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## Organization Overview

On behalf of the B.C. government, Forestry Innovation Investment Ltd. ("FII") invests in public-private activities that provide general benefits to the province's forest sector and increase the value of the public forest resource.

Forest products, including solid wood, panels and value-added wood products, are key to the economic well-being of British Columbians. In 2002, the forest industry represented 7.7 per cent of the total provincial gross domestic product. This rises to 15 per cent when indirect economic activity is included. Currently, 1 in every 5 jobs in B.C. is linked to the forest industry, and many communities and regions depend entirely on forestry.

The forest sector is the province's largest source of export sales, and B.C. exports more forest products than any other single jurisdiction in the world. As a result, the industry is particularly susceptible to global competition, changes in economic conditions around the world and potential market boycotts. The sector is also affected by new technology and changes in the demand for forest products.

### In 2003/04, FII activities included:

- developing new and existing markets for B.C. forest products;
- maintaining B.C.'s position in existing markets;
- developing and testing new wood products, manufacturing processes and applications;
- conducting research and extending knowledge to improve operational practices and policy to increase the value of B.C.'s forest land asset; and
- extending information to domestic and international consumers and markets to enhance the reputation of B.C.'s sustainable forest practices.

FII delivered these activities through 5 program areas:

- Product Development – providing support to develop and test new wood products, manufacturing processes and applications, and to remove technical and market barriers.
- International Marketing – working with industry and other levels of government to maintain or increase B.C.'s market share in existing markets such as the United States and Japan, and to develop emerging markets such as China and Korea.
- China Operations – demonstrating B.C.'s ability to supply wood products for the fast-growing Chinese housing market, and promoting wood product use in construction through the Dream Home China project and other activities in China.
- BC Market Outreach Network – enhancing the reputation of B.C.'s forest products and its sustainable forest practices by providing information to domestic and international consumers and markets.
- Research – working with industry, institutions and government to maintain B.C.'s high standards for productivity, environmental stewardship and sustainable forest management practices through applied, results-oriented research.



FII was incorporated under the Company Act of British Columbia (which now continues as the Business Corporations Act) on March 31, 2003. The Province of British Columbia, represented by the Minister of Forests, is FII's sole shareholder, and the company is managed through a board of directors.

In order to carry out business in the People's Republic of China ("PRC"), FII was required under PRC law to establish a wholly-owned subsidiary company, FII Consulting (Shanghai) Co., Ltd., ("FII Shanghai") to manage its Dream Home China project and other activities in China. FII Shanghai was approved by the Chinese government and received a business licence on Feb. 23, 2004, but did not start operating until April 1, 2004.

FII is funded through an agreement with the Minister of Forests and by an appropriation provided to its programs through the annual estimates process under the Forest Investment Account vote. FII operates 1 year at a time, with each year's funding contingent on the vote in the legislature. Funding for international marketing activities is part of the New Era commitment to apply 1 per cent of all direct forest revenues, not including super stumpage, to global marketing of B.C.'s forest practices and products.

FII is committed to achieving a high standard of organizational performance and its corporate support services, including financial, performance and human resource management, are set up to ensure it is an efficient and effective organization. It is a streamlined, results-oriented organization with processes in place to maintain a high level of public accountability and to maximize the return on investment of public funds. FII is located at 1200-1130 West Pender Street, Vancouver, British Columbia, and FII Shanghai is located in Shanghai.

## Forestry Innovation Investment Ltd.

### Vision

A B.C. forest sector that is built on a foundation of sustainable forest management, that is leading edge, globally competitive and provides a sustainable flow of economic benefits to communities and the Province of British Columbia.

### Mission

To be an innovative and highly efficient model for the delivery of forest sector programming, in collaboration with government and industry, that contributes to the global competitiveness and enhances the reputation of the B.C. forest industry and sustainability of B.C. forests through strategic investments in applied research, product development and international marketing.

## Governance Values

Forestry Innovation Investment Ltd. is committed to the following principles to guide its activities and delivery of services:

**Accountability** – Establishing structures and processes, setting performance-based standards and measures, and implementing compliance monitoring, auditing and reporting to enable and demonstrate cost-effective progress towards FII goals and objectives.

**Competitiveness and Innovation** – Ensuring that British Columbia remains internationally competitive by improving the value derived from B.C.'s forest land asset. This involves investments that encourage innovative approaches, technologies and skills and improve manufacturing processes and products, as well as marketing and communication activities to increase B.C.'s market share in both new and existing markets.

**Continuous improvement** – Learning from the past and improving the effectiveness and efficiency of FII programs, by optimizing the use of resources by recipients and FII.

**Knowledge-based decision-making** – Making informed decisions built on current, accurate market-based information and risk assessment.

**Transparency** – Establishing open and understandable decision-making and investment processes, and ensuring that FII policies on competitive tendering are applied, and regular performance reporting is conducted.

**Positive Return on Investment** – Ensuring that FII investments optimize the return to British Columbia. This requires that an appropriate balance between short-term and longer-term returns is achieved.

**Working in Partnership** – Working in partnership with internationally recognized associations to ensure that FII services and functions can be efficiently delivered in a coordinated manner and to ensure that funds are used to address priority issues and needs of the forest sector.



## Message from the Chair

Forestry Innovation Investment Ltd. has the responsibility to work in step with its forest sector partners to maintain and build strong markets for British Columbia's highly respected forest industry and forest products. FII is instrumental in providing B.C. with a clearer view of what is happening in global markets for forest products, identifying opportunities and working with industry to act on this knowledge.

In 2003/04, FII supported activities to explore opportunities in new markets, and make sure existing markets recognize the diversity and quality of B.C. forest products. Some projects developed new products and processes to keep B.C. competitive and to draw the highest value from our public forest resource. Others made sure B.C. products were accepted under new international building codes and standards, and that buyers could assure customers that B.C.'s products and practices are among the most environmentally sound on earth.

**FII's work in 2003/04 supported 2 New Era commitments.**

- It applied 1 per cent of all direct forest revenues, not including super stumpage, to market B.C. forest practices and products globally. It did this in partnership with industry and the federal government, building market knowledge together to identify the best investment opportunities.
- The second commitment, to invest in research to promote forest stewardship, was delivered through FII's research and product development activities. Effective April 1, 2004, the Research Program will transfer to a new administrator so FII can focus on its international marketing and product development activities.

FII and its partners met or exceeded most of its international marketing and product development performance targets set for 2003/04. It achieved these results in a fully open and accountable manner that assures British Columbians they are receiving full value for their investments.

FII is a vital window on the world for a province whose forest economy relies on international markets. In 2004/05, it will continue to bring together sector partners so B.C. forest products can remain competitive in what is becoming an increasingly competitive global market.

I am proud of FII's achievements during this first year of operations, particularly with respect to establishing a meaningful presence in China through its Dream Home China project and in providing the world with a positive image of B.C. forest practices through the BC Market Outreach Network.

**Doug Konkin**

## Message from the CEO

B.C. holds a strong position in the global market. We provide diverse, high-quality products, our forest management practices are among the best on earth, and our industry partners are international leaders. However, the global market for forest products is more competitive and more complicated than ever before. The B.C. forest sector constantly faces significant challenges and, as a result, must continue to seek new opportunities.

Forestry Innovation Investment Ltd. is a streamlined, results-based organization that works with sector partners to meet these challenges head-on by embracing opportunities and responding to issues to help maintain and strengthen B.C.'s forest economy.

While it began 2003/04 with a new business structure, FII's strategic program objectives, corporate goals and commitment to public accountability did not change substantially. We also continue to place a high value on our close working relationship with the B.C. forest industry, industry associations and other sector partners.

### FII's achievements in 2003/04 included:

- Launching the first phase of Dream Home China, with a ground-breaking ceremony in Shanghai, creation of FII Shanghai (Consulting) Ltd., Co. ("FII Shanghai"), and the signing of a contract with a leading Shanghai developer, all with respect to building a demonstration centre and show homes to promote B.C. wood products and construction techniques.
- Funding 35 international marketing and product development projects to strengthen B.C.'s global competitiveness and 93 research projects to increase scientific knowledge of our public forest land asset.
- Attending key trade shows and distributing forest facts so international customers understand that B.C.'s forest practices and products are among the best on earth, with forest information and forest products websites that offer easy access to this information in a number of languages.

FII has taken special care in its approach to doing business in the People's Republic of China, a country that offers tremendous opportunities for B.C. forest products as well as tremendous challenges. In 2003/04, FII worked with legal and business specialists in the PRC and in Canada to ensure that our China Operations meet all of the legal requirements in the PRC while protecting B.C.'s business investment. As required under PRC law, FII created FII Shanghai, a wholly owned subsidiary in China, to manage and deliver its Dream Home China project.

We are entering our second year confident that we are supporting both the right activities and receiving the best results. Through 2004/05, we will continue to apply the lessons FII and its partners have learned through the first year of operations, and will continue with a strong control framework incorporating monitoring and audits in all program areas.



Christine Kennedy

## Accountability statement

The 2003/04 Forestry Innovation Investment Ltd. Annual Report was prepared under our direction in accordance with the Budget Transparency and Accountability Act. We are accountable for the contents of the report, including the selection of performance measures and the reported results.

All significant decisions, events and identified risks, as of March 31, 2004, have been considered in preparing the report.

**Doug Konkin, Chair**  
Forestry Innovation Investment Ltd.



**Christine Kennedy, President and CEO**  
Forestry Innovation Investment Ltd.



## The Year in Review

### Creating a new investment model

Forestry Innovation Investment Ltd. ("FII") was incorporated on March 31, 2003, to invest in innovative forestry programs on behalf of the B.C. government. A previous model had been created in the fall of 2001 and introduced effective April 1, 2002, as 1 of 3 programs in the Forest Investment Account, with Forintek Canada Corp. ("Forintek") chosen as its administrator through a competitive request for proposals.

Effective April 1, 2003, FII, the province and Forintek entered into a transitional agreement to ensure the appropriate cut-off of transactions, and the transfer of assets, respective indemnities and responsibilities. Throughout the transition, FII continued to address operational issues. It also used the transition as an opportunity to revise its procedures and policies to reflect lessons learned from its internal audit program with respect to recipient monitoring.

As a separate legal entity, FII continues to be a results-based organization that balances an operational focus with a sound business environment and high level of public accountability.



Premier Gordon Campbell and Yang Xiao Ming, president of the Jinqiao Group, took part in the ground-breaking ceremony for Dream Home China's Presentation Centre in November 2003.



## Conducting business in China

As required under Chinese law, and in order to carry on business in the People's Republic of China ("PRC"), FII created a wholly-owned subsidiary company in the PRC – FII Consulting (Shanghai) Co., Ltd. ("FII Shanghai") – to establish its Dream Home China project in Shanghai. FII hired legal counsel and financial advisors in the PRC to ensure FII Shanghai was established in compliance with Chinese laws.

FII Shanghai was approved by the Chinese government and received a business licence on Feb. 23, 2004. The subsidiary's key activity is the management and delivery of the Dream Home China project, an FII-industry partnership that will bring a focused strategy to B.C.'s market development activities in China and lead to the construction of wood-frame demonstration structures in Shanghai.

Premier Gordon Campbell announced Dream Home China on April 17, 2003 and attended a ground-breaking ceremony for the project's Demonstration Centre a little more than 6 months later – on November 4. On March 20, 2004, FII signed a Dream Home China agreement with the Jinqiao Group, a leading Shanghai developer. The agreement is the first of its kind for B.C. in the PRC, and contains comprehensive provisions to protect B.C.'s investment from risks ranging from cost overruns to failure to secure appropriate permits and approvals.

FII has developed a comprehensive financial and human resources policy and operational procedures manual to guide its China operations. FII Shanghai has adopted FII policies, with additional policies that are specific to the business operations in the PRC and address risks inherent in operating overseas, and has retained spending authority in B.C. for all non-cash transactions. Cash transactions are subject to internal audit procedures as well as to close scrutiny when reimbursements are made.

## Protecting B.C.'s investment

FII maintained the high level of accountability built into the original investment model, and strengthened it in the 2003/04 fiscal year. FII conducted a comprehensive risk assessment of all aspects of its operations, with particular emphasis on its operations in the PRC.

FII entered into its Dream Home China project with the clear understanding that while China offers substantial market potential for B.C. forest products, it also presents unique challenges related to carrying out business overseas, which demands careful attention to reduce risk and protect B.C.'s investment. FII developed a preliminary risk assessment for Dream Home China in 2003/04, and implemented financial controls involving the Shanghai office of KPMG, an international firm of chartered accountants. An audit of internal controls and expenditures was in progress as the fiscal year ended.

FII's monitoring and auditing of its International Marketing, Product Development and Research programs are providing assurance that recipients are delivering expected results and that potential risks are being addressed. FII also conducted a risk assessment in 2003/04 for its other new program, the BC Market Outreach Network, as well as for its corporate activities.

## Strengthening markets together

In 2003/04, FII invested \$8.2 million in 35 International Marketing and Product Development projects selected through a competitive request for proposals. Contributions from industry and the federal government increased the total value of the projects to more than \$18 million, with benefits for both primary and secondary manufacturing sectors across B.C.

FII prepared an investment strategy to determine the best mix for its project funding. It supports activities that maintain or increase existing markets and identify opportunities in emerging markets. In 2003/04, 51.4 per cent of the FII funding involved existing markets and 48.6 per cent explored opportunities to diversify into new markets.

International marketing achievements included promotions to show audiences in North American and overseas markets that B.C. wood is an effective, cost-efficient, safe and environmentally friendly building and finishing product. Industry associations, funded by FII, conducted activities in the U.S., Japan, Europe, China, Taiwan, South Korea and Australia that explored market potential and targeted important decision makers, such as builders, architects and building officials through technical seminars, promotional materials and trade show attendance. Project results showed an increase in inquiries and customer interest, and improved market and product knowledge as a result of these marketing activities.

## Breaking through market barriers

FII's product development investments in 2003/04 opened doors for B.C. wood products in the European and Asian markets. FII supported projects to help develop codes and standards in support of wood-frame construction and B.C. wood products in a number of jurisdictions, including:

- new fire code provisions in Japan;
- wood-frame construction and fire protection standards in Korea; and
- new building codes for wood-frame construction in China and Taiwan that recognize B.C. products and grades.

Once codes are in place, FII's partners actively promote the value of B.C. wood products in these markets, and help develop manuals and training materials. The Council of Forest Industries ("COFI") recently completed a guide to good practices in wood-frame construction, which is intended to become a mainstream manual for use by builders, designers and regulators in China.

The Canadian Plywood Association ("CANPLY") developed a system that allowed B.C. plywood mills to conform to CE marking requirements that became mandatory in the European Union in April 2004. This protected a market valued at about \$2.5 million a year for structural plywood applications.



## Supporting forest science research

In 2003/04, FII invested \$9.7 million in 93 competitively awarded research projects. Contributions from project organizations and partners increased the value of projects supported to more than \$16 million.

The investments allowed institutions, government departments, private industry and other organizations to conduct forest-related research projects on subjects ranging from silvicultural systems to mountain caribou habitat. FII continued to support extension activities to ensure that investments through the Research Program were made available to end-users including planners, resource managers, forest practitioners, researchers and decision-makers.

During the 2003/04 fiscal year, it was announced that alternate program delivery options for the Research Program would be investigated for subsequent years to allow FII to focus on its international marketing and product development expertise. In October 2003, PricewaterhouseCoopers ("PwC") was selected through a competitive process to take on administration of the new Forest Science Program for the 2004/05 funding period.

FII staff provided information and worked with the Ministry of Forests and PwC during initiation of the 2004/05 funding period. FII remains responsible for the 2003/04 projects through to June 2004, and is maintaining a high level of accountability for these investments through risk assessment, monitoring, site visits and auditing. FII has also started a program evaluation to assess and report on significant results from investments made through the Research Program from 2002 to 2004.

## Taking the message to international customers

The BC Market Outreach Network unveiled an innovative, multilingual trade show booth early in the fiscal year, and by the end of March 2004 it had been to 6 international shows, allowing staff to make direct contact with close to 10,000 people. A survey of visitors leaving the booth at the International Builders' Show in Las Vegas found they considered the information relevant and felt it had improved their impression of B.C. forest practices.

As well as raising the profile of B.C.'s forest practices, the BC Market Outreach Network has played an important role in procurement and advocacy issues. In June, staff worked closely with the Canadian Consulate and Forest Products Association of Canada ("FPAC") to convince a California senate committee to redraft a procurement bill that could have affected a \$950-million market for B.C. forest products.

At the Japan Home Show in Tokyo in November, Japanese customers sought out Network staff for answers and background information before meeting with organizations calling for a boycott of B.C. forest products. Two months later, Network staff updated customers and media attending WoodBuild China about issues related to the Central Coast land and resource management planning process.

## Communicating on-line

One of the most cost effective and flexible ways to provide information to international audiences is through the Internet, so FII has worked with sector partners to create 3 multilingual program websites in addition to its own site. All 3 program sites were launched in spring 2003, and the number of visitors has been steadily increasing since.

The BC Market Outreach Network's website, [www.bcforestinformation.com](http://www.bcforestinformation.com), promotes B.C.'s forests and forest practices in English, German and Japanese, and responds to issues in a timely fashion. In its first year, it drew more than 50,000 visitors, most of them from outside Canada.

FII's forest products site, [www.bcforestproducts.com](http://www.bcforestproducts.com), was designed with the help of industry associations. It provides information in 6 languages on British Columbia's forest sector, its products and their applications, with links to technical sites, association home pages and forest producers. In its first year, it drew more than 20,000 visitors, most from outside Canada.

Dream Home China keeps partners and customers informed about the project and related activities through its website, [www.dreamhomechina.com](http://www.dreamhomechina.com), which is available in English and Mandarin.

## FII's financial year in review

For the year ended March 31, 2004, FII reported expenditures of \$26.5 million, and incurred a further \$3.1 million in capitalized costs, for a total spending of \$29.6 million out of the budget of \$31 million.

The capitalized amount consists of:

- \$1.6 million to its wholly owned subsidiary company, FII Consulting (Shanghai) Co., Ltd. as registered capital which is fully committed as prepaid lease costs for a demonstration centre and villas in Shanghai;
- \$0.7 million of development costs for the Dream Home China project;
- unamortized costs of \$0.8 million relating to the acquisition of various assets such as website development and the creation and production of trade show booths.

The financial statements show that in the program areas, FII spent as follows (exclusive of any capitalized costs incurred for each program):

- \$10.1 million in International Marketing out of the budget of \$13.2 million
- \$4.5 million in Product Development out of the budget of \$5.0 million
- \$10.6 million in Research out of the budget of \$11.5 million; and
- \$1.27 million in Administration out of the budget of \$1.33 million.

In accordance with the agreement with the Province, FII will repay \$1.2 million as the excess of funds received (\$30.6 million) over the costs incurred during the year (\$29.6 million - including those capitalized), and taking into account interest earned on funds advanced (\$0.2 million).

# Report on Performance

## a. Forestry Innovation Investment Ltd. overall strategy

FII has adopted a number of principles to help guide its funding decisions. For example, it supports only investments undertaken on behalf of all British Columbians; it does not provide business subsidies. In many cases, its activities involve public-private partnerships with industry and cost-sharing with other levels of government.

FII prepares an annual investment strategy to guide its investment decisions, and bases this evolving strategy on its experience from previous years, information and knowledge developed about global forest markets and with input and guidance from the forest industry, forest sector partners and many other sources.

FII is an annually funded program so it must be able to evaluate the results of every investment each year. As a result, project funding is provided for only 1 year, and proponents must submit an annual proposal with project goals and objectives defined for 1 year.

Project proposals are requested through a public tendering process open to industry associations, research institutes, academic institutions and B.C. government ministries. Proposals are evaluated thoroughly by a team with some members independent of FII. A detailed description of the funding process is available on FII's website at [www.bcfii.ca](http://www.bcfii.ca). In addition, FII manages the delivery of several projects in accordance with the investment strategy.

## b. FII goals

FII set the following 5 goals through a strategic planning process before the start of the 2003/04 fiscal year – 4 support external services and the fifth addresses effective governance of all program activities.

- Goal 1** The International Marketing, Product Development and China Operations programs contribute to the development of a robust and globally competitive forest industry by developing new products, promoting new and existing products, maintaining and growing existing markets, and aggressively pursuing new and emerging markets.
- Goal 2** The BC Market Outreach Network enhances B.C.'s reputation as a leader in sustainable forest management.
- Goal 3** The Research Program supports applied research and extension activities to increase the value of timber and the forest land asset, and contribute to sector competitiveness by supporting innovative, focused and results-oriented research which is used by regulators and forest practitioners.
- Goal 4** Through all its programs and activities, FII encourages increased partner and stakeholder participation and coordination.
- Goal 5** FII ensures continuous improvement through sound governance, streamlined operations, and effective administration.

## c. Challenges

The forest sector in B.C. continues to face uncertainty and rapid change in the global environment, and significant policy changes within B.C. Many of the challenges and issues that affect the B.C. forest sector will have an impact on FII.

B.C.'s forest economy depends on international markets. As 95 per cent of B.C. exports go to either the United States or Japan, the ongoing trade dispute with the U.S. and an economic slowdown in Japan have had significant impacts. The stronger Canadian dollar and a wide range of other global factors also affect B.C.'s international competitiveness.

The international market place for forest products has become more challenging, with aggressive and cost-effective competitors selling products that are the same or similar to those from B.C. What was once a commodity business is becoming more complex with a mix of commodity and value-added opportunities and threats.

The world's supply of wood has increased due largely to new investments, especially in eastern and central Europe and Russia, and developments with plantation-grown timber and wood products.

FII, in partnership with industry, needs to be alert to market issues and customer perceptions, and to provide appropriate information promptly to mitigate any customer concerns. This can range from assuring markets that B.C. will continue to provide a secure supply of high-quality forest products despite the mountain pine beetle infestation and recent wildfires, or making customers aware that B.C. wood is an excellent construction choice for a safe, healthy home in any climate. It needs to respond to questions about B.C.'s environmental track record as it pertains to forest management and to marketing campaigns that fail to acknowledge the province's world-leading forest management.

In addition to these overriding issues, funding recipients reported challenges in the 2003/04 fiscal year that in some cases limited their ability to achieve stated targets. These ranged from international travel difficulties, as a result of SARS, Avian flu and security issues, to a coastal forest industry strike and constrained access to research field sites due to fire bans.

FII investments will improve access to new and existing markets and help to increase the sale of B.C. forest products, but it is also recognized that overall performance will continue to be influenced by broader economic, political and other market forces such as currency exchange rates.

## Risks and capacity issues

FII was incorporated on March 31, 2003, but did not have a formally approved structure to begin operation until May 26, which delayed funding to recipients and in some cases had a slight impact on 2003/04 results.

FII is a streamlined operation with a small number of staff who work with many sector partners in B.C. and around the world. It is important to ensure activities delivered through these formal and informal relationships are well managed and provide the best value to B.C.

FII is working in an international environment where change is constant, and it must be prepared to adjust or change its priorities as a result of external influences. It must monitor, respond rapidly and manage issues across the sector and around the world.

While FII, as a corporation, relies on annual renewals of its contract with government to extend its existence each year, it received government approval to enter into a long-term commitment for the Dream Home China project, to ensure that the fullest value can be achieved for B.C. in the fast-growing PRC market.

## Performance measurement

While FII has advanced a results-based approach to business since its inception, it is only in the last year that the agency has come under the authority of the Budget Transparency and Accountability Act ("BTAA"). FII's first service plan was released in 2004 and provides guidance for the 2004/05 fiscal year. Consequently, there is no formal government-approved service plan against which to report results for 2003/04. In this report, FII is reporting on achievements in relation to its internal goals and objectives.

Over the last year, FII has continued to strengthen performance monitoring and reporting at the recipient level and it has continued to develop strategies and processes and collect the market information required to establish credible outcome measures for all program areas. FII has also devoted considerable effort to auditing and monitoring to validate recipient performance measures and supporting systems.

In this annual report, performance measures and targets are more focused on output-level indicators and are derived from data collected directly by FII or data that has been verified by FII through audit and monitoring activities. Its targets and measures for 2003/04 reflect the fact that programs were in their early stages. This annual report, therefore, reports on the extent to which FII has been able to establish a sound foundation for establishing longer-term, challenging targets and achieving objectives and goals.



# REPORT ON 2003/04 PERFORMANCE

## a. International Marketing and Product Development

### i. Investment strategy

FII used knowledge gained through market research to prepare an investment strategy in January 2003 that identifies priority markets and guiding principles. FII used this strategy to guide its funding decisions for 2003/04, and to ensure proponents are aware of FII's priorities when they prepare their proposals. The strategy establishes a balance between emerging and existing market activities, and between knowledge building and direct market activities. Funding also benefits both primary and secondary manufacturing sectors across B.C.

FII conducted market research and intelligence activities in priority market areas in 2003/04, with work completed in China, India, Korea, Taiwan, Japan and potential new markets in Central and South America. FII's market information forms a basis for ongoing market strategy development, and will guide future FII investment decisions.

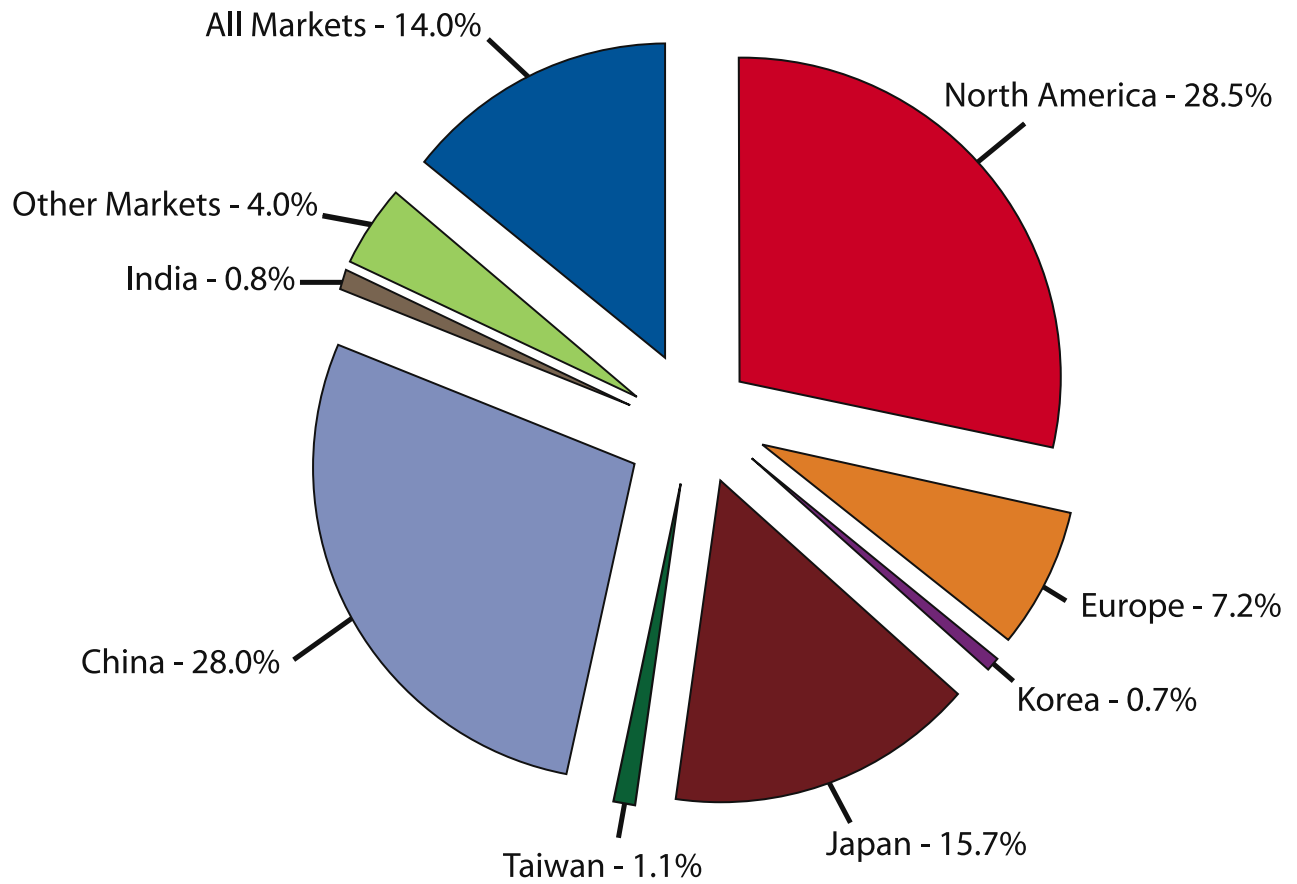
In November 2003, FII released a new investment strategy as part of its competitive call-for-proposals process for 2004/05. As a result of market research activities, FII updated its investment strategy and refined the number of priority markets for its 2004/05 period.

### ii. Summary of 2003/04 results

In 2003/04, FII invested \$8.2 million in 35 projects, and conducted a number of activities directly, including a products website, [www.bcforestproducts.com](http://www.bcforestproducts.com), other marketing materials and market research reports.

FII's International Marketing and Product Development activities are closely aligned with the goal of contributing to the development of a robust and globally competitive forest industry by developing new products, promoting new and existing products, maintaining and growing existing markets and aggressively pursuing new and emerging markets.

Figure 1: Investments by Markets



### iii. Preparation for 2004/05 project awards.

In December, FII launched its competitive funding cycle for 2004/05 International Marketing and Product Development projects. The evaluation committee examined 50 proposals, and those recommended for funding will receive recipient agreements early in the new fiscal year.

Once again, the B.C. Purchasing Commission participated in the evaluation committee as a process observer, and confirmed that it was completed in a fair and equitable fashion, consistent with B.C. government procurement practices.

### iv. Detailed results

#### a. Existing markets

##### North America

In 2003, B.C. exported \$12.9 billion worth of forest products, and roughly three quarters went to U.S. markets. B.C. has a long and established trading relationship with the U.S., which will continue to be a priority market in spite of issues such as the softwood trade dispute. FII projects in the U.S. and domestic markets showed builders and consumers that wood is a high-quality construction product and the best environmental choice. Further opportunities for value-added products were also explored. In 2003/04, projects included:

- The Wood Promotion Network ("WPN") and the Western Red Cedar Lumber Association ("WRCLA") raised awareness of the benefits of wood, reaching out to consumers, builders, architects, retailers and distributors. WPN responded to anti-wood campaigns by circulating a column by Dr. Patrick Moore, co-founder of Greenpeace, to thousands of small market newspapers in Canada and the U.S., resulting in close to 500 media placements.
- Forintek, in partnership with the University College of the Cariboo, delivered a technology transfer program that provided hundreds of B.C. wood product manufacturers with access to information and expertise to increase productivity, reduce production costs and diversify product lines. The preliminary conclusions of an independent evaluation found that every dollar FII invested generated an impact of \$2.11 and that the total cumulative impact over a 5-year period would be valued at \$5.75. The evaluation also identified a number of opportunities to strengthen the program, which will be implemented during 2004/05.
- Canadian Forest Products Ltd., Research and Development Centre, confirmed that subalpine fir is suitable for high-valued use in treated decking, exterior cladding and permanent wood foundations, and also has excellent durability and could be used in polymer-treated SPF flooring. It was also concluded that the use of the butt joint technology for non-structural laminated SPF products was feasible, and the resulting material can offer improved dimensional stability over solid sawn products, as well as reduce the amount of fibre used. As with all FII funded projects, the full research results will be made available to the B.C. forest industry.



- Forintek completed the second year of a project designed to identify furniture and interior finish opportunities in the U.S. for lesser-used B.C. wood species such as western larch, western hemlock, broad leaf maple, aspen and white birch. The project has confirmed that there are markets for high-value applications such as furniture, cabinet doors and flooring.
- The Canadian Wood Council continued to promote the structural and architectural use of wood in non-industrial construction through BC Wood WORKS!, and began to address technical and code issues to promote the use of wood in facilities for the 2010 Winter Olympics.
- CANPLY pursued opportunities for B.C. plywood, the Wood Panel Bureau ("WPB") raised appreciation for B.C. composite panel products, and the BC Wood Specialties Group ("B C Wood") promoted value-added products and pursued niche market opportunities in the United States.

## Japan

Japan, which represents the most significant export market for B.C. forest products outside of North America, has gone through a number of recessions in the past decade. It, however, continues to lead the world in per capita use of wood products. It is a demanding market and the Japanese are willing to pay premium prices for high-quality products, which creates opportunities for B.C.'s well-established market in Japan. FII projects included work with Japanese officials to ensure B.C. products are accepted under Japanese building codes standards, and to raise awareness of the benefits of B.C. wood products. In 2003/04, projects included:

- COFI achieved a milestone in its work to show Japanese officials how well wood with stands fire, when Japan approved the use of wood in the construction of staircases, floors, walls and roofs in low-rise buildings.
- CANPLY reinforced with architects, specifiers, builders and other customers the quality, health and environmental benefits of B.C. plywood in all applications, including day care centres or facilities for seniors.
- BC Wood completed research studies, including one on the benefits of western red cedar for healthy houses, and conducted a range of promotional activities.
- The Engineered Wood Association ("APA") ensured B.C. oriented strandboard and glue-laminated timber mills were recognized under a new Japanese law and had formaldehyde emission labelling. It produced promotional materials for distribution at trade shows and carried out targeted mail campaigns.
- The Coast Forest and Lumber Association ("CFLA") continued to promote hemlock under the Canada Tsuga brand name, raising the profile of both the product and its attributes.
- The WPB provided technical information about B.C. oriented strandboard in Japanese and took steps to ensure B.C. wood panel products continued to be accepted after changes were made to the building code.
- The SPF Group continued to promote the benefits of two-by-four and truss construction through 25 technical seminars and a range of promotional activities.

## Europe/Australia/New Zealand

The European Union and Australia/New Zealand are small but important niche markets for B.C. forest products. FII's focus is on areas where B.C. could have a competitive advantage in spite of the shipping distances and local competition. In 2003/04, projects included:

- CANPLY completed an efficient quality assurance system so B.C. plywood mills could conform to CE marking requirements that became mandatory in April 2004. This system enables the B.C. plywood manufacturers to retain their market presence, which amounts to about \$2.5 million of products in Europe annually for structural applications. CANPLY also conducted market surveys and technical seminars, and produced technical brochures to promote the use of B.C. plywood in the European marketplace.
- BC Wood completed market research studies for value-added wood products in the United Kingdom, which assessed opportunities for pre-built or timber-frame housing in European resort markets.
- The Western Red Cedar Export Association conducted research in the United Kingdom, Belgium, the Netherlands and France to support future market activities. It also developed an action plan to address fire code issues, attended trade shows and produced documents promoting the environmental benefits of cedar. It prepared a French version of its website ([www.wrcea.org](http://www.wrcea.org)).
- COFI continued work to secure stress class grades for SPF lumber within the new MGP (machine-graded pine) system that has become the standard in Australia. While Australia represents a small market for B.C. wood products, securing grading within the new system will enhance B.C.'s access to this market.

## b. Emerging markets

### China

Ten million homes are built in China every year and roughly 500 are built of wood; so the residential construction market holds tremendous growth potential for conversion from concrete to wood-frame construction. In addition to the Dream Home China project and other China Operations activities, FII has funded projects in China to explore market opportunities and to ensure B.C. products are accepted under Chinese building codes. In 2003/04, projects included:

- Forintek worked with codes and standards committees to develop and implement design and inspection codes for wood-frame construction that accept North American sizes, species combinations and grade rules. A Code for Design of Timber Structures released in January 2004 has a chapter on North American wood-frame construction with grade rules that are compatible with those in Canada and the U.S. While considerable progress has been made on fire codes, more work is required to help gain acceptance for an increase in the permitted number of storeys and reduced spatial separation to improve market access for B.C. producers.
- COFI developed building manuals and training products, arranged exchange programs and training both in B.C. and China, and worked on fire code development. It recently completed a guide to good practice in wood-frame construction, which is intended to become a mainstream manual for use by builders, designers and regulators in China.
- BC Wood completed a number of market research studies and coordinated trade activities.
- The CFLA launched a presence for the coast industry in the China market by setting up an office within FII Shanghai's offices.

In November 2003, FII signed a letter of intent with the President of the Chinese Academy of Forestry to pursue opportunities for wood from B.C. that has been affected by wildfire and mountain pine beetles. The letter formed the basis for increased research partnerships between China and B.C. to overcome market access issues and concerns raised by the Chinese Academy of Forestry associated with these products. Premier Gordon Campbell also discussed opportunities to strengthen ties between B.C.'s forest sector and Chinese partners.

Premier Gordon Campbell and Mme. Jiang Zehui, president of the Chinese Academy of Forestry, took part in the signing of an agreement between FII and the academy to pursue opportunities for B.C. wood damaged by wildlife and beetles.



## South Korea

South Korea has the third-highest individual purchasing power in Asia after Japan and Taiwan, and B.C.'s competitors have invested significantly to develop wood-frame construction codes and wood products standards in South Korea over the last decade. The Korean Standards Association recently developed wood-frame construction and fire protection standards similar to the U.S. International Building Code, thus enhancing opportunities for B.C. in that market.

FII supported work by Forintek to ensure Canadian wood product standards are compatible with South Korean standards, and accepted by the Korean marketplace. Another project reviewed Korean grading rules to help ensure compatibility and acceptability of B.C. wood products.

COFI undertook preliminary work to identify market access issues and explore options in addressing obstacles to long-term growth of wood-frame construction and the use of Canadian wood in structural and non-structural applications. The work conducted in 2003/04 will support the further development of market strategies for South Korea.

## Taiwan

Although it is relatively small, Taiwan is an important regional market because it is affluent, cannot meet its own wood fibre needs and is one of the major sources of forest product direct investment in Mainland China. However, the market opportunity for wood-frame construction, and thus for the B.C. forest sector, has historically faced building code and standards barriers.

FII funding helped to develop a new building code that supports wood-frame construction and B.C. wood products. Now that the Taiwan wood design code has since been enacted, FII funding is being used to further develop opportunities in this market, and complete product comparisons seeking product standards equivalency for dimension lumber and wood-based panels.

## c. All markets

### Marketing materials

The International Marketing Program responded to the lack of provincially focused, high-quality marketing materials for the B.C. forest sector by producing a website, [www.bcforestproducts.com](http://www.bcforestproducts.com), directories, brochures and DVDs. These materials were prepared because embassies, staff and Canadian representatives and companies operating in international markets had consistently reported a lack of available B.C. forest sector marketing materials. FII also learned that key emerging markets are relying increasingly on the Internet for forestry information, and that providing "hub" sites meant that new customers could access product information in their own languages, and be directed to association and company websites to source specific product categories.

The website, [www.bcforestproducts.com](http://www.bcforestproducts.com), provides information on B.C.'s forest sector, its products and their applications/uses, and links to technical sites, association home pages and forest producers. The English and Mandarin versions were launched early in the first quarter and by the end of the fiscal year the website was also available in Japanese, Korean, Spanish and Mandarin for Taiwan (traditional characters).

In less than a year, there were more than 20,000 visitors, and the 3,000 visitors in March 2004 represented the largest number for any single month. The Chinese version continues to be one of the more popular destinations. FII also posted its 3 product DVDs on the website.

FII prepared and distributed summary binders of forest product information after a number of embassies and consulates indicated their trade representatives lacked current information on the B.C. forest industry. The materials provide an overview of the B.C. forest industry, key information and statistics, including B.C. species and their typical uses, a summary of key contacts and resources, along with directories of B.C. companies and copies of sector-specific marketing materials from all key industry associations.

All the industry-wide marketing materials have been designed and distributed for use by FII in its international activities and for broad use by industry associations, companies, embassies, consulates and other international trade organizations. The summary binder was distributed to Asian posts in the third quarter, and to embassies and consulates in Europe, India and Pakistan in the fourth quarter.

FII communicates with international audiences through its multilingual website: [www.bcforestproducts.com](http://www.bcforestproducts.com) provides information on B.C.'s forest sector, its products and their uses.





## Market research

FII began compiling market research during the second quarter, drawing on current information and recently published reports. This market information will form an important basis for ongoing market strategy development, and will guide future FII investment decisions.

Detailed reports were obtained in such areas as:

- softwood lumber consumption and changing market shares in Japan;
- European and Russian wood product trends and industry outlook - strategic assessment of the European and Russian industries; and
- benchmarking sawmill industries in North America, Europe, Chile, Australia and New Zealand.

FII also released 4 reports it had commissioned directly and completed at the end of last fiscal year:

- Benchmarking Study for Structural Wood Products in China
- Market Opportunities in Asia for B.C. Forest Products
- Preliminary Competitor Analysis for Wood Products in China
- Hardwood Gap Analysis

In addition, FII commissioned research that included a report evaluating opportunities in 4 Central and South American countries – Mexico, Costa Rica, Brazil and Chile. The focus testing and primary research were completed in 2003/04, and the final report will be completed early in the 2004/05 fiscal year. FII also commissioned 2 other reports, Benchmarking Wood Use in Roofs of Multi-Family Housing in China and Opportunities for B.C. Lumber in China's Interior Decoration and Furniture Industries.

**Table 1**  
**International Marketing and Product Development Programs: Summary of Results**

Goal 1: Contribute to the development of a robust and globally competitive forest industry by developing new products, promoting new and existing products, maintaining and growing existing markets and aggressively pursuing new and emerging markets.

<p><b>Objective 1:</b> Address key strategic and technical barriers and issues that affect market access in FII target markets.</p>	<p><b>Strategies:</b></p> <ol style="list-style-type: none"> <li>1. Collect comprehensive market information</li> <li>2. Develop and implement strategies to address barriers that affect market access</li> </ol>	
Performance Measures	Targets	Results
<ul style="list-style-type: none"> <li>• Number and significance of barriers addressed, or progress made.</li> </ul>	<ul style="list-style-type: none"> <li>• Significant progress in the development and implementation of wood building codes for China, Taiwan and Korea.</li> </ul>	<ul style="list-style-type: none"> <li>• Target met.</li> <li>• China: New building code accepts North American wood-frame construction and B.C. wood products; training underway.</li> <li>• Taiwan: New building code accepts North American wood-frame construction and B.C. wood products.</li> <li>• Korea: Reviewing grading rules for lumber to ensure Canadian wood products are accepted.</li> </ul>
	<ul style="list-style-type: none"> <li>• Address fire codes issues in China and Japan in 2003/04.</li> </ul>	<ul style="list-style-type: none"> <li>• Target met.</li> <li>• Japan: Fire code now allows use of wood for stairs, floors, walls, roofs.</li> <li>• China: Work continuing, ongoing improvements to new codes will improve access.</li> </ul>

<p><b>Objective 2:</b> Improve B.C. wood product quality and manufacturing efficiency.</p>	<p><b>Strategies:</b></p> <ol style="list-style-type: none"> <li>1. Develop/improve and test forest products.</li> <li>2. Develop/improve and test forest product manufacturing processes.</li> <li>3. Identify and test potential applications for new wood products.</li> <li>4. Extend technical information to B.C. manufacturers.</li> </ol>	
Performance Measures	Targets	Results
<ul style="list-style-type: none"> <li>• Percentage reduction in operating costs for participating manufacturers.</li> <li>• Potential value added for participating manufacturers.</li> <li>• Value of market potential for new applications.</li> </ul>	<ul style="list-style-type: none"> <li>• Support the development of 7 to 10 products, applications or processes each year (2003/04 to 2005/06).</li> <li>• Develop an ROI methodology in 2003/04 and establish targets.</li> </ul>	<p>Target met:</p> <ul style="list-style-type: none"> <li>• Development of products, applications or processes supported through 7 recipient agreements.</li> <li>• New products and applications with sector wide-applications include:               <ul style="list-style-type: none"> <li>• Value-added uses of subalpine fir</li> <li>• Assessment of butt joint applications</li> <li>• Use of lesser-used species in furniture and finishing</li> </ul> </li> <li>• Technology transfer services to the secondary wood manufacturing sector.</li> <li>• 42 businesses participated in detailed projects designed to improve business competitiveness through the Technology Transfer Program. The program also provided other support, such as: 74 technical assessment, 237 plant visits, 293 technical inquiries.</li> <li>• ROI calculations required in FII call for proposals and incorporated into proposal evaluation criteria.</li> <li>• ROI calculations required in annual operational reports submitted by recipients.</li> <li>• ROI methodology will be further refined in 2004/05.</li> </ul>

<b>Objective 3:</b> Increase B.C.'s performance within existing international markets.	<b>Strategies:</b> 1. Develop and implement an overall investment strategy for all existing markets with guiding principles. 2. Collect comprehensive market information and develop market-specific development strategies. 3. Determine level of market acceptance for new applications. 4. Develop market-specific, 3-year strategies. 5. Create market demand/awareness. 6. Promote B.C. forest products.	
<b>Performance Measures</b>	<b>Targets</b>	<b>Results</b>
<ul style="list-style-type: none"> <li>• Percentage of consumers that accept B.C. wood as a good and usable product in the market.</li> <li>• B.C. market share in key markets for key products.</li> <li>• Market share by market and product.</li> <li>• Value of sales attributed to FII funded projects by market and product.</li> </ul>	<ul style="list-style-type: none"> <li>• Implement the overall investment strategy for 2003/04.</li> </ul>	Target met. <ul style="list-style-type: none"> <li>• FII investment strategy developed in 2003/04. Funding decisions consistent with strategy.</li> </ul>
	<ul style="list-style-type: none"> <li>• Develop specific investment strategies for key target markets (Japan, United States and Europe in 2003/04)<sup>1</sup>.</li> </ul>	Target partially met. <ul style="list-style-type: none"> <li>• Market strategy completed for Japan (final report to be completed in early 2004/05).</li> </ul> Marketing strategy will be completed for Europe in 2004/05.
	<ul style="list-style-type: none"> <li>• Positive change in value of sales relative to market trends.</li> </ul>	Target on track <ul style="list-style-type: none"> <li>• Majority of recipients now using sales and volume-related performance measures (performance measures are sector specific and not validated through independent audit).</li> <li>• Significant progress in reviewing recipient-level performance measures and methodologies to ensure the validity and reliability of sales values.</li> <li>• FII will develop program-wide performance measures and conduct trend analysis in key markets in 2004/05.</li> </ul>

<sup>1</sup>Note: FII shifted focus away from the U.S. market pending the resolution of softwood trade issues. Consequently, the development of a marketing strategy for the U.S. was delayed.

Note: During 2003/04, FII's implementation plan for the development of marketing strategies was refined to ensure that industry had sufficient time and opportunity to participate. Industry support is essential to the success of each strategy and for that reason FII is now developing strategies sequentially. This has meant that the development of the strategy for Europe will now occur in 2004/05.

<p><b>Objective 4:</b> Develop new markets for B.C. forest products.</p>	<p><b>Strategies:</b></p> <ul style="list-style-type: none"> <li>• Collect comprehensive market information and develop market-specific development strategies.</li> <li>• Create market demand/awareness.</li> <li>• Promote B.C. forest products and practices.</li> <li>• Determine level of market acceptance for new applications.</li> </ul>	
<p><b>Performance Measures</b></p>	<p><b>Targets</b></p>	<p><b>Results</b></p>
<ul style="list-style-type: none"> <li>• Number and significance of opportunities identified in new potential market.</li> <li>• Value of sales attributed to FII funded projects by market and product.</li> <li>• Market share by market and product.</li> </ul>	<ul style="list-style-type: none"> <li>• Develop and implement marketing strategies in emerging markets (China, Korea, Taiwan and India in 2003/04).</li> </ul>	<p>Target substantially met</p> <ul style="list-style-type: none"> <li>• Market intelligence activities completed in India, Korea, Taiwan, and in potential new markets in Central and South America.</li> <li>• Market intelligence, and strategies completed for Korea and Taiwan (final report for Taiwan will be completed early in 2004/05).</li> <li>• Considerable work completed on FII's strategy for China; it will be further coordinated into an industry-wide market development strategy during 2004/05.</li> <li>• Based on market intelligence activities completed in 2003/04, and industry association/forest company experience, significant market barriers in India preclude any significant access for B.C. forest products at this time, and as such a market strategy will not be pursued.</li> </ul>
	<ul style="list-style-type: none"> <li>• Implement year 1 of the China strategy including the establishment of Dream Home China.</li> </ul>	<p>Target met</p> <ul style="list-style-type: none"> <li>• Dream Home China announced, subsidiary company FII Shanghai established in China as WFOE and business licence issued, site selection completed for phase 1, ground breaking held, FII Shanghai signed comprehensive agreement with Shanghai developer Jinqiao, plans for Demonstration Centre completed, marketing, training and technology transfer underway, land selection underway for phase 2.</li> </ul>
	<ul style="list-style-type: none"> <li>• Distribute FII promotional materials (DVDs and print media) in all emerging markets through proponents, trade shows, embassies, etc.</li> </ul>	<p>Target met</p> <ul style="list-style-type: none"> <li>• Promotional materials distributed to audiences around the world in a number of languages included: <ul style="list-style-type: none"> <li>• 10,234 DVDs</li> <li>• 3,365 directories</li> <li>• 3,224 brochures</li> <li>• 69,333 copies of fact sheets.</li> </ul> </li> <li>• 28 detailed information binders distributed to embassies.</li> <li>• 262 copies of 4 different market research reports distributed.</li> <li>• Attendance at 63 international trade shows through international marketing projects.</li> </ul>

Performance Measures	Targets	Results
	<ul style="list-style-type: none"> <li>Implement bcforestproducts.com in 2003/04.</li> </ul>	Target met <ul style="list-style-type: none"> <li>Website launched in April, translated into 6 languages; more than 20,000 visitors in first year.</li> </ul>
	<ul style="list-style-type: none"> <li>Increase value of sales by 20% for target products and markets by 2005/06.</li> </ul>	Target on track <ul style="list-style-type: none"> <li>Market strategies completed in some target markets and planned for others. Strategies will be used to set priorities and establish market specific targets.</li> <li>Significant progress in reviewing recipient-level performance measures and methodologies to ensure the validity and reliability of sales values.</li> <li>Program-wide performance measures and market trends will be developed in 2004/05.</li> </ul>

## b. China Operations

FII and its forest sector partners have identified China as a large and growing market for wood products. Wood is the natural choice as China looks for high-strength, cost-effective and environmentally friendly alternatives to concrete and steel construction. While China holds immense market potential for B.C. wood products, it also presents unique challenges. The Dream Home China project was developed to bring a focused strategy to market development activities in China and raise the profile of B.C., its forest products and wood construction.

The first phase of Dream Home China is based on a partnership that involves the B.C. government, represented by FII; the Jinqiao Group, a leading Shanghai development company, and the B.C. forest industry. While FII's China Operations expanded into other activities during the fiscal year, its focus will continue to be the Dream Home China project.

### i. Dream Home China

B.C. Premier Gordon Campbell announced the Dream Home China project on April 17, 2003 in Vancouver, and its website, [www.dreamhomechina.com](http://www.dreamhomechina.com), was launched in English and Mandarin. The \$12-million project will include a Demonstration Centre to showcase B.C. wood products, and various other wood-frame structures including villas (single-family homes), townhouses, apartment buildings and external uses of wood to demonstrate the versatility and benefits of wood construction. These structures are intended to show Chinese builders, developers, officials, architects, engineers and other professionals, as well as target segments of Chinese consumers, how B.C. wood products can be used and applied.



The centrepiece of the Dream Home China Project will be an 888-square-metre Demonstration Centre that will showcase the wide range of B.C. structural and finishing wood products.



### The multi-year Dream Home China project will:

- help to position B.C. and its forest products manufacturers in the Chinese marketplace;
- start to raise the demand for wood through expanded uses and applications (demonstrated in a Chinese context);
- support ongoing technology transfer and training activities; and
- provide a focal point for consumer research and FII-supported initiatives in China.

As noted in the corporate governance section, FII created FII Shanghai as a wholly owned subsidiary company to oversee its PRC activities, including the Dream Home China project. Work on this legal structure began early in the process and FII Shanghai was in place before construction started on Dream Home China.

Initial architectural designs for the key buildings were completed in time for a formal announcement and ground breaking ceremony while Premier Campbell was on a trade mission to China in November. The Premier witnessed the signing of an agreement in principle between Shanghai Jinqiao Export Processing Zone Development Co., Ltd. and FII. As a direct result of FII's negotiations with Jinqiao, the Shanghai developer will build an additional 205 wood-frame homes in the same development area. FII has agreed to provide on-the-ground technical advice and to support the development of a quality assurance program.

### ii. Dream Home China, phase 1 activities

Two of the 6 key stages involved in the first phase of Dream Home China were completed during 2003/04.

1. The **feasibility and conceptual design** stage ended when the project was announced on April 17, 2003.
2. The **legal structure** stage ended when FII Shanghai was approved and received a business licence on Feb. 23, 2004.

The first part of the third stage, **land selection**, was completed in November when a site was selected in Shanghai's Pu Dong district. This involved a rigorous process that began with 40 potential sites. Selection criteria included land use rights, land or lease costs, location and suitability, visibility, access, availability, and due diligence on the developer(s) associated with the property or area of Shanghai. The site that has been selected meets all of FII's core criteria – it is located in one of the high-end residential developments in Shanghai (the target audience) and is in an ideal position to attract developers, builders and potential consumers of wood-frame housing. Land selection for a multi-storey structure, which is part of phase 2 of Dream Home China, was underway at the end of the fiscal year.

The **implementation and construction** stage also began in 2003/04 and will continue into the next fiscal year. In addition to usual pre-construction activities, FII and its partners took care to identify how best to showcase the widest range of B.C. forest products in the Demonstration Centre. Final structural drawings, certified by a qualified Chinese design institute, were completed on March 23. The Demonstration Centre is expected to open in the fall of 2004.

The **operations** stage, involving marketing, technology transfer and other activities, is underway and will continue throughout the project, but will become fully active once the construction is complete and FII Shanghai takes possession of the buildings, and the lease term begins. The **exit** stage comes at the end of the 3-year lease period, once the marketing goals have been achieved, and FII will vacate the premises with no potential market speculation risks.



Table 2: Dream Home China Project Status Chart (Phase 1)

Feasibility and Conceptual Design	Legal Structure	Land Selection	Implementation and Construction	Operations	Exit
↓	↓	↓	↓	↓	↓
Completed and project announced April 17, 2003	FII Shanghai approved and business licence issued Feb. 23, 2004	Reviewed more than 40 sites, Agreement in Principle signed with Jinqiao on Nov. 3, 2003	Dream Home China Agreement signed with Jinqiao March 20, 2004  Construction completion estimated at Oct 18, 2004  Grand Opening of Demonstration Centre in fall 2004.	Marketing, operations, training, and technology transfer plans under development. Activities will continue for a 3-year period when construction completed.	At end of 3-year time frame.



### iii. Dream Home China agreement

The final Dream Home China agreement between FII Shanghai and Jinqiao was signed on March 20 after 4 months of negotiation. The agreement, the first of its kind for B.C. in China, detailed the terms for construction of the 888-square-metre Demonstration Centre, and established the process for agreeing upon the design, specifications and costs for the adjacent villas.

The Demonstration Centre will be built first, and FII will occupy the premises until the adjacent villas are completed. At that time, a concurrent, 3-year, pre-paid lease term for the structures will begin.

Under the agreement, Jinqiao must build the Demonstration Centre and villas in accordance with agreed-upon design and specifications, and in compliance with Chinese laws. It will obtain all necessary permits and pay all construction costs through a pre-paid lease funded by FII. It will use B.C. forest products sourced by FII and will source all other materials on a competitive basis, from suppliers pre-qualified by FII Shanghai. FII also ensured through the agreement that the construction and occupation of the properties will comply with Chinese laws.

The agreement contains comprehensive provisions to protect the province's investment. For example, FII addressed the risk of constructions delays and cost overruns by establishing a firm budget, with Jinqiao absorbing any additional costs related to local products or labour; by arranging to provide the necessary B.C. wood products; by continuing training and technology transfers to ensure there is a trained workforce available, and by making Jinqiao responsible for securing necessary permits and approvals. The agreement provides extensive detail on design specifications and construction standards, and FII has arranged for regular on-site inspections. There is a 5 per cent holdback clause, payable to Jinqiao after a year of occupancy to ensure any deficiencies can be corrected.

The agreement, which was reviewed by FII's B.C. and China-based legal counsel, also addresses other risks, such as insurance and force majeure, and guarantees that FII will have the exclusive right to possession during the lease term.

#### iv. Dream Home China, phase 2

During the early site search for the Dream Home China project, FII entered into discussions with the Science and Technology Committee of the Shanghai Municipal People's Government regarding the development of multi-storey residential structures. This led to a memorandum of understanding signed in November 2003 to research the use of interior wood walls inside concrete apartment buildings, and the use of wood roofs on single and multi-family buildings.

The MOU, which represents the start of phase 2 of the Dream Home China project, will create opportunities that include:

- building a multi-storey, multi-family structure in direct cooperation with Shanghai's construction variance authority to ensure wood is accepted as a cost-effective, energy-efficient, seismically secure building material for apartment buildings;
- attaching wood roofs to single- and multi-family buildings to demonstrate both the technology and the fact that wood roofs are a cost-effective, energy-efficient, time-saving alternative to concrete; and
- developing detailed local wood-frame building codes for multi-family, multi-storey and hybrid structures in Shanghai, allowing hybrid wood frame construction in the most common type of residential dwelling in the Shanghai area: 5 and 6 storey walk-up apartment structures.

The direct and public support of the initiative by Shanghai Mayor Han Zheng is important to this project, which could dramatically increase the export of B.C. wood products into China by providing access to the multi-family building market, a market to which wood exporters have to date been excluded.

#### v. Other China activities

##### Chinese trade mission

Premier Gordon Campbell led a trade mission to China in November that helped FII gain visibility and establish critical business relationships key to successful operations in China. Trade mission events included a B.C.–Shanghai Trade Reception, which was attended by more than 450 business and municipal leaders from Shanghai and showcased the Dream Home China project, as well as promoting further opportunities for wood use in China, including the 2010 Shanghai World Fair and the 2008 Beijing Olympic Games.

The Premier also hosted a luncheon where the B.C. delegation and B.C. industry representatives met with Shanghai's major wood product buyers, customers and association representatives.



## Chinese customer information

During the Chinese trade mission, the Forest Action Network bought an ad in the China Daily Post condemning B.C.'s forest practices and sent e-mails to about 300 Chinese companies who buy B.C. wood or are potential customers. While the actions attracted considerable media attention in B.C., the ads had limited in-market impact, and the FII office in Shanghai and local industry agents received no media inquiries or requests for information from the targeted Chinese companies.

FII staff in China are working closely with staff from the BC Market Outreach Network to ensure that Chinese customers and government officials receive the facts about B.C. forest management. This includes the use of the trade show booth at appropriate events, translating key publications into Chinese and identifying companies that require up-to-date, accurate information for distribution to their customers. FII is examining other opportunities for additional in-market support such as sharing messaging with industry agents and associations so they can respond to market and media inquiries about B.C.'s sustainable forest management practices

## c. BC Market Outreach Network

### i. Program strategy

The BC Market Outreach Network was launched on March 21, 2003, so the 2003/04 year represents its first full year of operation. It provides international buyers in key markets with neutral, credible facts – giving customers and potential customers assurance that the products they are purchasing come from well-managed forests.

The Network focuses on the FII goal to enhance B.C.'s reputation as a leader in sustainable forest management. It began the 2003/04 year with promotional products in a number of forms and in different languages – including a website; an interactive trade show exhibit; 5 general fact sheets; 2 DVDs and an exhibit panel. Its materials were based on market research, which showed international buyers have a high degree of respect for B.C.'s forest practices and products but are prepared to seek another supplier if their customers do not share this view.

Through its website, [www.bcforestinformation.com](http://www.bcforestinformation.com), the Network promotes B.C. forests and forest practices in English, German and Japanese, and responds to issues in a timely fashion. It works closely with the B.C. and Canadian governments, industry associations, embassies, international trade associations, resource communities and other key stakeholders.

While its focus is on global markets, the Network prepared distinct strategies for both international and domestic markets for 2003/04. The domestic campaign was based on research that showed British Columbians, especially those in the Lower Mainland, are not fully aware of the importance of forestry to the provincial economy, and many believe the industry's value is declining.

## ii. Summary of 2003/04 results

### a. Trade shows/conferences

The Network's presence at major international trade shows helps it build a network of key contacts, gather market intelligence, improve understanding of B.C. forest practices, and intervene as necessary to promote inclusive procurement policies with B.C.'s major forest products customers. Its innovative multilingual trade show booth anchored B.C.'s presence at key shows in 2003/04, attracting an above-average level of attention of delegates.

The booth was designed and developed in the previous fiscal year, and was officially launched on June 10 in Vancouver, just before it made its debut at the Pacific Coast Builders' Conference in San Francisco. In addition, it was part of the XII World Forestry Congress (Quebec City), the Pulp and Paper International Transport Symposium (Vancouver), the Japan Home Show (Tokyo), the International Builders' Show (Las Vegas) and WoodBuild China (Shanghai).

Over the course of these trade shows, Network staff made direct contact with close to 10,000 people; most of them buyers, builders, developers and architects in some of B.C.'s key export markets. For example, the International Builders' Show draws more than 100,000 delegates and 3,000 visited the Network booth during the 4-day event, many of them interested in discussing in detail issues such as forest certification, old growth management, reforestation and B.C. wood procurement.



All features of the BC Market Outreach Network's trade show booth were available in Japanese at the Japan Home Show, and qualified translators helped staff answer questions



A survey of booth visitors at the International Builders' Show found that 95 per cent left with a positive or very positive impression about B.C.'s forest practices. Most said the information presented was relevant and credible, and indicated their impression of B.C. forest management practices had improved as a result of their visit. The booth's multilingual capacity increased its accessibility to audiences regardless of the location. Materials were available in Japanese and Chinese when the booth was in Tokyo and Shanghai, respectively, and Network staff were supported by translators to answer any questions.

The Network also enhanced its presence with related activities. In Quebec City, it promoted B.C.'s forest diversity by sponsoring a Commemorative Garden as a tribute to the World Forestry Congress and arranged a reception to showcase B.C. forest management and fire protection expertise. It hosted seminars for delegates as part of the Japan Home Show and WoodBuild China, and co-sponsored a reception at the International Builders' Show with the Forest Products Association of Canada and the WPN.

In addition to the innovative trade show booth, the Network uses smaller exhibits when the international booth is already committed. This allowed the Network to have a presence at 6 other conferences, including the 4th annual Certification Watch (Vancouver), the Union of B.C. Municipalities (Vancouver), U.S. Green Building Conference (Pittsburgh), the North American Wholesale Lumber Manufacturers Association Traders' Market (Dallas), the Truck Loggers Association Annual Conference and Trade Show (Vancouver) and Globe 2004 (Vancouver).

Through its information materials and trade show attendance, the Network invites customers to come to B.C. to see first-hand how forests are managed. Among the tours it arranged in 2003/04 was one for the president of a Japanese home building company who brought 6 of his staff "to see for themselves that we buy our wood from B.C. because it has the best forest practices in the world, so they can feel comfortable passing this message on to our customers". It also arranged presentations and tours for wood products customers and foresters from Germany, Austria, Switzerland, Finland and Australia.

## b. Website/information materials



The BC Market Outreach Network produces an array of background materials in a number of languages.



世界のを守る

### Forest facts

- ▶ プリディッシュ・コロンビア州の面積は 9500万ha、日本の約2.5倍。
- ▶ 面積のうち2/3が森林(6000万ha)、日本の約1.5倍の面積に相当。
- ▶ BC州の森林の半分は上(3500万ha)は、ほぼ永久に伐採の手が入ることのない森林、日本以上に回復する広さ。
- ▶ 年間伐採率は総森林面積のわずか 0.3%。

カナディアンロッキーの最高山地域から、北に広がる森林、そして太平洋沿岸に広がる高さから続く温帯雨林に至るBC州の広大な森林は、まさに世界の宝。BC州の広大な森林の多様性と豊かさに匹敵する場所はない。地球全体を見てもほとんど見当たらない。そして、この貴重な資源がBC州が持っている限り、常に守られていく。

生態学的・生物学的にカナダで最も多様な自然資源の中心地。それもすべて広大な森林の恩恵によること。BC州の森林面積は4000万ヘクタール、同じ日本の約1.5倍の面積を占めています。

このうち、日本の国土面積に相当する1000万ヘクタールは保護の対象であるが、国立公園や自然保護区で伐採に不適合な地域になっています。残る3000万ヘクタールの森林面積ですが、年間の伐採量は全国平均の0.3%程度でしかありません。

BC州の天然林

BC州には、2500万ヘクタールの天然林が残ります。天然林とは、伐採前では樹齢250年以上の森林を、樹木の寿命が短い広葉樹が多い地域では、樹齢10年から140年以上の森林を指します。山火事が少ない地域には、樹齢千年を超えるような原生林が200万ヘクタールにも達して広がっています。

天然林の中には、立ち枯れや倒木した樹木が多く、若い樹木には見られない生物種を育んでいます。立ち枯れや倒木は生物の多様性を維持するのに不可欠です。

BC州では、自然を利用した森林経営手法を取り入れ、天然林からその多様性と特徴を守って取り、種の森林法にも、樹齢の高い林分伐採に関する具体的な規制が盛り込まれています。例えば、水源地全体に連なる天然林や成熟林が保たれるように、伐採計画を慎重に策定します。伐採後も管理を行い、森林が元来持っている特徴を維持するようにします。一例として、樹齢が特に高い立木を伐採せずに樹齢は木材として残し、

年間伐採率 わずか0.3%。 森は守られる。





The Network began the fiscal year with a website and 5 fact sheets in English, German and Japanese that highlighted B.C.'s protected areas, sustainable forest management, public involvement and certification. Through the year, it added new fact sheets, updated existing ones and translated materials into other languages, distributing almost 70,000 fact sheets in a variety of languages to audiences around the world.

In a number of situations, the Network delivered the latest information about high-profile activities quickly, such as the Central Coast land and resource management planning process, the mountain pine beetle infestation and new forestry legislation. It updated its original certification fact sheet in January when new statistics were released that showed a substantial increase in independent third-party forest certification in B.C.

The Network released information on the Pacific Coast land use planning processes in April, updated this when the government extended a commercial logging moratorium in June, and updated it again in December when the Central Coast planning table completed its work. Each time, the fact sheets were prepared in English, German and Japanese and circulated electronically to embassies and international buyers worldwide.

When the Network learned that the Royal Commonwealth Society in London, England, had invited a freelance photographer to exhibit photographs of tree planters at work in B.C., it quickly produced a supporting fact sheet on how B.C. regenerates its forests. The society used the information at the exhibition and sent 2,000 copies along with its own exhibit materials to schools and universities in Greater London area and to all high commissioners in the United Kingdom.

Other fact sheet topics included Interior forests, harvesting methods, managing cedar, the Forest Practices Board, identified wildlife, wildfire, B.C.'s biogeoclimatic zones and paper production. The Network emails alerts to its mailing lists when it posts a new backgrounder on its website, which increases exposure while limiting printing costs.

In August, the Network prepared a special report on B.C.'s coastal forests to coincide with the 10th anniversary of protests at Clayoquot Sound on western Vancouver Island. The report looked at the diversity of coastal forests with examples of how government, the forest industry, communities and First Nations are working together to manage the many values. Two similar reports were prepared later in the year, examining forests in the northern and southern Interior.

The Network regularly updates its website, [www.bcforestinformation.com](http://www.bcforestinformation.com), to ensure the information remains current. It improved the site's interactive maps in 2003/04 so it is easier for viewers to explore protected areas, special management zones and the amount of land protected by ecosystem, as well as look at the amount of forest affected by logging, fire or insects over a 20-year period of time.

The website had a total of 52,077 visitors in its first full year of operation, most from key markets such as the United States, Germany, Japan and the United Kingdom. There were on average 142 visitors each day, and each visit lasted close to 9 minutes. Website monitoring showed a sharp increase in visits when new information was released or shortly after trade show visits.

The Network launched FII's regular newsletter, *The Balance*, in June 2003, and followed with issues in September, October, December and March 2004. Distributed electronically and posted on all 3 FII websites, *The Balance* provides updates on B.C. forest activities.



### c. Advocacy/issues

The Network has developed and implemented a capacity to respond quickly to both issues and opportunities through its networking, its attendance at trade shows and its international media monitoring.

In June, while preparing for a trade show in San Francisco, staff learned that the California State Senate was considering Bill 466 to bar state agencies and school districts from buying products made from 'ancient forest trees' without taking into account the many other factors that make up healthy and sustainable forest ecosystems. With the Network's leadership, Canadian and U.S. forestry associations provided the senate committee considering the bill with accurate information on the potential impacts and, as a result, the bill was sent back for redrafting. In 2002, B.C. exported almost \$950 million worth of forest products (wood products and pulp and paper) to California.

As well as providing updated information on the Central Coast land and resource management planning process, which includes the area sometimes called the Great Bear Rainforest, the Network arranged teleconferences linking customers in Germany with key government officials involved in the process and encouraged trade media in the United Kingdom to write about the process and interview the Minister of Forests.

The Network was at the Japan Home Show from Nov. 11 to 14, just when Japanese customers were being encouraged to boycott B.C. wood products. Network staff worked closely with local industry representatives and customers to ensure they were provided with neutral, fact-based information on sustainable forest management in B.C. Many of these customers also visited the Network's booth to get answers to their questions and background materials. At WoodBuild China in February, Network staff encountered substantial media interest in the Central Coast. They provided the latest information, often through lengthy conversations and even on-camera interviews.

The Network also worked with key trade publications in Germany, the United Kingdom and the United States to produce features about B.C.'s forest management, providing an up-to-date look at current issues and processes underway in the province. It responded to anxiety in Japan about the availability of timber as a result of the summer wildfires.

### d. Domestic activities

While the activities of FII and the BC Market Outreach Network focus primarily on international markets, the Network works with industry and the B.C. government on a small program of activities within B.C. For example, during National Forest Week in May 2003, the Network invited Grade 6 and 7 students to write an essay examining how forests influence their lives. In partnership with BC Ferries and the Ministry of Forests, it hired 4 students to present talks to passengers on the Queen of the North, which travels through the Inside Passage from Port Hardy to Prince Rupert. The presentations on sustainable forest management and the coastal landscape continued through the summer.

On July 25, Premier Gordon Campbell, the mayors of Prince George and Vancouver and business leaders unveiled a billboard in downtown Vancouver, 1 of 23 placed in high-traffic locations throughout B.C. at the height of the summer tourism season. At the Pacific National Exhibition in Vancouver, the Network ran a video advertisement on a giant screen that was seen by more than 1 million people.

**Table 3**  
**BC Market outreach Network: Summary of Results**

**Goal 2: Enhance B.C.'s reputation as a leader in sustainable forest management**

<p><b>Objective 1:</b> Improve domestic and international awareness of B.C.'s forest management practices and performance.</p>	<p><b>Strategies:</b></p> <ol style="list-style-type: none"> <li>Promote B.C.'s forest practices in the world forest products marketplace.</li> <li>Provide international forest product consumers with B.C. forest practices information for key wood products in the marketplace.</li> <li>Gauge public opinion surrounding B.C. forest practices and the forest industry.</li> <li>Ensure that domestic and international consumers have timely, relevant and credible information regarding B.C.'s forest practices and performance compared to other jurisdictions.</li> <li>Coordinate FII efforts with government, industry and other key stakeholders.</li> <li>Establish a key presence in new markets through a creative display booth in international trade shows.</li> </ol>	
Performance Measures	Targets	Results
<ul style="list-style-type: none"> <li>Percentage of international customers, international consumers and B.C. public expressing satisfaction with B.C. forest practices.</li> <li>Percentage of consumers that view B.C. forests as sustainably managed.</li> <li>Industry uptake of extranet and other resources.</li> </ul>	<ul style="list-style-type: none"> <li>Establish comprehensive benchmark information (domestic and international) in 2003/04.</li> </ul>	<p>Target met.</p> <ul style="list-style-type: none"> <li>Benchmark information collected in 2003/04.</li> <li>Program activities based on benchmark information.</li> </ul>
	<ul style="list-style-type: none"> <li>Maintain and expand <a href="http://beforestinformation.com">beforestinformation.com</a>.</li> </ul>	<p>Target met.</p> <ul style="list-style-type: none"> <li>Website updated quarterly, all BC Market Outreach Network materials posted; 50,000 visitors in first year</li> </ul>
	<ul style="list-style-type: none"> <li>Attend 3-5 international trade shows annually and gauge customer and stakeholder reaction to trade show booth.</li> </ul>	<p>Target exceeded.</p> <ul style="list-style-type: none"> <li>Trade show booth to 6 key international trade shows; direct contact with 10,000 visitors.</li> <li>Survey shows information in booth relevant and useful.</li> <li>Smaller booths uses for 6 additional trade shows.</li> </ul>
	<ul style="list-style-type: none"> <li>Develop and implement international and domestic strategies for BC Market Outreach Network in 2003/04</li> </ul>	<p>Target met.</p> <ul style="list-style-type: none"> <li>Strategies developed and implemented in 2003/04.</li> </ul>
	<ul style="list-style-type: none"> <li>Implement industry contribution framework.</li> </ul>	<p>Target partially met.</p> <ul style="list-style-type: none"> <li>Developed working relationship with industry and leveraged support including shared information and resources (in-kind contributions).</li> </ul>
	<ul style="list-style-type: none"> <li>Implement issues response capacity.</li> </ul>	<p>Target met.</p> <ul style="list-style-type: none"> <li>Issues monitoring led to fact sheets on key issues such as managing cedar, coast land use planning, the new Forest and Range Practices Act, paper production.</li> <li>Trade show presence improved capacity to identify and respond to key issues –derailed procurement bill in California which would have reduced market access, informed customers who were being asked to boycott B.C. products in Japan, answered questions about Coast planning process in China.</li> </ul>

## d. Research Program

### i. Investment strategy

In February 2003, FII's Research Program prepared an investment strategy to guide activities in the 2003/04 funding period to support research and extension activities that benefit and enhance the forest sector, while maximizing the return on the investment of public funds. Research supports FII's goal to increase the value of timber and the forest land asset, and contribute to sector competitiveness by supporting innovative, focused and results-oriented research which is used by regulators and forest practitioners. This will lead to abundant, sustainable forests, an internationally competitive forest industry and stable forest resource communities. Research activities help B.C.'s forest industry maintain its high standards for productivity, environmental stewardship and sustainable forest management practices.

Activities relating to the development and refinement of an investment strategy for 2004/05 were discontinued during 2003/04 as a result of the transfer of the Research Program to a new administrator for subsequent funding periods. However, the FII Research Program continued to administer funding for research projects for the fiscal year, and remains responsible for the annual reporting and completion of audits and program closure tasks through to June 2004. FII also started a program evaluation to assess project results of the Research Program during its 2 years of operation with FII, due for completion in July 2004.

In support of the 2003/04 investment strategy, the Research Program provided funding for research projects through a competitive, peer review process. The process, based on 13 assessment criteria, which were established in the previous fiscal year, determined which projects would be funded in 2003/04. These criteria helped to assess and select research projects based on their relevance to strategic program objectives and priorities, the quality of the research opportunity, and the impact on the B.C. forest sector.

### ii. Summary of 2003/04 results

In 2003/04, the Research Program invested \$9.7 million in 93 projects to address a range of forestry-related issues. Investments were made in projects that contributed to increased understanding of aquatic and riparian ecosystems and generated information about terrestrial ecosystems and habitat to balance sustainability of biodiversity values and timber supply. Other projects investigated stand management, including variable retention and mixedwood stand management, and studied outbreak dynamics and management strategies to respond to pests and pathogens. Funding supported the generation of scientifically based information and results and the development of tools, decision aids and extension products that enable application of results and knowledge.

### iii. Detailed results

## 1. Support of more effective policies, regulations, and guidelines

### Public participation and land use planning

B.C.'s world leadership in sustainable forest management relies on processes, tools and practices that identify and balance environmental, economic and social values and objectives, and measure and improve performance over time. In 2003/04, FII supported testing of 3-D landscape visualization tools for communications, education, analysis, and design, and the use of visual imagery to establish scientific thresholds of public acceptance for innovative forest management practices. Other projects included:

- Examination of the impacts and interactions of landscape characteristics and multiple use management strategies within managed forests of the Boreal White and Black Spruce zone.
- Support for Silvicultural Treatments for Ecosystem Management (STEMS) to compare forest productivity, economics and public perception of various silvicultural treatments in coastal forests.

### Ecosystem management

Sustainable forest management is based on an understanding of forested ecosystems and interactions between human activity and ecosystem dynamics. Information relating to ecosystem classification, landscape and ecosystem patterns and processes; and natural disturbance regimes, such as wildfire and wind, help to explain forest structure, composition, and variability. Understanding patterns and processes at a broader scale and incorporating this knowledge into planning and decision-making processes provide a scientific basis for ecosystem management. In 2003/04, funding was provided to support:

- Ecosystem classification through further development and refinement of biogeoclimatic ecosystem classification for areas in the southern Interior.
- Research into natural disturbance regimes and processes in boreal forests.
- Examination of approaches to ecological representation for the definition of High Conservation Value Forests in the east Kootenays.
- Research into methods to improve weather and wind predictions to support more effective fire suppression.
- Research relationships between wind regime, topographic location, soil conditions, and stand structure and composition to predict the risk of whole or partial disturbance by wind in coastal stands.
- Modeling and mapping of extreme wind events in the complex landscape of B.C.'s south west coast.
- Assessment of LiDAR (airborne laser scanning) remote sensing technology for forest inventory and the collection of ecologically relevant stand attributes.

## 2. Enhance value of timber and forest land assets

### Pests and pathogens

Forest pathogens, such as dwarf mistletoe, *Armillaria*, root rot and other diseases, play a critical role in the natural development of forests and ecosystems, however, they often need to be managed and controlled to maintain economic and social values in sustainable forestry. In 2003/04, FII supported research that included:

- Examination of the incidence of *Armillaria* root disease in Douglas-fir plantations in the Interior Cedar-Hemlock zone.
- An investigation into host responses to *Armillaria ostoyae* infection, which identified different levels of susceptibility and resistance among tree species.
- Examination of the impact of forest management practices on the spread of the fungal pathogen, *Inonotus tomentosus*, in spruce stands and identification of management strategies in areas where there is a moderate to high incidence of the disease.

Pests, such as mountain pine beetle, spruce budworm and other insects, can reduce the productivity and value of B.C.'s forest asset. Some of the research to address critical knowledge gaps has produced immediate results. In 2003/04, FII supported research that included:

- A study of the chemical ecology and management of forest insects.
- Research into western hemlock dwarf mistletoe to develop biocontrol techniques, sampling protocols to measure impacts, and extension material.

A number of projects funded in 2003/04 furthered the understanding of the biology and spatial and temporal outbreak dynamics of forest insects, and provided information for the incorporation and development of forest health and regional and provincial management strategies. These projects included:

- Investigation into western spruce budworm outbreak patterns in southern B.C., development of a decision matrix to support biological control, and an examination of ecosystem changes induced by defoliation.
- Research into the biology, population dynamics and impact of the western balsam bark beetle, a destructive insect pest of subalpine fir.
- Development of hazard rating systems for the western hemlock looper, western black headed budworm and forest tent caterpillar.
- An investigation of causes and effects, spatial and temporal attributes and impacts of individual defoliation events of western hemlock looper outbreaks in coastal forests.
- An examination of the impact of mountain pine beetle outbreaks on stand dynamics, recurrent rates for mountain pine beetle and fire, and woody debris dynamics.
- A study of the spatial and spectral accuracy of satellite imagery in red tree detection and delineation to improve the predictive modeling of the spatial distribution of mountain pine beetle.



Projects to extend and improve accessibility of information on forest insect pests included:

- Development of websites, which included species-specific information on 120 defoliator species and a one-stop source on the use of semiochemicals in the management of forest insect pests in B.C.
- Development and analysis of a provincial natural disturbance database including completion of digital atlases and analyses incorporated into a review of harvest unit size rules.

### Growth and yield

Investment funding for 2003/04 supported a number of projects intended to improve the prediction of stand structure and the reliability of growth and yield projections. The ability to make predictions about future stand conditions is primarily achieved through development of models or enhancement and parameterization of existing models. Information from this type of research can be used to assess implications of various silvicultural and stand treatments, predict growth and mortality, forecast timber supply, and determine an allowable annual cut, thereby facilitating decision making at both the stand level and the broader landscape level and in the short and long term. Funding in 2003/04 was provided to projects that:

- Supported continued calibration of PrognosisBC (forest growth simulator) for application in B.C. and development of model components, including a natural regeneration model to predict regeneration in uneven-aged, multi-species stands of the southern and central Interior.
- Continued development of the forest model SORTIE-BC through investigation of aspen and spruce performance in full or partial shade in the boreal and sub-boreal, and data collection on paper birch growth and mortality under various light regimes.
- Continued development of TASS (Tree and Stand Simulator) and expansion of yield projection capabilities of TASS/TIPSY (Table Interpolation Program for Stand Yield Information) through incorporation of broadleaf species data and development of a variable retention harvesting simulation system.
- Assessed different levels of residual growing stock and stand structure on growth and natural regeneration following single-tree selection harvesting in an uneven-aged stand in dry-belt Douglas-fir forests.
- Validated juvenile height models for lodgepole pine and interior spruce with data from a number of biogeoclimatic zones.
- Developed methods and systems to compare observed silviculture performance with target performance using stand, site and tree information and contributed toward the implementation of the Forest and Range Practices Act.

## Stand management

Investments in 2003/04 supported research of silvicultural systems and stand management practices. Projects related to stand management often require many years of data collection before results and information are conclusive. For a number of projects funded by the Research Program in 2003/04, early or mid-term results are becoming available and can be used to assess short- and mid-term effects of alternative harvesting and silvicultural systems.

Funding in 2003/04 supported research in various ecosystems, to assess the effects of alternative silviculture strategies and stand management on growth and productivity, stand structure, regeneration dynamics and non-timber forest values. The results will support forest managers in planning and selection of silvicultural activities to meet stand-level timber and non-timber objectives. Projects funded in 2003/04 to assess variable retention, partial harvesting, and leave-tree retention include:

- An evaluation, through landscape level modeling, of management options in Interior dry-belt forests and high-elevation forests to balance timber and habitat needs.
- Measurements of ecological impacts of alternative harvesting practices on high-elevation Engelmann Spruce-subalpine fir in the Interior.
- Investigation of the ecological impact of alternative harvesting practices on a dry Douglas-fir forest in the Interior.
- Investigation of ecological and silvicultural impacts of different silvicultural systems in wet Interior cedar-hemlock and subalpine fir.
- Investigation of mature Douglas-fir tree survival retained after harvest in sub-boreal spruce forests.
- Assessment of the effects of fine-scale canopy gaps in submontane coastal forests.



Research designed to assess the impacts of various stand treatments such as thinning, brushing, fertilization, and drainage on productivity, growth and yield, stand structure and biodiversity helps to establish and maintain reforested areas to a free-growing stage in a cost-effective manner, develop guidelines, and meet the requirements of the Forest and Range Practices Act. Funding in 2003/04 included projects that:

- Determined the influence of stand density/thinning and fertilization on productivity of lodgepole pine crop trees and biodiversity in south central B.C.
- Assessed the impact of repeated fertilization on growth, productivity, and white pine weevil incidence in young, managed spruce and lodgepole pine installations in B.C.'s Interior.
- Assessed stand management treatments and regimes relating to thinning and fertilization for established research installations throughout the Interior.
- Developed, implemented and demonstrated management systems in Interior dry-belt forests that will create and maintain open crown closure conditions.
- Further developed the Expert System, a web-based tool to assist in selection of site preparation and brushing treatments on a site series-specific basis.
- Provided information to evaluate the effects of operational brushing treatments on seedling establishment and growth in southern B.C.
- Investigated management options to rehabilitate degraded wet sites within the Sub-Boreal Spruce zone in the northern Interior.
- Assessed impacts of bark and wood waste on aspen regeneration in northeastern B.C.

Mixedwood silviculture and the management for both deciduous and coniferous components of a forest may have implications for growth and yield, competition, stand dynamics, biodiversity, site productivity and harvesting/treatment costs. Research investments made in 2003/04 provided information to improve management guidelines, support decision-making, and enhance sustainability through increased understanding of competition and stand dynamics and assessment of mixedwood management strategies. These included:

- Research in the central and southern Interior to assess the impact of trembling aspen on lodgepole pine growth.
- Research in the southern Interior to assess silviculture strategies for managing density and composition of conifer/broadleaf stands.
- Research into mixedwood stand (spruce-birch) dynamics in the Sub-Boreal Spruce zone.
- Study of interactions between conifer crop trees and deciduous species in mixedwood stands in the Sub-Boreal Spruce zone.



## Soils and nutrition

Healthy soils are essential to productive forest ecosystems. To ensure that productivity is maintained during harvesting and other forest operations, reliable methods are needed to evaluate soil conditions and determine which are best for tree growth. Projects funded in 2003/04 included an examination of appropriate nursery practices for enhancing ectomycorrhizae and rooting structure of interior Douglas-fir seedlings and strategies to improve mycorrhization of planted seedlings with site native mycorrhizal fungi.

Other projects involved field research examining various sulphur fertilizers with respect to their behaviour in forest soils and their effects on lodgepole pine growth and research into the management of soil conditions and tree growth on rehabilitated and degraded sites.

## Wood quality

FII's 2003/04 research investments supported initiatives to improve the application and utilization of B.C.'s wood resource, such as an assessment of the shape and size of canter chips on kraft pulping and pulp properties.

### 3. Improve stewardship and market acceptability of B.C. forest products

Forest activities on B.C.'s public lands must consider all forest values, including fisheries, wildlife, biodiversity and other public values. Research to improve stewardship ensures B.C. continues to be a world leader in sustainable forest management. This helps to protect forest values, increase international acceptance of B.C. forest products and accelerate independent certification processes.

#### Sustainable forest management

Sustainable forest management is based on balancing social, ecological, and economic values over the long term. In order to facilitate sustainable forest management, appropriate criteria and indicators, monitoring, and reporting systems need to be developed, tested, and the impacts and trade-offs of the various values need to be assessed. Investment funding in 2003/04 was provided to projects that:

- Formulated methods and procedures to identify economic trade-off from considering ecological, social and economic criteria in sustainable forest management planning.
- Developed methodology to sustainably co-manage forests and community forests, and identified criteria for joint forest management.
- Investigated current monitoring and information requirements and reporting of forestry standards in different jurisdictions, and provided a framework to consider factors affecting implementation of standards in different jurisdictions.

#### Terrestrial ecosystems

Projects relating to terrestrial ecosystems focused on high-profile and threatened species such as northern and mountain caribou, grizzly bear and mountain goat were funded in 2003/04. Objectives of these projects included identification and maintenance of habitat, population dynamics, behaviour, habitat distribution and critical habitat location, habitat use patterns, and impacts relating to habitat fragmentation. Information generated from these research projects will allow resource managers and decision makers to test and modify existing management guidelines or strategies, and develop new strategies to ensure forest resource planning and management result in balanced sustainability of biodiversity values and timber supply. By providing accurate and current scientific knowledge, research will lead to increased market acceptance for B.C. forest products. Investment funding in 2003/04 was provided for:

- Multiple projects for caribou research in the west-central, southern Interior, and Central Rocky Mountain ecoregions relating to habitat requirements, fragmentation and population viability.
- Research to further develop a mountain goat habitat supply model to support habitat management and resource planning.
- A study to improve the understanding of relationships between forest management and grizzly bear in the southern Interior.
- Projects to investigate coarse-filter management approach to biodiversity by studying non-migratory and breeding birds and canopy lichens.

## Aquatic and riparian ecosystems and watershed management

Because riparian and aquatic characteristics, processes and functions may vary with stream size and among ecoregions, it is important to test and assess impacts of current and alternative guidelines across a range of stream types and within different systems to determine if watershed values can be maintained with various levels of forest harvest. Application of blanket guidelines to all stream sizes and regions may either be over-protective and limit timber harvest or be under-protective and jeopardise watershed values. Investment funding was provided for a number of multi-year and long-term projects designed to assess and monitor the effects of various riparian management strategies on biotic and abiotic variables for streams of different sizes and within various ecosystems. In addition to assessing impacts of management strategies, these studies also provide information to further the understanding of watershed, riparian, and aquatic functions, processes, and dynamics. Funding in 2003/04 supported:

- A large-scale, multi-year riparian study to measure impacts and recovery of aquatic, riparian, and terrestrial components from different forest management strategies within the Coastal Western Hemlock zone.
- A study of the effects of logging on aquatic variables in headwater streams of southern Interior Engelmann Spruce-Subalpine Fir zone.
- A long-term case study of the effects of forestry practices within a small coastal watershed at Carnation Creek.
- A watershed experiment to study effects of various levels of forest harvesting on aquatic resources in Engelmann Spruce-Subalpine Fir and Montane Spruce zones.
- An adaptive management approach to testing of the effectiveness of a local riparian management policy for small streams in the Sub-Boreal Spruce zone.
- Identification of riparian management strategies for small streams in the central Interior, which prevent adverse water temperature impacts and aid identification of sites with the highest potential for adverse impacts.
- Research that compared measured and predicted values of solar radiation for forested streams in south coastal B.C.
- Research to examine the effects of forest management on runoff and sediment production within a community watershed.
- Sediment budget research in coastal watersheds through collecting data to measure effects of roads in sediment budget and improve sediment budget model.

Funding in 2003/04 also supported research to further the understanding of the threatened coastal giant salamander and to investigate the functional role and dynamics of woody debris among stream types and disturbance types.

To advance assessment, monitoring, and prediction of impacts of forest harvesting and riparian management strategies on riparian health and watershed values, funding was directed to research projects which supported the development of a tool to provide an accurate appraisal of the overall health of riparian and stream habitats; development of a province wide procedure to monitor stream channel changes; and validation of a model to predict downstream temperature trends in small headwater and lake-headed streams.



In order to reduce impacts of harvesting practices on watershed and aquatic values, research funding supported projects, which assessed management techniques to reduce the incidence of road fill landslide and improve road construction practices on steep to moderately steep terrain in the northern Interior, and to assess impacts of conventional forest management practices on alluvial and colluvial fans in west-central B.C. This information can be used to identify and predict hazards for forestry activities and improve guidelines and forestry practices leading to science-based decision making and sustainable forest management.

#### 4. Extension of forest research information and results

Extension activities funded through the Research Program in 2003/04 provide an essential step toward awareness, application and implementation of research results and expert knowledge gained through research investments. The benefits of extension activities include:

- greater access to research results so the forest industry can use research findings to refine forest management practices;
- better understanding of knowledge gaps and research priorities;
- broader application of results in various geographical and ecological conditions;
- greater public access to current science to allow informed input into forest stewardship plans and strategic land use planning;
- greater public trust and confidence in B.C.'s forest policy and practices, and
- international recognition of B.C.'s innovation and excellence in forest research.

Supporting a range of extension activities and products is important to ensuring that research information and results are effectively and appropriately extended to a wide range of end users including field practitioners, decision makers, forest managers, planners, researchers and the general public. Extension of research results and information was supported by 2 mechanisms in 2003/04: through funding provided to the Forest Research Extension Partnership ("FORREX") and through funding provided to individual research projects.

FORREX is a not-for-profit corporation that develops and extends science and expert information to clients and end users to improve sustainable forest management. Through funding to FORREX, FII supported the development and delivery of more than 330 extension activities and products to facilitate knowledge development, synthesis, transfer, and application of results.

FII also supported more than 320 extension activities and products through individual research projects activities in 2003/04. These included technical reports, scientific journal papers, workshops, field tours, presentations, extension notes, and websites.

**Table 4: Research Program: Summary of Results**

**Goal 3:** Increase the value of timber and the forest land asset, and contribute to sector competitiveness by supporting innovative, focused and results-oriented research which is used by regulators and forest practitioners.

**Note:** The targets established for Goal 3 focused on developing sound baselines to address strategic knowledge gaps through the Research Program, and to determine the value of program products and how they were being used by decision-makers, planners, resource managers and other potential beneficiaries. Mid-way through 2003/04, the decision was made to transfer the Research Program to a new administrator, beginning in 2004/05, and PricewaterhouseCoopers ("PwC") was selected through a competitive process. As a result, some activities required to achieve specified targets were no longer appropriate.

<p><b>Objective 1:</b> To support the development and implementation of more effective policy, regulation and guidelines.</p>	<p><b>Strategies:</b></p> <ol style="list-style-type: none"> <li>1. Provide necessary scientific information required to support policy, regulation and guidelines development, evaluation and adjustment.</li> <li>2. Enhance the quality of decision-making through an improved knowledge base.</li> <li>3. Empower decision-makers to employ practical adaptive management approaches.</li> <li>4. Support greater certainty in planning and decision-making for all forest resource values.</li> <li>5. Support implementation of the Forest Range and Practices Act.</li> </ol>	
<p><b>Performance Measures</b></p>	<p><b>Targets</b></p>	<p><b>Results</b></p>
<ul style="list-style-type: none"> <li>• Knowledge gaps identified.</li> <li>• Number and significance of improved policy/ guidelines developed through FII investments.</li> </ul>	<ul style="list-style-type: none"> <li>• Identify policy areas that can benefit most from knowledge investments in 2003/04.</li> </ul>	<p>Target on track/transferred to MOF:</p> <ul style="list-style-type: none"> <li>• Developed guidelines and products to strengthen land use planning and establish land use objectives.</li> <li>• Developed guidelines to manage particular forest resources, including riparian zones, green-up and soil conservation.</li> <li>• Invested in decision support tools such as growth and yield projection models and habitat supply models.</li> <li>• Project initiated in 2003/04 to identify priority knowledge gaps.</li> </ul>
<ul style="list-style-type: none"> <li>• Forest practitioner satisfaction with applied research conducted by FII.</li> </ul>	<ul style="list-style-type: none"> <li>• 60% of relevant research users have employed research results to develop, improve or implement policy, regulation and guidelines in 2003/04 (75% by 2005/06).</li> <li>• 60% of users report an increase in utility of FII research investments in 2003/04 (80% by 2005/06).</li> </ul>	<p>Baseline not developed due to transfer of program:</p> <ul style="list-style-type: none"> <li>• FII priorities shifted midway through 2003/04 with the decision to modify the Research Program and transfer the administration of the new Forest Science Program to PwC for 2004/05.</li> </ul>

<p><b>Objective 2:</b> To enhance the value of timber and forest land assets.</p>	<p><b>Strategies:</b></p> <ol style="list-style-type: none"> <li>1. Promote more effective and efficient use of forest resources.</li> <li>2. Reduce costs of timber production.</li> <li>3. Reduce forest health risks through better management practices that protect, maintain and enhance timber volume and value.</li> <li>4. Enhance timber quality and resulting products.</li> <li>5. Increase available value and volume over time through productivity enhancements, increased utilization and better realization of inherent site potential.</li> <li>6. Increase available timber volume through the management of access constraints.</li> </ol>	
Performance Measures	Targets	Results
<ul style="list-style-type: none"> <li>• % increase in value of treated stands.</li> <li>• Volume gain (cubic metres per year) expected from implementation of new practices and technologies.</li> <li>• Volume accessible through the mitigation of access constraints.</li> <li>• Dollar value of volume, quality, and access improvements.</li> </ul>	<ul style="list-style-type: none"> <li>• Identify key knowledge gaps in 2003/04.</li> </ul>	<p>Target partially met, future performance on this target transferred to MOF:</p> <ul style="list-style-type: none"> <li>• Proposals were required to demonstrate that the research addressed a key knowledge gap, and were evaluated by an expert panel drawn from the research and user communities.</li> <li>• Supported research to control regionally significant forest pathogens and pests.</li> <li>• Studied stand treatment and silvicultural systems to address regionally significant stand management issues and assess impact on growth and yield.</li> <li>• Looked for ways to improve wood quality and value.</li> </ul>

<p><b>Objective 3:</b> To improve stewardship and market acceptability of B.C. forest products.</p>	<p><b>Strategies:</b></p> <ol style="list-style-type: none"> <li>1. Promote new or adapted forest practices, which give B.C. an edge in the world forest products marketplace.</li> <li>2. Enhance market access.</li> <li>3. Improve sustainable forestry practices in terms of planning, management, monitoring analysis, reporting and adjustment.</li> <li>4. Enable and accelerate certification processes.</li> </ol>	
Performance Measures	Targets	Results
<ul style="list-style-type: none"> <li>• Forest practitioner satisfaction with applied research conducted by FII.</li> </ul>	<ul style="list-style-type: none"> <li>• 60% of users report an increase in utility of FII research investments in 2003/04 (80% by 2005/06).</li> </ul>	<p>Baseline not developed:</p> <ul style="list-style-type: none"> <li>• FII priorities shifted midway through 2003/04 to support MOF investigation of future directions for the FIA Research Program and subsequently focus on 2003/04 program cessation activities following decision to transfer administration of the new Forest Science Program to PwC for 2004/05.</li> </ul>
<ul style="list-style-type: none"> <li>• % of consumers who are satisfied with B.C.'s sustainable forest management practices and B.C. wood products.</li> </ul>	<ul style="list-style-type: none"> <li>• Increase in international customer and B.C. public satisfaction with B.C.'s sustainable forest management practices.</li> </ul>	<p>Target met through BC Market Outreach Network programming: In addition, project level research has:</p> <ul style="list-style-type: none"> <li>• Increased understanding of watershed interactions to improve stream and riparian management.</li> <li>• Increased knowledge of broader-scale impacts to support integrated resource management.</li> <li>• Supported projects to increase understanding about wildlife and habitat needs, with a focus on high-profile wildlife species.</li> <li>• Increased understanding of sustainable forest management and indicators and criteria relevant to B.C.</li> </ul>

<b>Objective 4:</b> To increase and support more effective use of forestry research results.	<b>Strategies:</b> 1. Support research that has the potential for broad applicability beyond just a local geographic or ecological situation. 2. Support research that provides usable results to as wide a set of users as possible. 3. Support extension plans.	
<b>Performance Measures</b>	<b>Targets</b>	<b>Results</b>
<ul style="list-style-type: none"> <li>• # of users reached through extension of research activities.</li> <li>• # of new applications implemented as a result of the research supported.</li> <li>• Practitioner satisfaction with applied research supported by FII.</li> <li>• Benefits resulting from the application of new knowledge.</li> </ul>	<ul style="list-style-type: none"> <li>• 60% of users report an increase in utility of FII research investments in 2003/04 (80% by 2005/06).</li> </ul>	Target transferred to MOF for application in future years: <ul style="list-style-type: none"> <li>• Extended research through technical report, journal articles and extension materials, seminars, workshops, presentations and websites (both through extension services provider FORREX and through individual research projects).</li> </ul>

## e. Partnerships

FII and its many partners achieve wider results by working together to gather the market knowledge needed to make the best investments and to deliver the most effective program activities. All of FII's program areas contribute to the goal of coordinating and strengthening partner and stakeholder participation.

International Marketing and Product Development's \$8.2-million investment supported projects worth more than \$18 million when industry and federal contributions were included. The Research Program funding of \$9.7 million led to projects valued at more than \$16 million. The BC Market Outreach Network worked closely with industry and other partners, leveraging the participation and funding of affiliated organizations to manage issues and to develop and distribute materials.



### i. Focused market strategies

In the first quarter, FII began a market-by-market strategy development process for its planning activities, working closely with Natural Resources Canada and forest industry associations and engaging forest companies directly. By the end of the fiscal year, FII had used this cooperative approach to develop market strategies for Korea, Taiwan and Japan. FII intends to develop additional strategies for China and Europe during 2004/05.

The Korea market strategy planning process, completed in the second quarter, increased collaboration significantly among all industry sectors and identified the need for additional research and market information. This resulted in a detailed report and strategy, analyzing the Korean market for wood products, developing initial market projections and identifying future priorities and objectives. All industry associations supported this process and the resulting report. The strategy was used to guide 2003/04 investment decisions in South Korea, and will form a basis for future funding decisions.

In the second half of the fiscal year, FII continued to work with its industry and federal partners to support strategy development processes in Japan and Taiwan. These strategies were in the final stages of completion at the end of the fiscal year.

The strategy development process has been an excellent conduit to bring together FII, federal funders, and the industry and its associations to discuss and set priorities for individual markets. These strategies will form a basis for establishing FII funding priorities in future years, and have helped to demonstrate the added value of cooperative planning and marketing activities, compared to the individual sector approach which has existed historically.

The Dream Home China project is also securing greater profile for B.C. companies and increased demand for B.C. products by helping to consolidate relationships among the B.C. forest industry, industry associations, the federal government through Natural Resources Canada, and other federal organizations and embassies/consulates. The Dream Home China project has helped to foster a closer working relationship among organizations and businesses seeking greater market opportunities for B.C. and Canadian wood products. During the second quarter of 2003/04, FII set up an office in Shanghai, adjacent to the office of COFI, BC Wood, and the Quebec Wood Export Bureau, and during the fourth quarter, the CFLA set up an office within FII's Shanghai office.

## ii. Coordinated marketing and communications



**FII's coordinated trade show strategy will give B.C. forest products the strongest brand identity at international shows.**

FII worked with industry associations to design and produce both its B.C. wood products and its forest information websites, and includes links to association home pages, forest producers and other partners. FII has also posted market research reports it has prepared, or recipients have prepared using FII investments, on a recipient / industry section of FII's website. Given the global competitive challenges, FII has limited access to this research to the B.C. forest industry and industry associations, government ministries and federal funding partners.

The International Marketing Program distributed information about the B.C. forest industry at the request of embassies and consulates, and the BC Market Outreach Network provided market information so trade officials could respond to questions from customers. All marketing materials have been designed and distributed for use by FII staff in their international activities and for broad use by industry associations, companies, embassies, consulates and other international trade organizations.

The BC Market Outreach Network worked with forest sector representatives in B.C. to monitor issues so they could deliver strong, consistent and often proactive responses. Industry and government technical specialists confirmed the accuracy of the Network's materials and provided advice on messaging and distribution. Field managers participated in tours arranged for international customers.

The Network watched for opportunities to highlight the work of its partners or work with them at international trade shows. At the XII World Forestry Congress, it hosted a reception that showcased the work of the Ministry of Forests protection program and also sponsored a Commemorative Garden where an Interior Douglas-fir provided by the ministry represented B.C.'s rich forest diversity as one of 35 national and international tree species planted. On the opening night of the International Builders' Show in Las Vegas, the Network, FPAC and WPN held a reception to promote B.C. and Canada, a partnership they plan to continue at future International Builders' Shows.

As a result of its review of trade show participation, FII and its industry partners began work in 2003/04 on a new and fully coordinated trade show strategy for Asia and the U.S., "B.C. World Leader in Forest Products". FII's in-market evaluation activities identified the opportunity to broaden the impact and effectiveness of trade show activities and, by working together as a coordinated industry, to achieve far more out of the investments being made. FII initiated planning activities with industry associations and federal partners, and in the fourth quarter completed coordinated planning activities for the upcoming 2004/05 Asian and U.S. trade show seasons.

This approach will see updated and high-quality association trade show displays, with coordinated pre-show planning, complementary promotional activities and at-show special events and media activities, as well as recognizable branding and brand identity. The objective is to have a high-impact, highly professional, well-planned and coordinated trade show presence, giving B.C. forest products the strongest possible brand identity at international trade shows.

The "B.C. World Leader in Forest Products" pavilion will showcase B.C. structural and finishing wood products in a model house display, demonstrating B.C.'s high-quality wood products in their end use applications. FII selected a designer and coordinated show management services through a competitive call-for-proposals process, and initiated the construction of the new wood products showcase booth in the fourth quarter.

### iii. BC Forest Innovation Council

In the last fiscal year, FII took the lead in establishing a group of industry, government, academic and other representatives to support the development of a Forest Sector Innovation Cluster for B.C. In October 2003, 13 individuals representing 8 organizations developed and adopted a mandate for the council, which was renamed the British Columbia Forest Innovation Council.

A permanent council was to be established in April 2004 to:

- provide a forum in which to develop senior level consensus around a provincial innovation vision;
- develop and advocate means to deliver the vision, mobilizing and aligning capacities and resources in the most effective and sustainable way possible; and
- champion B.C. forest sector innovation to key decision makers with an aim to increasing levels of investment in innovation.

**Table 5**

**Goal 4: Coordinate and strengthen partner and stakeholder participation in FII initiatives.**

<b>Objective 1:</b> Increase the level of partner support for FII projects and initiatives.	<b>Strategies:</b> 1. Cost share projects with industry and other partners.	
Performance Measures	Targets	Results
<ul style="list-style-type: none"> <li>Leveraged funds as a percentage of total project costs.</li> </ul>	<ul style="list-style-type: none"> <li>Cost sharing targets will be developed for each program in 2003/04.</li> </ul>	Target met. <ul style="list-style-type: none"> <li>Baseline established</li> <li>59% of total project costs supported through partner contributions (outside North America).</li> <li>52% of total project costs supported through partner contributions (domestic/North America).</li> <li>Targets established for Dream Home China and the BC Market Outreach Network.</li> <li>Increase in level of partner support is a broad goal.</li> </ul>
<b>Objective 2:</b> Coordinate forest sector partners and strengthen linkages within the forestry sector .	<b>Strategies:</b> 1. Develop contacts and cooperate with other organizations and governments in providing strategic direction to FII's research program. 2. Strengthen the linkages between forest industry partners by pursuing marketing initiatives through forest sector associations. 3. Support the development of a forestry innovation cluster located in B.C.	
<ul style="list-style-type: none"> <li>Level of partner support for FII initiatives.</li> </ul>	<ul style="list-style-type: none"> <li>Establish processes and mechanisms to coordinate partner and stakeholder input into the development of FII investment strategies.</li> </ul>	Target met. <ul style="list-style-type: none"> <li>Investment strategies distributed to partners and stakeholders.</li> <li>Informal network established with industry and government to review and contribute to investment strategies and publications.</li> <li>Developed model for strategic advisory committee structure for implementation in 2004/05.</li> </ul>
	<ul style="list-style-type: none"> <li>Participate with forest sector partners to develop the B.C. Forest Science and Innovation Cluster.</li> </ul>	Target met. <ul style="list-style-type: none"> <li>Supported the creation of the BC Forest Innovation Council, mandate adopted and interim council created.</li> <li>Permanent council to be established in 2004.</li> </ul>

## f. Audit

### i. Audit activities and results

FII established a monitoring and audit framework to assess the performance of all aspects of its operations when its original investment model was created in April 2002, so 2003/04 represents the second full year for most activities.

For the International Marketing, Product Development and Research programs, the framework involves examining the performance of both recipients and FII in achieving all program objectives and expectations. For the BC Market Outreach Network, China Operations and corporate programs, it addresses activities undertaken by FII.

FII's 2003/04 monitoring and audit approach reflects its increased understanding of recipient operations, knowledge of specific areas of concern identified in 2002/03 audits, and new areas for focus emerging from the risk assessment process. The risk assessment program is complete for the International Marketing, Product Development and Research programs, and monitoring began earlier in 2003/04 than it had in the previous year.

In the International Marketing and Product Development programs, interim audits were conducted on all major recipients. FII also undertook 2 evaluations to address the effectiveness of a funded program and recipient marketing strategies: Forintek's technology transfer program and Western Red Cedar Lumber Association's U.S. marketing strategy. The year-end audits of recipients are in progress, and will be completed by June 30.

Interim audits indicate significant improvement in recipient compliance with work plans and FII policies, with some minor non-compliance matters. Preliminary results of the audits for 2003/04 collectively have identified less than \$200,000 in ineligible costs, out of more than \$8.2 million committed, or less than 2.5 per cent of the total.

For FII's new programs, the BC Market Outreach Network and China Operations, and its corporate programs, the first phase of the risk assessment process is complete and resulting action and monitoring/audit plans are being implemented. The audit plan for the Dream Home China project is underway, specifically including a review of individual transactions originating in China, and will result in a more detailed risk assessment, which will define additional actions during the upcoming year.

As of April 1, 2004 the Research Program will be transferred to a new administrator. However, FII will retain responsibility for completing audits and closing 2003/04 agreements through to June 2004.

In the Research Program, there are plans for audits of 19 of the 93 projects, addressing both operational and financial matters. The audits will be complete by June 30, and an evaluation of the results of the Research Program is currently being planned, for completion by July 2004.

## ii. Program and Corporate Risks

### International Marketing and Product Development

As FII enters 2004/05, the third year of recipient programming, there is a high level of confidence that, overall, projects are being delivered in accordance with approved project plans, that funds are being spent on relevant and eligible activities and costs, that projects are being conducted with some efficiency, and that costs of specified activities are reasonable. This confidence is based on the proposal evaluation process, the monitoring and audit program, and ongoing interaction with recipients.

As a result, FII can increase its focus on the added value offered by International Marketing and Product Development activities, specifically the effectiveness of the projects. It has prepared marketing strategies for major markets, undertaken 2 evaluations in 2003/04 and has planned 2 more evaluations for the new fiscal year.

### BC Market Outreach Network

For the BC Market Outreach Network, a monitoring plan has been developed based on phase 1 of a risk assessment. The overall risk is considered moderate, with high-impact activities that involve relatively small costs and accordingly low risks.

Monitoring has been designed to provide assurance that there is a clear link between activities and program objectives, and this will involve:

- Ensuring that activities continue to be founded on current, relevant research, and that there are appropriate linkages between the environmental scan/market research and the program goals and objectives.
- Confirming the rationale and cost effectiveness of certain activities and how they are delivered, and how functions and information are shared with other agencies.

Upon completion of the monitoring plan, the risk assessment will be updated and any items requiring action will be identified. This process will be complete by May 31, 2004.

## China Operations/Dream Home China project

FII completed a preliminary risk assessment for its Dream Home China project. It also implemented a management control framework, including financial controls involving the Shanghai office of KPMG, and development of a project plan for the construction stage of the project. The audit of internal controls and expenditures for 2003/04 is in progress. When both the audit and current systems and procedures training in Shanghai are completed, a more detailed financial and operational risk assessment will be completed to identify any remaining control gaps and outstanding risks.

Three stages of the first phase of the Dream Home China project are complete: the feasibility and conceptual design, the legal structure, and the property (lease rights) acquisition. At the end of the fiscal year, it was entering the construction stage with material consolidation in progress. Through these stages, FII has developed and implemented a delivery structure and working relationships while considering the rules, expectations and risks associated with such project development in China.

**Those risks and the associated strategies are:**

**1. *Risks relating to understanding the legal rules and political and business relationships and processes necessary for doing business in China.***

**Strategy:** FII has formed arrangements with qualified and informed legal and financial advisors to assist in this understanding and in the ongoing evolution of the project and China operations, and has placed in Shanghai a vice-president from B.C. to manage operations and maintain business relationships.

**2. *Structuring the project to meet the rules and expectations in China and comply with B.C. standards for management and financial control.***

**Strategies:** FII chose the option of establishing a wholly foreign owned enterprise to comply with Chinese law and facilitate project needs. This structure also provides a certain level of flexibility for future decisions regarding the next phases of the Dream Home China project. FII also decided to lease the demonstration properties, since investing in what is essentially pre-paid promotion rights avoids the risks associated with direct responsibility for construction, and minimizes any risks relating to property speculation in a foreign country. The remaining risk of project delay is mitigated by the selection of the construction company, a substantial part-government owned corporation.

**3. *Financial risks***

**Strategies:** Financial risk has been limited by the decision to lease the property, and will be managed through operation of the control framework summarized below. Insurance will be obtained or, where appropriate, the risks will be passed on to the property development company, to help mitigate those natural disasters that can be covered. FII is also looking into the need to hedge against significant appreciation of the Chinese currency.

**4. *Other risks – the current positive economic climate in China and the effect of the continuing evolution of China's political and economic systems is difficult to predict.***

**Strategy:** The main defence against major change in China's political and economic systems is the maintenance of relationships in the political and business community, and the Chinese interest in B.C. wood construction.

## g. Corporate Services

Throughout 2003/04, FII delivered reports in accordance with its agreement with the Ministry of Forests, including quarterly reports and monthly financial reports. It also submitted a service plan within the timeframes required in the Budget Transparency and Accountability Act.

### Financial management and control

During the year, FII updated the previously existing financial policies and procedures which were developed to provide a streamlined financial control system that allowed for the administration of funds in an accountable manner, while meeting the requirements of the FII Agreement with the Minister of Forests and also living within the intent of B.C. government financial policies and controls. These policies were submitted to and approved by the Board of Directors.

Some of the main policies and procedures established were those relating to contract management and the competitive process that is used to award project funding and manage and administer funding agreements. FII ensured that independent parties were involved in the evaluation of all proposals for recipient funding, and that FII policies were followed in using competitive processes to hire many contractors delivering services to or on behalf of the corporation. Now that the workload associated with establishing the corporation has been completed, FII intends to increase its reliance on competitive processes for services secured locally during the 2004/05 year.

FII also implemented financial and project tracking to ensure that required information could be made available to facilitate monitoring of project costs, and to enable accurate reporting.

### Financial monitoring

All funds remaining from the 2002/03 fiscal year were transferred by Forintek to FII in September as part of the transition agreement, and the remaining balance was returned to government at the end of January once all of the audit issues had been dealt with and cleared, and the final resolution of the funds had been determined.

### Human resource management

FII completed a human resource management plan for both FII and FII Shanghai with a salary plan, job descriptions for each position and a job evaluation system. The human resource management plan was reviewed with PSAC to confirm its consistency with comparable organizations such as other Crown agencies and industry associations and other groups engaged in similar work.

In December, FII ended its lease of the office space it had occupied at the University of British Columbia, and moved all staff to its office in downtown Vancouver. This improved staff interaction and efficiency.

FII developed a standards of conduct policy early in the fiscal year, and all employees and regular outside contractors attended a mandatory workshop and training.



**Table 6**

**Goal 5: Effective governance: Ensure continuous improvement through effective administration, streamlined operations and sound governance.**

<p><b>Objective 1:</b> Develop and internalize a results-focused organization.</p>	<p><b>Strategies:</b> 1. Develop and implement a performance based management and budgeting framework. 2. Refine business processes to optimize efficiency and cost-effectiveness.</p>	
<p><b>Performance Measures</b></p>	<p><b>Targets</b></p>	<p><b>Results</b></p>
<ul style="list-style-type: none"> <li>• Percentage of FII budget that is allocated to administration.</li> <li>• Average ROI for FII investments.</li> <li>• Percentage of corporate performance targets achieved or substantially achieved.</li> </ul>	<ul style="list-style-type: none"> <li>• Implement performance based management and budgeting framework in 2003/04.</li> <li>• Administration costs to be kept below 4.5% of budgeted program costs.</li> </ul>	<p>Target met.</p> <ul style="list-style-type: none"> <li>• Performance-based management and budgeting framework implemented.</li> <li>• Administration costs were 4.1% of budgeted program costs.</li> </ul>
<p><b>Objective 2:</b> Attract and retain the right people.</p>	<p><b>Strategies:</b> 1. Develop and implement a human resources strategy to attract and retain high quality and motivated staff. 2. Introduce 360 feedback to relevant employees. 3. Develop employee performance plans for staff. 4. Support staff development of core competencies by identifying skill gaps and addressing them by providing training.</p>	
<p><b>Performance Measures</b></p>	<p><b>Targets</b></p>	<p><b>Results</b></p>
<ul style="list-style-type: none"> <li>• Percentage of FII staff with performance plans in place.</li> <li>• Percent of critical positions with current competency profiles.</li> </ul>	<ul style="list-style-type: none"> <li>• Implement HR strategy in 2003/04.</li> </ul>	<p>Target met.</p> <ul style="list-style-type: none"> <li>• HR strategy implemented and reviewed with PSAC.</li> </ul>
	<ul style="list-style-type: none"> <li>• Develop and implement performance plans for all employees in 2003/04.</li> </ul>	<p>Target met.</p> <ul style="list-style-type: none"> <li>• Performance plans implemented for all staff.</li> </ul>

<b>Objective 3:</b> Accountability and transparency to the public.	<b>Strategies:</b> 1. Audit and monitoring of FII projects. 2. Ensure regular and accurate reporting on the results of investments in support of corporate goals and objectives. 3. Prepare corporate calendar identifying deadlines for planning and reporting.	
Performance Measures	Targets	Results
<ul style="list-style-type: none"> <li>• Percentage of FII audited projects where performance information is determined to be accurate and credible.</li> <li>• Meeting targets and deadlines set.</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor 100% of funded projects annually.</li> </ul>	Target met. <ul style="list-style-type: none"> <li>• 100% of funded projects monitored.</li> </ul>
	<ul style="list-style-type: none"> <li>• Audit 15% of research projects annually.</li> </ul>	Target exceeded. <ul style="list-style-type: none"> <li>• Exceeded target – 19 of 93 (20%) projects will be audited by June 30, 2004.</li> <li>• Evaluation of the results of the Research Program currently planned, also for completion July 2004.</li> </ul>
	<ul style="list-style-type: none"> <li>• Audit 80% of international marketing/product development projects annually.</li> </ul>	Target exceeded. <ul style="list-style-type: none"> <li>• Exceeded target – 36 of 38 (95%) projects will be audited by June 30, 2004.</li> <li>• Evaluation of 2 recipient programs conducted in 2003/04.</li> </ul>
	<ul style="list-style-type: none"> <li>• Provide report to minister regarding the results of the audit activities.</li> </ul>	Target met. <ul style="list-style-type: none"> <li>• Ministry and board provided with results of 2002/03 audit program.</li> <li>• 2003/04 audits are underway and will be reported in new fiscal year.</li> </ul>
	<ul style="list-style-type: none"> <li>• 100% of reporting deadlines met.</li> </ul>	Target met.

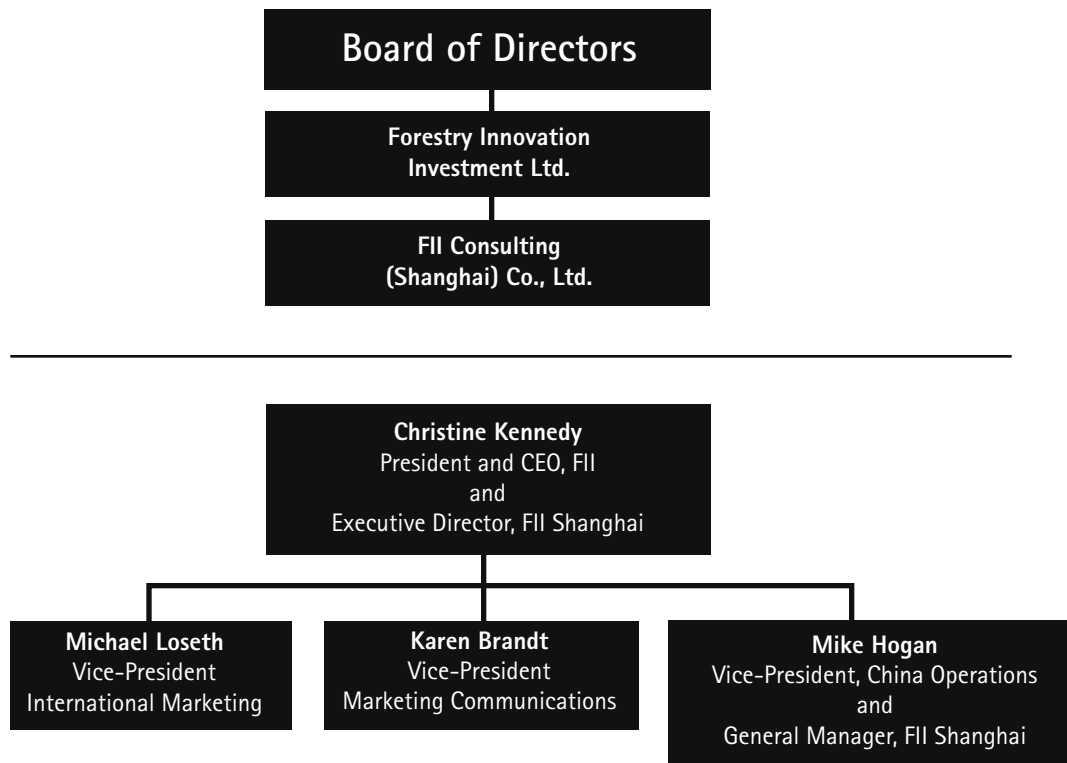
## CORPORATE GOVERNANCE

FII is incorporated under the Company Act of British Columbia, and the Province of British Columbia, represented by the Minister of Forests, is its sole shareholder. It is managed by a board of directors made up of the deputy ministers of the Ministry of Forests, the Ministry of Finance and the Ministry of Small Business and Economic Development. The board has primary accountability for FII corporate performance. It is responsible for interpreting FII's mandate as expressed by government, and for providing strategic direction and stewardship to the FII Executive, approving the direction of the business, and overseeing and reporting on progress of FII in meeting its objectives.

FII has formed an audit committee, which will commence activities in 2004/05.

FII's subsidiary, FII Consulting (Shanghai) Co. Ltd., is a wholly foreign-owned enterprise licensed to conduct business in China. It manages the Dream Home China project and other FII activities in China.

### FII's organizational structure:



Note: A Vice-President of Finance position was created effective April 1, 2004 and will be filled during 2004/05



## FINANCIAL REPORT

FII started its first year of operations under a transition agreement among the Ministry of Forests, Forintek and itself to facilitate the transfer of responsibilities from Forintek to FII. As part of the transition agreement, Forintek transferred to FII for a dollar the assets purchased with funds provided from the forestry innovation investment programs establishing a contributed surplus in the corporation. Once the FII Agreement for 2003/04 was signed in May 2003, funds were transferred to FII so that recipient funding could be released and full operations could commence from that time.

During the year, FII received \$30.6 million out of the budgeted funding amount of \$31 million. Despite confirmation prior to the year end that the majority of funds provided to recipients would be fully spent by year end, certain recipients subsequently reported under-spending of close to \$1 million such that, in accordance with the agreement with the province, FII will be returning excess funds of \$1,168,673, including interest earned of \$204,777, to the province for 2003/04.

Some other funds were spent on capital transactions within the corporation including leasehold improvements and certain office furniture and equipment, website development, and the design and construction of 2 wood products trade show booths. The 2 booths were under construction at fiscal year end.

A further \$1.6 million was provided by FII to FII Shanghai as registered capital to enable that company to operate in the People's Republic of China. Under PRC law, these funds cannot be returned to FII, and they have been committed under an agreement with a development company as pre-paid lease payments, but which will be used for the construction of the demonstration centre and villas in Shanghai. By the fact that these funds have been expended by FII, it cannot return the funds relating to these expenditures to the province but has recognized the deferred repayable nature of these amounts in the financial statements.

Due to the manner in which funding is provided to, and reported on, by recipient organizations, FII is required to maintain its administration costs at less than 4.5 per cent of the budgeted program allocation. It exceeded this target for 2003/04, with administration costs coming in at 4.1 per cent.

It should be noted that there may be some adjustments to the figures reported by recipients, and hence to the related program costs, as a result of FII's audit program which was underway at March 31, 2004. If any funds are consequently identified as being repayable by recipients these will be returned to the province during the 2004/05 fiscal year.

Forestry Innovation Investment Ltd.

# Financial Statements

March 31, 2004

Forestry Innovation Investment Ltd.

## Statement of Management Responsibility

Management, in accordance with Canadian generally accepted accounting principles, has prepared the financial statements of Forestry Innovation Investment Ltd. These statements present fairly the financial position of the Company as at March 31, 2004 and results of its operations and cash flows for the year ended March 31, 2004.

Management is responsible for the preparation, integrity and objectivity of the financial statements. Systems of internal control are developed and maintained by management to provide reasonable assurance that transactions are properly authorized, assets are safeguarded, and financial records are properly maintained to provide a reliable basis for preparation of the financial statements.

The Auditor General of British Columbia has performed an independent review of the financial statements. The Report of the Auditor General outlines the scope of his work on the financial statements of Forestry Innovation Investment Ltd.



President and CEO



Vice-President, Marketing

Vancouver, British Columbia  
May 12, 2004



## Report of the Auditor General of British Columbia

To the Shareholder of *Forestry Innovation Investment Ltd.*:

I have audited the balance sheet of *Forestry Innovation Investment Ltd.* as at March 31, 2004 and the statements of operations and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of *Forestry Innovation Investment Ltd.* as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Victoria, British Columbia*  
*May 12, 2004*

Wayne Strelieff, FCA  
Auditor General

## Forestry Innovation Investment Ltd.

### Balance Sheet

March 31, 2004

(in \$000s)

<b>Assets</b>	
<b>Current assets</b>	
Cash	6,360
Accounts receivable	110
Prepaid expenses	242
Program advances (note 4)	282
	<b>6,994</b>
<b>Dream Home China (note 5)</b>	<b>2,344</b>
<b>Capital assets (note 6)</b>	<b>936</b>
	<b>10,274</b>
<b>Liabilities</b>	
<b>Current liabilities</b>	
Accounts payable (note 7)	1,150
Program payables (note 4)	4,680
Due to the Province of British Columbia (note 8)	1,169
	<b>6,999</b>
<b>Capital lease</b>	<b>9</b>
<b>Deferred revenue (note 8)</b>	<b>3,120</b>
	<b>3,129</b>
<b>Shareholder's equity</b>	
Share capital (note 9)	-
Contributed surplus (note 10)	146
Retained earnings	-
	<b>146</b>
	<b>10,274</b>

On behalf of the Board

  
Chair

  
Director

The accompanying notes are an integral part of these financial statements.



**Forestry Innovation Investment Ltd.**  
**Statement of Operations and Retained Earnings**  
For the year ended March 31, 2004  
(in \$000s)

<b>Revenue</b>	
Contribution from the Province of British Columbia (note 8)	26,531
	<b>26,531</b>
<b>Program costs</b>	
<b>International marketing</b>	
Marketing	6,412
China operations	930
BC Market Outreach Network	2,784
	<b>10,126</b>
Product development	4,500
Research	10,633
	<b>25,259</b>
Administration	1,272
	<b>26,531</b>
<b>Excess of revenue over expenditures</b>	<b>-</b>
<b>Retained earnings end of the year</b>	<b>-</b>

The accompanying notes are an integral part of these financial statements.

## Forestry Innovation Investment Ltd.

### Statement of Cash Flows

For the year ended March 31, 2004

(in \$000s)

<b>Cash flows used in operating activities:</b>	
Marketing	(5,845)
China Operations	(756)
BC Market Outreach Network	(2,630)
Product Development	(4,164)
Research	(6,371)
Administration	(1,258)
Prepaid Operating Costs	(242)
	<b>(21,266)</b>
<b>Cash flows used in investing activities:</b>	
Interest on investments	192
Dream Home China	(2,344)
Asset acquisition	(837)
	<b>(2,989)</b>
<b>Cash flows from financing activities:</b>	
Contribution from the Province of British Columbia	30,615
Increase in cash during the year	6,360
Cash beginning of year	-
<b>Cash end of year</b>	<b>6,360</b>

The accompanying notes are an integral part of these financial statements.

# Forestry Innovation Investment Ltd.

## Notes to the Financial Statements

March 31, 2004

(Tabular amounts in \$000s)

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### 1) Nature of business

Forestry Innovation Investment Ltd (Company) was incorporated on March 31, 2003 under the Company Act (which now continues as the Business Corporations Act). A board of directors, all appointed by the government of British Columbia governs the Company.

The Company is responsible for International Marketing, Product Development and Research programs under the forest investment account vote.

**International Marketing** – Intended to strengthen British Columbia's opportunities in existing markets for BC forest products and develop and pursue new forest sector market opportunities in emerging markets.

**Product Development** – Designed to assist funding recipients to improve manufacturing processes and support technology transfer, develop new types or uses of forest products, and support market access initiatives by removing technical barriers to trade.

**Research** – Set up to provide contributions to enhance a leading edge forest industry that is globally recognized for its productivity, environmental stewardship and sustainable forest management practice. As of April 1, 2004, the research program will be transferred to a new administrator although the Company is retaining responsibility for completion of the audits and closure of 2003/04 agreements through June 2004.

The Company is exempt from federal and provincial income taxes.

### 2) Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

#### a) Going concern

These financial statements have been prepared in accordance with accounting principles that apply to a going concern. This presupposes that the company will continue its operations for the foreseeable future and that it will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company is subject to an annual renewal of its agreement with the Province of British Columbia. As such the on going operations of the Company are subject to it receiving annual funding under this agreement.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate, because management feels that the probability of renewal of the operating agreement is more likely than not.

## Forestry Innovation Investment Ltd.

### Notes to the Financial Statements

March 31, 2004

(Tabular amounts in \$000s)

#### b) Consolidation

The Company incorporated a wholly owned subsidiary registered under the laws of the People's Republic of China – FII Consulting (Shanghai) Co., Ltd. The company was required so that business can be carried on in China. There are restrictions imposed on the distribution of earnings and other transactions with the foreign subsidiary and hence it has not been fully consolidated in these financial statements. However these financial statements reflect all the transactions of the subsidiary during the year.

#### c) Construction in progress

Costs incurred in the development and construction of the Dream Home China project have been deferred and will be amortized as lease payments over three years once the construction has been completed. Pre-development costs incurred prior to the approval of a project are expensed.

#### d) Capital assets

Capital assets are recorded at cost and amortization is being calculated on the straight-line basis using the following rates:

Computer equipment	3 years
Computer software	2 years
Furniture and equipment	5 years
Leasehold improvements	Term of lease
Trade shows booths	3 years
Website development costs	3 years

Assets costing less than \$1,000 are expensed in the year of acquisition.

#### e) Revenue recognition

Contributions from the Province of British Columbia are for specific purposes and as such are deferred and recognized as revenue as the expenses are incurred.

#### f) Foreign currency translation

Any foreign currency transactions are translated into Canadian dollars at the rate of exchange in effect at the transaction date.

Any foreign currency denominated monetary assets and liabilities are stated using the prevailing rate of exchange at the balance sheet date.

#### g) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosure of assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

# Forestry Innovation Investment Ltd.

## Notes to the Financial Statements

March 31, 2004

(Tabular amounts in \$000s)

### h) Related party transactions

The Company is related through common ownership to all Province of British Columbia ministries, agencies and crown corporations. Transactions with these entities, unless disclosed separately in these financial statements, are generally considered to be in the normal course of operations and are recorded at the exchange amount.

### 3) Financial instruments

At March 31, 2004, the Company's financial instruments include cash, accounts receivable, other receivables, accounts payable and accrued liabilities. The fair values of the Company's financial instruments approximate carrying amounts.

### 4) Program advances and payables

The company advances funds to recipient organizations during the year to carry out program activities. At March 31, 2004, certain amounts have been identified as repayable by the recipients and have been set up as program advances. Other amounts remain payable to recipients on the basis of their funding requests, final reporting or holdback provisions – these have been set up as program payables.

### 5) Dream Home China

The Company provided the registered capital of \$1,605,840 (US\$1,200,000) to FII Consulting (Shanghai) Co., Ltd through a grant agreement, whereby the funds are committed to the Dream Home China project and cannot otherwise be returned to the Company. The company has entered into an agreement with a development company in China with respect to the construction and lease back of a demonstration centre and wood frame construction villas. All costs of this project are being capitalized and will be expensed over a three-year period on the completion of the construction.

Registered capital	1,606
Construction-in-progress	738
	<u>2,344</u>

## Forestry Innovation Investment Ltd.

### Notes to the Financial Statements

March 31, 2004

(Tabular amounts in \$000s)

#### 6) Capital assets

	*Cost	Amortization	Net book value
Computer equipment	114	45	69
Computer software	48	25	23
Furniture and equipment	138	25	111
Leasehold improvements	65	7	58
Tradeshaw booths	468	35	433
Websites	258	16	242
	<u>1,091</u>	<u>155</u>	<u>936</u>

\*Cost includes the fair market value of certain assets which were transferred to the Company from the Province for a dollar, effective April 1, 2003, and which are reflected as contributed surplus.

#### 7) Accounts payable

Trade payables	1,145
Current portion of capital lease	<u>5</u>
	<u>1,150</u>

#### 8) Due to the Province / Deferred revenue

Province of British Columbia funds received during the year	30,615
Transferred to revenue	(26,531)
Interest earned	<u>205</u>
	4,289
<b>Less deferred revenue:</b>	
Dream Home China project	(2,344)
Purchase of capital assets net of amortization	(776)
Deferred revenue	<u>(3,120)</u>
Due to the Province end of year	<u>1,169</u>

**9) Share capital**

The Company has authorized capital of 100 common shares without par value of which 10 shares are issued and outstanding. The Minister of Forests holds the shares issued as the designated representative of Her Majesty the Queen in right of the Province of British Columbia.

**10) Contributed surplus**

Contributed surplus represents the transfer of capital assets from the Province of British Columbia on the set up of the Company. This amount is being amortized each year equal to the amount of amortization taken on the capital assets.

Contributed Surplus, April 1, 2003	<b>236</b>
Amortization	<b>(90)</b>
Contributed Surplus, March 31, 2004	<b>146</b>

**11) Related party transactions**

Funds received from the Province of British Columbia	<b>30,615</b>
<b>Expenses:</b>	
Ministry of Forests	<b>4,120</b>
Ministry of Management Services	<b>2</b>
Science Council of BC	<b>97</b>
Universities and Colleges	<b>2,779</b>
	<b>6,998</b>

**12) Commitments**

The Company has commitments as follows:

	<u>Operating</u>	<u>Capital</u>	<u>China</u>
2005	108	5	2,266
2006	34	5	119
2007	-	5	-
	<b>142</b>	<b>15</b>	<b>2,385</b>

**Forestry Innovation Investment Ltd.**  
**Expenditures by Business Segment**  
**For the year ended March 31, 2004**  
**(in \$000s)**

	Marketing	China Operations	BC Market Outreach Network	Product Development	Research	Administration	Total
Advertising			261				261
Amortization	21	2	10	24	2	6	65
Auditing	140	4		165	249	12	569
Conferences & Trade Shows	86	7	793				885
Development Costs		228	32				261
Marketing	4	8	60				72
Office		73				240	312
Other	2						2
Professional Services	93	198	414	100		350	1,155
Publishing	118		380				498
Strategy & Research Studies	357		246	604	511		1,718
System Costs	42		69	38	33		182
Trade Missions	501		98				599
Transitions	41			37	47	32	157
Travel	247	75				67	389
Wages and Benefits	50	336	421	49	103	566	1,525
Program Costs	4,711			3,483	9,688		17,881
<b>Total</b>	<b>6,412</b>	<b>930</b>	<b>2,784</b>	<b>4,500</b>	<b>10,633</b>	<b>1,272</b>	<b>26,531</b>



## Appendix 1: Acronyms

BC Wood	BC Wood Specialties Group
BTAA	Budget Transparency and Accountability Act
CANPLY	Canadian Plywood Association
CFLA	Coast Forest and Lumber Association
COFI	Council of Forest Industries
FII	Forestry Innovation Investment Ltd.
FII Shanghai	FII Consulting (Shanghai) Co., Ltd.
Forintek	Forintek Canada Corp.
FORREX	Forest Research Extension Partnership
FPAC	Forest products Association of Canada
LiDAR	airborne laser scanning
MOF	Ministry of Forests
Network	BC Market Outreach Network
PRC	People's Republic of China
PwC	PricewaterhouseCoopers
SPF	Spruce-Pine-Fir species group
TASS	Tree and Stand Simulation
TIPSY	Table Interpolation Program for Stand Yield Information
WFOE	wholly foreign-owned enterprise
WPB	Wood Panel Bureau
WPN	Wood Promotion Network