

Forestry Innovation Investment

2020/21 – 2022/23 SERVICE PLAN

February 2020



For more information on Forestry Innovation Investment Ltd. contact:

#1200 – 1130 West Pender Street
Vancouver, B.C.
V6E 4A4

604-685-7507

info@bcfii.ca

Or visit our website at

www.bcfii.ca

Board Chair Accountability Statement



The 2020/21 – 2022/23 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 January 30, 2020 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 black ink, appearing to read 'Silas Brownsey', written over a horizontal line.

Silas Brownsey
Board Chair

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Strategic Direction and Alignment with Government Priorities

The Government of British Columbia remains focused on its three strategic priorities: making life more affordable, delivering better services, and investing in a sustainable economy. Crowns are essential to achieving these priorities by providing quality, cost-effective services to British Columbia families and businesses.

Additionally, where appropriate, the operations of Crowns will contribute to:

- The objectives outlined in the government's newly released economic plan titled A Framework for Improving British Columbians' Standard of Living;
- Implementation of the *Declaration on the Rights of Indigenous Peoples Act* and the Truth and Reconciliation Commission Calls to Action, demonstrating support for true and lasting reconciliation; and,
- Putting B.C. on the path to a cleaner, better future with a low carbon economy that creates opportunities while protecting our clean air, land and water as described in the CleanBC plan.

By adopting the Gender-Based Analysis Plus (GBA+) lens to budgeting and policy development, Crowns will ensure that equity is reflected in their budgets, policies and programs.

Forestry Innovation Investment (FII) helps to maintain, create and diversify markets for B.C. forest products to ensure the forest sector continues to be a key contributor to the B.C. economy and support forest dependent communities. As outlined in the [2020/21 Mandate Letter](#) from the Minister of Jobs, Economic Development and Competitiveness, 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 by opening new opportunities in existing and new markets, with a strong focus on high-potential markets in Asia, including China, Japan, South Korea, India and Vietnam;
- Showcase B.C.'s leadership in manufacturing and using wood by profiling innovative projects, and leverage that experience to expand the use of wood at home and abroad; and,
- Collaborate with B.C. Provincial Government partners to jointly deliver on the Province's objective to expand our mass timber and engineered wood-products sector in B.C.

FII's operations also support the Government's strategic direction to the Ministry of Jobs, Economic Development and Competitiveness (JEDC); the Ministry of Forests, Lands, Natural Resource Operations and Rural Development (FLNRORD); the Minister of State for Trade; and under B.C.'s Economic Plan: A Framework for Improving British Columbians' Standard of Living to:

- Increase employment in the forestry and innovative wood manufacturing sectors;
- Develop B.C.'s international trade relations;
- Expand efforts to market engineered and other innovative wood products to world markets;
- Work with communities and industry to develop a fair, lasting strategy to create more jobs by processing more logs in B.C. and to renew our forests by expanding investments in reforestation;
- Promote the use of wood, with a focus on engineered wood products and mass timber, in public construction projects;

- Accelerate the development of B.C.’s expertise in mass timber design and engineering;
- Promote the use of our sustainably sourced structural and appearance wood products to create a cleaner, greener built environment at home and in markets around the world; and,
- Support the transition of B.C.’s forest sector from the high-volume production of Mountain Pine Beetle salvage to a focus on realizing the highest value from B.C.’s post-beetle fibre base.

FII is aligned with the Government’s key priorities:

Government Priorities	FII Aligns with These Priorities By:
Making life more affordable	FII places significant emphasis on delivering its primary programs and services in collaboration with the forest industry, the federal government, the research community and other provincial agencies. By partnering with forest sector organizations in Canada and abroad, FII is able to leverage their expertise and financial resources to create and deliver strategic and focused market development programming that provides the highest value for the B.C. forest sector and the taxpayers of B.C. (Objective 4.1).
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 that will strengthen the forest sector: <ul style="list-style-type: none"> • Position B.C. as a reliable global supplier of quality products from sustainably-managed forests (Objective 1.2 – Goal 1); • Optimize value for B.C.’s forest products in traditional and emerging markets (Goal 2); and • Establish B.C. as a leader in adopting innovative forest products and building systems (Goal 3).

FII’s mandate is closely aligned with a range of government priorities, with FII actively collaborating with and supporting other agencies and partners in areas of common interest. Examples such as CleanBC and energy efficiency initiatives are enhancing the performance of the built environment in B.C. and establishing targets for future building performance. Collaborating with agencies such as the B.C. Climate Action Secretariat and the Ministry of Energy, Mines and Petroleum Resources help to position the use of wood products as a means to improve both embodied energy and operational energy performance, and mitigate carbon emissions to support climate change objectives.

Collaboration with FLNRORD, and agencies across government, is helping advance the use of engineered wood products and mass timber wood building solutions. Expanding the use of mass timber products at home in B.C., and in export markets, contributes to the Province’s green building objectives and securing greater value from B.C.’s forest resource. Work with BC Housing and the Ministry of Municipal Affairs and Housing supports the expansion of building codes and the development of taller mass timber building solutions to enhance affordability objectives and the availability of rental housing in the province.

¹ For a detailed description of FII’s goals and objectives in support of Government’s priorities, refer to the Performance Plan discussion beginning on page 9.

FII is committed to delivering the organization's services and programs in a manner that is sensitive and responsive to the multicultural and gender-diverse values of B.C., and to the cultural and social contexts of all locations where activities are delivered. FII operates in an international context and is committed to ensuring all staff in B.C. and in offshore locations receive the training and support necessary to ensure inclusiveness and engagement in cross-cultural activities.

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. B.C.'s forest sector is currently heavily impacted by domestic fibre supply constraints and global market volatility that are likely to continue across 2020/21.

In B.C., harvest levels are being adjusted to reflect the impacts of the mountain pine beetle (MPB) epidemic and recent wildfires. With the MPB outbreak having largely run its course, mills in the interior will continue to adjust their operations to reflect the shift from processing pine beetle logs to timber from healthy live stands. This will result in a shift to higher-grade lumber, with the corresponding need to develop and expand export markets to ensure this value is maximized. The transition will also see the closure of some sawmills, reflecting the reduced overall Allowable Annual Cut levels being implemented in many parts of the interior. As the forest sector transitions to a smaller, but higher-value industry, it is important for FII to support the Province in its efforts to maximize the value from the forest resource and support long-term sustainable jobs in forest sector dependent communities. Market diversification and product innovation are a key part of FII's mandate in this regard.

Domestic fibre supply constraints have been compounded by global market dynamics. Slowing economic growth, geo-political and trade uncertainty, and increasing protectionism are all placing a drag on global growth and dampening economic confidence. The ongoing trade war between the United States and China will continue the economic malaise in most Asian markets, and impact demand for forest products. Brexit and increasing protectionism in Europe are expected to hamper economic growth across the EU, with reductions in wood consumption in Europe likely to result in increased competition in B.C.'s key export markets from European suppliers.

Environmental disruptions, including storms, beetle outbreaks and wildfires, have impacted not only B.C., but supply and demand in many producing and consuming regions, contributing to the global supply/demand imbalances and lower prices. A major spruce beetle infestation in central Europe is resulting in a significant increase in harvesting activity to utilize dead trees while they still have commercial value. This is resulting in significant increases in harvesting and lumber production, and is expected to increase competition and have a downward impact on price in a number of B.C.'s top export markets. As 90 percent² of B.C.'s forest products are destined for international markets, responding to global trends and threats through targeted market development and diversification is important to ensure B.C. maintains its competitive position and continues to support communities across the Province.

² The United States, China, Japan, South Korea and India accounted for 60 percent, 16 percent, 13 percent, 1 percent and 0.1 percent, respectively, of B.C. wood product exports in 2018.

B.C. wood products continue to play a prominent role in the U.S. construction market, with 60 percent of B.C. lumber and 96 percent of value-added products shipped south of the border. As the demographic shift away from single-family homes continues, new opportunities for B.C. wood products are continuing to emerge in the multi-family/multi-story residential and non-residential construction segments. The long-term outlook for the U.S. is for a gradual strengthening in the housing market as millennials reach their prime home-buying years and interest rates remain low. Protectionist sentiments in the U.S., and the continued softwood lumber dispute, is resulting in average import duties of 20 percent on all B.C. softwood lumber exports to the U.S. This is expected to continue through 2020/21, and have a negative impact on B.C. competitiveness and exports to the U.S.

China remains B.C.'s largest market for commodity lumber outside of North America. While growth has slowed recently³ and is expected to remain weak over 2020/21, increasing urbanization and growing consumer wealth in China will continue to drive demand for new housing, furnishings and other wood products domestically. Green building requirements will place increasing emphasis on prefabrication and green building materials, creating new market opportunities for wood products and wood-building technologies, such as glulam and cross-laminated timber (CLT) in larger-scale projects. Competitive pressures exist with improved infrastructure access for Russian and European lumber through China's One Belt One Road initiative, and is expected to result in increased competition for B.C. across the period of this plan in China.

Japan is B.C.'s third-largest market for lumber, and the second-largest global market for B.C.'s value-added wood sector. Demand projections for wood products are relatively flat over the next few years, reflecting the general state of the Japanese economy⁴. Housing starts are projected to trend downwards as the population ages, although multi-family starts and the non-residential sector will offset some of this decline. While the Japanese market for single-family housing is mature, trends favouring green building solutions, as well as recent government policy encouraging wood use in public buildings, is presenting opportunities for B.C. wood products in hybrid, multi-family/multi-story, and non-residential construction. The use of wood in elderly care facilities is an exciting opportunity to expand the use of wood and Canadian wood construction technology. Canada faces competition in the Japanese market from increasing domestic Japanese production and other exporting nations (primarily the EU).

Among emerging markets, India offers the B.C. forest products sector with significant mid to long-term opportunities. High rates of economic growth, rapid urbanization, an expanding middle class and a leaning toward "westernization" of fashion and décor are expected to drive a steady growth in the demand for wood. With a diminishing supply of global hardwoods, there is an opportunity to position B.C. softwood in the furniture manufacturing industry, including applications such as doors, windows, architectural millwork and furniture. India's economy is not without its own challenges in the short term, as the construction industry adjusts to the impacts of demonetization and recovery from a construction bubble.

³ While China's GDP growth has remained above global averages, economic growth is forecast to slow from 6.6% in 2018 to 5.0% in 2020 (October 2019 consensus forecast).

⁴ Japan's short-term economic projections through 2023, as projected by the International Monetary Fund, estimate GDP growth at 0.5% per year.

Vietnam is benefiting from foreign investment and an expanded manufacturing sector. Vietnam is now Asia's second largest exporter of furniture and manufactured wood products (after China) and has an increasing reliance on imported wood as the industry grows. With the continuing trade war between China and the U.S., many companies are shifting manufacturing operations from China to South East Asia, with Vietnam a prime beneficiary.

In B.C. and North America, construction professionals and designers are increasingly seeking lower-carbon building alternatives and renewable materials. Advancements of new construction technologies and mass timber products are allowing wood to be used in larger, taller and more complex buildings. A renewed focus on infrastructure investment in B.C. presents opportunities to collaborate with government and industry partners to position wood, and act as a global showcase for how wood design can help reduce the carbon footprint of the built environment. The early adoption of the 2020 building code, allowing mass-timber technology for construction of buildings up to 12 storeys, will help to further advance wood innovation in the province.

Over the period of this Service Plan, FII programming will continue to respond to the needs of the forest sector and to identify new opportunities for traditional forest products, advanced engineered wood materials and building systems, and where appropriate, non-conventional, next-generation products. For 2020/21, no significant changes are planned in FII's internal operating environment. However, FII will adapt its priorities to ensure continued alignment with Government's strategic direction. FII's Strategic Plan and Service Plan will be updated as required to reflect these changes.

Performance Plan

The goals, strategies, measures and targets in this Plan are in alignment with FII's [2020/21 Mandate Letter](#) and FII's Board-approved [five-year strategic plan](#). 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, JEDC. This engagement includes regular meetings between the FII President & CEO and Board Chair, and the JEDC Minister, Deputy Minister and Associate Deputy Minister to review FII's activities and its performance against the Plan.

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.

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 Government’s efforts to revitalize the forest sector. It focuses on taking advantage of two significant trends in the marketplace: the increasing recognition of wood products as “green”, and growing demand 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 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 within the context of green building and climate change.
- 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	2018/19 Actual	2019/20 Forecast	2020/21 Target	2021/22 Target	2022/23 Target
1.1 Percent 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: Leger -The Research Intelligence Group. *Analysis of Market Acceptance Issues*. 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 by an independent research firm through a biennial survey of target international customers (e.g., large institutional pulp and paper buyers, and wood importers and distributors).

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 2019/20 target is set at 90 percent as FII and its partners consider that maintaining a 90 percent rating represents optimal performance given there will always be some who disagree with timber harvesting of any nature. Results for the 2019/20 period will be released in the 2019/20 Annual Service Plan Report.

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 helps strengthen awareness of, and interest in, B.C. forest products in major markets, thus supporting 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	2018/19 Actual	2019/20 Forecast	2020/21 Target	2021/22 Target	2022/23 Target
1.2 Number of prospects connecting with B.C. manufacturers from the naturallywood.com Supplier Directory, an online platform developed by FII ¹	13,385	13,750	14,000	14,250	14,250

¹Data 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 who search on the website and the number of visitors that link through to a supplier email or website address.

Discussion:

FII continues to build and optimize content and resources to attract visitors to the naturallywood.com website and to the Supplier Directory located there. The 2019/20 target for prospects connecting with B.C. manufacturers via the directory was set at 13,750; and FII anticipates meeting this target. FII's future growth targets reflect a stabilization of online user behaviour and engagement with this now established resource. As the directory is further optimized and promoted, its use is projected to be sustained, but will not increase as quickly as when the tool was initially developed and launched.

Goal 2: Optimize value for B.C.'s forest products in traditional and emerging markets

Goal 2 supports Government priorities to increase employment in forestry and innovative wood manufacturing by expanding opportunities in international markets. This 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. FII's strategy to expand global markets for both the primary and secondary manufacturing sectors⁵ includes a mix of activities delivered by third parties and FII⁶. These efforts 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 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.

Objective 2.1: B.C.'s sales of higher-value 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, will continue efforts to advance wood use in China, and to position exports from B.C. in high-potential growth and higher-value segments. This includes encouraging increased wood use in hybrid construction applications⁷, tourism and resort sector construction, mid-rise and taller 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, energy efficiency and low carbon, green construction.

⁵ 'Primary' manufacturing typically converts logs to lumber, plywood, OSB, etc.; while 'secondary' manufacturing typically uses a form of lumber as a raw material input for further manufactured products, such as furniture, windows and doors, engineered wood products, mass timber products, cabinets, moulding and millwork, etc.

⁶ 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.

⁷ Hybrid applications incorporate wood components with concrete and steel structures (which currently dominate construction in China).

- Engage with Chinese government agencies to reduce and/or eliminate barriers to access for B.C. wood products and to influence building codes to allow taller wood buildings.
- 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, innovative building systems and environmental pedigree.

Performance Measure	2018/19 ² Actual	2019/20 Forecast	2020/21 Target	2021/22 Target	2022/23 Target
2.1 Average value (CAD) per cubic metre generated by softwood lumber sales to China ¹	\$208	\$180	\$190	\$200	\$210

¹ Data Source: BC Stats. Total value of lumber exported divided by the total volume of exports measured in cubic metres. 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. FII also tracks and reports out on data and trends in all other key Asian markets, including Japan and South Korea. Data is reported by calendar year (January through December), consistent with Statistics Canada data collection and reporting methodologies and to ensure comparability across domestic and international publications.

² Reflects 2018 calendar year.

Linking Performance Measures to Objectives:

Performance 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.

Discussion:

A number of factors have the potential to significantly influence the average value of B.C. lumber sold in China, including the strength of the Chinese economy and construction sector, prices in the North American and global markets, the level of competition from Russia and the European Union, and the shift of low-grade lumber from Canada into higher return markets, such as the United States. In addition, 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](#). The 2019/20 target was set at \$204; FII does not anticipate meeting this target as a result of weakening demand in China and the drop in lumber prices, which started a gradual decline in summer 2018. Forward looking targets have been adjusted downward to reflect the impacts of the trade war, challenging economic realities in China, and increased competition putting downward pressure on pricing (see Operating Environment on pages 6-8).

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 the manufacturing sector, including doors, windows, architectural millwork, furniture and interior finishing product applications. Targeted opportunities are also being explored in wood structures and prefabricated wood frame housing. Building on a mix of research, education and promotion to increase awareness of, and knowledge about, B.C. wood species, FII encourages commercialization through product trials with manufacturers and securing high-profile demonstration projects with strategic partners.

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 commercially successful products using B.C. species.
- Lead education and promotional initiatives to raise the profile of B.C. wood products in the market.

Performance Measure	2018/19 Actual	2019/20 Forecast	2020/21 Target	2021/22 Target	2022/23 Target
2.2 Total number of product trials of B.C. species undertaken in India ¹	26 ²	28	30	32	34

¹ Data Source: Forestry Innovation Investment Ltd.

² Target was for 24 product trials, 26 was achieved.

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:

Market development in India is led by FII through its India-based subsidiary. 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. FII's *Try Canadian Wood* program continues to provide qualified Indian manufacturers 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, with a number of trials leading 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. The 2019/20 target was set at 26; FII expects to exceed this target.

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 and recreational) 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		2018/19 Actual	2019/20 Forecast	2020/21 Target	2021/22 Target	2022/23 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	\$173	\$189	\$216	\$227	\$239

¹ Data 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) and systems (wood-frame, mass timber, hybrid). 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 partners⁸. The 2019/20 target was set at USD \$181 million; FII anticipates exceeding this target at \$189 million.

This program focuses on increasing the use of wood in the U.S. non-residential market (a segment that historically used little wood). The efforts of the program and general positive perceptions of wood as a high performing, renewable, green building system are resulting in conversions of projects to wood and strengthening results (i.e. increasing consumption in this segment in the U.S.). With a 20 percent duty on softwood lumber to the U.S., it is more challenging for B.C. suppliers to compete. Therefore, B.C. suppliers may not be as fully benefitting from the growth in this segment in the short-term as it could in absence of the duties.

Goal 3: B.C. is a leader in using innovative forest products and building systems

This goal supports Government'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. FII is focused on expanding and advancing opportunity across the product value chain, from lumber suppliers and engineered wood manufacturers to skilled labour, engineers, designers and architects. By introducing new and advanced wood technologies and building systems here in B.C., wood is 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 marketed for 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

⁸ 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.

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 and/or the production of engineered wood products 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 sector by supporting supply chain optimization and the development of next generation wood products and building solutions.

Performance Measure	2018/19 Actual	2019/20 Forecast	2020/21 Target	2021/22 Target	2022/23 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	\$57.3	\$63	\$68	\$68 or greater	\$70

¹ Data Source: Canadian Council's [WoodWORKS! BC](#) program.

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 partners⁹. The target for sales attributable to program intervention was set at \$63 million for 2019/20; FII anticipates that the program will meet this target. The performance target for 2020/21 has been set at \$68 million, replacing the previous target of \$63 million or greater. Targets for 2021/22 will be influenced by the timely implementation of the 2020

⁹ The methodology for tracking converted/influenced projects = total value of lumber exported divided by the total volume of exports measured in cubic metres.

building code revisions in B.C. and the speed by which new wood provisions are commercialized by the private sector.

Goal 4: FII is a highly effective, innovative and proactive 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 these approaches reflect government policies and best practices and are consistent with direction articulated in FII's Mandate Letter from the Minister of Jobs, Economic Development and Competitiveness.

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 JEDC and FLNRORD. By partnering with forest sector organizations from Canada and abroad, FII is able to leverage its 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.

Key Strategies:

- Ensure FII is efficient, transparent and results-focused by:
 - Keeping corporate support costs at or below seven percent of the total budget;
 - Implementing a rigorous performance management system; and,
 - Monitoring and auditing funded projects according to explicit risk assessments.
- Work with JEDC 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 efficient and cost-effective manner.
- Minimize FII's carbon footprint and promote environmentally-responsible business activities.

Performance Measure	2018/19 Actuals	2019/20 Forecast	2020/21 Target	2021/22 Target	2022/23 Target
4.1 Other organizations' aggregate contribution to recipient funding program ¹	70%	72%	65%	65%	65%

¹ Data Source: Forestry Innovation Investment Ltd. In its recipient funding program, FII targets annual contributions of approximately 65 percent from other organizations; however, contributions from others vary from 0 to 100%, 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 percent 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 percent "other" funding in the program. Given this is an average across a suite of investments, where some fluctuation is expected year-to-year, 65 percent 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 2019/20 to exceed the 65 percent 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. These higher than expected contributions cannot be projected in future periods.

Financial Plan

Summary Financial Outlook

	2019/20 Forecast	2020/21 Budget	2021/22 Plan	2022/23 Plan
	(\$000)	(\$000)	(\$000)	(\$000)
Contribution from the Province of B.C.	19,550	19,550	19,550	19,550
Contribution from the Federal Government ^{(1) (2) (3)}	2,819	2,763	2,700	2,700
Other Revenue ⁽⁴⁾	1,755	260	260	260
Total Revenue	24,124	22,573	22,510	22,510
Funding Recipient Initiatives	8,982	8,911	8,900	8,900
Market Initiatives and Outreach				
Government Initiatives and Outreach	7,056	5,860	6,060	6,060
China Market Development	2,490	2,497	2,300	2,300
India Market Development	4,100	3,813	3,800	3,800
Corporate Services	1,496	1,492	1,450	1,450
Total Expenses	24,124	22,573	22,510	22,510
Excess of Revenue over Expenses	0	0	0	0
Retained Earnings, End of Year	3,497	3,497	3,497	3,497
Capital Expenditures	150	75	50	50
Total Liabilities	2,582	2,510	2,510	2,510

Note (1): Approximately \$1.760M in 2019/20 is a contribution from Natural Resources Canada towards the India initiative, \$.348M for the Vietnam initiative and another \$.711M to cost share other initiatives.

Note (2): Approximately \$2.763M in 2020/21 is anticipated from Natural Resources Canada towards the following: \$1.943M for the India Market Development program; plus \$.545M for the Vietnam program plus \$.275M for other cost shared initiatives.

Note (3): Funding from the Government of Canada (NRCan) is budgeted to continue at approx. \$2.7M for the years 2021/22 and 2022/23 but is contingent on the federal Emerging Markets Program continuing at current funding levels.

Note (4): Includes contributions from industry associations, other governments and deferred revenue arising out of restricted capital contributions. The large reduction in the coming years is due to the Softwood Lumber Board's decision to fully fund and deliver the Think Wood program directly.

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, Economic Development and Competitiveness. 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 foreign currencies has increased exchange rate risk.

Management's Perspective on the Financial Outlook

Revenue and Budget Allocations

For 2020/21, FII anticipates receiving \$19.55 million in cash funding from the Province, \$2.763 million from Natural Resources Canada of which \$1.943 million is to go towards the FII India program and \$.545M is to go towards the Vietnam Program. \$.260 million is anticipated to be received from other sources. On that basis, the total will be lower than forecasted in 2019/20, mainly due to the Softwood Lumber Board (SLB) decision to fully fund and deliver the Think Wood program directly (a reduction of about \$1.493M).

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: \$2.5 million: approximately the same as the forecast spending for 2019/20.
- FII India: \$3.8 million: slightly below the forecast spending in 2019/20, but the same initial budget for the previous year.
- FII Vancouver's Government Initiatives and Outreach: at \$5.9 million, down from the forecast for 2019/20 due to SLB choosing to fully fund and deliver the Think Wood program directly.
- Corporate support: \$1.49 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 2020/21, 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 for demonstration projects.

In 2020/21, FII will continue to accelerate efforts to advance a strong Canadian Wood brand in India. 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 2020/21, FII will continue to probe opportunities in Vietnam by expanding the number of product trials in order to get acceptance of B.C. wood species in the furniture manufacturing industry.

In carrying out its international market development planning and delivery, FII will continue to work in collaboration with the ministries and agencies of the Province 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 Government’s fiscal plan.

Additional Financial Notes (2020/21)

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.

Appendix A: Hyperlinks to Additional Information

Corporate Governance

FII is responsible to the Minister of Jobs, Economic Development and Competitiveness through a four-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 President & Chief Executive Officer (CEO) and delegates responsibility to the President & 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 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>. FII is in full compliance with Governance and Disclosure Guidelines for Governing Boards of B.C. Public Sector Organizations.

FII is committed to providing a healthy, safe and inclusive workplace where respect and diversity are recognized assets. In its hiring practices, FII encourages and welcomes applications from qualified; women, visible minorities, Indigenous peoples, individuals with disabilities, persons of any sexual orientation or gender identity and all people committed to meaningful work that makes a difference.

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 the 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 and 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 Loseth, FII President & CEO

Senior Management: Guoli Liu, Senior Director, Government Relations

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)	2019/20 Forecast	2020/21 Budget	2021/22 Budget	2022/23 Budget
Total Revenue	2,490	2,497	2,300	2,300
Total Expenses ⁽¹⁾	2,490	2,497	2,300	2,300
Net Income/Excess of Revenue over Expenses/Annual Surplus (Deficit)	0,000	0,000	0,000	0,000

(1) Additional expenditures above those budgeted in service plan 19/20 relate to project opportunities which arose during the year and were funded by moneys turned back from other programs.

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 President & CEO
- Douglas Greig, FII Vice President and Chief Financial Officer
- Pranesh Chhibber, FII India Country Director
- David Fisher, VP International Marketing

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)	2019/20 Forecast	2020/21 Budget	2021/22 Budget	2022/23 Budget
Total Revenue	4,100	3,813	3,800	3,800
Total Expenses ⁽¹⁾	4,100	3,813	3,800	3,800
Net Income/Excess of Revenue over Expenses/Annual Surplus (Deficit)	0,000	0,000	0,000	0,000

(1) FII has found ways to deliver planned programming in India at a lower cost than originally anticipated. The surplus funds have been redirected to establish a market diversification program in Vietnam (cost shared with the federal government) to advance additional opportunities for the sector.

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).