



Forestry Innovation Investment Ltd.
Service Plan Update
2005/06 – 2007/08
Sept. 2005

National Library of Canada Cataloguing in Publication Data

British Columbia. Forestry Innovation Investment Ltd.
Service plan. — 2005/06/2007/08 —



For more information on the business operations of Forestry Innovation Investment Ltd.:
visit our website at
www.bcfii.ca
Published by Forestry Innovation Investment Ltd.

Message from the Chair of the Board of Directors	4
Message from the President and CEO	5
Overview	6
Core program areas and services	7
International Marketing and Product Development.....	7
BC Market Outreach Network.....	7
Corporate support.....	8
Governance	9
Vision.....	9
Values.....	9
Planning Context	10
Supporting BC's Forest Economy.....	10
Operating in an International Context.....	10
Dealing with Competition.....	10
Promoting BC's Sustainable Forest Management.....	10
New pressures.....	10
Risk Management	18
Alignment with Government's Strategic Plan	19
Financial Outlook	20
Forecast Risks and Sensitivities	22



MESSAGE FROM THE CHAIR OF THE BOARD OF DIRECTORS

The 2005/06 – 2007/08 Service Plan for Forestry Innovation Investment Ltd. (FII) sets out the corporation's goals and objectives, the strategies it will use to attain them and performance measures and targets for the next three years.

In its first two years as a Crown corporation, FII has shown the importance of a strategic approach to international marketing and product development at a time when the market for forest products is becoming increasingly complex and competitive.

Today, BC exports more forest products than any other jurisdiction and buyers are confident our products offer the best quality for their customers and for the environment. But it is no longer good enough to have the best products and the best practices. We can maintain our market share only by constantly striving for innovative and dynamic ways to reach out to existing customers and finding new ones. Our sector partners have shown they appreciate this reality and know FII can open up opportunities that are not accessible to individual associations or companies.

FII's strength is its ability to build a strong and inclusive brand image for BC's forest products, and to represent government in activities that help to open up new markets.

As it enters its third year, FII will continue to work with all sector partners to ensure international buyers recognize BC products are the best choice for quality and for the environment. It also aims to improve its effectiveness as an organization and maintain its high level of accountability and transparency.

The 2005/06 – 2007/08 Forestry Innovation Investment Ltd. Service Plan was prepared under my direction in accordance with the Budget Transparency and Accountability Act. I am accountable for the contents of the plan, including the selection of performance measures and targets. The plan is consistent with government's strategic priorities and overall Strategic Plan. All significant assumptions, policy decisions, and identified risks, as of August 09, 2005, have been considered in preparing the plan. I am accountable for ensuring that Forestry Innovation Investment Ltd. achieves its specific objectives identified in the plan and for measuring and reporting actual performance.

Doug Konkin, Chair

Forestry Innovation Investment Ltd.
August 09, 2005



MESSAGE FROM THE PRESIDENT AND CEO

The updated Forestry Innovation Investment Ltd. Service Plan presented here contains new information, new and revised performance measures as well as updated budget figures.

Among the changes made to the initial 2005/06 Service Plan are the following:

- FII's vision and mission statements have been updated to more succinctly reflect the company's core activities, partnerships, function and mandate;
- Performance measures have been refined following the conclusion of research projects, the development of new operational priorities and the identification of new opportunities;
- Operations in China have advanced and additional information is available that make a modest change in the timing of demonstration activities prudent;
- Tables that showed market performance indicators, such as sales volume and market share, have been removed to avoid mischaracterizing those indicators as if they are FII performance measures; and,
- Financial figures have been revised to include the addition of higher BC Government investments in FII for 2005/06 as well as funding provided by the Government of Canada, through the Government of BC, for the mountain pine beetle problem in 2005/06 through 2007/08.

FII has an ambitious agenda for the balance of 2005/06. The refinement of FII's 2005/06 Service Plan will help ensure our program activities and strategic direction are soundly integrated.

Ken Baker

President and CEO



OVERVIEW

The British Columbia government owns approximately 95 percent of the province's land base. The forest industry that operates on some of that land is a \$15 billion industry that touches every corner of the province and directly employs an estimated 90,000 residents within it. Including secondary employment, BC's forest sector accounts for approximately one job in every five in BC.

The prosperity of the BC forest industry is dependent on continuing demand for our products in world markets. Approximately 85% of our forest product sales are targeted to customers in the United States, Japan and Europe. The prosperity of our forest sector, and our province, depends on maintaining and building demand for our products in these world markets, markets that are becoming increasingly complex and competitive.

Forestry Innovation Investment Ltd. (FII) was established in March, 2003, to:

- help maintain and build demand for our forest products in key world markets;
- help break down trade and market barriers to ensure opportunities for BC wood;
- work with the forest industry to promote BC's world-leading forest products and forest management to the global marketplace; and,
- help ensure the forest sector, through strong international sales, continues to be a leading contributor to the BC economy.

FII delivers on its goals through its own expertise, by engaging external consultants as well as through formal arrangements with industry associations, academic institutions and other organizations.

The creation of and public funding for FII allows the agency to fund and support:

- collective, non-proprietary interests for the entire forest sector;
- market research and strategies for the whole sector;
- demonstration products and technology;
- the development of foreign codes and standards to enable private business;
- the communication of BC's environmental management record; and,
- long-term engagement in markets that require significant investment of time to mature the relationship.

The FII model also lends itself to a strong federal/provincial/private collaboration with:

- a critical mass of expertise and energy;
- common branding in foreign markets;
- incentive-based funding opportunities; and,
- efficiency in roles and responsibilities.

FII works with its partners to:

- identify opportunities and challenges that require follow-up, study or action such as eliminating fire regulations that limit the use of wood in buildings in Japan and strengthening building codes to permit the use of wood in buildings in China and Korea;
- provide funding to associations and institutions to research specific markets and develop innovative products that will open doors to new wood sales or help retain or expand sales in existing markets. (An example of a funded project is an ambitious advertising campaign promoting the use of Western Red Cedar in the critical United States housing industry);
- demonstrate wood-frame construction products and techniques in the key Chinese market; and,
- provide factual information on BC's forest management practices to international buyers and challenge legislation in other jurisdictions that might discriminate against BC wood.



FII uses the following core programs and activities to deliver its mandate:

- International Marketing and Product Development;
- China operations;
- The BC Market Outreach Network; and,
- Corporate services.

International Marketing and Product Development

The International Marketing and Product Development (IMPD) program uses project funding and partnerships with the Government of Canada, forest industry associations and research institutions, to:

- ensure BC wood is flowing to existing and emerging markets where there is the greatest opportunity to establish, maintain and increase sales;
- ensure BC forest products have access to markets free from trade and regulatory barriers;
- ensure buyers, consumers, designers, builders, developers and architects know about BC wood and the many positive features it brings to wood-frame construction and interior finishing;
- support the development of innovative new forest products; and,
- provide markets and audiences with information on the properties and qualities of BC's premier forest products as well as the BC companies that supply them.

This year, IMPD is providing \$8.4 million in project funding to forest industry associations and research agencies to implement projects that will promote and position BC products in markets around the world.

IMPD also provides project funding for the development of innovative new forest products such as work underway at Forintek, a national forest research unit with world-class facilities in Vancouver. This year, Forintek has been granted funding to study gluing wood that has been treated with preservatives or other products. This research may assist in the creation of different types of value-added laminated beams.

Program staff and forest industry representatives also have a high-visibility display presence at the top trade shows in our key markets around the world -- the United States, Japan and China. Through trade-show participation and specific meetings with key decision-makers and influencers in critical markets, the IMPD program is working to ensure BC forest products are known around the world for their availability, reliability of supply and superior quality.

BC Market Outreach Network

The BC Market Outreach Network (BCMON) is an in-house FII program that provides international buyers and others with neutral, credible facts on BC's forest management practices and activities to assure customers that BC wood products come from well-managed forests.

Over the past 15 years, strategically mounted and executed environmental campaigns have called into question a range of forest practices around the world. The campaigns have, in some cases, touched major forest-product buyers and caused some customers to review their buying patterns.

BCMON's activities focus on ensuring BC's strong forest management practices and regulations are understood by buyers and decision-makers in key forest product markets so that BC wood continues to be highly desirable in those markets.

Environmental campaigns that promote distorted, misleading or incorrect information are quickly challenged by BCMON and its partners. Draft legislation that could impede or stop the flow of BC wood into a particular market is also challenged.

BCMON works with a range of other federal and provincial ministries as well as private-sector partners to ensure a coordinated and robust approach to market communications.

The program achieves its goals by:

- gathering market research information about both customers' environmental concerns and current academic research, which is used to support activities;



CORE PROGRAM AREAS AND SERVICES

- distribution of information materials, including fact sheets and an up-to-date website www.bcforestinformation.com, to respond to market issues and changes in forest policy; and,
- a strong presence at major international trade shows to ensure customers and potential customers have access to information on BC's forest practices and environmental performance, which can have considerable influence on purchasing decisions.

BCMON and its partners also use ongoing market monitoring to identify emerging issues so they can maintain a leading, proactive stance in market communications and prepare relevant intervention material when needed.

FII Shanghai

FII operates a subsidiary office in Shanghai, China called FII Consulting (Shanghai) Co., Ltd., (FII Shanghai). The company is registered in China to meet the legal requirements of the People's Republic of China. As a wholly foreign-owned enterprise, FII Shanghai is able to use facilities constructed in Shanghai to provide consulting services to FII and others, allowing FII to pursue its marketing and promotional activities in the Chinese market.

FII Shanghai is leading the development of demonstration projects in Shanghai, China. Each project is a vehicle to showcase BC wood products and forge inroads into the booming Chinese housing market through FII's international marketing program. The initiative is a partnership with BC forest companies, the province through FII and China-based developer Shanghai Jinqiao Export Processing Zone Development Co. Ltd.

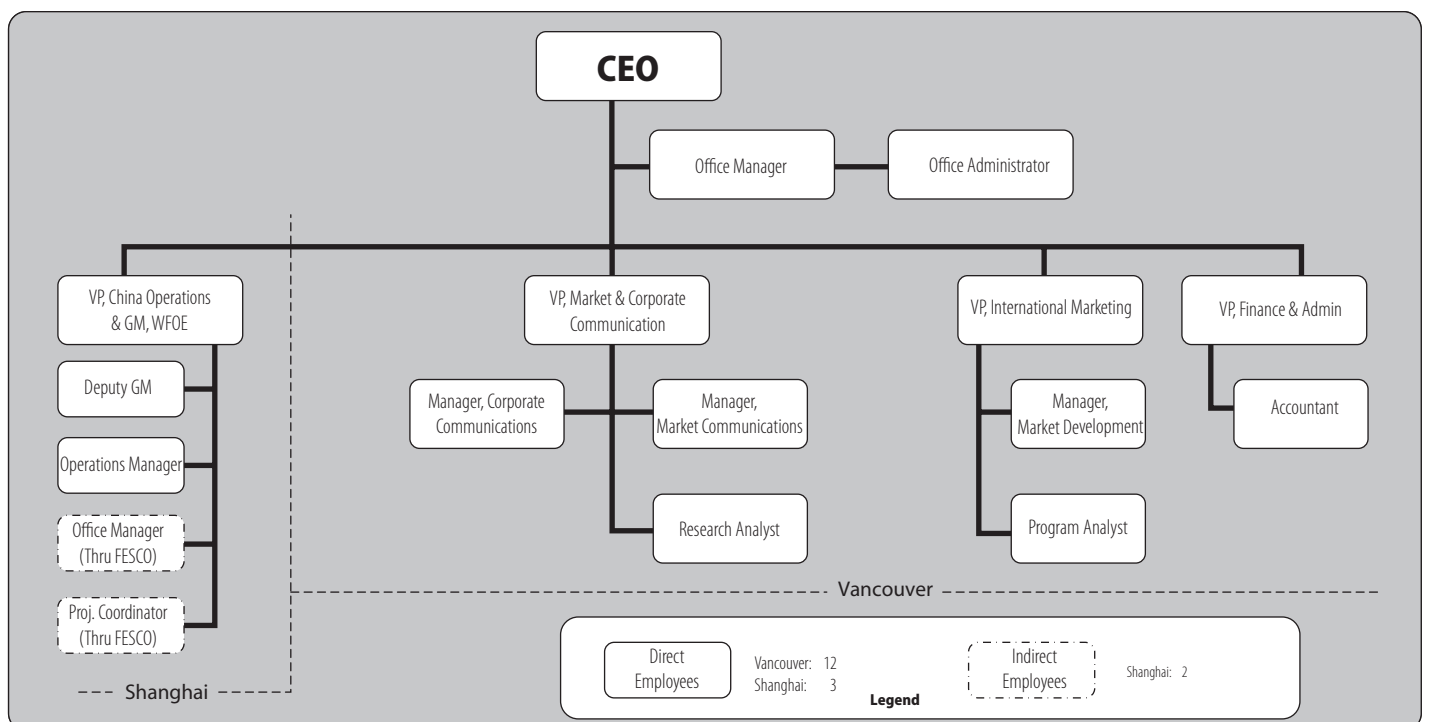
Phase 1 of three phases was completed in January 2005 with the opening of Dream Home Canada, an 888 square metre (9,558 square feet) Demonstration Centre.

Work is underway on Phase 2, the construction of two single-family homes, commonly known in China as villas, followed by an apartment renovation and a multi-storey 'hybrid' project of wood and concrete in Phase 3.

These projects are designed to demonstrate wood-frame construction, the flexibility of wood and the many wonderful qualities BC wood can bring to a structure. All three phases of the project are designed to further BC's efforts to penetrate this high-potential market with increased wood sales.

Corporate support

Corporate support includes responsibility for the financial management and control of the corporation, information systems, human resources and performance management. Corporate services focus on internal management and employees, as well as serving the board of directors, government and partners by ensuring a high level of performance, accountability and adherence to government policies.



FII was incorporated on March 31, 2003 under the Company Act of British Columbia. It operates under an agreement with the Ministry of Forests and Range, and is accountable to a board of directors consisting of the Deputy Ministers of Forests and Range, Finance, and Economic Development.

FII also has an advisory committee of six senior executives from the Coastal and Interior forest industries representing primary and secondary manufacturing sectors. The committee members provide strategic advice to FII on programming, investments and strategic objectives.

FII carries out its programs and services with 15 staff in corporate offices in Vancouver and Shanghai, China.

Minister Responsible

The Minister of Forests and Range is responsible for FII.

STRATEGIC CONTEXT

The following vision and mission statements have been updated to more succinctly reflect the company's core activities, partnerships, function and mandate.

Vision

FII is an innovative and collaborative forest marketing support and funding agency that meets the needs of government, the BC forest industry, international markets and British Columbians.

Mission

To support the BC forest industry with marketing, product development and factual information to ensure BC forest products are prized by and available to customers around the world.

Values

Positive Impact of Investments – FII seeks an appropriate balance between short-term and longer-term public investments to optimize the rewards to British Columbia.

Focus on Partnerships – FII works in partnership with Canada and industry associations to ensure programs are efficiently delivered in a coordinated manner. FII encourages innovative programs and responses to changing circumstances.

Integrity and Credibility – Projects and services are delivered by capable, motivated individuals who focus on ensuring FII programs are credible and useful. FII staff learn from the past and improve the effectiveness and efficiency of FII programs by optimizing the use of resources, based on understandable decision-making and investment processes.



PLANNING CONTEXT

Supporting BC's Forest Economy

In 2004, BC's forest products represented a \$15 billion industry or 29% of BC's goods-producing GDP. In 2003, the forest industry made \$2.75 billion in payments to governments¹.

Operating in an International Context

Forest products account for 48% of the province's total exports (\$31.6 billion.) There are unique challenges involved in building successful business relationships in international markets – from understanding cultural differences to recognizing different business protocols and laws.

Some foreign markets have uncertainties in political or economic environments and potential currency rate fluctuations, which have to be considered.

Maintaining access to key existing markets (most notably the United States, Europe and Japan) and developing new ones (especially China and Korea) often means overcoming misconceptions about forest products, practices and wood-based construction.

Barriers in emerging markets include fire codes, seismic characteristics, phytosanitary measures and concerns regarding wood's reliability and durability in some climates. In some markets, developers, builders and regulators may be unfamiliar with wood construction products and techniques.

FII is also very mindful of the impacts of global trade developments, exchange rates, security issues and local political climates. Forest and land-use policy developments can also affect the scope and design of some FII investments, or lead to new priorities.

FII and its forest sector partners continually assess this broader operating context to identify strategic opportunities and potential barriers to be overcome.

Dealing with Competition

For decades, the world market for forest products was largely supplied by a handful of countries with Canada accounting for a large share of the world's export trade. Today, many countries are entering key BC markets, putting pressure on prices and severe competition for market share in many product categories.

At the same time, wood is facing competition from suppliers of substitute products such as concrete, steel and plastics. FII and its partners work closely with customers to understand and respond to their needs and invest in new and improved products which solve product or application problems.

Promoting BC's Sustainable Forest Management

Customers want assurance that BC products come from sustainably managed forests. The province must provide credible, neutral and timely information to show that Crown forests are well managed and that wood from these forests is an environmentally superior building choice.

As more jurisdictions encourage 'green building'² and more companies examine the source of their forest products, BC is well positioned due to its stringent forest policies and high level of third-party, forest-management certification.

FII will continue to work with industry partners so that BC can solidify and capitalize on its reputation as a leader in the sustainable management of forests and producer of high-quality and competitive forest products.

New pressures

BC is responding to an unprecedented epidemic of the mountain pine beetle, the aftermath of the 2003 wildfires and other forest health agents that have affected large volumes of timber. FII is focusing its efforts on mountain-pine-beetle-affected timber and is working with industry and government to find new markets and products for this wood as well as confirm the quality of the resulting products.

¹ R.E. Taylor — BC Wood Products and Exports Overview, Oct. 2004

² The construction of a building in a way that is both efficient and ecologically aware. Some types of green structures include window walls that utilize the sun for naturally lighting the building, and "green roofs," which are gardens planted on entire rooftops as a form of insulation.



Goals, Objectives, Strategies and Targets

Forestry Innovation Investment Ltd. expects to fulfill its mission and vision by achieving four goals. This section provides details on each goal and objective, including the strategies to achieve them, performance measures and targets over the next three years.

- Goal 1:** Increased demand for wood products.
- Goal 2:** BC is positioned as a global leader in sustainable forest management.
- Goal 3:** A coordinated approach to market development that optimizes partner and recipient contributions.
- Goal 4:** An effective, well-managed organization.

Goal 1: Increased demand for BC wood products.

BC’s forest sector must be able to compete successfully in the global marketplace. The major focus of investments under Goal 1 will be to tackle market barriers, enhance the competitiveness of wood products manufacturers and improve customer awareness and interest through effective marketing.

These services are expected to create and maintain opportunities for BC wood product manufacturers to improve their performance in existing and new international markets.

For example, work will continue to address fire code issues in China and the development of building code standards in Shanghai.

To assess high-level outcomes, FII will track BC’s sales volumes and values as well as market share in key markets.

Objective 1

- Maintain or improve access to international markets for BC wood product manufacturers.

FII investments support activities that identify and remove existing and emerging technical and non-tariff barriers to markets. In new and developing markets, the focus will be to work with potential trading partners and agencies to identify and address policies, building codes, and other barriers that prevent or restrict the ability of B.C. producers to access markets. In existing markets, efforts will focus on maintaining and increasing market access or, where applicable, reducing declining market share by proactively addressing emerging threats.

FII will track key outcome indicators of market share and the value of wood products sales in the United States, Japan, China, Taiwan and Korea³.

Strategies

- Collect comprehensive information to identify technical and non-tariff market barriers.
- Develop and implement strategies to remove technical and non-tariff barriers that affect market access.

Performance measures

- Level of market access in target markets.

Baseline	2005/06 Target	2006/07 Target	2007/08 Target
Market access index under development. Baseline assessments underway for: <ul style="list-style-type: none"> • China • South Korea • Japan 	Inventory of market barriers and priorities identified. Market access index implemented. Number of barriers removed to be determined.	Improvement in market access index relative to 2005/06. Number of barriers removed tbd.	Improvement in market access index relative to 2006/07. Number of barriers removed tbd.

³ A table showing market share and sales volume has been removed from the earlier version of the 2005/06 Service Plan. The numbers represented market performance indicators and not performance measures for FII.



Objective 2

- Position BC as a leader in wood product development, quality and manufacturing efficiency.

Forest pathogens and natural disturbance agents such as the mountain pine beetle, other insects and fire have affected a large volume of timber in BC presenting both a marketing challenge and potential opportunities. BC must continue to develop a culture of innovation to ensure its wood products offer high quality, respond to market opportunities and are produced efficiently to derive the highest value from the forest resource.

Strategies

- Identify and test innovative applications for new wood products.
- Develop and test forest products and manufacturing processes including products derived from wood affected by natural disturbance agents, in particular, mountain-pine-beetle-affected timber.
- Deliver technical knowledge to increase productivity, improve product quality, develop new products and reduce manufacturing costs.
- Showcase BC wood products in the 2010 Olympics.

Performance measures⁴

- Positive return on investment for FII-funded projects.
- Market opportunities found for wood affected by the mountain pine beetle.

Baseline	2005/06 Target	2006/07 Target	2007/08 Target
<p>Technology Transfer Program has a positive return on investment. For every dollar invested by FII:</p> <ul style="list-style-type: none"> • \$2 in economic benefits generated in year 1 • \$4 in economic benefits generated within the first three years of the investment. 	ROI realized by FII investments is at or higher than baseline.	ROI realized by FII investments is at or higher than baseline.	ROI realized by FII investments is at or higher than baseline.
<p>Research and confirm the basic qualities of MPB-affected wood; identify strategies for customers to accept product. (focus on Asian markets).</p>	<p>Analyze the qualities of MPB-affected wood</p> <p>Strategy for promoting the optimum use of MPB-affected wood.</p>	Implement Strategy.	Increased export opportunity for BC products made from wood affected by natural disturbance agents.

⁴ A table showing market share and sales volume has been removed from the earlier version of the 2005/06 Service Plan. The numbers represented market performance indicators and not performance measures for FII.



Objective 3

- Increase market acceptance and demand for BC forest products in existing and emerging markets.

FII has committed to developing strategies in priority markets to identify and improve upon current levels of market acceptance and demand for BC forest products. While FII activities contribute to performance, other factors can play a more significant role such as trade negotiations, currency fluctuations, interest rates and competitor pricing.

Strategies

- With our partners, collect comprehensive market information and develop market-specific strategies.
- Determine level of market acceptance for new and existing products and applications.
- Increase market awareness, acceptance and demand.
- Implement a three-year China strategy to deliver the demonstration initiative.

Performance Measures

- Level of market/customer acceptance for new/existing BC wood products.
- Completion of the China demonstration initiatives.

Baseline	2005/06 Target	2006/07 Target	2007/08 Target
Formal customer surveys in 2004/05 indicate an average 70% customer acceptance of new/existing BC wood products. ⁵	Increase acceptance toward 80% customer acceptance level in 2007/08.	Increase acceptance toward 80% customer acceptance level in 2007/08.	80% customer acceptance level.
Phase 1 complete – Demonstration Centre completed. ⁶	2nd phase completed (villas built and apartment renovation complete.)	Hybrid ⁷ multi-family structure built.	Demonstration project completed in Beijing.

Goal 2: BC is positioned as a global leader in sustainable forest management.

Forest product customers around the world are increasingly looking for assurance from their suppliers that the products they purchase come from sustainably managed forests. As a result, BC must be well positioned as a global leader in sustaining environmental values and forest resources.

The province’s commitment to sustainable forest management represents a significant advantage as customers are increasingly factoring environmental practices into purchasing decisions. FII is committed to providing a broad audience, especially forest product customers in key markets such as the U.S., Japan and Europe, with accurate and factual information about forest management in BC to support their purchasing decisions.

⁵ Information that was collected following completion of the 2005/06 Service Plan has resulted in an updated baseline measure and subsequent targets.

⁶ Due to timing and strategic considerations, adjustments have been made to the China program versus what appeared in the earlier version of the 2005/06 Service Plan.

⁷ Hybrid structure includes elements of wood construction (e.g. wood roof or inside walls) with concrete/steel construction (exterior walls.)



Objective 1

- Increase international awareness and support of BC's forest management practices and performance.

Strategies

- Provide international customers with timely, credible information regarding BC forest practices.
- Build and maintain support for BC as world leader in sustainable forest management.
- Position the BC Market Outreach Network as a credible and factual source of information regarding forest management in BC.
- Gather market intelligence through research and surveys.
- Provide advocacy support where BC forest products are unfairly targeted.
- Monitor and analyze the Internet and mainstream and trade media.
- Conduct in-market activities through trade shows, seminars and meetings with customers.
- Develop and lead forest tours for customers and key influencers.
- Produce technically accurate and credible information products for a broad international and domestic audience.

Performance Measures

- Percentage of customers who perceive BC as a leader in sustainable forest management.
- Percentage of visitors to the BC forest information web site.
- Percentage of forest-tour participants who view BC as a source of sustainable forest management.

Baseline	2005/06 Target	2006/07 Target	2007/08 Target
Review of customers and opinion leaders concluded environmental factors have a greater influence over purchasing decisions than they did three years ago. There is broad consensus among buyers that forest practices in BC have improved over the past couple of years. Formal survey of customers and booth visitors conducted late in fiscal year 2004/05.	Maintain or increase the percentage of customers who perceive BC as a leader in SFM relative to the baseline.	Maintain or increase in the percentage of customers who perceive BC as a leader in SFM relative to the baseline.	Maintain or increase in the percentage of customers who perceive BC as a leader in SFM relative to the baseline.
Approximately 20,000 visits to www.bcforestinformationn.com website anticipated in 2004/05.	5% increase in website visits during key information campaigns.	5% increase in website visits during key information campaigns.	5% increase in website visits during key information campaigns.
Survey people who have participated on forestry tours hosted by BCMON. A formal survey to be conducted late in fiscal year 2005/06. Compare results to customer survey 2004/05 for baseline to support tour objective that visiting BC's forests improves support for acceptance of BC as a source of sustainable forest management. ⁸	Maintain or increase the percentage of customers who perceive BC as a leader in sustainable forest management.	Maintain or increase the percentage of customers who perceive BC as a leader in sustainable forest management.	Maintain or increase the percentage of customers who perceive BC as a leader in sustainable forest management.

⁸ The BC Market Outreach Network has added this performance measure and baseline to reflect the number of forest tours the program performs and the important role they play in the perception of BC as a leader in sustainable forest management.



Goal 3: A coordinated approach to market development that optimizes partner and recipient contributions.

Self-reliance and a culture of innovation are essential to the long-term competitiveness of BC’s forest sector. FII works in partnership with other government agencies and the forest sector to improve the level of co ordination with key partners, establishing greater cohesion within the forest sector and increasing the level of partner participation in FII initiatives.

Collaboration is so important to FII that it warrants being included as a goal in its own right.

Objective 1

- Increased level of partner support for FII-funded projects and initiatives.

Strategies

- Cost share projects with industry and other partners.
- Identify and develop sector-wide options to increase the level of partner support for international marketing.

Performance Measures

- Leveraged funds as a percentage of total project costs.
- Percentage of industry partners satisfied or fully satisfied with services provided by FII.

Baseline	2005/06 Target	2006/07 Target	2007/08 Target
Baseline for leveraging: 15% of total project costs paid by industry for IM/PD projects focused on projects in markets outside of North America.	tbd (under discussion at senior levels)	tbd	tbd
30% industry share for IMPD projects in the US.	tbd	tbd	tbd
50% Government of Canada funding on key international projects outside of North America. ⁹	Maintain federal funding for FII-funded projects.	Maintain federal funding for FII-funded projects.	Maintain federal funding for FII-funded projects.
Baseline of industry satisfaction to be developed in 2005/06, through a survey to be conducted in the third quarter. An informal stakeholder review conducted in 2004/05 indicated that stakeholders were generally supportive.	Baseline to be developed.	5% improvement in performance relative to 2005/06.	5% improvement in performance relative to 2006/07.

⁹ This performance measure and baseline has been added to reflect the on-going strength and importance of the Government of Canada’s participation in funding FII-supported programs.



Objective 2

- Increased co-ordination among forest sector partners.

Strategies

- Strengthen the linkages between forest industry partners by pursuing coordinated marketing initiatives through forest sector associations.
- Work with federal, provincial and industry partners to identify and develop opportunities to co-ordinate programs and activities.
- Harmonize relevant FII programs with the Canada Wood Export Program.
- Initiate an advisory committee and rigorous supporting process to improve the quality of partner involvement in FII programs.

Performance Measures

- Value of projects funded through FII that support market strategies.
- Level of industry support for coordinated trade show strategy.
- Coordinated approach to the use of the Dream Home China facility.

Baseline	2005/06 Target	2006/07 Target	2007/08 Target
Working with partners - establish market strategies: <ul style="list-style-type: none"> • China • Japan • Korea • Taiwan • Europe 	100% of projects are in compliance with relevant market strategies. Implementation of coordinated marketing strategy in China with partners (specific to FII Shanghai.)	100% of projects are in compliance with relevant market strategies. Review of market strategies.	100% of projects are in compliance with relevant market strategies.
Coordinated tradeshow strategy developed and implemented. 22 industry/ 5 association participants	Level of participation maintained or grown.	Level of participation maintained or grown.	Level of participation maintained or grown.
Consolidate offices of FII and industry associations in Shanghai and develop 3-year plan for the use of the (DHC) facility.	Implement usage plan.		



Goal 4: An effective, well-managed organization.

FII is a highly focused and dynamic organization that maintains flexibility to respond to emerging forest sector needs while maintaining low overhead and operating expenses. FII is committed to the development and implementation of sound business practices incorporating strong financial controls, a performance management framework, and a monitoring, audit and evaluation program built on a comprehensive risk assessment strategy, all developed in accordance with government policies and guidelines for the respective areas.

Objective 1

- A results-focused organization.

Strategies

- Develop and implement a performance-based management and budgeting framework.
- Develop and implement a continuous improvement strategy to optimize efficiency and cost-effectiveness.
- Review performance measures used in similar organization to establish benchmarks.

Objective 2

- An accountable and transparent organization.

Strategies

- Monitor, audit and evaluate FII highest-priority projects and programs as identified through the risk assessments.
- Ensure regular and accurate reporting on the results of investments in support of corporate goals and objectives and in accordance with government and contractual requirements.

Performance measures

- Comprehensive and meaningful policies and procedures that guide the conduct of individual employees and the organization.
- Compliance with policies and procedures.

Baseline	2005/06 Target	2006/07 Target	2007/08 Target
90% of policies and procedures in place.	100% of policies and procedures in place.		
Creation and implementation of audit procedures and process for China operations. ¹⁰	Substantial compliance	Complete compliance.	

¹⁰ China operations have become increasingly well established in the six months since the initial 2005/06 Service Plan. This performance measure has been added to reflect the introduction of audit procedures.



RISK MANAGEMENT

During the 2005/06 fiscal year, FII will undertake initial development of an overall Risk Management Strategy. The development of the strategy will follow the normal flow of planning, approval and implementation.

The approach will encompass the following steps:

1. Management training in the development of a risk management strategy.
2. Management's identification of risk within each of FII's program areas.
3. Management's recommendations for minimizing these identified risk factors.
4. Approval of the identified risk factors and mitigation strategies.
5. Implementation of the recommended strategies.
6. Discussion of a long-range strategy for risk management of FII and FII (Shanghai.)

It is expected that step 1 will be completed by the fall of 2005 and step 2 will be completed by the spring of 2006. Steps 3 through 5 will be completed in the 2006/07 fiscal year.



Forestry Innovation Investment's vision, mission and values, and the means by which they are put them into practice, are fully consistent with the government's core values of integrity, fiscal responsibility, accountability, respect and choice.

Moreover, the successful discharge of FII's mandate contributes strongly to the province's economic strength.

Government Strategic Plan	FII Alignment
To make BC the best educated, most literate jurisdiction on the continent.	A robust and successful forest industry is one of the largest contributors to the provincial economy and government revenues. Forest industry revenues to government are used to support education, health and other key BC priorities. By contributing to the strength of the forest industry, FII is contributing to the programs that support this government goal. (FII Goal 1)
To lead the way in North America in healthy living and physical fitness.	A successful forest industry, actively assisted by FII, will support a high standard of living throughout BC. Sustainably managed forests also create a range of opportunities for recreation and a healthy lifestyle.
To lead the world in sustainable environmental management, with the best air and water quality and the best fisheries management bar none.	FII will help position BC as a world-leader in the sustainable management of the province's forest resource. (Goal 2)
To create more jobs per capita than anywhere else in Canada.	<p>A well-performing forest industry is the economic backbone of the province. An estimated 90,000 people are directly employed in BC's forest industry. Working with partners in the public and private sectors, FII's goal is to help maintain and improve access to international markets for BC wood and product manufacturers.</p> <p>A strong forest industry will help ensure continued and growing employment for British Columbians. (Goal 1)</p>



FII's programs are part of the Forest Investment sub-vote of the Ministry of Forests and Range. As such, FII is subject to an allocation of the annual appropriation provided for this purpose. FII receives its funding under an annual agreement with the Minister of Forests and Range, based on the appropriated amount, and each year, is required to return any unspent appropriated funds to the province so no excess of funds over expenditures is shown. The following table provides a summary of FII's resource allocations.

2005/06 - 2007/08 Consolidated Budget Summary - (\$ '000s)¹¹

	2004/05 Actual	2005/06 Budget	2006/07 Forecast	2007/08 Forecast
Revenues – Province of B.C.	17,682	22,800 ¹²	21,000 ¹³	21,450 ¹⁴
Operating Expenses				
International Marketing & Product Dev't	13,201	18,696	16,900	17,350
Market Communications – B.C.MON	2,736	2,840	2,800	2,800
Governance and Corporate Services ¹⁵	1,745	1,264	1,300	1,300
Total Expenditures	17,682	22,800	21,000	21,450
Excess of Funding Over Expenditures	0	0	0	0
Program Staff				
International Marketing ¹⁶	8	8	8	8
Market Communications	4	4	4	4
Governance and Corporate Services	5	5	5	5
Total	17	17	17	17

¹¹ This table includes the consolidated budget of FII Ltd. and its wholly owned subsidiary, FII Consulting (Shanghai) Co., Ltd. In 2004/2005 \$1.228 million was spent on the Demonstration Initiative in Shanghai but was capitalized at year end as part of a prepaid lease. Although the GAAP published Financial Statements for 2004/05 show total expenditures at \$16.454 million, for comparative purposes the capitalized expenditure of \$1.228 million has been included in the 2004/05 actual costs in International Marketing to account for the costs of the Demonstration Initiative.

¹² This revenue budget includes \$1.35 million in federal mountain pine beetle funding.

¹³ This revenue budget includes \$2.25 million in federal mountain pine beetle funding.

¹⁴ This revenue budget includes \$2.7 million in federal mountain pine beetle funding.

¹⁵ Governance and Corporate Services includes the salaries and benefits for staff, except where they are involved in program delivery (e.g. B.C. Market Outreach Network, Dream Home China.) It also includes the finance, amortization, administration, information technology and human resource support services for all corporate core businesses.

¹⁶ The Marketing staff includes those working in International Marketing, Product Development and FII Shanghai.



**FII Consulting (Shanghai) Co., Ltd.
2005/06 - 2007/08 – Budget Summary - (\$ '000s)**

	2004/05 Actual	2005/06 Budget	2006/07 Forecast	2007/08 Forecast
Operating Expenses				
Demonstration Initiative	1,635	1,886	1,400	1,400
China Operations ¹⁷	880	1,180	1,190	1,190
Total Expenditures	2,515	3,066	2,590	2,590
Program Staff				
Marketing/Operations ¹⁸	5	5	5	5

Note that, as FII Shanghai exists purely as a program delivery mechanism used by the FII international marketing and product development programs, the administration component is not shown separately, but is included as a part of the China operations. In 2004/2005 \$1.228 million was spent on the Demonstration Initiative “Dream Home Canada” but was capitalized at year end as part of a three year prepaid lease which allows FII Shanghai to occupy the building. For comparative purposes, the \$1.228 million has been included in the 2004/05 actual costs for the Demonstration Initiative.

¹⁷ The China Operations includes office expenditures – no separate amount is shown for administration as FII Shanghai is merely a marketing program delivery mechanism of FII Ltd.

¹⁸ There are five staff members working in FII Shanghai; two of the staff are Chinese nationals and are hired through a local employment agency.



FII is funded by an appropriation provided to its programs through the Ministry of Forests and the annual estimates process in the legislature. While this document presents a three-year plan, under the Agreement with the Ministry of Forests, FII operates one year at a time, with future years contingent on a vote in the legislature and the continuation of its agreement with the ministry.

FII is committed to funding the Dream Home Canada project through FII Shanghai for a period of three years from the date of opening, subject to the annual appropriation being sufficient to support the project.

While operating in a foreign country, exchange rate variations can have a significant impact on the funding of operations, particularly with a strong currency such as the Chinese Renminbi, which is under some pressure to revalue. FII is considering various options with respect to mitigating this risk.



Contact us

For more information on Forestry Innovation Investment Ltd.
and its programs, please contact us at:

Forestry Innovation Investment Ltd.

Suite 1200, 1130 West Pender Street,
Vancouver, British Columbia
V6E 4A4 Canada

Telephone 604 685 7507

Fax 604 685 5373

Email: info@bcfii.ca

Web site: <http://www.bcfii.ca>

