2012-2013

FORESTRY INNOVATION INVESTMENT

INVESTMENT STRATEGY

Forestry Innovation Investment

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1. INTRODUCTION

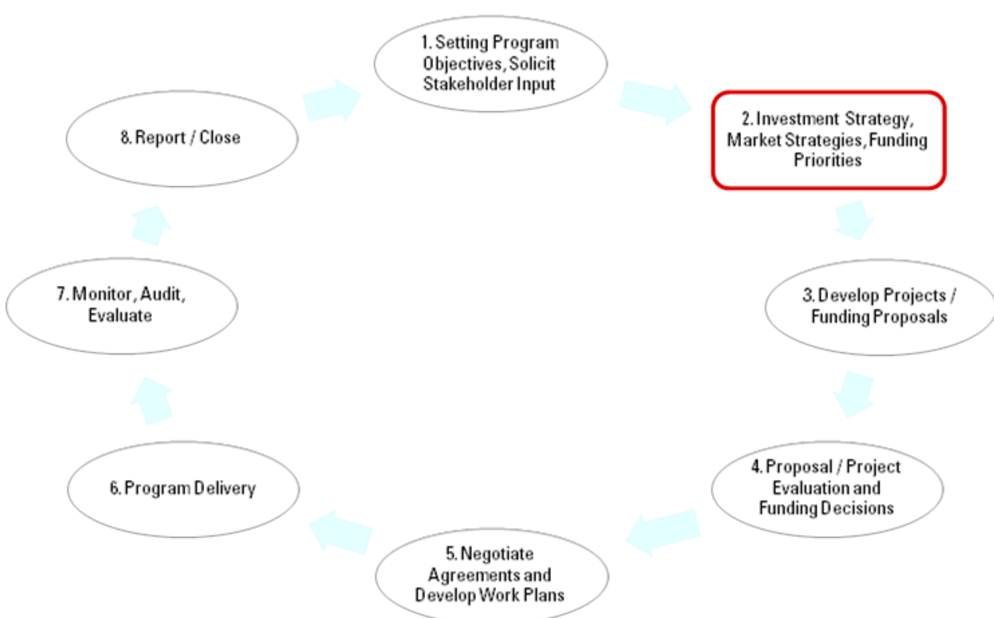
The British Columbia (B.C.) forest industry produces approximately 50% of the wood products exported from Canada. Foreign markets are of vital importance to the over $7.3 billion industry, which employs, directly or indirectly, tens of thousands of British Columbians. More than 7,300 businesses make up the forest economy in B.C.

Forestry Innovation Investment Ltd. (FII) is a Provincial Crown corporation with a mandate 3 to work with the industry and government agencies in developing and diversifying markets for B.C. forest products around the world. To do this, FII relies on a structured and integrated business planning framework to develop and deliver its services. This document outlines FII's strategy to provide those services in 2012/13, by way of self-initiated activities and by way of providing funding to other organizations for work that they propose and ultimately deliver.

This Investment Strategy is supported by an extensive inventory of market research which links investment, market and project plans. The Investment Strategy is developed in the context of FII's three-year Service Plan, and a Strategic Plan that covers a 5-10 year horizon.

This strategy details FII's investment priorities for the year ahead and provides guidance for organizations that seek FII funding through its annual Call for Proposals process.. FII's strategy is informed by an ongoing program of market research and specific market development strategies that have been developed jointly by FII, Natural Resources Canada and industry. Industry input is involved at all steps of the strategy development and planning process through a variety of advisory committees, and in the project review process through a funding proposal evaluation committee.

For the purposes of providing funding through its annual Call for Proposals, FII's planning and performance management cycle is represented in the following diagram:



FII invests to find, build and maintain markets for B.C. wood products. FII's investments are focused on pursuing Government priorities for the sector and supporting activities proposed and delivered by forest sector organisations. This investment plan details FII's priorities for 2012/13.

This graphic demonstrates how FII's investments are split across three key areas of promotion-related activity;

a) Use Wood – improving wood's global market position relative to competing products (e.g., concrete and steel). This sets the stage for promoting products specifically from B.C.

b) Buy From B.C. – consistently promoting B.C. as a sustainable and preferred supplier. This sets the stage for promoting specific products.

c) Developing Specific Product and Market Opportunities - for activities delivered with and through industry.

To ensure wood's global market position relative to competing products FII collaborates with a number of organizations in the planning and delivery of activities, such as the Forest Products Association of Canada, Bi-National Softwood Lumber Council, B.C. Forest Sector Climate Change Working Group, Sustainable Building Coalition, and FPInnovations. Through collaboration with these groups, FII creates and disseminates messages highlighting the benefits of wood over other materials based on cost, compliance with building codes, and environmental performance.

It is important to ensure that British Columbia is widely known as a leading global supplier of high quality forest products from sustainably managed forests. Promoting B.C. and its forest sector are central to all of FII's investments, and specific activities will be pursued by FII to continue to differentiate B.C. and its position as a preferred supplier. B.C.-specific messaging is typically delivered through FII's market outreach program, in partnership with other organizations. FII encourages collaboration with and between funding recipients and partners, and makes available all research materials, messaging and information for use by industry in its programs and marketing activities.

FII allocates a comparatively larger proportion of its funding to finding opportunities and creating demand for B.C. forest products. Industry trade associations typically play an important delivery role in many of these market development and market diversification activities, by representing specific industry sectors, products or species of relevance to their member firms.

2. MANDATE AND MISSION

FII's mandate is to:

- position British Columbia as a global supplier of world-class environmentally friendly forest products;
- actively maintain, create and diversify demand for B.C. forest products in Canada and in key world markets;
- help break down non-tariff trade and market barriers to ensure opportunities for B.C. forest products
- work with the forest industry to promote B.C.'s forest products and forest management to the global marketplace; and
- help ensure that the forest sector, through product development and strong international sales, continues to be a leading contributor to the B.C. economy.

FII summarizes its mandate in the following statements about its vision, mission, and values:

VISION
Forestry Innovation Investment is an effective catalyst in positioning British Columbia as the leading global supplier of environmentally superior products from sustainably managed forests.
MISSION
FII's mission is to be an innovative and collaborative forest marketing agency that anticipates and meets the needs of government, the B.C. forest sector, and international markets through well balanced investments that maximize the value to British Columbia.
VALUES
• **Focus on partnerships** – FII works in partnership with key stakeholders to develop initiatives and ensure programs are effectively delivered in a coordinated manner. • **Innovation** – FII encourages innovative programs and responses to changing circumstances. FII staff learn from the past and continuously improve the effectiveness and efficiency of FII programs by consulting widely and optimizing the use of resources. • **Integrity and Credibility –** Projects and services are delivered by capable, motivated

individuals who focus on ensuring FII programs are credible and useful.

- **Investments based on knowledge and excellence** – FII strives for transparent decision-making and investment processes based on research.

3. GUIDING PRINCIPLES FOR INVESTMENTS

With the intent of maximizing economic benefit to the forest sector and the province, the following key principles guide FII's decisions about its own activities and about providing funding to other organizations:.

- **Fact-based market strategies:** Priorities and strategies must be firmly rooted in current, relevant, and comprehensive market information that provides a compelling business case for each market initiative.

- **Generating measured results:** Activities and investments should generate a positive return for the Province of B.C. As a result, FII will continue to give a higher priority to projects that will generate a financial return exceeding the initial investment made to support the initiative. Projects must have well-developed performance measures, detail how the project's results and outcomes are measured, and explain how they relate to overall performance objectives.

- **Balancing short- and long-term investments:** FII must evaluate and demonstrate the results of its investments on an annual basis. As a priority, FII looks for projects that generate the desired impact and return on investment in the short term (i.e., within one year). FII recognizes, however, the need to take a long-term perspective in funding some activities in emerging markets where there is a compelling business case to do so. Whether a short- or longer-term investment, all funding agreements are for a maximum of one fiscal year.

- **Focus on finding and building markets:** The primary focus for FII's investments is on finding opportunities and creating new demand to further diversify and strengthen the B.C. forest sector. Given the higher risk nature of early market development activities, FII provides a higher proportion of its funding for these activities. As market opportunities begin to mature and commercial opportunities become more established, the forest industry is expected to play a greater role in funding activities to maintain these market segments.

- **Supporting growth across the B.C. industry:** Ensuring the overall health of B.C.'s forest economy means that funded activities should benefit as much of the industry as possible. FII seeks to support proposals that encourage growth and market development in terms of:

- Primary and secondary manufacturing including value added products;
- Different producing regions within B.C. that supply a variety of commercial species (e.g., SPF, Hem-Fir, Cedar); and
- A variety of product groupings including solid wood, engineered wood products, panels, value-added, and pulp and paper products.

- **Encouraging collaboration:** FII encourages collaboration and coordination among B.C. firms, trade associations, academic institutions and other eligible applicants. Funding recipients are expected to communicate with each other and, where appropriate, develop partnerships and sharing of information, resources and/or facilities in order to capitalize on related market activities and work with other parties. Higher priority will be given to activities that clearly demonstrate a high degree of stakeholder support and collaboration.

- **Encouraging fresh approaches:** To ensure the best activities are identified for each market, FII encourages industry to bring to bear innovative approaches to help achieve industry priorities.

FII recognizes the increasingly important role wood pellets and wood as a bio-energy product are playing in international markets. Subject to FII's funding criteria, FII would welcome funding proposals focused on pursuing markets for these emerging products from British Columbia.

The pulp and paper sector remains an important and considerable contributor to B.C.'s forest economy. Approximately 40% of every tree harvested in B.C. is manufactured into pulp and paper products which are sold around the world. 85% of fibre for pulp and paper comes from wood chips and residues from the solid wood sector. The health of the whole forest products sector depends on a vibrant market for pulp and paper products to ensure the maximum usage of fibre supply. Thus FII encourages funding proposals that will assist the pulp and paper sector thrive in parallel to the solid-wood sector.

4. STATE OF THE FOREST INDUSTRY

GLOBAL OUTLOOK:

The pace of economic growth was uneven in 2010 with world GDP growth estimated at 5% but renewed fears of a double-dip recession and Euro-zone debt crises. Japan posted good growth in 2010 as did Germany and Canada but the U.K. and U.S. were weaker. Rapid growth in developing economies and increased globalization has changed the patterns of global commodity consumption. This triggered an increase in 2010 across most commodity prices. Metals, minerals and raw materials other than wood all posted strong price gains.

Advanced economies are still struggling with high unemployment and worsening sovereign debt positions. The economic crisis has had little impact in high growth emerging economies such as China and India over the last couple of years, but there are concerns that growth in China is slowing and not all impacts of the crisis can be absorbed by strong domestic consumption.

World growth is expected to be 4.3% in 2011 and 4.5% in 2012[1]. GDP growth in advanced economies is forecast at approximately 2% while developing economies are forecast to grow at 6.6% in 2011.

There was some recovery of global wood products markets in 2010. China, Korea and other emerging economies saw good growth in 2010 and the U.S. and Europe posted modest gains. However the U.S. market remained extremely sluggish and housing starts in the U.S. are not expected to rebound for the next couple of years. The pace of growth has slowed in Europe due to increasing concerns regarding sovereign debt, even as stronger European economies such as Germany continue to work to lift markets there.

Softwood lumber consumption increased in almost all major markets in 2010 but demand has still not returned to pre-crisis levels. Globally softwood lumber consumption increased by 18% in 2010 gaining back some ground lost since 2008.

Demand fundamentals remain strong in China with increasing wealth and urbanization driving wood demand. China surpassed Japan to become the third-largest economy in the world in the last quarter of 2010. There was strong growth for wood products exports from B.C. to China in 2010 with a 75% improvement in softwood lumber exports from B.C. from 2009-10. China now accounts for over 21% of B.C.'s solid wood exports.

China is expected to remain the fastest growing producer and importer of softwood lumber in the world in the next few years. China was the largest market for B.C. softwood lumber ahead of the U.S. for the first time in 2011 on a month by month basis by volume; however it is not clear that this trend will continue as demand may be softening in some parts of the China

[1] Source: IMF World Economic Outlook June 2011

market. Pulp and paper exports also remained strong off the back of good commodity prices with increases of 22% in pulp and 57% in paper exports from B.C. to China in 2010.

In 2010 Canada also regained its place as the second largest supplier for Japan (ahead of Europe). B.C.'s market share in Japan rose to 40%. The Tohoku Earthquake caused major disruption to existing wood product markets there and reduced Japan's domestic panel and wood production capacity in the medium term. Rebuilding efforts have been slow to start in Japan although prospects for B.C. products remain solid and 2010 saw a 5.9% growth in softwood lumber consumption.

Korean demand for softwood lumber shrank in 2010, falling 3% below 2009 levels. However, India's consumption grew by 30% overall although off a very small base (738,000m^3 in 2010). European lumber consumption was up 9.5% but is still well below 2007 consumption levels.

The panel sector was hard hit by the financial crisis and continues to struggle to recover with new regulations on formaldehyde in the US, low demand, and idle capacity in major producing regions. OSB consumption was up slightly from 2009 with a home buying tax credit boosting demand in the US. Japan's OSB consumption was stronger, posting 19.7% growth in 2010.

2010 saw major demand for B.C. Interior species in Asia and this helped to offset the continuing weak demand in the US and Europe. Sales to the U.S. accounted for only 60% of total solid wood shipments in 2010, down 8% from the previous year. Overall B.C. saw a 17% bounce back in exports of softwood lumber (to all markets) in 2010.

Value-added wood product exports were flat or down slightly across all major project categories in 2010. Modest growth in laminated beams and some furniture helped offset weak demand in other sub-sectors.

The mountain-pine beetle epidemic remains a challenge for the B.C. Interior industry. The Ministry of Forests, Lands and Natural Resource Operations estimates the pine-beetle epidemic that began in the mid-1990s, has destroyed a total of 620 million cubic metres of timber. The outbreak has affected an area four times the size of Vancouver Island. International Wood Markets Group released figures suggesting that the pine-beetle epidemic could eventually kill up to one billion cubic metres of lodgepole pine in B.C.

There was some rebounding of operating capacity of mills in the B.C. Interior and on the Coast in 2010 with solid domestic demand in B.C. Solid demand in Asia also saw increases in mill output that helped to strengthen capacity. One major primary producer reopened four mills in 2010 and increased lumber production by 20%.

5. PURSUING GOVERNMENT PRIORITIES

As a B.C. Government Crown Corporation, FII receives virtually all its funding from the B.C. Ministry of Jobs, Tourism and Innovation. Part of FII's funding is used to share the cost of industry led market initiatives (see section 6), and part is used to pursue specific objectives the B.C. Government has set for the sector and for FII. In many cases this is in close cooperation with other ministries and public agencies.

While FII continues to work closely with forest sector organizations on these activities, FII's own staff play a lead role in initiating and managing related projects on behalf of the Province. Where forest sector organizations or research institutes are positioned to support project activities, FII may contract directly with these organizations to assist with or play a role in project implementation. **As a result, projects associated with Government priorities for FII are not covered by FII's annual Call for Proposals funding process.**

For 2012/13, the Provincial Government has set the following priorities for FII to support:

- B.C.'s Wood First Initiative
- Market Advocacy and Research
- Market Communications
    - Mid-rise and non-residential construction
    - Green building and the benefits of wood
    - B.C. forestry and forest products
- Emerging Market Initiatives
- Product Innovation

B.C.'S WOOD FIRST INITIATIVE

The Province's Wood First initiative aims to build on B.C.'s reputation as a global leader in forest product manufacturing and sustainable forest management, by promoting the use of wood products in B.C. The overall goal is to encourage a cultural shift toward viewing wood as the first choice for construction, interior design and daily living, while strengthening B.C.'s traditional lumber, pulp and paper sectors.

Wood is durable, cost-effective and climate friendly. Using more wood will help strengthen the Province's forest-dependent communities and assist in meeting its climate change goals.

The *Wood First Act* received Royal Assent on October 29, 2009. The Act requires wood to be considered as the primary building material in all new publicly-funded buildings, such as schools, libraries or sports complexes

In an average year, the Province funds almost $3 billion worth of such capital investments. Putting a wood first lens on this spending is an effective way to generate demand for wood products, while promoting climate-friendly construction and supporting forest-dependent communities.

The Government is also eager to encourage greater private sector use of wood through public projects and activities to facilitate broader wood use in the province.

In 2011/12 FII assumed lead responsibility for the Wood First Initiative. An independent Wood First Advisory Committee has been formed to guide strategy in B.C. and advise FII on priority areas for the Wood First Initiative. The Committee is made up of representatives from the wood products industry and a wide cross-section of interest groups and wood product end user groups.

Wood First will be managed through separate funding negotiations to create a balanced portfolio of activities that will be delivered through trade associations and related wood interest groups and in part through direct project management by FII. As such proposals for activities in B.C. related to Wood First are not covered in this Investment Strategy and Call for Proposals process.

MARKET ADVOCACY AND RESEARCH

Enabling Access for Wood & British Columbia Forest Products

Environment-driven policies are powerful tools that governments and customers use to require sustainable and socially responsible performance from suppliers. While wood is generally accepted as an inherently ‘green’ product, politicization of the green building movement makes it difficult to leverage wood’s inherent environmental benefits. As such, biased green building policies and rating systems represent a risk to wood products.

Over the past few years, FII has been involved in advocacy and communications efforts related to recognition of wood in the green building movement in North America. While FII funds other organizations to provide technical support for wood use in non-residential applications, FII will continue to work with government partners and industry stakeholders to support research, engagement in the ongoing development of green building codes and systems, and targeted communications of environmental attributes of wood to green building specifier audiences.

Recent and future changes to legislation in the U.S. and Europe, as well as procurement trends in Japan, could impact the demand for B.C. wood products by putting in place prescriptive rules around illegally-sourced timber and certification regimes that do not fairly recognize B.C.’s world-class forest and environmental management policies.

FII will continue to monitor domestic and international developments, and work with government and industry partners to ensure market access and acceptance as it relates to forest management, wood product and building system performance, as well as environmental and social responsibility policy such as illegal timber/due diligence, green procurement policies, bioenergy policies, green building standards/policies, eco-labels, and environmental campaigns.

MARKET COMMUNICATIONS

Promoting British Columbia Forests & Forest Products

While industry associations and companies promote their specific sectors and products, there is a need for communications that position the B.C. forestry sector and its competitive advantages as a whole. Such initiatives support industry products and practices, as well as ensure informed and consistent messaging. This B.C.-specific messaging is delivered through FII's Market Outreach program, in partnership with other B.C. and overseas Canadian trade and forest product organizations, such as Canada Wood Group.

Independent, commercially-neutral promotion of the performance and environmental merits of wood and the B.C. forest sector maintains a base of support that underpins product/market messaging delivered by companies and industry associations. A suite of fact-based communications materials are developed and distributed through traditional and online channels to increase awareness that wood is a preferable building material, and that B.C. forest management practices, manufacturing and building standards are world-class.

Mid-rise and non-residential construction

Architects, engineers and others in the building industry are important customers of the forest products industry. They are key specifiers in selecting the structural systems and finishing products used in buildings considering cost, performance and environmental impact.

In preparation for future market upswings, FII is working with stakeholders to develop comprehensive and targeted tools for key specifier audiences such as architects and regulators to encourage wood use. FII and the Binational Softwood Lumber Council are managing a collaborative North American 'reTHINK WOOD' communications strategy on building with wood to deliver factual and consistent messaging domestically and internationally.

FII is also working to increase North America awareness of British Columbia experience and expertise in mid-rise and non-residential sector development initiatives to maintain B.C.'s position as a North American leader in building with wood.

Green building and the benefits of wood

Wood is one of the most environmentally-friendly materials with which to build and manufacture. It is the only 100% renewable building material, and has a low carbon footprint.

Forecasts show that certified green building space will grow nine-fold globally over the next ten years. Commercial buildings will represent about 80% of space certified under green building programs in 2020. Newly developed programs in China and India are likely to represent about 40% of all certified green construction in 2020 (Pike Research 2010). The U.S. green building market value is expected to grow almost three-fold by 2015, with commercial green building growing 18% annually. This will be driven by growing recognition of green building's potential environmental benefits and cost-savings, as well as government incentives for new and renovated buildings (Environmental Leader Insights 2010).

Existing building projects are expected to grow at even faster rates than new construction. By 2015, the green share of the largest non-residential retrofit and renovation activity will more than triple, growing to 25-33% of the activity by value—a $14-18 billion opportunity in major construction projects alone (US Green Building Council).

There is an opportunity to position wood as a green building product through science-based approaches, such as life cycle assessment (LCA) and carbon sequestration research. FII is working with other government agencies and the forest industry to strengthen the image of wood as the most environmentally-friendly building material.

B.C forestry and forest products

In addition to wood's inherent building performance attributes, customers around the world are looking for assurance that forest products come from sustainably managed forests and that wood can help minimize environmental impacts. According to 2010 customer research, 90% of buyers in North America, Asia and Europe consider environmental and social issues when making purchase decisions. Good relationships and customer confidence in environmental safeguards matter, and on these counts, Canada is held in much higher regard than it was a decade ago. B.C. is now considered a leading region with a strong environmental reputation.

B.C. must continue to stay at the forefront in articulating its world-class forest management standards. B.C. and Canadian producers have an opportunity to competitively position their forest sector reputation by positioning their products as coming from legally logged sources that welcome scrutiny, achieve third-party certification, and do not contribute to deforestation.

Materials available at *www.naturallywood.com* and *www.bcfii.ca* act as a comprehensive resource for B.C. companies faced with marketing and environmental challenges, including providing the facts and research behind the benefits of wood, green building, and using wood to mitigate climate change.

EMERGING MARKET INITIATIVES

A central objective of the FII suite of programs is to find opportunities and generate demand for B.C. forest products, to further diversify and strengthen the B.C. forest sector. To facilitate this, FII has been tasked with conducting research and market exploration activities, to help assess high potential future market opportunities for the sector.

Government has acknowledged that in most cases, the forest industry may be hesitant to invest significant private-sector resources until market opportunities have been identified and fully researched. As a result, FII uses a small portion of its budget to lead these efforts and search for high-potential market opportunities for the sector.

In the preliminary stages, FII will directly look for opportunities and investigate apparent commercial potential. Where an opportunity appears promising, FII may directly undertake activities to introduce B.C. species/forest products to the relevant region. Where possible, FII will work collaboratively with the federal government and/or industry representatives.

When interest and demand start to develop, and a demonstrated commercial opportunity becomes apparent, FII then looks to the industry and its associations to play an increasingly active role in developing commercial opportunities.

For example, in 2011 FII undertook research into the opportunities for B.C. wood products in India. In the 2012/13 Call for Proposals FII will be inviting proposals that seek to address these opportunities. More information on this can be found in section 6.

PRODUCT INNOVATION

Government recognizes that in addition to searching for high potential new markets, there is also considerable potential in developing / evolving/ introducing new products and building systems to expand applications for B.C. wood products.

For example, FII has made targeted investments is in the introduction of Cross Laminated Timber to B.C. A building system now common in Europe, CLT has the potential to displace concrete and steel in larger and more complex residential and non-residential applications in North America. That said, some work is still required to successfully introduce this new building system, and to confirm its performance parameters using B.C. species and products.

FII will be targeting its product innovation funding in a small number of strategic, high potential areas and administering these funds directly. Mid-rise construction, CLT, and innovative heavy timber/hybrid building systems are examples of priority areas for 2012/13. FII will continue to work with research institutes and the industry to identify additional areas to focus its investments. In addition, FII will be engaging with its Wood First Advisory Committee to identify and prioritise product innovation projects.

While FII will administer and strategically direct product innovation funding, actual research activities, testing, and technical outreach activities will typically be done by research institutes, universities, and associations best positioned to do so. FII will continue to contract with these organizations, professional consultants and others directly, to expedite the implementation of high potential new product opportunities in B.C. Product Innovation funding is not available through the 2012/13 Call for Proposals, but FII encourages parties that are interested in this area to contact FII directly.

6. OVERALL BUDGET ALLOCATIONS

For 2012/13 FII anticipates obtaining most, if not all, of its funding from the Ministry of Jobs, Tourism and Innovation. If that funding is the same as in 2011/12, FII expects to allocate the funding to various programs approximately according to the following percentages:

Program Area	**Approximate Budget Allocation by Percent of Total**
Recipient Delivered Market Development Programs	50%
Wood First Program	14%
Sub-total	*64%*
FII Market Outreach and Initiatives	29%
FII Corporate support	7%
Sub-total	*36%*
Total	**100**

7. MARKET DEVELOPMENT PRIORITIES

FII's mandate to promote B.C. forest products in overseas markets requires the organisation to make strategic choices about where the best opportunities exist based on B.C.'s competitive advantage in specific product and species. Given limited resources it is essential to use fact-based analysis to identify the markets where the greatest returns are likely to be captured by the B.C. industry.

Through consultation with Government, funding partners, trade officials, the Canada Wood Group, individual industry associations, forest companies, and independently compiled market data, FII is able to narrow its focus to market and product opportunities that are likely to give B.C. the greatest return over the short, medium and long term. These strategic choices are also informed by a Strategic Advisory Committee made up of forest industry representatives.

8. 2012/13 ANNUAL CALL FOR PROPOSALS:

FII anticipates spending about half of its overall budget to develop specific market priorities, as proposed through FII's annual competitive Call for Proposals process. For 2012/13, the total budget available to funding recipients is expected to be $8.22 million for market development activities.

As identified in Section 4 – Guiding Principles, FII places a relatively higher priority on finding and building markets for B.C. forest products, and expects the forest sector to play an increasing role in maintaining those markets as they demonstrate commercial viability.

On an assumption that FII's overall funding will be similar in 2012/13 as it was in 2011/12, anticipated funding allocations by market for 2012/13 are presented in the following table. FII reserves the right to make adjustments to this information up until the time that FII enters into formal 2012/13 funding agreements.

FII "By-Market" Allocations - 2012/13 ($millions)

MARKET	FINDING/BUILDING NEW MARKETS	MAINTAINING MATURE MARKETS	TOTAL
China	3.28	-	3.28
USA	1.05	0.70	1.75
Japan	1.30	0.40	1.70
Korea	0.68	-	0.68
Canada	0.10	-	0.10
All/Other Markets	0.53	0.18	0.71
TOTALS	**6.93**	**1.28**	**8.22**

Readers will note that market budgets have been further broken down into two main funding categories, "finding/building new markets" and "maintaining mature markets". Budget allocations for each of these two categories have been broken out where relevant – sometimes with both in a single market. For example, in some markets FII views all activities as "finding/building", as the whole region is still a new and developing area for B.C. forest products. In more mature markets, FII recognizes that while the majority of activities in that region are likely to focus on mature segments, a separate budget allocation has been identified for new and emerging market segments available to be developed in that region. For more information on how these funding allocations will impact specific region, please see the more detailed written information on each region below.

Readers who anticipate responding to FII's annual Call for Proposals should note that a detailed description of cost sharing requirements and how to apply these to project proposals are explained in the FII 2012/13 Call for Proposals Application Guide. Proponents are strongly encouraged to thoroughly review the Application Guide prior to preparing funding proposals.

ASIA

Asia remains the primary focus of FII's export development strategy. In Asia the most important markets for B.C. producers are China, Japan and Korea. In 2012/13 FII will be expanding its focus to include early market development work in India. Preliminary work to reinvestigate the potential for B.C. products in Vietnam will also be an FII objective in 2012/13. FII maintains a small investment to investigate pre-commercial, potential niche markets such as Mongolia to identify and position opportunities for B.C. producers.

CHINA

China is FII's top priority market in Asia. In 2011 monthly trade data showed that China officially surpassed the US as B.C.'s largest export market for softwood lumber by volume. Whether this position is maintained in the year-end figures remains to be seen.

In 2010 China also surpassed Japan to be the third largest economy in the world (behind the US and EU). China is expected to remain the fastest growing producer and importer of softwood lumber in the world in the coming years. In 2010 Canada surpassed Russia to take the top spot as the premier supplier of softwood to China. 21% of BC exports are now destined for China. In 2010 softwood lumber exports increased by 75% with panels,, pulp, and paper posting gains of 62%, 59%, and 46% respectively.

Russia remains a strong competitor for B.C. in China especially as it seems that Russia's anticipated entry into the World Trade Organization will trigger reductions in its log export taxes. This likely will lead to increased log imports by China, and hence increased lumber production in China.

The B.C. industry and government have invested significant time and resources in first understanding the potential, then building a strong presence in China.

In 2012/13 FII's subsidiary in China will significantly reduce the extent of its leadership in promoting B.C. forest products, deferring to Canada Wood Group to undertake market research, maintain an evolving strategy, and deliver the market development program. FII China will, however, continue to provide government-to-government relations on an as-needed basis. FII will continue to encourage strategic planning efforts to focus and refine programs in China.

The priority in China is the introduction of wood building systems and structural and appearance grade products to take advantage of high potential construction applications. These include mid-rise and multi-family construction, wood "in-fill" in high rise construction, wood truss roofing, hybrid wood-concrete construction and other high potential structural wood applications. Continued focus on larger developers and builders remains a priority, encouraging further market pull from large Chinese companies as they embrace the benefits of wood frame construction.

In all efforts in China, a continuing focus on training and quality assurance will be critical to effectively introduce wood frame construction technology, and ensure that early wood frame structures are built to acceptable standards. Significant progress has been made in the areas of codes and standards in China. Where gaps in codes and standards remain, FII will support further market access work.

As in all regions, FII places a high degree of importance on market research and fully understanding not only apparent opportunities but also market trends and competitive pressures. Continued market intelligence will form a key element of future project activities.

Even with significant recent growth in sales of B.C. wood products to China, structural applications for wood remain in the early stages of market development. As a result, FII categorizes all activities in China as still “finding/building markets”, and as such those focus areas and cost share ratios will apply to China market proposals.

JAPAN

Japan’s GDP was up by 4% in 2010 and B.C. exports grew by 23% to almost 2.5 million m^3. However demand was severely disrupted by the Tohoku Earthquake in March 2011. This is likely to hold back economic activity for some time. The reconstruction of housing is expected to ramp up in 2012 after key infrastructure is restored. .

Japan remains B.C.’s largest overseas market on a value basis. Maintaining and extending B.C.’s returns from this market remains a high priority for FII. Some segments of the market are considered mature as the B.C. industry has been working to increase penetration for wood products for many years. However some new opportunities remain to be exploited.

Japan is a market where FII is well positioned to help the industry provide consistent, credible messages about the environmental credentials of B.C. forest products. There remains a threat from protectionist policies that favour using domestic rather than imported wood products due to a perception of domestic wood having a lower carbon footprint. FII’s market outreach activity supports the industry by providing science-based information for the industry to use when countering inaccurate assertions, and for asserting B.C.’s reputation for sustainable forest management.

Most market segments in Japan are well developed, and as such are viewed by FII as mature (i.e., residential housing for 2x4 and post-and-beam and related building and value-added products). Activities in these areas will be viewed by FII as maintaining a mature market, and proponents should select the appropriate focus areas and cost-sharing requirements for "maintaining mature markets".

That said, Japan may offer emerging opportunities in the non-residential and institutional sectors that represent new and as yet undeveloped market segments. Where new market segment or niches are identified, FII will entertain funding these new opportunities as "finding / building markets" under the associated cost-sharing rules. Applicants must provide a clear rationale for this in their proposals. Please note that applicants may include both "maintaining mature markets" and "finding /building markets" within a single funding proposal.

SOUTH KOREA

Korea moved from 9th largest to 6th largest market in 2010. The economy was largely able to remain stable despite the global recession. GDP growth is projected at 4.3% in 2011 and 4.8% in 2012. The country remains very dependent on wood product imports (90% of total consumption) due to domestic supply constraints.

Overall construction remains down on previous years in Korea, but single-family home demand has increased year-on year since 2008. This is the segment where wood frame construction has the strongest potential. Pulp imports were the only wood product segment experiencing strong sales growth in 2010, up by 19% on the previous year. All other wood products remained static or dropped slightly.

Russia significantly increased exports to Korea in 2010 and is a strong competitor for B.C. in this market. The US concluded a free trade agreement with Korea in 2011, which could present challenges for B.C. Korea is also negotiating trade agreements with the EU and Canada.

A solid economic outlook and increasing household income are expected to support continued construction activity. However, market access issues related to sound transmission need to be solved if wood products are to make a significant breakthrough in multi-storey housing.

FII's primary focus in Korea is on structural wood products, exterior applications, value-added products, and the emerging demand for wood pellets. FII investments in Korea have leveraged Federal and industry contributions to work on technology transfer, and increase awareness of B.C. products.

Given the relatively early stage of market development in Korea, FII will view Korea for 2012/13 as an emerging Asian market. As a result, funding proposals can be classified as "finding / building markets", and the associated cost sharing requirements will apply.

NORTH AMERICA

The US remains the most important long-term market for B.C. and maintaining market share is critical despite the economic downturn and the continued bleak outlook for housing starts. FII's investment focus is on increasing wood use in commercial, recreational and institutional construction. The non-residential sector represents FII's top priority in North America.

In B.C. the focus has shifted to investing in *Wood First* initiatives that will support growth in the domestic market. *Wood First* investments in B.C. will not be managed through the Call for Proposals, but activities delivered in the rest of Canada will be considered in the Call for Proposals.

UNITED STATES OF AMERICA

High unemployment, low housing starts, and a downgrade in the credit rating all contributed to a continued poor outlook in the US market in 2010/11. Housing starts were 587,000 in 2010 and the high number of foreclosed homes on the market, low prices and tight credit continue to keep new home construction at extremely low levels.

The pace of recovery in the US is likely to remain modest and GDP growth is forecast to be 2.8% in 2011. The passage of the Softwood Lumber Check-Off scheme in 2011 brought some positive news to the industry as that mechanism will generate new revenue for promoting wood use in North America and possibly off-shore.

Pulp imports to the US constituted the only wood products category to post significant growth in 2010, up by 22.2%. Softwood lumber grew very modestly at 3.5% and B.C. actually lost 2.2% market share in softwood lumber exports relative to the rest of Canada's exports to the US in 2010. This was in part driven by high demand from China taking volume that otherwise would have been destined for the U.S.

FII will continue to focus its investments in the U.S. on non-residential construction, and other high potential, growth segments and market niches. FII places a priority on areas where there is potential to grow market share and there is a strong industry commitment to support and co-fund activities.

With the recent launch of the North American 'reTHINK WOOD' communications strategy and campaign aimed at architects and engineers, FII expects that all stakeholders conducting wood and building communications activities in North America will consider and incorporate the focus-group-tested messages into their initiatives.

FII views the residential sector in the United States as a mature market, and related projects and activities should be classified as "maintaining mature markets" in funding proposals. Where applicants propose to find / build new opportunities in the US market, a compelling business case and justification of why it is a “new segment” must be provided in the funding proposal unless the activity relates exclusively to the non-residential sector which is classified as “finding”.

CANADA

FII continues to have a strong interest in promoting the use of BC forest products in Canada. All activities in BC will be managed through the *Wood First Program*; activities *elsewhere in Canada* will be considered in the Call for Proposals.

FII views the residential housing sector in Canada as a mature market, where the industry would support market maintenance activities without the need for FII funding. The focus of any FII funding in the Canadian market will be on finding/building new market segments. Applicants are expected to provide a compelling explanation of how their proposal focuses on a new market segment, with a strong business case for FII funding.

OTHER MARKETS

FII recognizes that identifying new and emerging market opportunities is of ongoing importance – to continue to look towards the future and where future opportunities for B.C. will lie. As current priority markets start to mature and the industry picks up an increasingly active role in their maintenance, it is important to have the next developing markets “in the queue”. While FII tends to initiate early market exploration activities itself, FII is open to funding applicants proposing these activities and leading early market development efforts. In funding applications for market exploration activities, applicants should select the appropriate “finding / building markets” focus areas and apply the associated cost sharing requirements.

FII also recognizes that there are other mature markets and market segments that are important to the industry, beyond the markets identified above. Where a compelling business case exists, FII will entertain funding proposals for “maintaining mature markets’. In funding applications for these mature markets, applicants should select “maintaining mature markets” and apply the associated cost sharing requirements.

India

Since 2005 FII has invested in research in India to identify and quantify opportunities for B.C. products. Demographic indicators in India are showing very positive signs for growth in the demand for wood products. Domestic forest regulations have constrained supply for domestic timber and as such a significant wood import market exists in India. That market is currently dominated by South East Asian hardwoods (Teak and Meranti from Malaysia, Burma, and Indonesia) and South Pacific softwood (Radiata Pine from Australia and New Zealand).

The wood products industry in India continues to be dominated by log imports and primarily focused on hardwoods. However, there are signs that softwood lumber may be able to target certain niche opportunities.

In 2011 FII updated its research in India and identified niche opportunities for B.C. lumber products to target a nascent but fast growing market for middle class, western style products. The research also indicated opportunities to displace some of the mid-level hardwoods with softwood lumber as supply constraints start to limit hardwood imports. There may also be an opportunity to position Coastal or Interior species above Radiata Pine in remanufacturing applications for domestic consumption.

Interest in this market has been growing for some time and FII believes that the time may be right to begin to position B.C. products in this market. Over the last few years trade has been growing rapidly although off a very small base. In 2010 total exports of softwood lumber to India were only 11,707 m^3. However, by September 2011 the year-to-date total was already 44,439 m^3 more than six-fold increase than the same period the previous year.

In 2012/13 FII will be inviting proposals to develop the India market. All activities in this market will be considered “finding/building markets” and the associated cost sharing rules will apply.

9. CONCLUSION – HOW TO USE THIS INVESTMENT STRATEGY

The information included in this document provides an overview of FII's priorities for 2012/13. Clarification is provided on the guiding principles that FII applies to its programs and investments, and where FII anticipates making investments over the coming year. The investment strategy is a key element of FII's Call for Proposals process, providing guidance to industry representatives interested in proposing activities to FII for cost-shared funding.

The Call for Proposals will open in early December 2011. FII will accept and evaluate proposals in line with the market areas identified above. FII also publishes detailed market development strategies, market research and other tools and resources for industry on the "industry resources" section of its website www.bcfii.ca and via its online funding portal www.woodmarketdevelopment.ca.

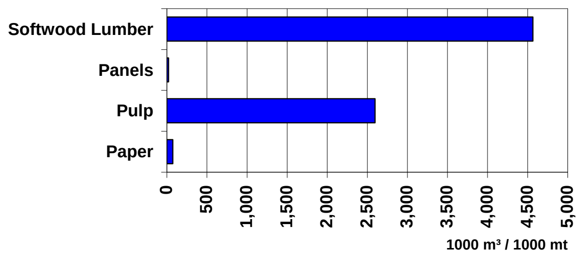
Funding applicants are expected to align market development programs and funding proposals with the priorities identified in this investment strategy if they wish to secure cost-shared funding from FII. Applicants should clearly articulate in their funding proposals how proposed activities fit with the objectives laid out in this strategy. Funding applicants are strongly encouraged to review FII's 2012/13 Call for Proposals Application Guide, and other information provided as a part of the Call for Proposals process. All relevant information can be found at www.bcfii.ca, or by contacting FII.

APPENDIX

STATISTICS FOR KEY MARKETS

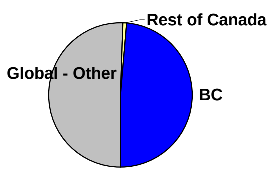
China – 2010 Export Data

2010 BC Exports to China + HK



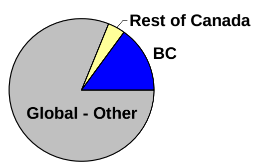
	1000 m³ / 1000 mt	% chg 09-10
Softwood Lumber	4,566	75.5%
Panels	21	62.0%
Pulp	2,597	59.7%
Paper	75	46.8%

2010 China + HK Imports - Softwood Lumber



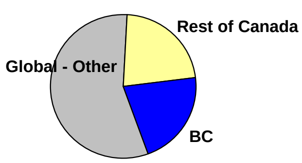
	1000 m³	% share	% chg 09-10
BC	4,566	48.7%	75.5%
Rest of Canada	56	0.6%	91.8%
Canada - Total	4,622	49.3%	75.7%
Global - Other	4,749	50.7%	27.9%
Global - Total	9,371	100.0%	47.7%

2010 China + HK Imports – Chemical Pulp



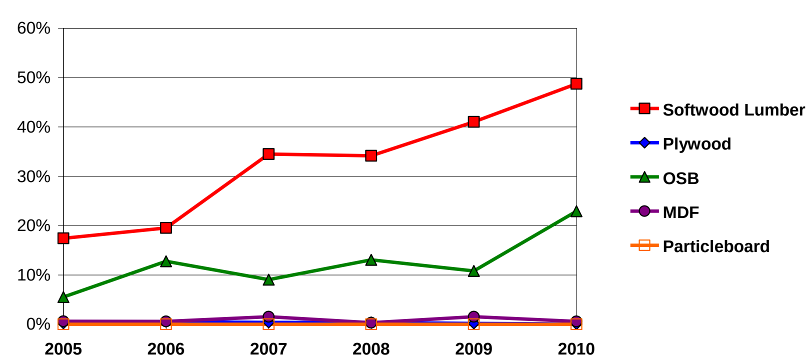
	1000 mt	% share	% chg 09-10
BC	1,486	15.1%	22.3%
Rest of Canada	378	3.8%	-12.0%
Canada - Total	1,864	18.9%	13.4%
Global - Other	8,010	81.1%	-24.4%
Global - Total	9,874	100.0%	-19.4%

2010 China + HK Imports – Newsprint



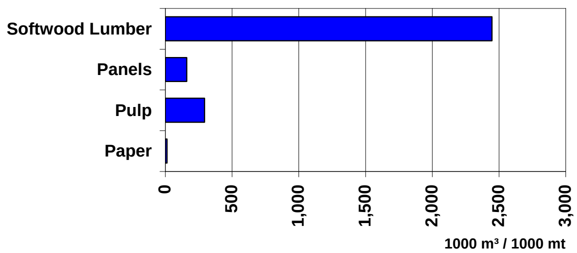
	1000 mt	% share	% chg 09-10
BC	59	21.3%	57.7%
Rest of Canada	62	22.3%	163.9%
Canada - Total	121	43.5%	98.6%
Global - Other	157	56.5%	-15.5%
Global - Total	277	100.0%	12.7%

BC Share in China + HK Imports



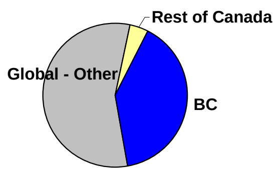
Japan – 2010 Export Data

2010 BC Exports to Japan



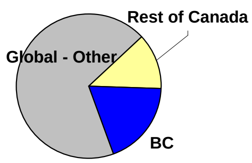
	1000 m³ / 1000 mt	% chg 09-10
Softwood Lumber	2,447	23.2%
Panels	161	15.0%
Pulp	294	10.8%
Paper	13	2.1%

2010 Japan Imports - Softwood Lumber



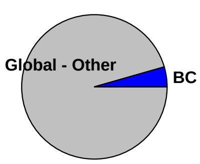
	1000 m³	% share	% chg 09-10
BC	2,447	39.8%	23.2%
Rest of Canada	248	4.0%	38.9%
Canada - Total	2,695	43.8%	24.5%
Global - Other	3,462	56.2%	8.8%
Global - Total	6,157	100.0%	15.1%

2010 Japan Imports – Chemical Pulp



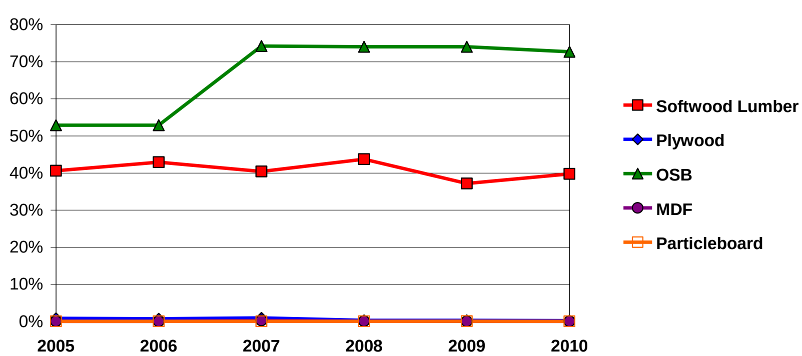
	1000 mt	% share	% chg 09-10
BC	293	18.9%	10.8%
Rest of Canada	193	12.5%	-8.0%
Canada - Total	486	31.3%	2.5%
Global - Other	1,064	68.7%	10.6%
Global - Total	1,550	100.0%	7.9%

2010 Japan Imports – Newsprint



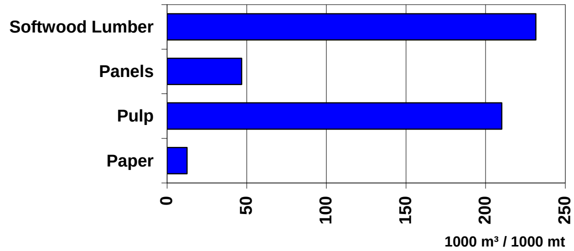
	1000 mt	% share	% chg 09-10
BC	6	4.4%	39.5%
Rest of Canada	-	0.0%	
Canada - Total	6	4.4%	39.5%
Global - Other	132	95.6%	-0.9%
Global - Total	138	100.0%	0.4%

BC Share in Japan Imports



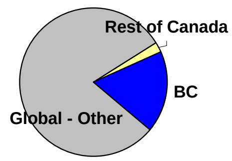
Korea – 2010 Export Data

2010 BC Exports to South Korea



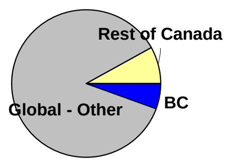
M m³ / M mt	% chg 09-10
232	-0.6%
47	-3.6%
210	19.1%
13	-55.6%

2010 South Korea Imports - Softwood Lumber



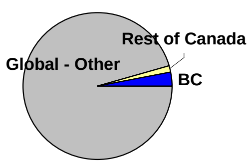
	1000 m³	% share	% chg 09-10
BC	232	17.8%	-0.6%
Rest of Canada	27	2.1%	111.5%
Canada - Total	259	19.9%	5.3%
Global - Other	1,044	80.1%	-5.8%
Global - Total	1,303	100.0%	-3.8%

2010 South Korea Imports – Chemical Pulp



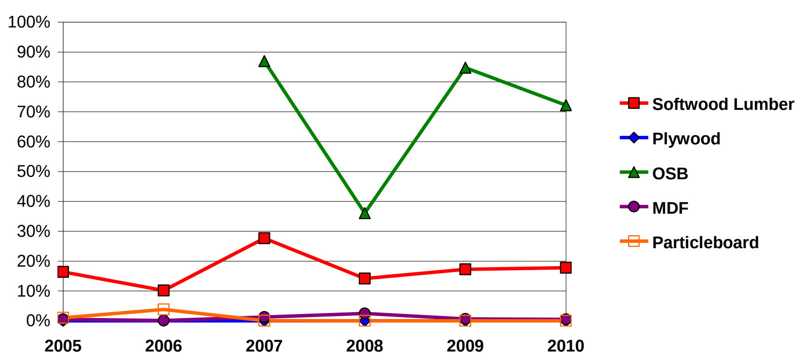
	1000 mt	% share	% chg 09-10
BC	126	5.6%	-10.0%
Rest of Canada	179	7.9%	-12.8%
Canada - Total	304	13.5%	-11.7%
Global - Other	1,952	86.5%	6.9%
Global - Total	2,257	100.0%	3.9%

2010 South Korea Imports – Wrapping & Packaging Paper



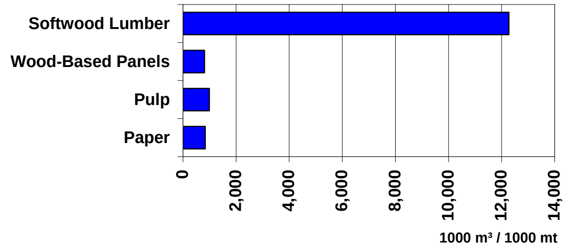
	1000 mt	% share	% chg 09-10
BC	12	3.1%	-56.0%
Rest of Canada	6	1.4%	1598.5%
Canada - Total	18	4.4%	-37.0%
Global - Other	385	95.6%	31.1%
Global - Total	403	100.0%	25.1%

BC Share in Korea Imports



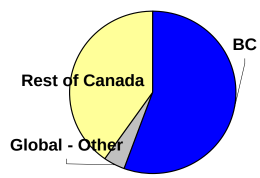
United States – 2010 Export Data

2010 BC Exports to the US



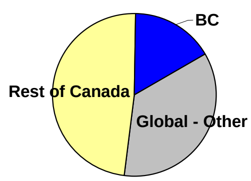
1000 m³ / 1000 mt	% chg 09-10
12,279	3.5%
815	-19.4%
994	22.2%
838	-16.7%

2010 US Imports - Softwood Lumber



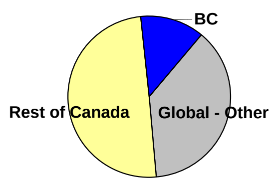
	1000 m³	% share	% chg 09-10
BC	12,279	55.6%	3.5%
Rest of Canada	8,899	40.3%	17.2%
Canada - Total	21,177	95.8%	8.8%
Global - Other	923	4.2%	-24.2%
Global - Total	22,101	100.0%	6.9%

2010 US Imports – Chemical Pulp



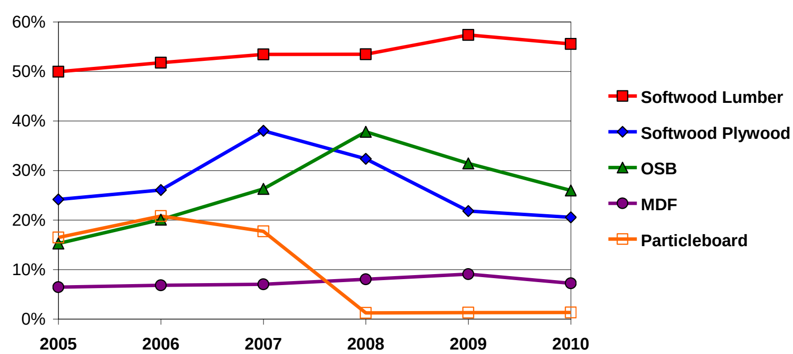
	1000 mt	% share	% chg 09-10
BC	845	16.4%	12.5%
Rest of Canada	2,493	48.4%	14.7%
Canada - Total	3,339	64.8%	14.2%
Global - Other	1,812	35.2%	35.7%
Global - Total	5,151	100.0%	20.9%

2010 US Imports – Printing & Writing Paper



	1000 mt	% share	% chg 09-10
BC	606	12.8%	-11.9%
Rest of Canada	2,356	49.8%	-10.7%
Canada - Total	2,962	62.6%	-10.9%
Global - Other	1,770	37.4%	5.9%
Global - Total	4,732	100.0%	-5.3%

BC Share in US Imports



List of Data Sources

- Annual Trend Data Analysis Report 2011
- B.C. Stats Monthly Trend Data
- Quantifying Market Potential Report Phase II 2010
- Canada Wood Group China Market Development Strategy (2011)
- Japan Market Development Strategy 2009
- Korea Market Development Strategy 2008
- North America Market Development Strategy 2009
- Opportunities for Canadian Forest Products in India 2011
- FII Factsheets available at www.bcfii.ca