

Forestry Innovation Investment

2018/19 – 2020/21 SERVICE PLAN

February 2018



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Board Chair Accountability Statement



The 2018/19 - 2020/21 Forestry Innovation Investment (FII) Service Plan was prepared under the Board's direction in accordance with the *Budget Transparency and Accountability Act*. The plan is consistent with government's strategic priorities and fiscal plan. The Board is accountable for the contents of the plan, including what has been included in the plan and how it has been reported. The Board is responsible for the validity and reliability of the information included in the plan.

All significant assumptions, policy decisions, events and identified risks, as of February 1, 2018 have been considered in preparing the plan. The performance measures presented are consistent with the *Budget Transparency and Accountability Act*, FII's mandate and goals, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of FII's operating environment, forecast conditions, risk assessment and past performance.

A handwritten signature in blue ink, appearing to read 'Tim Sheldon', written over a horizontal line.

Tim Sheldon
Board Chair

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Strategic Direction and Alignment with Government Priorities

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

As outlined in its [2018/19 Mandate Letter](#) from the Minister of Jobs, Trade and Technology, FII will focus on four strategic priorities in the coming year:

- Promote wood’s environmental merits as a preferred, sustainable and renewable building material.
- Expand international market diversification for B.C. wood products to open up new opportunities in existing and new markets, with a strong focus on Asia.
- Showcase B.C.’s leadership in how we use wood by profiling innovative projects, and leveraging that experience to increase demand for the use of wood at home and abroad.
- Collaborate with B.C. Provincial Government partners to jointly deliver on the strategic objective to advance wood innovation in B.C.

FII’s operations also support the Government’s strategic direction to The Ministry of Jobs, Trade and Technology (JTT); the Ministry of Forests, Lands, Natural Resource Operations and Rural Development (FLNRORD); and the Minister of State for Trade to:

- Increase employment in the forestry and innovative wood manufacturing sectors;
- Develop B.C.’s international trade relations;
- Expand efforts to market innovative manufactured wood products to world markets; and,
- Promote the use of wood in public construction projects.

By aligning near- and long-term activities with those of Government, FII ensures its programs support Government’s key priority to build a strong, sustainable economy for British Columbia:

Government Priority	FII Aligns with This Priority By:
A strong, sustainable economy	Collaborating with industry, government and institutional partners to deliver a suite of programs and activities focused on three complementary goals ¹ : <ul style="list-style-type: none"> • position B.C. as a reliable global supplier of quality building products from sustainably managed forests (Objective 1.2 - Goal 1); • ensure returns from B.C.’s conventional and next generation forest products are optimized in markets offering high potential (Goal 2); and • establish B.C. as a leader in adopting innovative forest products and building systems (Goal 3).

¹ For a detailed description of FII’s goals and objectives in support of the Government’s priorities, refer to the Performance Plan discussion beginning on page 7.

Operating Environment

Market development efforts led by FII continue to be influenced by a wide range of factors, many outside the control of the organization and its partners. These factors have been particularly volatile in recent years and include currency exchange rates; fluctuating economic growth in target markets; increasing competition; and local market factors that reflect demand for housing and capital construction. Factors influencing demand in the United States, China, Japan and India are the most significant, as these priority markets represent more than 90 per cent² of international sales of B.C. wood products and account for the majority of FII program investments.

For 2018/19, economic recovery in the United States is expected to continue, with the housing market strengthening and demand for softwood lumber growing; however, a hardline approach by the U.S. administration in the renegotiation of the North American Free Trade Agreement is creating uncertainty for industry in Canada, including the B.C. forest sector. In addition, the lack of progress in reaching a new agreement to replace the expired Canada – U.S. Softwood Lumber Agreement, and the subsequent imposition of steep tariffs and duties, has the potential to significantly impact B.C.'s trade with the United States.

China, B.C.'s largest market for commodity lumber outside North America, continues to face challenges as it rebalances its economy from manufacturing-led demand toward domestic consumption and services. While high-level drivers—including urbanization, the growing middle class, and escalating environmental concerns—are creating new demand for wood in China, competition is increasing, particularly from Russia and the European Union.

Growth in Japan, B.C.'s second largest market in Asia, will remain modest in the year ahead; however, new, high-value opportunities for wood products continue to emerge in new segments, including multi-family and multi-storey residential construction, the resort industry and in the institutional segment. South Korea remains a small, but profitable market for B.C. wood products exporters, filling an important niche between Japan's demand for high-value products and China's vast appetite for lower-grade material.

In India, where FII has a significant market development effort underway, demand for softwood continues to grow, which is creating new opportunities for B.C. suppliers. FII and industry, with support from the Government of Canada, are aggressively pursuing the Indian market through a comprehensive program of promotion, product demonstration and manufacturing trials. Across all these markets, the low value of the Canadian dollar against the U.S. dollar continues to provide at least some buffering against the impacts of increased competition in the global market for wood products.

In B.C., and across North America, acceptance of new generation wood technologies, such as taller wood buildings—where B.C. is a recognized leader—and engineered products such as cross-laminated timber and nail laminated timber, are gaining momentum. Innovations in wood products

² The United States, Mainland China, Japan and India accounted for 64 per cent, 15 per cent, 11 per cent and 0.1 per cent, respectively, of B.C. wood product exports in 2016.

and building systems technology and engineering are creating new opportunities for B.C.'s manufacturers and strengthening efforts to expand wood sales in the high-potential non-residential construction market, a key performance target for FII in the North American market.

Global market conditions are being monitored using feedback from FII subsidiaries, industry operations in priority markets, and program delivery agencies, as well as through ongoing market research. FII will continue to seek input from, and coordinate activities with, provincial and federal government representative offices in key markets. If required, responsive actions will be introduced to mitigate identified risks to forecasts.

Over the period of this Service Plan, FII programming will continue to evolve with the market to reflect new opportunities for traditional forest products, advanced engineered materials and building systems; and where appropriate, non-conventional, next-generation products.

For 2018/19, no significant changes are planned in FII's internal operating environment.

Performance Plan

The goals, strategies, measures and targets in this Plan are in alignment with Government's strategic priorities as articulated in FII's [2018/19 Mandate Letter](#) and in the Mandate Letters of the [Minister of Jobs, Trade and Technology](#), the [Minister of Forests, Lands, Natural Resource Operations and Rural Development](#), and the [Minister of State for Trade](#). The Service Plan goals, strategies, measures and targets are also fully consistent with FII's Board-approved [five-year strategic plan](#), and with the JTT and FLRORD annual service plans.

To ensure that FII's Performance Plan remains aligned with, and supportive of, Government's priorities, FII maintains strategic engagement throughout the year with its responsible Ministry, JTT. This engagement includes regular meetings between the FII CEO and Board Chair, and the JTT Minister and Deputy Minister to review FII's activities and its performance against the Plan³.

Goal 1: Forest Products are Viewed as an Environmentally-Friendly, Preferred Material, and B.C. is Viewed as a Reliable Global Supplier of Quality Products from Sustainably-Managed Forests

The primary objective of Goal 1 is to expand opportunities for B.C. forest products by positioning wood, and wood-based products from B.C., as the first choice for environmentally-friendly building materials. The strategies under Objective 1.1 create a solid foundation for answering the questions "Why wood?" and "Why wood from B.C.?" upon which many of FII's other market development investments and activities are based.

³ FII also maintains regular engagement with FLNRORD through deputy minister- and assistant deputy minister-level membership on the Board of Directors for FII. The Deputy Minister for FLNRORD currently serves as Board Chair.

Objective 1.1: Opportunities for B.C. Forest Products are Expanded by Positioning Wood, and Wood-Based Products from B.C., as the First Choice for Environmentally-Friendly Building Materials

This objective supports the Government’s efforts to revitalize the forest sector. It focuses on taking advantage of two significant trends in the marketplace: the emerging recognition of wood products as “green” and increasing demands from consumers for forest products that are produced in an environmentally-responsible manner. As customers are factoring environmental parameters into purchasing decisions, there is considerable value in articulating the benefits of wood as a sustainable, renewable building material; its advantages in creating a significantly smaller environmental footprint than other building materials; and the fact that wood and pulp-and-paper products from B.C. are manufactured by an industry that has made impressive gains in reducing its environmental footprint. These environmental benefits of wood apply equally to higher-margin wood products manufactured in B.C.

Key Strategies:

- Proactively create and disseminate timely and factual information regarding B.C. forest products and forest practices.
- Champion science and fact-based approaches to communicate the merits of wood and wood-based construction technologies in a green building and climate change context.
- Collaborate with forest sector stakeholders to encourage consistent and compelling communications regarding product and building innovations and reducing environmental impacts.
- Monitor and advocate in international markets for codes, standards and policies that recognize the merits of wood and B.C. forest products.

Performance Measure	2016/17 Actual	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
1.1 Per cent of customers who perceive that forest products from B.C. are a good choice for the environment ¹	n/a	90%	n/a	90%	n/a

¹ Data Source: Data is gathered by an independent third party market research firm. Surveys are conducted biennially.

Linking Performance Measures to Objectives:

This measure provides an indication over time of the effectiveness of FII’s international advocacy and communications initiatives to influence customer perceptions of B.C. and its forest management practices. Performance data are gathered through a biennial survey of international customers (e.g., large institutional pulp and paper buyers, and wood importers and distributors) conducted by an independent research firm.

Discussion:

The survey of international customers is conducted on a biennial basis as a cooperative undertaking between FII, Natural Resources Canada and the Forest Products Association of Canada. The survey, which is focused on environmental perspectives, identifies the percentage of customers who agree that

B.C.’s environmental reputation is as good as, or better than, the average of competing forest products jurisdictions. The 2017/18 target was set at 90 per cent; FII anticipates meeting this target. For future targets, FII and its partners consider that maintaining a 90 per cent rating represents optimal performance given there will always be some who disagree with timber harvesting of any nature.

Objective 1.2: B.C. is Positioned as a Reliable Global Supplier of Quality Products from Sustainably-Managed Forests

The growing awareness of the benefits of wood products is increasing the demand from consumers for forest products that are produced in an environmentally-responsible manner. To help position B.C. to meet this demand, FII delivers a suite of programming that showcases B.C. as a reliable supplier of quality forest products and a global leader in sustaining forest resources and environmental values. This positioning will help strengthen awareness of, and interest in, B.C. forest products in major markets; thus, support greater market share, premium positioning and easier access to new markets.

Key Strategies:

- Grow awareness of B.C. forest products through FII’s outreach and communications activities including the naturally:wood information resource, development of promotional and technical literature and trade show participation.
- Advance connections and potential commercial opportunities with B.C. forest products companies through FII’s online product and supplier sourcing tool—the [Supplier Directory](#).

Performance Measure	2016/17 Actual	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
1.2 Number of prospects connecting with B.C. manufacturers from the naturallywood.com Supplier Directory, an online platform developed by FII ¹	13,027	13,250	13,500	14,000	14,250

¹ Data Source: Forestry Innovation Investment Ltd / Google Analytics.

Linking Performance Measures to Objectives:

Collecting data on connections made to suppliers tracks the effectiveness of FII’s online product and supplier sourcing tool in increasing awareness of, and interest in, B.C.’s forest products by advancing connections with B.C. companies for potential commercial opportunities. The performance metric tracks the number of visitors to the website and the number of those visitors that link through to a supplier email address or website.

Discussion:

FII continues to see growing traffic to its naturallywood.com website and to the Supplier Directory located there. The 2017/18 target for prospects connecting with B.C. manufacturers via the directory was set at 13,250; FII anticipates meeting this target.

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

Goal 2 supports Government priorities to increase employment in forestry and innovative wood manufacturing by expanding opportunities in international markets. The Goal drives FII's efforts to assist the B.C. forest industry in optimizing returns by achieving a balance in the products, species and grades marketed. The goal places particular priority on high-potential markets in Asia and on emerging segments of the construction market in the U.S. The efforts of FII and its funding recipients build on the strategies as well as the science and reputational foundation developed under Goal 1.

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

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

Strategies under this goal include a mix of activities delivered by third parties and by FII.⁴

Objective 2.1: B.C.'s Sales of Higher-Value B.C. Wood Products to China are Increased

China is B.C.'s largest market for commodity lumber outside of North America and a priority market for the B.C. forest sector. FII, in cooperation with partner agencies, the federal government and industry, is working to increase the value of B.C.'s exports by positioning B.C. wood in high-growth, high-value segments. This includes encouraging increased wood use in hybrid applications, tourism construction and in China's rapidly expanding manufacturing sector.

Key Strategies:

- Expand opportunities for B.C. forest products in high-value, high-potential applications in both the construction and manufacturing sectors in China.
- Leverage Chinese government construction initiatives around prefabrication and green building.
- Engage with Chinese government agencies to reduce and / or eliminate barriers to access for B.C. wood products.

⁴ FII collaborates with industry trade associations, the federal government and other funding bodies to leverage its investments for the greatest potential return for B.C. FII's objective is to strengthen demand for B.C. forest products and expand potential end-use applications.

- Grow opportunities for the use of wood in new construction segments including public buildings and tourism and resort construction by positioning B.C.'s unique wood species and environmental pedigree.

Performance Measure	2016/17 Actual	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
2.1 Average value (CAD) per cubic metre generated by softwood lumber sales to China ¹	174	196	200	204	208

¹ Data Source: BC Stats. Performance metrics are tracked for China and India (see performance measure 2.2) to reflect FII's direct operations and program delivery in those two markets. In Asia, in addition to China and India, FII also tracks and reports out on data and trends in all other key markets, including Japan and South Korea. The ability to achieve performance measure 2.1 is contingent upon the efficacy of market development programs delivered in whole, or in part, by trade associations partially funded by FII. As part of the funding approval process, specific performance measures linked to FII's broader goals and targets are set for each project. For more details, please refer to [FII's Performance Management Framework](#).

Linking Performance Measures to Objectives:

Measure 2.1 tracks the extent to which the B.C. forest industry is successful in diversifying markets and moving into higher-value segments. The target emphasizes sales to China, where FII investments are leveraging a significant joint industry and government (provincial and federal) market development effort to position B.C. as the leading exporter of high-quality softwood lumber to China. The average per cubic metre value of exports is based on Statistics Canada export data compiled by BC Stats.⁵

Discussion:

A number of factors have the potential to significantly influence the average value of B.C. lumber sold into China, including the strength of the Chinese economy and construction sector, the rate of economic growth and associated demand in the U.S. and other export markets, the level of competition from Russia and the E.U., and the ongoing Canada-U.S. softwood lumber dispute, which has the potential to impact the volume and composition of B.C.'s lumber exports to China. The 2017/18 target was set at 196; FII anticipates meeting this target. During 2018/19, FII will work closely with industry in B.C. and China to evaluate performance metrics for China and explore options that are more insulated from factors outside the influence of the market development program.

Objective 2.2: Open Markets for B.C. Wood Products in India

FII's market development program in India is focused on augmenting the country's dwindling supply of tropical and domestic hardwoods with Canadian softwood. The program targets applications for B.C. wood species in joinery, remanufacturing, furniture production and interior finishing. Building on a mix of research, networking and marketing activities, FII encourages commercialization through product trials with manufacturers and securing high-profile demonstration projects with strategic partners.

⁵ Total value of lumber exported divided by the total volume of exports measured in cubic metres.

Key Strategies:

- Leverage FII's market presence to build a strong Canadian brand in India.
- Undertake market research to identify new opportunities.
- Conduct demonstration and manufacturing product trials to generate commercial interest.
- Lead education and promotional initiatives to raise the profile of B.C. wood products in the market.

Performance Measure	2016/17 Actual	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
2.2 Total number of product trials of B.C. species undertaken in India ¹	15	18	24	26	30

¹Data Source: Forestry Innovation Investment Ltd.

Linking Performance Measures to Objectives:

This performance measure directly reflects the interest of the Indian industry to try B.C. species, which is a key objective in early market development efforts.

Discussion:

Product trials continue to emerge as an effective means for FII to encourage Indian manufacturers to convert existing or new production to using B.C. wood. Efforts in this area will continue in 2018/19, building on FII's new offices in the north and south of the country. Under FII's *Try Canadian Wood* program, qualified Indian manufacturers are provided with small test volumes of B.C. wood, as well as technical support for trying B.C. wood in new or existing product lines. Product trials completed to-date have resulted in a range of furniture and interior finishing products being produced on a test basis using B.C. wood species. A number of trials have led to commercial orders for products made with B.C. species. FII's success in expanding the number of product trials across India is key to opening the market for B.C. wood species and helping B.C. firms advance commercial sales to India.

Objective 2.3: Wood Products Secure Greater Market Penetration in U.S. Non-Residential and Multi-Family Construction

The U.S. housing sector, in particular single-family home construction, remains the leading consumer of B.C. lumber, panels, cedar products and value-added wood products. However, with the market moving toward multi-family living, FII is focusing its funding support towards work that expands wood beyond the single-family residential segment and into growth opportunity sectors in multi-family/multi-storey construction and non-residential (commercial, institutional, recreational and educational) construction. These segments have significant opportunity to increase wood's market share, and to expand opportunities to use wood both structurally and architecturally. FII funding specifically focuses on growing wood use in these segments.

Key Strategies:

- Advance the use of wood in apartments, mid-rise and taller wood structures in high potential regions of the U.S.
- Advance the use of wood in commercial, institutional and recreational buildings in the U.S.

- Assist architects, builders and developers to understand the benefits of incorporating more wood in their projects and / or converting projects to wood from other materials.
- Provide technical advice and education to help architects, builders and developers in the U.S. capitalize on advanced wood technologies and related engineering systems.

Performance Measure	2016/17 Actual	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
2.3 Total sales (USD, millions) of wood attributable to directly influenced and converted projects – U.S. non-residential and multi-storey/multi-family residential construction markets ¹	128	130	144	158	172

¹Data Source: U.S. [WoodWorks](#) Program.

Linking Performance Measures to Objectives:

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

Discussion:

The ability to achieve performance measure 2.3 is contingent upon the performance of FII’s funding recipient in its delivery of Market Initiatives programming and on other external factors impacting construction activity in the U.S., such as the level of real estate investment and the process for approving and implementing building code changes. The target is based on the incremental increase in the value of wood sales that are generated in the year through projects converted and/or influenced by program activities tracked by FII funded partners⁶. The 2017/18 target was set at USD \$130 million; FII anticipates meeting this target.

⁶ Converted and/or influenced projects are tracked by FII funded partners through canvasses of developers/builders engaged with program technical advisors, and through third-party estimates of attributable wood consumption and its associated sales value.

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

This goal supports the Government of B.C.'s strategic direction to expand innovation in the wood-products sector. The goal focuses on addressing research, education and supply chain barriers hampering the growth of mass timber and next generation engineered wood products and systems in B.C., and on guiding FII's efforts to work with partners inside and outside government to ensure public projects prioritize the use of wood.

Objective 3.1: Wood is Positioned as a Preferred Building Material and B.C. as a Leader in Wood Innovation

Long-term sustainability of the forest economy requires the active maintenance, creation and diversification of demand for B.C. forest products. By introducing new and advanced forest products, wood technologies and building systems, wood can be positioned as a preferred building material and B.C. as a leader in wood innovation. As a result, B.C.'s forest products can be more effectively utilized in construction, interior design, and daily living, at home and abroad.

Strategies incorporated under Objective 3.1 are delivered primarily through FII's *Wood First* program, which works to position B.C. as a leader in using innovative forest products and building systems by delivering promotional, research, educational and capacity-building initiatives throughout the province. An independent Wood First Advisory Committee, made up of senior industry executives, provides strategic guidance on program implementation priorities. To effectively deliver its Wood First mandate, FII relies on existing research and partners extensively with service delivery organizations, promoting integrated planning and coordinated delivery of program activities and initiatives.

Key Strategies:

- Support applied research and development for new products and systems.
- Reduce barriers to wood use through assessment of regulatory, manufacturing, construction and building performance opportunities.
- Educate professionals on opportunities to utilize and innovate with wood.
- Promote B.C.'s wood species, wood products and the benefits of building with wood.
- Advance the competitiveness of B.C.'s value-added wood industries and the sector's ability to pursue emerging opportunities.

Performance Measure	2016/17 Actual	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
3.1 Total sales (CAD, millions) of wood attributable to directly influenced and converted projects – B.C.'s non-residential and multi-storey/multi-family residential construction markets ¹	60	53	58	63	63 or greater

¹Data Source: Canadian Wood Council's [Wood WORKS! BC](#) Program. The methodology used to generate the attributable wood value for measure 3.1 was revised in 2017 to align with similar programs in the rest of North America. This resulted in a restatement of the performance target for 2019/20 from \$58 million to \$63 million.

Linking Performance Measures to Objectives:

This measure tracks success in increasing wood usage in B.C. in the commercial, institutional and multi-family residential/mid-rise segment. To this end, FII supports the [WoodWORKS! BC](#) program to deliver education and technical advisory activities that assist architects, builders and developers to incorporate more wood into projects, as well as convert their projects from other materials to wood. Efforts focus on a range of building types (i.e., multi-storey/multi-family, non-residential and taller buildings). This diversification strategy will help expand the influence of the program across the construction sector while protecting suppliers against market fluctuations in any one particular segment of the building sector.

Discussion:

The ability to achieve performance measure 3.1 is contingent upon the performance of FII's funding recipients in their delivery of Wood First programming and on other external factors impacting construction activity in B.C., such as the level of real estate investment and the process for approving and implementing building code changes. The target is based on the incremental increase in the value of wood sales that are generated in the year through projects converted and/or influenced by program activities funded by FII and its funded partners⁷. The target for sales attributable to program intervention was set at \$53 million for 2017/18; FII anticipates that the program will meet this target.

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

FII's business practices incorporate robust financial controls and a performance management framework, including monitoring, audit and evaluation, built on long-term market development principles and a comprehensive risk-assessment strategy. All of these approaches reflect government policies and best practices and are consistent with direction articulated in FII's Mandate Letter from the Minister of Jobs, Trade and Technology.

Objective 4.1: FII's Market Development Programming is Strategic, Focused and Provides the Highest Value for the Forest Sector and the Taxpayers of B.C.

FII is committed to delivering programs that deliver the highest value for the forest sector and the taxpayers of B.C. Consistent with this commitment, FII delivers its primary programs and services in collaboration with the forest industry, the federal government, the research community and other provincial agencies, including JTT and FLNRORD. By partnering with forest sector organizations from Canada and abroad, FII is able to leverage their expertise and financial resources to maximize the effectiveness and efficiency of its programs. In delivering against its mandate, FII remains committed to a path of environmental sustainability, including minimizing its environmental footprint, in order to protect the natural environment and the B.C. economy for future generations.

⁷ The methodology for tracking converted/influenced projects is outlined in Footnote 6.

Key Strategies:

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

Performance Measure	2016/17 Actual	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
4.1 Other organizations’ aggregate contribution to recipient funding program ¹	69%	72%	65%	65%	65%

¹ Data Source: Forestry Innovation Investment Ltd. In its recipient funding program, FII targets annual contributions of approximately 65 per cent from other organizations; however, contributions from others vary from 0 to 85%, depending on the specific activity. Contributions from individual organizations can also fluctuate considerably across fiscal years, depending on their programming priorities and budgets.

Linking Performance Measures to Objectives:

This measure tracks the effectiveness of FII in securing external resources to deliver market development programs at the lowest possible cost to the B.C. public. The willingness of industry, the federal government and other provincial governments to contribute to market development activities is a direct indicator of the value they place on these activities, particularly at a time of severe resource constraints.

Discussion:

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

FII is on track in 2017/18 to exceed the 65 per cent target as a result of higher than anticipated contributions to the U.S. WoodWORKS! program from both the U.S. federal government and the engineered wood products industry, as well as incremental funding made available through the Government of Canada’s Softwood Lumber Action Plan.

Financial Plan

Summary Financial Outlook

	2016/17 Actuals	2017/18 Forecast	2018/19 Budget	2019/20 Budget	2020/21 Budget
	(\$000)		(\$000)	(\$000)	(\$000)
Contribution from the Province of B.C.	18,459	19,110	19,610	19,610	19,610
Contribution from the Federal Government ⁽¹⁾	832	1,690	600	600	600
Other Revenue ⁽²⁾	2,916	3,310	2,600	2,600	2,600
Total Revenue	22,207	24,110	22,810	22,810	22,810
Funding Recipient Initiatives	9,886	8,826	8,900	8,900	8,900
Market Initiatives and Outreach					
Government Initiatives and Outreach	5,827	7,772	5,900	5,900	5,900
China Market Development	2,219	2,294	2,300	2,300	2,300
India Market Development	2,714	3,803	4,310	4,310	4,310
Corporate Services	1,297	1,415	1,400	1,400	1,400
Total Expenses	21,943	24,110	22,810	22,810	22,810
Excess of Revenue over Expenses	264	0	0	0	0
Retained Earnings, End of Year	3,075	3,075	3,075	3,075	3,075
Capital Expenditures	172	50	50	50	50
Total Liabilities	3,196	2,377	2,378	2,377	2,377

Note 1: Approximately \$1,000,000 in 2017/18 is a contribution from Natural Resources Canada towards the India initiative.

Note 2: Includes contributions from organizations such as industry, other governments and deferred revenue arising out of restricted capital contributions.

Key Forecast Assumptions, Risks and Sensitivities

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

FII funds extensive market development programming in off-shore markets, particularly in Asia. As a result, FII is subject to foreign exchange risk through its program payables and advances, and a

portion of FII's program costs, which are denominated in Chinese Renminbi, Indian Rupee, U.S. dollars and other foreign currencies. While FII manages exposure to currency risk by monitoring assets and liabilities denominated in foreign currencies and by purchasing foreign denominated currency when market conditions are favourable, volatility in the value of the Canadian dollar against the U.S. dollar has increased exchange rate risk.

Additional Financial Notes

Subsidiaries

See the FII Consulting (Shanghai) Co. Ltd. and Forestry Innovation Consulting India Private Ltd. financial outlook in Appendix B: Active Subsidiaries. Funding for these subsidiary companies is by way of consulting fee invoices to the parent company in Canada (FII Ltd.).

Capital Initiatives

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

Non-Disclosure of Information

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

Management's Perspective on the Financial Outlook

Revenue and Budget Allocations

For 2018/19, FII anticipates receiving \$19.6 million in cash funding from the Province, \$0.6 million from Natural Resources Canada to offset costs of FII India and approximately \$2.6 million from other sources. On that basis, the total will be slightly lower than in 2017/18 due primarily to one time additional funding received during the year from NRCan for the India initiative and other funding received during the year from NRCan and industry for cost-shared projects.

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

- FII China: \$2.3 million: comparable to 2017/18.
- FII India: \$4.3 million: \$0.5 million higher than in 2017/18, due to an uplift in funding from the Province of B.C.
- FII Vancouver's Government Initiatives and Outreach: \$5.9 million, down \$1.8 from 2017/18 due to additional project funding received during 2017/18 not yet committed for 2018/19.
- Corporate support: \$1.4 million.

Operations

FII will continue to rely heavily on trade associations to develop and deliver market development programs based on country-specific strategies and quantified sales objectives for each product line and identified end-use.

In 2018/19, the focus for FII China staff will be to continue to build deeper and broader relationships with Chinese government officials at all levels, as well as with state-owned real estate development companies. Partnering with the B.C. trade associations; Canada Wood Group will continue to provide “downstream” support with technical training, assistance in changing building codes and fire codes, and on-site construction design, engineering and quality assurance support.

In 2018/19, FII will accelerate efforts to advance a strong Canadian Wood brand in India through targeted funds provided in the provincial budget. Program activities will focus on investing to build market knowledge; expanding FII’s geographical focus in new, high-potential regions; expanding promotional and educational efforts; increasing the number of product trials; and advancing product demonstration activities from its offices in Mumbai, Delhi and Bangalore. These efforts will be supported by the B.C. forest industry which continues to fund representation in India. FII will continue to encourage the B.C. industry to expand its commitment to, and engagement in, the market as the program develops. At the same time, industry will be expected to increase its financial contributions to the program as the market in India becomes more commercially established.

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

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

Appendix A: Hyperlinks to Additional Information

Corporate Governance

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

The Board incorporates best practices into its governance procedures as guided by the Best Practices Guidelines on Governance and Disclosure for Public Sector Organizations. As recommended in the guidelines, FII's disclosure, including its Status of Concurrence with Best Practices Guidelines is available on the Company's website at <https://www.bcfii.ca/about-fii/governance>.

Full details on FII's governance principles, the role and membership of the Board of Directors, as well as corporate reports, and details on compliance to the requirements of the Crown Agencies and Board Resourcing Office are available at <https://www.bcfii.ca/about-fii/governance>. As detailed in the Status of Concurrence report, FII is in full compliance with Governance and Disclosure Guidelines for Governing Boards of B.C. Public Sector Organizations.

Organizational Overview

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

Details on FII's mandate, its goals and values, and its location and organizational structure are available at www.bcfii.ca, as are previous Service Plans and Annual Service Plan Reports. Also available on the site is additional information on FII, its programs and its partners, including an annual Year in Review document that highlights accomplishments of the program in major markets around the world.

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

Appendix B: Subsidiaries and Operating Segments

FII operates the following subsidiary companies:

Active Subsidiaries

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

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

Objective: To grow the market for B.C. wood products in China, primarily by creating new demand for structural lumber and related building products.

Governance: Sole Executive Director: Michael Loeth, FII CEO

Senior Management: Lisa Dou, General Manager

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

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

(\$000)	2016/17 Actual	2017/18 Forecast	2018/19 Budget	2019/20 Budget	2020/21 Budget
Total Revenue	2,219	2,294	2,300	2,300	2,300
Total Expenses	2,219	2,294	2,300	2,300	2,300
Net Income/Excess of Revenue over Expenses/Annual Surplus (Deficit)	0,000	0,000	0,000	0,000	0,000

FII Consulting India Private Limited (jointly owned by Forestry Innovation Investment Ltd. and 0939031 B.C. Ltd.)

Primary business: Supporting the development of the Indian market for B.C. forest products through market research, promoting B.C. wood products and related technologies, undertaking product trials and demonstration work, and leading communication and education outreach efforts to enhance awareness of B.C. and Canadian softwood species in India.

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

Governance: Four-member Board of Directors:

- Michael Loseth (Chair), FII CEO
- Douglas Greig, FII Vice President and Chief Financial Officer
- Bruce St. John, FII Vice President, International Marketing
- Pranesh Chhibber, FII India Country Director

Senior Management: Pranesh Chhibber, Country Director, FII India

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

Risk Management: FII funds its market development programming in India from Canada and, as a result, FII is subject to foreign exchange risk through its program advances to its subsidiary companies. Program costs for its subsidiaries are denominated in Indian Rupees. FII manages its exposure to currency risk by monitoring assets and liabilities denominated in these foreign currencies and by purchasing foreign denominated currency when market conditions are favourable

(\$000)	2016/17 Actual	2017/18 Forecast	2018/19 Budget	2019/20 Budget	2020/201 Budget
Total Revenue	2,714	3,803	4,310	4,310	4,310
Total Expenses	2,714	3,803	4,310	4,310	4,310
Net Income/Excess of Revenue over Expenses/Annual Surplus (Deficit)	0,000	0,000	0,000	0,000	0,000

Inactive Subsidiaries

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