

# **Forestry Innovation Investment Ltd.**

## **2017/18 – 2019/20 SERVICE PLAN**

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## Accountability Statement

The *2017/18 – 2019/20 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 January 27, 2017 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

## Table of Contents

<b>Accountability Statement .....</b>	<b>3</b>
<b>Strategic Direction and Context .....</b>	<b>5</b>
<b>Performance Plan.....</b>	<b>7</b>
<b>Financial Plan.....</b>	<b>16</b>
Resource Summary Table .....	16
<b>Appendix A:Additional Information.....</b>	<b>19</b>
<b>Appendix B: Active Subsidiaries .....</b>	<b>20</b>
Non-Active Subsidiary .....	22

# 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 products from sustainably-managed forests. As outlined in its [2017/18 Mandate Letter](#) from the Minister of International Trade, FII will focus on three strategic priorities in the coming year:

- Retain a strong focus on market diversification in Asia by:
  - Advancing markets in China; ensuring that programs target areas offering strong potential return to B.C. producers;
  - Expanding the market development effort in India, in cooperation with industry and the Ministry of International Trade; and
  - Working with the forest industry in identifying and advancing opportunities in Southeast Asia.
- Continue the implementation of the five-year strategic plan to expand the consumption of wood products by:
  - Promoting wood's environmental merits and working with partners to position wood as a preferred building material; and
  - Expanding opportunities for wood use in advanced building systems, with an emphasis on mass timber and taller wood construction.
- Collaborate with the Ministry of Forests, Lands and Natural Resource Operations on the delivery of government's commitments to expanding markets for the Value Added Wood Products under [Strong Past, Bright Future: A Competitiveness Agenda for British Columbia's Forest Sector](#) and the [BC Jobs Plan](#), specifically ensuring alignment between government-funded agencies on initiatives to promote the use of wood as a building material, wood's positive environmental attributes, and B.C.'s sustainable forestry practices.

By aligning medium-term activities with the Ministry of International Trade's (MIT) efforts in international markets, and with the forest sector competitiveness initiatives outlined in *Strong Past, Bright Future: A Competitiveness Agenda for B.C.'s Forest Sector*, 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 continue to be enhanced through emphasis on a joint-delivery approach with industry. Government's strategic direction to Crowns on accountability is found in [Taxpayer Accountability Principles: Strengthening Public Sector Governance and Accountability](#).

## Operating Environment

International market development efforts led by FII continue to be influenced by a wide range of factors, many outside the control of the organization and its partners. These factors have been particularly volatile over the past year and include currency exchange rates; fluctuating economic growth in target markets; increasing competition; and local market factors that reflect demand for housing and capital construction, including interest rates, employment levels and various types of incentive programs targeted to home buyers. Factors influencing demand in the United States, China, Japan and India are the most significant, as these priority markets represent more than 85 per cent of international sales of B.C. wood products and account for the majority of FII program investments.

For 2017/18, economic recovery in the United States is expected to continue, albeit at a modest pace. Solid consumption and job growth will be offset by weak investment, which will have a dampening influence on new construction. Political changes in the United States, and the election of a new administration promising greater protectionism are creating uncertainty for B.C. softwood exports to the market. The lack of resolution to the Canada – U.S. Softwood Lumber Agreement adds to this dynamic, as the outcome could have a significant impact on future B.C.'s trade with the United States.

China, B.C.'s largest market for commodity lumber outside North America, is expected to continue to face challenges as it rebalances its economy from manufacturing-led demand toward domestic consumption and services. While high-level drivers—including urbanization, the growing middle class, and escalating environmental concerns—will create new demand for wood in China; competition is increasing and the pace of economic growth has slowed. At the same time, growth in Japan, B.C.'s second largest market in Asia, will remain weak and uneven in the year ahead; however, new opportunities for wood products are emerging in the multi-family and institutional segments. India, the location of FII's newest operations, will continue to lead global growth in 2017/18, creating opportunities for B.C. in many areas, including wood products.

Lower value of the Canadian dollar against the U.S. dollar partially offsets impacts to exports from continued slower growth in East Asia, and an uncertain trade climate in the United States. 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, are gaining momentum. These innovations in technology and engineering strengthen efforts to expand wood sales in the high-potential non-residential construction market, which is a key performance target for FII. In emerging markets, particularly in India, demand for softwood continues to grow, which is creating new opportunities for B.C. wood products. FII and industry are aggressively pursuing the Indian market with additional funding provided by the Province of B.C.

Across the time of the Service Plan, global market conditions will be monitored using feedback from FII subsidiaries, industry in-market operations, and program delivery agencies, as well as through ongoing market research. FII will continue to seek input from provincial and federal government representative offices in key markets. If required, responsive actions will be introduced to mitigate identified risks to forecasts.

For 2017/18, no significant changes are planned in FII's internal operating environment.

# Performance Plan

## Goals, Strategies, Measures and Targets

The goals, strategies, measures and targets in the Plan align with Government’s strategic direction, as articulated in the 2017/18 *Mandate Letter* from the Minister of International Trade, as well as the strategic approaches underlined in the MIT trade strategy, [Raising our Game in Asia](#), and in *Strong Past, Bright Future: A Competitiveness Agenda for B.C.’s Forest Sector*, developed by the Ministry of Forests, Lands and Natural Resource Operations. Service Plan goals and performance measures for 2017/18 – 2019/20 align with FII’s strategic plan, which places a high priority on increasing the value of B.C.’s product sales, including shipping a greater proportion of higher-value products.

FII strategies incorporate the principles of taxpayer accountability 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 tracks implementation of the TAP through quarterly meetings of the Board Chair, senior executives and the Minister focused on FII’s performance against the TAP.

For 2017/18, FII’s investments will continue to focus on innovation and market development to strengthen the position of the forest sector in its conventional product and market mix, and in new areas of opportunity, including the manufacturing segments in China and India, multi-family and institution construction in Japan, and the non-residential and tall wood building markets in North America. FII also 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 continues to encourage industry to move up the value chain, thereby creating higher margin products and services.

Over the period of this Service Plan, FII programming will 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; thus, 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 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 1: Customer Perceptions of B.C. Forest Products

Performance Measure	2015/16 Actual	2016/17 Forecast	2017/18 Target	2018/19 Target	2019/20 Target
Per cent of customers who perceive that forest products from B.C. are a good choice for the environment.	96%	n/a*	90%	n/a*	90%

**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 per cent rating represents optimal performance given 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	2015/16 Actual*	2016/17 Forecast*	2017/18 Target	2018/19 Target	2019/20 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	12,500

**Data Source:** Forestry Innovation Investment Ltd / Google Analytics.  
 \* Performance measure 2 was introduced in 2016/17.

**Discussion**

Performance measure 2 links FII’s outreach and communications activities to the objective of increasing sales of B.C. forest products. FII, through the [naturally: wood](#) information resource and related paid media, works to promote B.C. forest products and suppliers by featuring the Supplier Directory. The performance metric tracks the number of visitors to the website and the number of those visitors that link through to a supplier email address or website. Collecting data on connections made to suppliers 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 particularly on Asia. 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 multi-family/mid-rise construction in the U.S.), as well as fostering demand in regions that have strong growth potential, but are not currently using high volumes of B.C. forest products (e.g., the multi-family and non-residential markets in China and Japan, and the domestically-focused manufacturing sector in India).

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

Strategies under this goal include a mix of activities delivered by third parties and by FII.<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.
- Expand 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 B.C.
- 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>2,3</sup>

Performance Measure	2015/16 Actual*	2016/17 Forecast	2017/18 Target	2018/19 Target	2019/20 Target
Average value (CAD) per cubic metre generated by softwood lumber sales to China.	--	172 (baseline)	196	200	204

**Data Source:** BC Stats.

\* Performance measure 3 was introduced in 2016/17.

## 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

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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.

<sup>2</sup> Performance metrics are tracked for China and India (see performance measure 4) to reflect FII’s direct operations and program delivery in those two markets. In Asia, in addition to China and India, FII also tracks and reports out on data and trends in all other key markets, including Japan and South Korea.

<sup>3</sup> The ability to achieve performance measures 3 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](#).

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>4</sup> is based on Statistics Canada export data compiled by BC Stats.

In 2016/17, FII shifted from tracking overall volume figures to focusing on value per cubic metre, which reflects demand for higher-grade lumber used in construction—a key objective of the government-industry program in China. While FII and industry anticipated that shipment volumes would plateau, it was expected that values would see modest growth as demand for wood in China continued to rise. However, four key factors have changed the reality in China, resulting in a drop in B.C. lumber exports to the market and putting downward pressure on prices for lumber in China:

- Demand in China has weakened, slowing the real estate sector and negatively impacting growth for construction materials;
- Depreciation in the value of the ruble has allowed Russia to greatly expand shipments to China by undercutting prices;
- European producers have been shipping increasing volumes of lumber to China, as traditional markets in Europe have been weak, exacerbated by the Brexit vote in June 2016, and the region’s other major markets in the Middle East and North Africa have been impacted by political instability; and
- increasing prices for construction grades in the U.S. has shifted higher-value products into that market thereby reducing the average value of B.C.’s exports to China (i.e., more lower grade, lower value lumber going to China than was forecast).

Adding to market uncertainty is the Canada-U.S. softwood lumber dispute, which has the potential to impact the nature of B.C.’s lumber exports to China. Reflecting these factors, the forecast for 2016/17 at \$172 per m<sup>3</sup> is below the original target of \$196 per m<sup>3</sup> in the 2016/17 Service Plan. For the forecast period of this Service Plan, the B.C. lumber industry faces a very competitive landscape in China and established performance targets will remain challenging to achieve. During 2017/18, FII will work closely with industry in B.C. and China to evaluate performance metrics and assess options that are more insulated from factors outside the influence of the market development program.

#### **Performance Measure 4: Product Trials in India**

Performance Measure	2015/16 Actual	2016/17 Forecast	2017/18 Target	2018/19 Target	2019/20 Target
Total number of product trials of B.C. species undertaken in India.	8 (baseline)	12	18	24	26

**Data Source:** FII.

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<sup>4</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. 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, and efforts in this area will continue to accelerate in 2017/18. 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. Trials have resulted in a range of furniture and interior finishing products being produced on a test basis using B.C. wood species. Several of these trials have led to commercial orders for products made with B.C. species. Performance measure 4 directly reflects the interest of the Indian industry to try B.C. species, which is a key objective in early market development efforts.

The expansion of the FII India teams in the north and south of India during 2016/17 will result in the continued expansion in the number of annual product trials through 2019/20, by which time almost 90 trials will have taken place in manufacturing centres across India.

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 is 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<sup>5</sup>

Performance Measure	2015/16 Actual*	2016/17 Forecast	2017/18 Target	2018/19 Target	2019/20 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	158

Data Source: US Wood Works\*

\* Performance measure 5 was introduced in 2016/17.

## 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. 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.-based [WoodWorks](#) program to deliver activities that assist architects,

<sup>5</sup> The ability to achieve performance measures 5 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.

builders and developers to incorporate more wood into their projects, as well as convert their projects to wood from other materials.

In 2016/17, performance measure 5 shifted 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 increasing values.

### **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<sup>6</sup>**

Performance Measure	2015/16 Actual*	2016/17 Forecast*	2017/18 Target	2018/19 Target	2019/20 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	68 or greater

Data Source: Canadian Wood Council.

\* Performance measure 6 was introduced in 2016/17

**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.

**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](#), 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 strategic and focused market development programming that provides the highest value for the B.C. forest sector.

<sup>6</sup> The ability to achieve performance measure 6 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. 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.

## 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 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	2015/16 Actual	2016/17 Forecast	2017/18 Target	2018/19 Target	2019/20 Target
Other organizations’ aggregate contribution to recipient funding program. <sup>7</sup>	68%	68%	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 TAP. 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 per cent target figure reflects the share of funding provided by others (industry and the federal government) to FII’s cost-shared recipient funding program across the suite of investments in all programs and markets. While the proportion of funds received from industry and the federal government varies by market and type of activity, FII’s goal is to maintain an average of 65 per cent “other” funding in the program<sup>8</sup>. Given this is an average across a suite of investments, where some fluctuation is expected year to year, 65 per cent is viewed as an optimal target. Data to support this measure are sourced from the online recipient funding system, which is co-funded and managed by FII and Natural Resources Canada, and through FII’s year-end financial reporting.

<sup>7</sup> In its recipient funding program, FII targets annual contributions of approximately 65 per cent from other organizations; however, contributions from others vary from 0 to 85%, depending on the specific activity. Contributions from individual organizations can also fluctuate considerably across fiscal years, depending on their programming priorities and budgets.

<sup>8</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

	2015/16 Actual	2016/17 Forecast	2017/18 Budget	2018/19 Budget	2019/20 Budget
<b>Revenue (\$000s)</b>					
Contribution from the Province of B.C.	17,562	18,356	19,110	19,610	19,610
Contribution from the Federal Government	823 <sup>(1)</sup>	826 <sup>(1)</sup>	600	600	600
Other Revenue <sup>(2)</sup>	2,697	2,775	2,600	2,600	2,600
	21,082	21,957	22,310	22,810	22,810
<b>Expenses (\$000s)</b>					
Funding Recipient Initiatives	8,944	9,291	8,900	8,900	8,900
Market Initiatives and Outreach					
Government Initiatives and Outreach	5,354	6,068	5,900	5,900	5,900
China Market Development	3,166	2,214	2,300	2,300	2,300
India Market Development	1,992	3,036	3,810	4,310	4,310
Corporate Services	1,178	1,348	1,400	1,400	1,400
	20,634	21,957	22,310	22,810	22,810
Excess of Revenue over Expenses	448	-	-	-	-
Retained Earnings, End of Year	2,811	2,811	2,811	2,811	2,811
Capital Expenditures	347	200	50	50	50
Total Liabilities	2,493 <sup>(3)</sup>	2,100	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 \$1.08 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, 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, the downward trend in the value of the Canadian dollar against the U.S. dollar has increased exchange rate risk<sup>9</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 2017/18, FII anticipates receiving \$19.1 million in cash funding from the Province, \$0.6 million from Natural Resources Canada to offset costs of FII India and approximately \$2.6 million from other sources. On that basis, the total will be higher (\$0.350 million) than in 2016/17.

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, about the same as in 2016/17. Other budget allocations will be:

- FII China: \$2.3 million: about the same as in 2016/17.
- FII India: \$3.8 million: \$0.8 million higher than in 2016/17, due mainly to an uplift in funding from the Province of B.C.
- FII Vancouver's Government Initiatives and Outreach: \$5.9 million, about the same as in 2016/17.
- Corporate support: \$1.4 million.

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<sup>9</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 2017/18, the focus for FII China staff will be to continue to build deeper and broader relationships with Chinese government officials at all levels, as well as with state-owned real estate development companies. Partnering with the B.C. trade associations; Canada Wood Group will continue to provide “downstream” support with technical training, assistance in changing building codes and fire codes, and on-site construction design, engineering and quality assurance support.

In 2017/18, 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 doubled 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 six-member Board of Directors. The Government appoints the Board to set operational policy, and in cooperation with senior management, to set strategic direction. The Board monitors FII's performance based on the Province's planning and reporting principles. The Board appoints the Chief Executive Officer (CEO) and delegates responsibility to the CEO for the day-to-day leadership and management of the organization.

The Board incorporates best practices into its governance procedures as guided by the Best Practices Guidelines on Governance and Disclosure for Public Sector Organizations. As recommended in the guidelines, FII's disclosure, including its Status of Concurrence with Best Practices Guidelines is available on the Company's website at [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 are previous Service Plans and Annual Service Plan Reports. Also available on the site is additional information on FII, its programs and its partners, including an annual *Report to Stakeholders* 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](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 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 CEO

*Senior Management:* Lisa Dou, General Manager

*Strategic Direction and Operating Environment:* The business activities and priorities of FII Consulting (Shanghai) Co. Ltd. are fully consistent with the mandate, strategic priorities and fiscal plan of FII Ltd. The subsidiary company is also in full compliance with the Government's *Taxpayer Accountability Principles* (for more information on FII's compliance with TAP, refer to pages 3-5).

*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 downward trend in the 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.

	2015/16 Actual	2016/17 Forecast	2017/18 Budget	2018/19 Budget	2019/20 Budget
<b>Revenue (\$000)</b>					
Contribution from Forestry Innovation Investment Ltd.	3,166	2,388	2,300	2,300	2,300
	3,166	2,388	2,300	2,300	2,300
<b>Expenses (\$000)</b>					
China Market Development	3,166	2,388	2,300	2,300	2,300
	3,166	2,388	2,300	2,300	2,300
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>10</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, 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:* Three-member Board of Directors:

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

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

*Strategic Direction and Operating Environment:* The business activities and priorities of FII Consulting India Private Limited are fully consistent with the mandate, strategic priorities and fiscal plan of FII Ltd. The subsidiary company is also in full compliance with the Government's *Taxpayer Accountability Principles* (for more information on FII's compliance with TAP, refer to pages 3-5).

*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. Over the past year, the value of the Canadian dollar against the Rupee declined marginally, slightly increasing FII's exchange rate costs for India operations.

	2015/16 Actual	2016/17 Forecast	2017/18 Budget	2018/19 Budget	2019/20 Budget
<b>Revenue (\$000)</b>					
Contribution from Forestry Innovation Investment Ltd.	1,992	3,029	3,810	4,310	4,310
	1,992	3,029	3,810	4,310	4,310
<b>Expenses (\$000)</b>					
India Market Development	1,992	3,029	3,810	4,310	4,310
	1,992	3,029	3,810	4,310	4,310
Excess of Revenue over Expenses	-	-	-	-	-
Retained Earnings, End of Year	-	-	-	-	-

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<sup>10</sup> Joint ownership exists to meet India's requirement that there be at least two shareholders of a foreign-owned company.

## **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).