

**Forestry Innovation Investment Ltd.**

**2016/17 – 2018/19  
SERVICE PLAN**



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## Accountability Statement

The 2016/17 – 2018/19 Forestry Innovation Investment (FII) service plan was prepared under the Board's direction in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. The plan is consistent with the Government's strategic priorities and fiscal plan. The Board is accountable for the contents of the plan, including what has been included in the plan and how it has been reported.

All significant assumptions, policy decisions, events and identified risks, as of February 4, 2016 have been considered in preparing the plan. The performance measures presented are consistent with 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.



Tim Sheldon  
Chair of the Board

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# Strategic Direction and Context

## Strategic Direction

The mandate of Forestry Innovation Investment (FII) is to work with the forest industry to develop and diversify markets for B.C. forest products while promoting B.C. as a world-class supplier of environmentally-friendly forest products. As outlined in its [2016/17 Mandate Letter](#) from the Minister of International Trade, FII will focus on three strategic priorities in the coming year:

- Retain a strong focus on building markets in Asia through:
  - ensuring programs reflect China’s changing economic realities and continue to advance the use of B.C. wood in construction and other applications;
  - aligning Forestry Innovation Investment’s market development activities with Government’s three-year market strategy for India; and
  - working with the forest industry in identifying and advancing opportunities in Southeast Asia.
- Implement the five-year strategic plan FII developed last year, and the organization’s updated Service Plan performance measures.
- Collaborate with the Ministry of Forests, Lands and Natural Resource Operations to jointly develop and implement an action plan for the value-added wood products sector and align FII’s activities with Government’s forest sector commitments under the BC Jobs Plan, Forest Sector Competitiveness Strategy.

By aligning FII’s medium-term activities with the Ministry of International Trade’s (MIT) efforts in international markets, and with the forest sector competitiveness initiatives of the Ministry of Forests, Lands and Natural Resource Operations, FII will ensure efficient use of resources and deliver the best value for B.C. taxpayers and forest sector stakeholders. Cost-effectiveness in operations will be further enhanced by a continued emphasis on a joint-delivery approach with industry. A copy of Government’s strategic direction to FII on the Taxpayer Accountabilities Principles (TAP) can be found in the [TAP Addendum to the 2014/15 Mandate Letter](#).

## Operating Environment

FII’s international market development efforts are influenced by a wide range of factors, many outside the control of the organization and its partners. These include currency exchange rates, economic growth in target markets, and local market factors that reflect demand for housing and capital construction, including interest rates, employment levels and various types of incentive programs targeted to home buyers. Of these factors, those that influence demand in the United States, China and Japan are the most significant, as these three priority markets represent more than 85 percent of international sales of B.C. wood products.

For 2016/17, economic growth in the United States is expected to be relatively flat, which may have a somewhat dampening influence on the construction sector and therefore performance against the

targets outlined in this Plan. A similar situation is forecast for Japan, the Province's second largest market in Asia for wood products. On a more positive note, in 2016 China's economy is expected to begin a modest recovery from its lowest rate of economic growth in 25 years. This recovery is expected to be led by a resurgence in construction activity and a steady increase in consumer demand, both of which bode well for a return to healthy demand for wood in this market. Risks to exports from continued slower growth in Asia, and a softer than expected U.S. market, will be partially offset by the reduced value of the Canadian dollar (which increases the competitiveness of B.C. products in foreign markets) and lower oil prices which may help stimulate economic growth, particularly in China. In B.C. and across North America, acceptance of new generation wood technologies such as taller wood buildings, and engineered products such as cross-laminated timber, is bolstering efforts to expand wood sales in the high-potential non-residential construction market, a key performance target for FII. And in emerging markets, particularly India, a growing demand for softwoods is creating new opportunities for B.C. wood products that FII and industry are pursuing aggressively.

During the year, global market conditions will be monitored via feedback from FII and industry in-market operations and program delivery agencies, as well as through market research. Input from provincial and federal government representative offices will also be sought. Responsive actions will be introduced to mitigate any identified risks to forecasts.

For 2016/17, no significant changes are planned in FII's internal operating environment.

## Performance Plan

### Goals, Strategies, Measures and Targets

FII's goals, strategies, measures and targets are in alignment with Government's strategic direction as articulated in the 2016/17 Mandate Letter from the Minister of International Trade, as well as the strategic approaches underlined in the [MIT trade strategy](#), and the Forest Sector Competitiveness Strategy developed by the Ministry of Forests, Lands and Natural Resource Operations. Of note, Service Plan goals and performance measures for 2016-17 – 2018/19 have been updated in response to the 2014 Core Review of FII, which directed that FII establish measures more directly indicative of its impact on market development in the forest sector. Following a detailed review, a number of new performance measures have been added to the Service Plan, and others adjusted, to increase the linkage between FII programs and associated metrics. The changes were also designed to bring the goals and performance measures into alignment with FII's renewed strategic plan, which places a higher priority on increasing the value of B.C.'s product sales, including shipping a greater proportion of higher-value products, than on pursuing volume targets. A complete summary of changes to the Performance Plan is included in Appendix C.

The FII strategies continue to incorporate the principles of taxpayer accountability as set out in the Government's Taxpayer Accountability Principles (TAP), including an emphasis on efficiency, accountability and integrity in the delivery of all of FII's programs and in managing relations with and among government, industry, the general public and employees. FII has implemented the TAP through specific activities as directed by Government. These include maintaining a Strategic Engagement Plan with the Ministry of International Trade, which includes quarterly meetings of

senior executives and the Minister focused on FII's performance against the TAP, and completion of an annual TAP Evaluation Plan together with MIT.

FII's investments throughout the year will focus on innovation and market development to strengthen the position of the forest sector in both its conventional product and market mix, and on areas of new opportunity, such as the emerging market for B.C. wood species in India. At the same time, FII recognizes that the opportunities presented by the development of a new generation of engineered products and building systems, and the rapid emergence of the "bio-economy", have the potential to transform the forest sector, generating new wealth, more skilled jobs and greater stability for communities and workers. Through its investments, FII encourages industry efforts to move up the value chain, thereby creating higher margin products and services that are harder for competitors to copy.

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

## **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 Goal 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.

Goal 1 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.

Strategies in support of this goal are designed to build on the growing awareness of the benefits of wood products, and to position B.C. as a reliable supplier of quality forest products and a global leader in sustaining forest resources and environmental values. This dual positioning will help strengthen awareness of, and interest in, B.C. forest products in major markets and, in turn, support greater market share, premium positioning and easier access to new markets.

## 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 messages 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 1: Customer Perceptions of B.C. Forest Products

Performance Measure	2014/15 Actual	2015/16 Forecast	2016/17 Target	2017/18 Target	2018/19 Target
Percent of customers who perceive that forest products from B.C. are a good choice for the environment.	n/a*	90%	n/a	90%	n/a

**Data Source:** Leger – The Research Intelligence Group, April, 2016.

\*Surveys are conducted biennially.

## Discussion

This measure provides an indication of the effectiveness of FII’s international advocacy and communications initiatives to influence customer perceptions of B.C. and its forest management practices. Performance data are gathered through a biennial survey of international customers (e.g., large institutional pulp and paper buyers, and wood importers and distributors) conducted by an independent research firm. 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. FII and its partners consider that maintaining a 90% rating represents optimal performance given that there will always be some who disagree with timber harvesting of any nature.

### Performance Measure 2: Potential Prospects Connecting with B.C. Manufacturers

Performance Measure	2014/15 Actual*	2015/16 Forecast*	2016/17 Target	2017/18 Target	2018/19 Target
Number of potential prospects connecting with B.C. manufacturers from the naturallywood.com Supplier Directory, an online platform developed by FII.	--	--	10,000 (baseline)	11,000	12,000

**Data Source:** FII.

\* Performance measure 2 is a new metric.



## Discussion

Performance measure 2 is a new measure that links FII's outreach and communications activities to the objective of increasing sales of B.C. forest products. The metric tracks the effectiveness of FII's online product and supplier sourcing tool – the Supplier Directory - in increasing awareness of, and interest in, B.C.'s forest products by advancing connections with B.C. companies for potential commercial opportunities.

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

Goal 2 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. This goal focuses on Asia in particular. 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 includes creating or expanding new market segments in traditional regions (e.g., non-residential and multifamily/midrise construction in the U.S.), as well as fostering demand in regions that have strong growth potential, but that 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.<sup>1</sup>

## Strategies

- Expand opportunities for B.C. forest products in key Asian markets, with an emphasis on China, Japan and South Korea.
- Open markets for B.C. products in emerging regions offering strong growth potential, particularly India and Southeast Asia.
- Grow the use of wood in North America's emerging market segments, with an emphasis on the non-residential and multi-family/multi-storey markets, and value-added products from British Columbia.

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<sup>1</sup> 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.

- Engage with industry and foreign government agencies to eliminate barriers to access in foreign markets.
- Share the cost of market development activities crafted and delivered by trade associations, based on priorities outlined in FII's Strategic Plan and annual investment strategies.

### Performance Measure 3: Average Value Generated by Lumber Sales to China<sup>2</sup>

Performance Measure	2014/15 Actual*	2015/16 Forecast*	2016/17 Target	2017/18 Target	2018/19 Target
Average value (CAD, millions) per cubic metre generated by softwood lumber sales to China.	--	--	192 (baseline)	196	200

Data Source: BC Stats.

\* Performance measure 3 is a new metric.

### Discussion

The measure tracks the extent to which the B.C. forest industry is successful in diversifying markets, with a particular focus on Asia. 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<sup>3</sup> is based on Statistics Canada export data compiled by BC Stats.

For 2016/17, FII has shifted from tracking overall volume figures to focusing on value per cubic metre, which is more reflective of demand for higher-grade lumber used in construction – a key objective of the government-industry program in China. FII anticipates that, while shipment volumes may have plateaued, returns from China will continue to grow due to a better volume/value mix of products.

### Performance Measure 4: Product Trials in India

Performance Measure	2014/15 Actual*	2015/16 Forecast*	2016/17 Target	2017/18 Target	2018/19 Target
Total number of product trials of B.C. species undertaken in India.	--	6 (baseline)	12	18	24

Data Source: FII.

\* Performance measure 4 is a new metric.

<sup>2</sup> Performance metrics are tracked for China and India (see performance measure 4) reflecting 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.

<sup>3</sup> Total value of lumber exported divided by the total volume of exports measured in cubic metres.

## Discussion

India is a new market for B.C. wood product companies, and market development efforts remain in the pre-commercial phase. However, product trials are emerging as an effective means for FII to encourage Indian manufacturers to convert existing or new production to using B.C. wood and efforts in this area will accelerate in 2016/17. FII's "Try Canadian Wood" program provides 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. Such trials have resulted in a range of furniture and interior finishing products being produced on a test basis using B.C. wood species. The outputs of initial trials are now promoted at tradeshow and are featured at the FII India showroom in Mumbai. FII's success in expanding the number of product trials across India will be key to opening the market for B.C. wood species and helping B.C. firms advance commercial sales to India.

### Performance Measure 5: Sales in the U.S. Non-Residential and Multi-Storey/Multi-Family Segment

Performance Measure	2014/15 Actual*	2015/16 Forecast*	2016/17 Target	2017/18 Target	2018/19 Target
Total sales (USD, millions) of wood attributable to program interventions – U.S. non-residential and multi-storey/multi-family residential construction markets.	--	--	103 (baseline)	126	144

Data Source: US Woodworks.

\* Performance measure 5 is a new metric.

## Discussion

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. have a strong interest in seeing wood products secure a much higher market penetration in this segment. To this end, FII supports the U.S.-based WoodWorks program to deliver activities that assist architects, builders and developers to incorporate more wood into their projects, as well as convert their projects to wood from other materials.

Beginning in 2016/17, performance measure 5 is shifting from tracking the volume of incremental wood sales in non-residential and/or multi-storey, multi-family projects where FII-funded programs are involved, to focusing on the increase in the value of wood products used in these projects. This provides greater consistency with FII's other program metrics and with the overall strategic shift to emphasizing greater values as opposed to volumes.

The ability to achieve performance measures 3, 4 and 5 is heavily 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 are set for each project. All of these measures are directly linked to FII's broader goals and targets. For more details, please refer to [FII's Performance Management Framework](#).

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

This goal supports the Government of B.C.'s objective to generate greater added value in the forest economy. 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 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 to achieve goal 3 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. 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 with service delivery organizations, promoting integrated planning and coordinated delivery of program activities and initiatives.

### Strategies

- Advance innovation through research and product development.
- Reduce barriers to wood use.
- 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.

### Performance Measure 6: Incremental Value of Wood Consumed in B.C.'s Non-Residential and Multi-Storey/Multi-Family Construction Sector

Performance Measure	2014/15 Actual*	2015/16 Forecast*	2016/17 Target	2017/18 Target	2018/19 Target
Total sales (CAD, millions) of wood attributable to program interventions – B.C.'s non-residential and multi-storey/multi-family residential construction markets.	--	--	56 (baseline)	62	68

Data Source: Canadian Wood Council.

\* Performance measure 6 is a new metric.

### Discussion

This measure tracks success in increasing wood usage in B.C. in the commercial, institutional and multi-family residential/mid-rise segment. The target is based on the incremental increase in the value of wood sales that are generated in the year and influenced by program activities funded by FII and its funding partners. These Wood First program activities focus on delivering promotional, research, educational and capacity-building initiatives throughout the province.

The ability to achieve performance measure 6 is contingent upon the performance of FII's funding recipients in their delivery of Wood First programming. Timely funding decisions by FII ensure that funding is available to successful proponents by the start of each fiscal year. As part of the funding approval process, performance measures are established for each project. These measures are directly linked to FII's broader goals and targets. For more details, please see [FII's Performance Management Framework](#).

In 2016/17, work will be undertaken to develop a second performance measure for Goal 3. The new measure will track the progress that FII and its program delivery partners are making in advancing the use of wood in B.C. through development and implementation of innovative design and building systems. Performance data to support this measure will be gathered through a biennial survey of wood use professionals (e.g., developers, builders, designers and architects), whose views and purchasing decisions directly influence the use of wood in building projects. Surveys will be conducted by an independent research firm. The first survey will be undertaken in during the year with the results providing baseline data for establishing performance targets for 2018/19 and beyond.

## **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 a comprehensive risk-assessment strategy. FII is also committed to a path of environmental sustainability and minimizing its environmental footprint, in order to protect the natural environment and the B.C. economy for future generations.

Consistent with the strategic direction of Government under the Taxpayer Accountability Principles (TAP), FII will continue to deliver its primary programs and services in collaboration with the forest industry, the federal government, the research community and other provincial agencies, including the Ministry of International Trade and the Ministry of Forests, Lands and Natural Resource Operations. By partnering with forest sector organizations from Canada and abroad FII is able to leverage their expertise and financial resources to create and deliver a strategic and focused market development programming that provides the highest value for the B.C. forest sector.

### **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.
- Integrate the Taxpayer Accountability Principles (TAP) across the organization and work with the Ministry of International Trade to maintain strategic engagement and TAP evaluation plan.

- 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 7: Leveraged Funding**

Performance Measure	2014/15 Actual	2015/16 Forecast	2016/17 Target	2017/18 Target	2018/19 Target
Other organizations’ aggregate contribution to recipient funding program. <sup>4</sup>	65%	65%	65%	65%	65%

Data Source: FII.

### **Discussion**

This measure tracks the effectiveness of FII in securing external resources to deliver market development programs at the lowest possible cost to B.C. taxpayers, a key efficiency objective of the Government’s Taxpayer Accountability Principles. 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.

The 65% 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% “other” funding in the program<sup>5</sup>. Given this is an average across a suite of investments - 65% is viewed as an optimal target. In cases where FII’s investment in cost-shared programming is expanding, such as in the emerging India market, it is expected that aggregate private sector contributions will also increase over time as the market becomes more commercially advanced.

Data to support Measure 7 are sourced from the on-line recipient funding system, which is co-funded and managed by FII and Natural Resources Canada, and through FII’s year-end financial reporting.

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<sup>4</sup> In its recipient funding program, FII targets annual contributions of approximately 65% 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.

<sup>5</sup> The federal government does not fund activities in all markets where FII and industry are active. As a result, FII provides a higher share of overall funding in certain markets, increasing its average annual share of total program costs to just over one-third.

# Financial Plan

## Summary Financial Outlook

	2014/15 Actual	2015/16 Forecast	2016/17 Budget	2017/18 Budget	2018/19 Budget
<b>Revenue (\$000s)</b>					
Contribution from the Province of B.C.	16,813	17,370	18,370	19,120	19,620
Contribution from the Federal Government	1,028 <sup>(1)</sup>	877 <sup>(1)</sup>	700	700	700
Other Revenue <sup>(2)</sup>	762	2,674	2,500	2,500	2,500
	18,603	20,921	21,570	22,320	22,820
<b>Expenses (\$000s)</b>					
Funding Recipient Initiatives	8,808	9,220	9,200	9,200	9,200
Market Initiatives and Outreach					
Government Initiatives and Outreach	3,466	5,327	5,300	5,300	5,300
China Market Development	3,009	3,286	3,000	3,000	3,000
India Market Development	1,948	1,858	2,800	3,550	4,050
Corporate Services	1,226	1,230	1,270	1,270	1,270
	18,457	20,921	21,570	22,320	22,820
Excess of Revenue over Expenses	146	-	-	-	-
Retained Earnings, End of Year	2,363	2,363	2,363	2,363	2,363
Capital Expenditures	469	200	50	50	50
Total Liabilities	2,905 <sup>(3)</sup>	1,900	1,900	1,900	1,900

Note 1: Approximately \$600,000 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.

Note 3: Includes \$1.48 million in accounts payable and accrued liabilities, as well as \$1.03 million deferred contributions.

## Key Forecast Assumptions

The continuity of FII's investments, programming and activities depend upon receipt of funds from the Ministry of International Trade.

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.

## Forecast Risks and Sensitivities

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, United States 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, the downward trend in the value of the Canadian dollar against the U.S. dollar has increased exchange rate risk<sup>6</sup>.

## **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 Perspective on Financial Outlook**

### **Revenue and Budget Allocations**

For 2016/17, FII anticipates receiving \$18.3 million in cash funding from the Province, \$0.7 million from Natural Resources Canada to offset costs of FII India and to share the costs of other smaller projects, and approximately \$2.5 million from other sources. On that basis, the total will be higher (\$0.7 million) than in 2015/16.

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 \$9.2 million, about the same as in 2015/16. Other budget allocations will be:

- FII China: \$3.0 million, slightly less than in 2015/16;
- FII India: \$2.8 million, \$1.0 million higher than in 2015/16 due to an uplift in funding from the Province of B.C.;
- FII Vancouver's Government Initiatives and Outreach: \$5.3 million, slightly less than in 2015/16;
- Corporate support: \$1.27 million.

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<sup>6</sup> For example, 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.



## **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 2015, FII's market development strategy for China was updated significantly. Renewed focus for FII China staff will be on building deeper and broader relationships with Chinese government officials at all levels, as well as with state-owned real estate development companies. Staff and contractors will provide "front-end" support for wood-frame design and engineering, while B.C. trade associations will continue to provide "downstream" support with technical training, assistance in changing building codes and fire codes, and on-site construction quality support.

In 2016/17, 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 into new, high-potential regions; expanding promotional and educational efforts; increasing the number of product trials; and advancing product demonstration activities. These efforts will be supported by the B.C. forest industry which is doubling its representation in India in 2016/17. FII will actively encourage the B.C. industry to expand its commitment to, and engagement in, the market as the program accelerates. 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: Additional Information

## Corporate Governance

FII is responsible to the Minister of International Trade 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 Chief Executive Officer 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 [www.bcfii.ca](http://www.bcfii.ca)

Full details on the role and membership of the Board of Directors, as well as corporate reports, and details on compliance to the requirements of the Board Resourcing and Development Office are available at [www.bcfii.ca](http://www.bcfii.ca).

## 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 taxpayers and stakeholders, and reflecting the Province's Taxpayer Accountability Principles, 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 vision, mission and values, and its organizational structure are available at [www.bcfii.ca](http://www.bcfii.ca), as well as further information on FII, for example a *Report to Stakeholders* published in November 2015 that highlights accomplishments in major markets around the world, and previous Service Plans and Annual Service Plan Reports.

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

## Appendix B: Active Subsidiaries

FII operates the following two subsidiary companies:

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

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

*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, COO and Interim CEO, FII

*Senior Management:* Lisa Dou, General Manager

	2014/15 Actual	2015/16 Forecast	2016/17 Budget	2017/18 Budget	2018/19 Budget
<b>Revenue (\$000)</b>					
Contribution from Forestry Innovation Investment Ltd.	3,009	3,286	3,000	3,000	3,000
	3,009	3,286	3,000	3,000	3,000
<b>Expenses (\$000)</b>					
China Market Development	3,009	3,286	3,000	3,000	3,000
	3,009	3,286	3,000	3,000	3,000
Excess of Revenue over Expenses	-	-	-	-	-
Retained Earnings, End of Year	-	-	-	-	-

**FII Consulting India Private Limited** (jointly owned by Forestry Innovation Investment Ltd. and 0939031 B.C. Ltd.<sup>7</sup>)

*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, providing intermediation with India regulatory authorities, and providing direct support for B.C. companies entering the India market.

*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:* Three-member Board of Directors:

- Michael Loseth (Chair), Chief Operating Officer and Interim CEO, FII
- Douglas Greig, Vice President and Chief Financial Officer, FII
- Pranesh Chhibber, Country Director, FII India

*Senior Management:* Pranesh Chhibber, Country Director, FII India

	2014/15	2015/16	2016/17	2017/18	2018/19
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<sup>7</sup> Joint ownership exists to meet India's requirement that there be at least two shareholders of a foreign-owned company.

	Actual	Forecast	Budget	Budget	Budget
<b>Revenue (\$000)</b>					
Contribution from Forestry Innovation Investment Ltd.	1,948	1,858	2,800	3,550	4,050
	1,948	1,858	2,800	3,550	4,050
<b>Expenses (\$000)</b>					
India Market Development	1,948	1,858	2,800	3,550	4,050
	1,948	1,858	2,800	3,550	4,050
Excess of Revenue over Expenses	-	-	-	-	-
Retained Earnings, End of Year	-	-	-	-	-

## Non-Active Subsidiary

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).

## **Appendix C: Changes to Service Plan Goals and Performance Measures for 2016/17**

Service Plan performance metrics were included in the 2014 Core Review of FII. Based on recommendations that followed, FII was directed to review its Service Plan performance metrics with a view to enhancing the link between measures and FII’s activities (i.e., “attribution”). FII was also directed to refresh its Strategic Plan in 2015/16 to ensure that programs continue to respond to an evolving marketplace. Work on these two initiatives led to refinements to two of FII’s four goals for 2016/17, as well as a shift in program emphasis from targeting increases in the volume of exports, to focusing on growth in the value of sales. Several metrics have been adjusted to reflect this volume-to-value shift in program approach.

The FII Service Plan for 2016/17 – 2018/19 incorporates these revised goals and metrics, along with updated targets where indicated. These changes fully respond to the direction of the 2014 Core Review. They are also consistent with the forest sector’s post-mountain pine beetle approach to de-emphasize low-grade/low-value products in favour of promoting higher value outputs that can generate greater returns per unit of volume.

**Summary of Changes to Goals and Performance Measures: 2015/16 to 2016/17**

**GOAL 1**

<u>2015/16 Plan</u>	<u>2016/17 Plan<sup>7</sup></u>
<b>Goal Statement</b>	
<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>No change.</li> </ul>
<b>Performance Measures</b>	
<ul style="list-style-type: none"> <li>Percent of customers who feel that choosing products from B.C. (Canada) is a good choice for the environment.</li> </ul>	<ul style="list-style-type: none"> <li><u>Measure 1</u>: Percent of customers who perceive that forest products from B.C. are a good choice for the environment.</li> <li><u>Measure 2</u>: Number of potential prospects connecting with B.C. manufacturers from the naturallywood.com Supplier Directory, an online platform developed by FII.</li> </ul> <p><i>Note on Measure 1 – “Customers” for the purpose of this metric includes persons who purchase pulp, paper or wood products, including publishers and paper product companies, builders, wood retailers and importers).</i></p>

**GOAL 2**

<u>2015/16 Plan</u>	<u>2016/17 Plan</u>
<b>Goal Statement</b>	
<ul style="list-style-type: none"> <li>Returns from B.C.’s conventional and emerging forest products are optimized in markets offering high potential.</li> </ul>	<ul style="list-style-type: none"> <li>No change.</li> </ul>

## GOAL 2 continued

<u>2015/16 Plan</u>	<u>2016/17 Plan</u>
<b>Performance Measures</b>	
<ul style="list-style-type: none"> <li>• B.C. softwood lumber exports to priority Asia Pacific markets (000s of m<sup>3</sup>).                             <ul style="list-style-type: none"> <li>– China</li> <li>– Japan</li> <li>– South Korea</li> </ul> </li>   <li>• Incremental volume consumed in targeted non-residential and multi-story residential structures in the U.S. (millions of board feet).</li> </ul>	<ul style="list-style-type: none"> <li>• <u>Measure 3</u>: Average value (CAD, millions) per cubic metre generated by softwood lumber sales to China.</li>   <li>• <u>Measure 4</u>: Total number of product trials of B.C. species undertaken in India.</li>   <li><i>Note on Measures 3 and 4 – “Performance metrics are tracked for China and India reflecting FII’s subsidiary companies and direct program delivery in those two markets. While FII also tracks and reports on data and trends in other key Asian markets (such as Japan and South Korea), this is not included in FII’s Service Plan as FII does not lead program delivery in these markets.</i></li>   <li>• <u>Measure 5</u>: Total sales (USD, millions) of wood attributable to program interventions – U.S. non-residential and multi-storey/multi-family residential construction markets).</li> </ul>

## GOAL 3

<u>2015/16 Plan</u>	<u>2016/17 Plan</u>
<b>Goal Statement</b>	
<ul style="list-style-type: none"> <li>• British Columbia is a world-class centre of excellence in developing and using innovative forest products and building systems.</li> </ul>	<ul style="list-style-type: none"> <li>• B.C. is a leader in using innovative forest products and building systems.</li> </ul>
<b>Performance Measures</b>	
<ul style="list-style-type: none"> <li>• Incremental sales generated in B.C.’s non-residential construction sector (millions of board feet).</li> </ul>	<ul style="list-style-type: none"> <li>• <u>Measure 6</u>: Total sales (CAD, millions) of wood attributable to program interventions – B.C.’s non-residential and multi-storey/multi-family residential construction markets.</li> </ul>

## GOAL 4

### 2015/16 Plan

### 2016/17 Plan

#### Goal Statement

- FII serves its stakeholders in a highly effective, innovative and responsive manner.
- FII is a highly effective, innovative and responsive organization.

#### Performance Measures

- Timeliness of annual funding cycle for trade associations, research institutes, and universities.
- Measure deleted.
- Other organizations' aggregate contribution to recipient funding program.
- Measure 7: No change.