestry Innovation Investment Ltd. Consolidated Summary Financial Outlook 2010/11 - 2014/15

	Actual 10/11 (000's)	Projected 11/12 (000's)	Budget 12/13 (000's)	Budget 13/14 (000's)	Budget 14/15 (000's)
Revenue					
Contribution from the Province of BC	\$ 18,723	\$ 18,800	\$ 17,800	\$ 17,800	\$ 17,800
Contribution for Wenchuan Earthquake Reconstruction	\$ 4,772	\$ 370	\$ -	\$ -	\$ -
Contribution for Japan Tsunami Reconstruction	\$ -	\$ 2,000	\$ -	\$ -	\$ -
Contribution for China Demonstration Projects	\$ 2,637	\$ 700	\$ -	\$ -	\$ -
Transferred from deferred Revenue	\$ 175	\$ 350	\$ 300	\$ 200	\$ 100
	<u>\$ 26,307</u>	<u>\$ 22,220</u>	<u>\$ 18,100</u>	<u>\$ 18,000</u>	<u>\$ 17,900</u>
Expenses					
Market Development by other organizations ⁽³⁾	\$ 9,574	\$ 8,775	\$ 8,100	\$ 8,800	\$ 8,750
Woodfirst Program	\$ -	\$ -	\$ 2,500	\$ 2,500	\$ 2,500
China Market Development	\$ 2,781	\$ 2,850	\$ 1,350	\$ 650	\$ 650
China - Funded Demonstration Projects ⁽²⁾	\$ 2,761	\$ 1,033	\$ -	\$ -	\$ -
Wenchuan Earthquake Reconstruction ^{(1) (4)}	\$ 4,690	\$ 969	\$ -	\$ -	\$ -
Japan Tsunami Reconstruction	\$ -	\$ 2,000	\$ -	\$ -	\$ -
Government Initiatives and Outreach	\$ 4,784	\$ 4,969	\$ 4,550	\$ 4,500	\$ 4,500
Corporate Support	\$ 1,100	\$ 1,274	\$ 1,300	\$ 1,350	\$ 1,400
	<u>\$ 25,690</u>	<u>\$ 21,870</u>	<u>\$ 17,800</u>	<u>\$ 17,800</u>	<u>\$ 17,800</u>
Operating Income	<u>\$ 617</u>	<u>\$ 350</u>	<u>\$ 300</u>	<u>\$ 200</u>	<u>\$ 100</u>
Amortization	\$ 331	\$ 350	\$ 300	\$ 200	\$ 100
Excess of Revenue over Expenses	<u>\$ 286</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Retained Earnings, end of year	<u>\$ 742</u>	<u>\$ 742</u>	<u>\$ 742</u>	<u>\$ 742</u>	<u>\$ 742</u>
Capital Expenditures	<u>\$ 230</u>	<u>\$ 100</u>	<u>\$ 75</u>	<u>\$ 50</u>	<u>\$ 50</u>

⁽¹⁾ Includes 09/10 prepaid expenses (000's)

\$ 1,036

\$ -

\$ -

\$ -

⁽²⁾ Includes 09/10 prepaid expenses (000's)

\$ 34

\$ -

\$ -

\$ -

⁽³⁾ Includes other organization funding for China market development

\$ 2,160

\$ 2,200

\$ 2,400

\$ 2,900

\$ 2,900

⁽⁴⁾ Wenchuan Earthquake Reconstruction was co-funded by a one-time contribution of \$8 million. \$5m from the Province of BC and \$3m from the Government of Canada spread over 3 years (2008-11)

FII Consulting (Shanghai) Co. Ltd.
Summary Financial Outlook
2010/11 - 2014/15

	Actual 10/11 (000's)	Projected 11/12 (000's)	Budget 12/13 (000's)	Budget 13/14 (000's)	Budget 14/15 (000's)
Revenue					
Contribution from the Province of BC	\$ 2,781	\$ 2,850	\$ 1,350	\$ 650	\$ 650
Transferred from deferred Revenue	\$ 30	\$ 20	\$ 10	\$ 5	\$ 5
	<u>\$ 2,811</u>	<u>\$ 2,870</u>	<u>\$ 1,360</u>	<u>\$ 655</u>	<u>\$ 655</u>
Expenses					
China Market Development	\$ 2,781	\$ 2,850	\$ 1,350	\$ 650	\$ 650
	<u>\$ 2,781</u>	<u>\$ 2,850</u>	<u>\$ 1,350</u>	<u>\$ 650</u>	<u>\$ 650</u>
Operating Income					
	<u>\$ 30</u>	<u>\$ 20</u>	<u>\$ 10</u>	<u>\$ 5</u>	<u>\$ 5</u>
Amortization	\$ 30	\$ 20	\$ 10	\$ 5	\$ 5
Excess of Revenue over Expenses					
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Retained Earnings, end of year					
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Capital Expenditures					
	<u>\$ 60</u>	<u>\$ 35</u>	<u>\$ 15</u>	<u>\$ 5</u>	<u>\$ 5</u>

Financial Notes

Risks and assumptions

The continuity of FII's investments, programming and activities depends upon receipt of consistent funds from the Ministry of Jobs, Tourism and Innovation.

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

Subsidiary

See the FII Consulting (Shanghai) Co. Ltd. financial outlook (previous page). Funding for the company is by way of consulting fee invoices to the parent company in Canada (FII Ltd.). As commercialization of wood frame technology is now taking hold in China, leadership for market development initiatives in China will begin to transition from FII's subsidiary company to Canada Wood Group. FII Consulting (Shanghai) Co. Ltd. will therefore scale down operations in 2012/13, providing government-to-government liaison, technical design and other direct technical administrative services in support of industry trade associations as they assume greater responsibility for the China program.

Capital initiatives

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

Non-disclosure of information

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

Debt

FII has no debt.

Information

Further information on Forestry Innovation Investment is available at www.bcfii.ca. A *Report to Stakeholders* published in October 2011 highlights accomplishments in major markets around the world. Previous Service Plans and Service Plan Annual Reports are available at <http://www.bcfii.ca/aboutus/corporate/corporate-reports>.

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

