

# Report of Review Forestry Innovation Investment Ltd.

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June 23, 2014 (final version)

## Transmittal letter

June 23, 2014

Dear Minister Wat:

On April 8, 2014 I began a review of Forestry Innovation Investment Ltd (FII) as part of the core review of all ministries and their agencies, boards, commissions and all Crown agencies and the SUCH sector initiated by government on July 31, 2013.

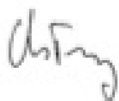
I am pleased to submit my report.

As part of the review I consulted with key partners and stakeholders in FII. I was able to speak with over 30 individuals from companies; industry associations; research and post secondary institutions; funding partners; current and former board members and representatives of provincial and federal governments. I reviewed and considered FII's mandate and approach within the context of why governments invest in trade. Governance structure and practices were considered against best practices for provincial Crown Corporations. I also considered the work that is currently being undertaken by the Ministry to develop an export development and international market presence framework.

The overall conclusion of my review is that FII is effective and no changes should be made to its mandate and approach, or its organizational structure as a Crown Corporation. It is a well-run organization, with sound processes and oversight and a committed staff. I have made certain recommendations to enhance FII's governance and accountability processes, particularly with regard to achieving greater involvement and engagement by industry at the strategic direction setting level. I have also suggested some areas for further review.

I wish to acknowledge the professionalism of the FII staff who were responsive, open and honest in providing input to the review. I also want to express my appreciation to all those interviewed for taking the time to contribute. And, finally, my sincere thanks to Lorna Hay for her support which made it possible to complete this project on short timelines.

Yours sincerely,



Chris Trumpy

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## Executive Summary

FII was established as a Crown Corporation in 2003 to promote the exports of BC forest products. It gained responsibility for Wood First programs in 2011. Significant trade programs exist for only two sectors in BC – Forestry and Tourism.

The four-person public service board of FII consists primarily of Deputy Ministers.

FII does four things:

- defends and promotes BC forestry practices and products
- identifies possible new markets for BC forest products
- undertakes targeted actions to open up new markets
- supports the development of new uses for wood.

Programs are both delivered directly by FII and through partnerships with industry associations and other governments. FII program funding of \$15.57 million levers another \$19.43 million of partner funding.

The review covered FII's Mandate and Programs, and Governance. The review process included interviews with over 30 stakeholders and review of internal processes and documentation.

The conclusions of the review are:

- FII is a well-run organization with a committed staff and has been successful opening up markets.
- The needs of industry are not homogeneous. The interior, coast and value added sectors all have different interests.
- The FII model of a single purpose crown corporation is effective in delivering programs and leveraging funding.
- FII's scope should not be expanded although as a model it could be replicated for other sectors.
- There is a role for FII in the direct delivery of programs.
- There is a continuing need for FII to identify and develop markets for BC Forest products.
- FII governance can be improved, but direct industry representation on the board is inappropriate.
- There is a need for improved communication with stakeholders particularly with respect to activities in new and developing markets.
- There should be a link between the level of industry contribution to FII activities and the health of the sector.
- FII processes and level of oversight are appropriate.

The eight recommendations of the review fall into three categories:

1. Mandate and Structure

- No changes should be made to FII's mandate.
- No changes should be made to FII's scope.
- FII should remain a British Columbia Crown corporation.

2. Improved Accountability

- To promote accountability, fully informed decision making and to ensure the views of industry are heard:
  - Establish a new "Market Development Advisory Committee", composed of appropriate industry representatives, that reports to the Board, and is responsible for providing high level strategic advice to the FII Board on market development and market initiatives' direction, priorities and strategies including China and India and for other emerging or developing markets
  - Review the composition of the FII Board of Directors and consider adding outside experts to diversify the skills base of the Board, but retain government control through Deputy Minister appointees, and, to prevent perceived or actual conflicts of interest, do not add any representation from the forestry industry
  - Require the Market Acceptance Advisory Committee and the Wood First Advisory Committee to report to the FII Board of Directors
  - In addition to its annual "*Report to Stakeholders*", FII establish a periodic, ongoing process for communicating with industry and other stakeholders about major initiatives and directions and priorities.
- FII review its performance management framework and establish measures of its own impact.

3. Areas for Further Review

- While FII needs to continue to be in China, its role and its relationship with industry associations needs to be reviewed.
- Opportunities to lever FII expertise and presence in markets to support other BC government trade programs be identified and considered.
- The current level of industry contribution to FII funded programs be reviewed and increased as appropriate to reflect current market conditions.

# 1. Introduction

## Purpose of Report

On July 31, 2013, the government announced a core review of all ministries, their agencies, boards, commissions, all Crown agencies and the SUCH sector.

This report outlines the findings and recommendations of the review of Forestry Innovation Investment Ltd (FII).

## Scope of FII Review

The review of FII is an examination of FII's Mandate and Programs and Governance, including FII's subsidiaries in China and India. The review addresses the following specific questions<sup>1</sup>:

### Mandate and Programs:

- Is the FII model effective at promoting and expanding export markets for forest products?
- Should FII's scope include all or a subset of forest products?
- Should FII's scope be expanded beyond the forest sector?
- Should FII be involved in direct service delivery?
- What would the consequence be if the government reduced or withdrew from this activity?

### Governance:

- Is a Crown corporation necessary/optimum to carry out the FII mandate?
- If governance is changed, what are the implications for FII's ability to leverage industry and federal funding?
- How informed and involved should Government be in FII's activities?
- How informed and involved should the industry be in FII's activities?

### Out of Scope:

FII's level of funding was out of scope of the review.

[Appendix 1 is a copy of the *FII Core Review Terms of Reference*.]

## Approach and Methodology

The review process included:

- A document review of FII's governance and accountability framework, programs and operations;

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<sup>1</sup> Generally consistent with the Terms of Reference for the review with some reorganization and streamlining.

- A literature review on trade, including materials provided by the Ministry of International Trade, and public sector governance and Crown Corporation Best Practices;
- Consultations with stakeholders, comprising approximately 30 interviews with representatives of forest companies, industry associations, current and former board members, representatives of the provincial and federal government and FII staff (including management staff from FII China and FII India), and two written industry submissions; those interviewed were provided a summary document outlining what was heard in the consultation process;
- Analysis and consideration of the questions posed about FII's Mandate and Programs and Governance broken down into separate parts; and
- Development of recommendations to address areas where FII's mandate and governance could be enhanced.

Included at the end of the report is a list of *Sources*; Appendix 2 is a *List of Individuals Interviewed and Submissions Received*, Appendix 3 is a copy of the *Summary of Consultations* and Appendix 4 is a copy of the two written submissions.

To answer the questions posed about FII's Mandate and Programs, the review considers and assesses FII in the context of why governments support trade, and what FII does and the FII model within that context.

In terms of Governance, for the purposes of the review, governance includes both the process and the structure for overseeing the direction and management of a corporation, and includes considerations of the level of accountability, transparency, representation of interests and informed decision-making. To answer the questions posed about Governance, the review considers and assesses FII's Governance framework against the crown corporation model and best practices for crown agency governance and accountability.

Given the time constraints, the extent of research and analysis was limited to existing documents and reports and consultations with stakeholders. The review did not include: interviews with FII auditors either program or financial; analysis of the quality of FII market targeting (although stakeholders are generally pleased with this); assessment of the relative weighting of FII programs; detailed consideration of opportunities to lever what FII has learned and the model it has developed; or an attempt to reconcile conflicting perspectives from Industry.

## 2. Overview FII

### Origins

Following the dissolution of Forest Renewal BC in 2002, the government continued to fund certain forest related programs but through a private sector delivery model. International marketing, forest research and certain land-based investment programs

were tendered by the Ministry of Forests and managed on a contract basis by private companies. However, this model resulted in concerns about potential conflict of interests associated with firms responsible for managing the forest marketing and research funding programs also competing for contracts under those programs. In 2003, FII was established as the forest products marketing agency of the provincial government.

#### Exports of BC Forest Products

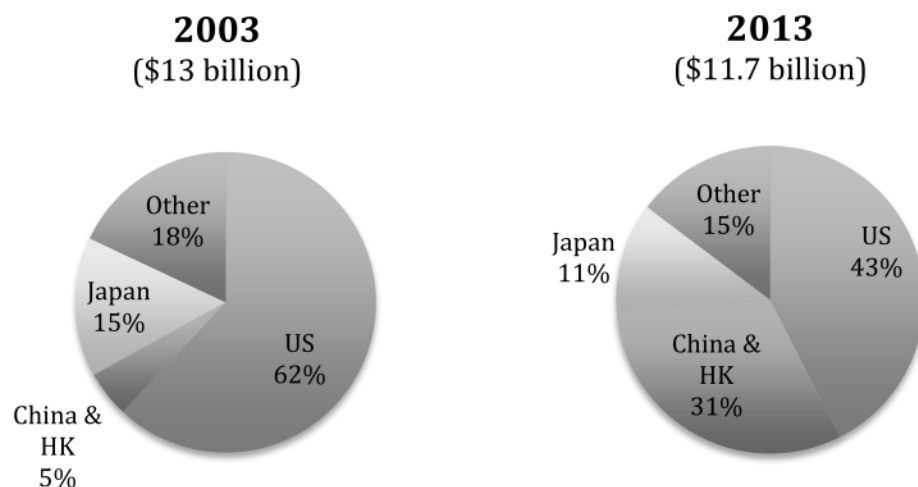
BC is the largest exporter of softwood lumber in the world and a major global supplier of specialty pulp and paper products with about 80 percent of forest sector production exported to markets outside of Canada.

Five markets - the US, China, Japan, Taiwan and South Korea - dominate the province's exports of solid wood products (well over 90 percent of exports) with the majority of pulp and paper exported to the US and China (about 70 percent). The vast majority of the province's exports of value-added products (including engineered wood) is exported to the US. In the emerging area of bio-fuels, most of BC's production of wood pellets is exported to the European Union.

Over the past decade and more dependence on US markets has lessened. From 2003 to 2013, the share of exports to the US has fallen from 62 percent to 43 percent with exports to China and Hong Kong rising from five percent to 31 percent.

(Source: FII Strategic Plan 2012/13 – 17/18, December 2012)

#### Percentage Exports of Total Forest Products (wood products and pulp and paper) 2003- 2013



Source: FII

## Corporate Governance

FII is a Crown Corporation incorporated as a BC company with the Government of BC as its single shareholder. FII is governed by a four-person board of directors appointed by government almost always from senior levels of government<sup>2</sup>. The Board reports to the

<sup>2</sup> According to *FII Board of Directors Terms of Reference*, January 1, 2011, the Board is to consist of three persons with natural resource, finance, legal or other relevant experience, appointed to an open-ended term, but reviewed annually.



Minister of International Trade. This is relatively new; throughout most of its history FII reported to the Minister Responsible for Forests.

Current board members include:

- Tim Sheldan, Chair, Deputy Minister, Ministry of Forests, Lands and Natural Resources
- Shannon Baskerville, Vice Chair, Deputy Minister, Ministry of International Trade
- Sandra Carroll, Director, Deputy Minister, Ministry of Advanced Education
- Dave Peterson, Director, Chief Forester and Assistant Deputy Minister, Tenures, Competitiveness and Innovation, Ministry of Forests, Lands and Natural Resources.

The Government issues FII an annual Government's Letter of Expectations establishing FII's mandate and accountabilities. This informs FII's strategic direction which is set by the Board in cooperation with FII senior management. The Board is also responsible for providing oversight to operations, including monitoring FII's performance, and appointing the Chief Executive Officer (CEO)<sup>3</sup>. The Board delegates responsibility for the day-to-day leadership and management of FII to the CEO. The Board has one committee, an Audit Committee. Board member Sandra Carroll is the Chair. FII practice is to rely on outside expertise to fill out the audit committee.

Appendix 5 contains a chart outlining *FII's Reporting Structure and Governance* and summary of *FII's Strategic and Performance Measurement Framework*.

#### *FII Mandate (2014/15 Government's Letter of Expectations)*

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

FII is further directed to take the following specific actions:

- In collaboration with forest-industry trade associations and the Government of Canada, determine priorities and strategies and deliver programs to significantly enhance international sales of British Columbia forest products, stimulating long-term diversification of the forest industry's customer base.
- Lead delivery of the Province's Wood First Initiative by working with the B.C. forest industry, architects, engineers, developers, builders and others to make British Columbia a world-class centre of excellence in manufacturing and using innovative forest products.
- Through subsidiary corporations in China and India, pioneer interest in utilizing British Columbia wood products, paving the way for British Columbia firms and their trade associations to establish commercial linkages.
- In collaboration with industry organizations in Canada and the United States, develop fact-based and scientific information, and robust electronic and communications tools, to make foreign customers and government regulators aware of the environmental and technical merits of British Columbia forest products.

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<sup>3</sup> FII, *Board of Directors Terms of Reference*, January 1, 2011.

## The FII Model

FII does four things:

- defends and promotes what the BC forestry sector does and how it does it (*market promotion*);
- identifies, through research, possible markets for BC forestry products (*market research*);
- undertakes targeted action to open up identified markets (*market development*); and
- supports development of new uses of wood – including new uses of existing products, and new products for existing uses (*product development*).

It achieves this through three major programs areas – Market Outreach (*market promotion*), Market Initiatives (*market research* and *market development*) and Wood First (*product development*) - and a combination of shared and direct service delivery. This is not a “one-size-fits-all” approach; the needs of the industry are not homogeneous with the interior, coast and value added sectors each having their own needs and issues. Appendix 6 provides a description of FII’s *Program Areas and Operational Functions*.

Current Markets for B.C. Forest Products						
	Lumber and Panels <sup>2</sup>	Value-added products <sup>3</sup>	Advanced wood prod/technology <sup>4</sup>	Pulp and paper	Bio-products <sup>5</sup>	
					Fuels	Chemicals
CANADA						
UNITED STATES						
CHINA						
JAPAN						
SOUTH KOREA						
TAIWAN						
INDIA						
OTHER EMERGING ASIA						
EUROPE						

Large Market
  Small-Medium Market
  No or Minimal Market

Source: FII Strategic Plan 2012/13 – 17/18

## *Service Delivery*

FII collaborates and works closely with industry, industry associations and other partners including research institutions to deliver programs.

It consults with industry and the BC government in defining its market outreach efforts and the *Market Acceptance Advisory Committee*<sup>4</sup> provides strategic input to FII's market promotions and outreach activities. Many market outreach and promotions programs and initiatives are cost-shared with other organizations including the Binational Softwood Lumber Council and the Softwood Lumber Board.

FII relies heavily on a joint delivery model for the delivery of market development activities through projects and initiatives that are primarily designed and delivered by forest industry trade associations and co-funded by the industry organizations themselves and Natural Resources Canada through its Expanding Market Opportunities Program. An *Industry Strategy Committee* that provided advice to FII's market development activities was discontinued in 2010/11.

Efforts under the Wood First<sup>5</sup> program to showcase how wood can be used and to develop new uses for wood in BC, and to fund research and innovation, are also delivered in collaboration with the industry, architects, engineers, developers and others. The *Wood First Advisory Committee*<sup>6</sup> provides strategic advice on the initiative and makes recommendations to FII on the Wood First program including the annual investment strategy that guides Wood First investments.

FII posts two annual competitive calls for proposals, one to support "Market Initiatives" and the other for "Wood First" activities. FII has developed a comprehensive annual planning and funding process for the allocation of recipient funding. Both calls for proposals are based on investment strategies updated annually by FII reflecting current market conditions and industry priorities. *Proposal Evaluation Panels*, ad hoc committees composed of industry experts, FII staff, federal government officials, with a provincial government procurement specialist observer, review and rank all funding proposals received through FII's annual Calls for Proposals. Funding recipients must agree to clear performance criteria, reporting requirements, budget controls, regular monitoring by FII staff, and possibly an audit undertaken by an independent auditor selected by FII. Appendix 7 provides a chart of FII's Recipient Funding Call for Proposals Management process.

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<sup>4</sup> Composed of about ten members principally from industry with experience in BC forest management and related marketplace issues and two members from the Ministry of Forests, Lands and Natural Resource Operations. The committee typically meets twice a year to develop priorities for outreach activities.

<sup>5</sup> The *Wood First Act* was passed in 2009 with Ministry of Forests assigned lead for developing programming. In 2010, FII granted \$1.75 million to the "Wood Enterprise Coalition" with a two-year timeframe for "advancing innovation and wood used in BC". In 2011 the Wood First file was transferred to Ministry of Jobs, Tourism and Investment.

<sup>6</sup> Composed of industry and stakeholders, the Committee was established following the transfer of the Wood First Initiative to FII from the Ministry of Jobs, Tourism and Investment.

FII also directly undertakes market research and delivers outreach and promotions programs and market development initiatives, including in China and India. These activities are designed to support government priorities and provide broad-based benefits to the forest sector. FII has established two subsidiaries to support the delivery of its market promotion and development initiatives: FII China (FII Consulting (Shanghai) Co Ltd) established in 2003 and based in Shanghai, and FII India (FII Consulting India Private Limited) established in 2012 and based in Mumbai. (Laws in China require that foreign entities doing business there must have a corporate presence.) Senior Management staff of FII (Vancouver) act as boards of these two subsidiary entities.

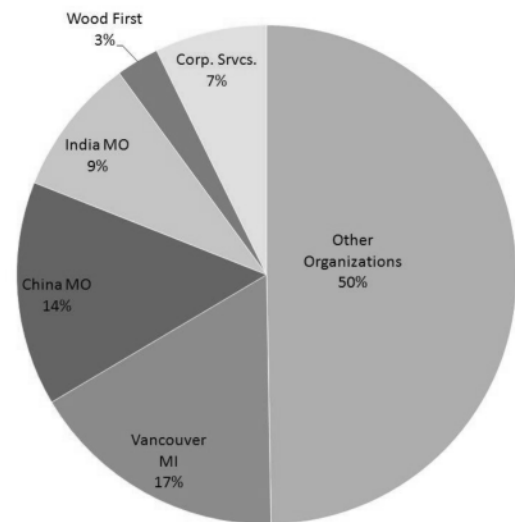
Appendix 8 is a list of FII's Principal Partners, Clients and Stakeholders and their Relationship with FII.

### *Budget and Staffing*

FII's core funding comes from the province and the Ministry of International Trade. Other revenue is sometimes secured from the provincial or federal government, or other sources for specific initiatives. [See Appendix 9 – FII Revenue sources 2003/04 to 2013/14.]

In 2013/14, approximately 50 percent of FII's budget was directed to recipient funding organizations to deliver projects under the Market Initiatives and Wood First calls for proposals. The balance was used to delivery internally directed projects and operations of FII.

2013/14 Budget Forecast (\$ millions)	
Funding Program Area	Allocation
Activities proposed and delivered by other organizations	\$8.90
FII Vancouver Market Initiatives and Outreach	\$3.00
Wood First	\$0.50
FII China Operations	\$2.60
FII India Operations	\$1.60
Corporate Services	\$1.30
<b>Total</b>	<b>\$17.90</b>



Appendix 10 includes a table providing a Budget summary for FII for 2013/14 and a table outlining FII's 2013/14 Projected Costs (as of March 31, 2014) and 2014/15 Budget Allocation.

Building on its own funds, FII further leverages additional funding from other organizations. The following table is a summary of FII programs, FII funding, leveraged funding and total funding for 2014/15.

#### Summary of Programs, FII Funds \*, Leverage Funds and Total Spending in 2014/15

	FII Funds (\$ millions)	Leveraged Funds* (\$ millions)	Total (\$ millions)
Market Outreach - FII Direct Delivery <b>Total</b>	<b>\$2.30</b>	<b>\$2.20</b>	<b>\$4.50</b>
Market Initiatives – Shared Delivery:			
• Delivered by Funding Recipients (Industry Trade Associations, others)	\$6.20	\$14.70	\$20.90
• FII Delivered			
○ Vancouver	\$0.60	\$0.08	\$0.68
○ FII China	\$2.80		\$2.80
○ FII India	\$1.10	\$0.60**	\$1.70
<b>Market Initiatives Total</b>	<b>\$10.70</b>	<b>\$15.38</b>	<b>\$26.08</b>
Wood First – Shared Delivery:			
• Delivered by Funding Recipients	\$2.10	\$1.30	\$3.40
• FII Delivered	\$0.47	\$0.08	\$0.55
<b>Wood First Total</b>	<b>\$2.57</b>	<b>\$1.38</b>	<b>\$3.95</b>
<b>TOTAL</b>	<b>\$15.57</b>	<b>\$19.43</b>	<b>\$34.53</b>

\*"FII Funds" includes only program-related spending (and no corporate services related expenditures)

\*\*NRCAN

FII employs 17 staff in BC (Vancouver), 14 in China, and six in India. Appendix 11 includes Organization Charts for FII Ltd (Vancouver), for FII China and for FII India.

### 3. Review of Mandate and Programs

#### The Trade Context

Trade is an important driver of economic growth, increasing competitiveness and creating new and better jobs as productivity improvements translate into higher skill and higher wage jobs.<sup>7</sup>

In a small, open economy such as British Columbia, promoting trade and removing or reducing barriers to trade and investment creates jobs and increasing government revenue – revenue to support health, education and social services.

Government export programs are designed to promote economic growth and are aimed at:

<sup>7</sup> OECD, *Towards a More Open Trading System and Jobs Rich Growth*, 2012; OECD Policy Brief – *Open Markets Matter: the Benefits of Trade and Investment Liberalisation*, 1999; Ministry of International Trade, *Trade Agreements and Policy*; <http://www.mit.gov.bc.ca/DomIntlTrade/index.htm>

- Increasing export flows, particularly where there is excess capacity in the domestic market, but where international markets may be available;
- Diversifying markets to lessen dependency on single export market or destination;
- Breaking down barriers, including barriers to entry or access associated with government regulation or bureaucracy, cultural or language issues; information gaps or problems about the product or quality of the product;
- Supporting sectors where Industry players are many and small in size limiting their capacity to effectively promote their product or there is a lack of coordination among the sector;
- Promoting products where there is an opportunity to increase the value of the product through trade activities.

It is also expected that where government is investing in trade in a particular sector that industry members will put “some skin in the game” and provide some level of financial contribution to support government activities.

Government support of forestry exports achieves the above objectives by:

- Increasing export flows and finding markets for excess capacity in BC forestry products including taking advantage of opportunities presented by non-traditional markets such as China whose economies were and are experiencing tremendous growth;
- Reducing dependency on US markets by increasing exports to other markets;
- Establishing the viability of using BC lumber in construction (e.g., China) or as a viable alternative for hardwoods (e.g., India) including eliminating government impediments (such as influencing changes to building codes);
- Addressing perceptions on the world stage and global markets about environmental and sustainable practices in BC;
- Supporting an industry sector that is not homogenous (regional interests of sector vary) and is composed of many relatively small operations, and a few very large firms; and
- Creating the opportunity to sell higher value forest products (such as door and window frames and molding in the developing India market).

With forest products produced throughout the province, and many smaller communities dependent on the industry, healthy export markets are also important for promoting stability in regional economies.

The forest sector also presented the opportunity to lever provincial funding with funding from both the industry given its dire need to find new markets and federal government market development programs.

## Analysis and Findings

### *FII's Mandate and Programs*

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*Is the FII model effective at promoting and expanding export markets for forest products?*

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The overall conclusion of this review is that the FII model is effective. FII is very successful in collaborating and working with industry and other partners to deliver programs and initiatives to promote and expand export markets for forest products.

FII's marketing and promotions function and its targeted communications activities focused on addressing the two questions - "Why Wood?" and "Why Wood From BC?" - are effective.<sup>8</sup> It produces credible, science and fact-based material that is highly valued and heavily leveraged and used by industry and other stakeholders. These materials provide significant value to industry's own marketing and promotion activities as well as add value more generally in getting the word out about BC forest management and products. FII's efforts to defend and promote BC forestry sector practices and products are viewed as a key benefit of FII.<sup>9</sup>

FII has a highly disciplined and evidence-based approach to monitoring and identifying potential markets; an approach that is designed to match potential demand with available supply of BC forest products.

Through its market development function, and initiatives undertaken jointly with industry and through its own efforts, FII has been successful in opening up markets. It has maintained a focus on the US that, as the largest market for BC wood products, remains critical to the industry, while creating demand for products in regions that have not traditionally used large volumes of BC forest products. FII's impact on expanding market opportunities measured through softwood lumber exports shows increased

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<sup>8</sup> Initially the focus of FII market outreach activities was addressing perceptions about the sustainability and environmental impact of BC forestry practices, but has now turned to more generally monitoring, promoting and championing the use of wood and BC Forest Products, including the environmental merits of wood-based construction technologies and other product and building innovations in the context of mitigating climate change and adopting green building standards.

<sup>9</sup> See FII, *Market Outreach - 2012/13 Performance Measures Summary* for a description of activities, highlights and measures and achievements. *Marketing Tools Update 2012-13* includes requests by type, period, who requested and how imaged used; searchers on the Supplier Directory by company websites visited and by type of product viewed; list of market research both FII and association commissioned; and reports downloaded and requested by type of external user, including a list of the top 20 reports requested

exports to priority Asia Pacific markets and incremental sales generated in targeted US non-residential construction markets and in BC non-residential construction.<sup>10</sup>

FII's work in China, through FII China, has been instrumental in opening the Chinese market. It has been very successful in establishing effective government-to-government relations at the national, regional and local levels; building relationships with private and with state-owned developers; and in coordination with the Canada Wood Group (CWG), influencing building codes and standards, providing training and quality support and promoting wood frame construction as a higher value end use. In fact, one of the most common sentiments expressed among those interviewed as part of this review was "Without FII, we would not have been in China and mills and communities would have been devastated".

Government-to-government relations remain an important ongoing role for FII China, but there is a divergence of opinion and lack of clarity about other aspects of FII's role going forward. This includes whether there continues to be a role for FII China in promoting the market for higher value products and opening markets in other regions. For example, the apparent duplication in effort between FII China and the CWG also needs to be addressed.

FII's work in India is at the "pioneering stage" with an initial focus on establishing a "beach-head" for BC/Canada in India with the goal of promoting BC coastal wood species and their application to doors, windows and furniture and interior millwork to take advantage of growing demand combined with tropical hardwood supply shortages. Efforts to bring industry along in terms of opening the India market have, however, been impacted by insufficient or unclear communications about FII's rationale and strategy for entering the market.

Although FII's responsibility for the Wood First program is relatively new, efforts to increase the profile of wood in non-traditional uses and its contribution to developing new wood technologies are positive. This includes promoting changes to building codes and funding of demonstration projects in BC to facilitate and illustrate innovative uses of wood (including tall building construction)<sup>11</sup>. Demonstrating non-traditional and innovative uses of wood in BC is essential to promoting these products and approaches in other markets.

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<sup>10</sup> See *FII Market Initiatives - 2012/13 Performance Measures Summary* for a detailed description of activities, highlights and measures and achievements by market

<sup>11</sup> *FII – Wood First Performance Measures Roll-up, 2012-13*. A priority for FII in 2014/15 is to develop performance measures for understanding the impact of its activities and projects on increasing wood use in public construction.



*Recommendation:*

No changes should be made to FII's mandate.

*Recommendation:*

While FII needs to continue to be in China, its role and its relationship with industry associations needs to be reviewed.

## *Scope*

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### *Should FII's scope include all or a subset of forest products?*

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FII's current scope includes all forest products except pulp and paper. The question of scope can be considered from a number of perspectives: whether FII's scope should include all forest products including pulp and paper; whether it should explore new markets; or be responsible for more than forest products (discussed below).

In terms of the first question and whether FII's scope should be expanded to include pulp and paper, it is understood that pulp and paper producers access FII marketing and promotions materials and that in the past FII has approached the pulp and paper sector about ways FII could support the industry but nothing has been identified. Considering this from the perspective of FII's goals to open markets and increase value of products once the market is opened and given the nature of the market for pulp and paper, it does not appear that there is value to invest in pulp and paper.

In terms of second question as to whether FII's scope should include more markets, more demand through available markets does not necessarily mean that there is available supply; FII's disciplined, research-based process for identifying potential markets should continue.

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### *Should FII's scope be expanded?*

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The expansion of FII's scope beyond the forestry sector could dilute its effectiveness and is not supported. Maintaining FII's focus on wood products ensures a clear, targeted direction and specific sector expertise and experience. Reports and studies on international trade and export development support single sector trade agencies.<sup>12</sup>

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<sup>12</sup> MNP, *Export Development Models Best Practices Review*, Prepared for Export Development Branch, Ministry of International Trade, May 2014; and Ministry of International Trade, BC

The government currently has significant trade programs in only two sectors of the defined eight BC Job Plan priority areas - forestry and tourism – although it provides some support for trade in other areas. It is outside the scope of this review as to what sectors should receive targeted investment in trade by government. However, the list on page 15 outlining the reasons for government involvement in trade could be applied against other sectors as a high level tool for identifying areas where further analysis could be undertaken to determine whether and what form of government trade support is appropriate.

Given that the FII model is effective in promoting and expanding export markets, it could be applied to other priority sectors where it is determined that government trade investment is warranted. Alternatively, elements of the FII model and approach could be leveraged or applied to other sectors to support them in accessing markets in the same countries where FII is engaged. FII's connections with government and the trade and business community could be used to open the door for other sectors. Office and facilities could be shared. There may also be opportunities to use what has been learned from FII's programming, including its market outreach program, and the promotion of environmental stewardship and sustainable practices and adapt this to other export sectors.

*Recommendation:*

No changes should be made to FII's scope.

*Recommendation:*

Opportunities to lever FII expertise and presence in markets to support other BC government trade programs be identified and considered.

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*Should FII be involved in direct service delivery?*

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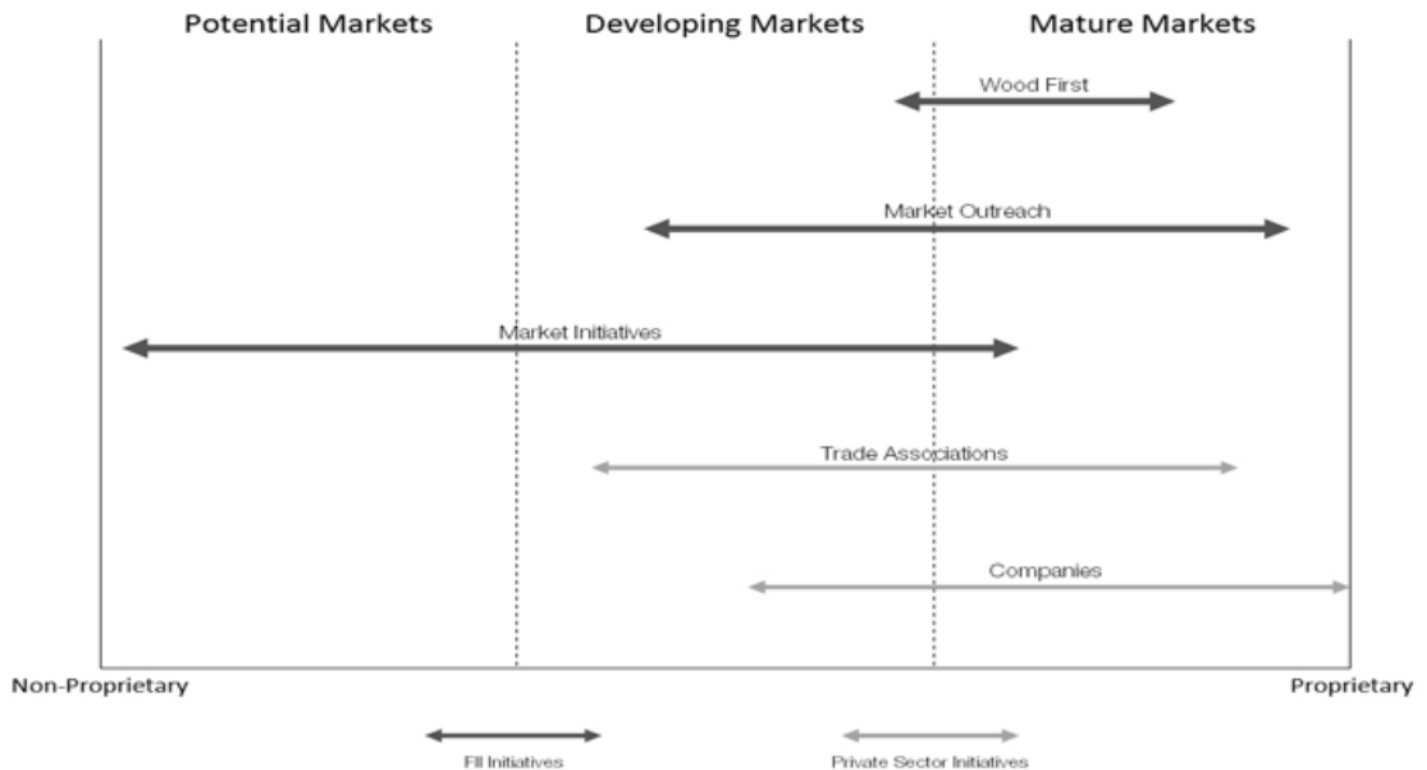
Services and programs delivered directly by FII (through FII staff and internal operations and FII China and FII India) are intended to fill in gaps in programming and ensure that government's priorities are reflected in the "portfolio" of initiatives carried out.

The following diagram illustrates the range of activities of FII, its funding recipients and the individual forest companies. These vary by market segment and point in market development. FII programs are weighted more towards early-stage initiatives that are designed to produce broad-based benefits to the BC forest industry and to determine

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Government, *Australia Best Practices – Australia's Trade and Investment Strategy for Asia*, February 2014.

whether commercial opportunities exist. Industry programs are geared to developing later-stage markets and focused on commercial opportunities.



Source: FII Strategic Plan, 2012/13 – 17/18 (December 2012)

The identified areas of overlap in developing and mature markets is not necessarily a problem as there are areas where overlap makes sense given FII's mandate. This includes FII's direct service provision role in terms of promoting wood as an environmentally friendly building material and BC as a leading supplier of forest products; the Wood First program to coordinate and support efforts to enhance value added and innovative forest products; in the early-through-mid-stage of market development to set the ground-work and where government action is needed to mitigate or break down barriers to market access (e.g., FII's role in influencing China's building codes); and on an initial and ongoing basis to support trade missions, where a government-to-government presence is required and to support expansion into higher value markets.

Where there is overlap, however, there is an increased need to explain and communicate the reasons for the overlap and to ensure clarity about roles and coordination of action between FII, industry, industry associations and other partners.

Some of those interviewed expressed some concern and confusion about FII's activities and its direct service role in some areas. This reinforces the need for FII to be transparent and clear about its role and function including its continued role when a

market matures from a developing market to a mature market. As noted earlier this is an issue with FII China and FII's continued role there including in relation to industry trade associations engaged in the market.

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*What are the consequences/impact if government reduced or withdrew?*

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Depending on the level or extent of government's reduction or withdrawal of support for FII, consequences or impacts could be significant.

FII is strongly supported by industry and other interested parties.

If government withdrew or significantly curtailed its support for FII as a whole, it is expected that the impact on exports of wood products would be minimal in the short term given the recovery in US markets. However, given the cyclical nature of the sector and the impact that FII has had on diversifying markets for wood products, the effect of reducing or withdrawing trade investment in this area would increase over time. More specific consequences, depending on the nature of the government action to reduce or withdraw support, could be an adverse impact on government-to-government relations in China; lack of exploration of new markets by BC industry given capacity and expertise and unwillingness to take chances in an untested market; and the possibility that BC forest practices could come under attack.

## 4. Review of Governance

### *What is Governance?*

Governance is the structure and processes used to direct or "govern" the affairs of an organization. It refers to the mechanisms in place for setting the direction and overseeing the management of an organization so that the organization effectively fulfills its mandate.

### *What is Accountability?*

Accountability is the obligation of one person, entity or group, to account to another person, entity or group for the responsibilities conferred upon them. Put another way, accountability is the responsibility of one person to another for the performance of a function entrusted to them. The nature and extent of the accountability regime for a given organization will vary depending upon the circumstances.

### *How are Governance and Accountability Related?*

At the most basic level, governance relates to how responsibilities are carried out, whereas accountability relates to how the organization is held to account for the performance of those responsibilities. The concepts are clearly intertwined and interdependent, both directed to the effective accomplishment of a mandate.

*"Accountability must serve to influence governance; accountability is not an end in itself". (1996 Report of the Auditor General and Deputy Minister's Council)*

## Crown Agency Model and Best Practices

Governments deliver programs and services through three basic models:

- A ministry or department headed by a Deputy Minister and directly accountable to a Minister who in turn is responsible to government;
- An agency or commission, often established by legislation, outside of direct government to deliver specialized programs or services, and normally headed by a single individual, or group of commissioners, accountable to government through a responsible Minister;<sup>13</sup> or
- A Crown corporation established by legislation or as a corporation wholly owned by government and governed by a board of directors reporting to Cabinet through a designated Minister who is accountable for the Crown Corporation.

The reason for choosing a Crown corporation model for service delivery is where there is the need for autonomy in program delivery and operations. The benefits of the independence garnered from a Crown corporation model include: greater flexibility; credibility as a non-partisan, non-political provider of service; responsiveness in day-to-day operations enabling the organization to respond directly to opportunities or demands in the environment; and more removed and timely decision making than may be possible or available under a ministry model.<sup>14</sup>

Where a Crown corporation model is chosen there is a need to balance government responsibility and accountability with the Crown's autonomy. The government is responsible for ensuring that a Crown corporation's actions are consistent with government direction and policies and that it is accountable and transparent. At the same time, it must respect the operational autonomy of the Crown and its need to make independent decisions within its mandate, operate flexibly in a commercially competitive environment, and/or encourage investment or partnerships with non-governmental interests.<sup>15</sup>

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<sup>13</sup> In some cases agencies are so closely interrelated to Ministries as to be effectively part of direct government and in others are purposefully kept quite separate from the apparatus of direct government

<sup>14</sup> 1996/97 Report of the Auditor General on crown corporation governance, Report to Parliament, Treasury Board of Canada Secretariat, *Review of the Governance Framework for Canada's Crown Corporations*, 2005, Crown Agencies Resource Office, Ministry of Finance, BC Government, *Shareholder's Expectations For British Columbia Crown Agencies*, April 2011, [http://www.gov.bc.ca/caro/attachments/shareholders\\_manual\\_apr2011.pdf](http://www.gov.bc.ca/caro/attachments/shareholders_manual_apr2011.pdf)

<sup>15</sup> Crown Agencies Resource Office, Ministry of Finance, BC Government, *Shareholder's Expectations For British Columbia Crown Agencies*, April 2011, page 4 [http://www.gov.bc.ca/caro/attachments/shareholders\\_manual\\_apr2011.pdf](http://www.gov.bc.ca/caro/attachments/shareholders_manual_apr2011.pdf)

The “Crown Agency Accountability System”<sup>16</sup> establishes comprehensive requirements for BC Crown agencies respecting direction setting, planning, reporting and corporate governance. An assessment of FII’s corporate governance structure and mechanisms against requirements (based on available documents and input from FII) indicates that it meets the requirements of the government’s accountability system, and complies with most applicable guidelines for corporate governance best practice. [See Appendix 12, Crown Agency Accountability System and Corporate Governance Best Practices – Summary of Assessment of FII against identified Requirements and Best Practices.]

## Analysis and Findings

### *Crown Corporation Structure*

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*Is a Crown corporation necessary/optimum to carry out the FII mandate?*

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The Crown corporation model allows FII to be flexible and nimble in ways not available to a ministry. It can make decisions and take responsive and timely action on opportunities in the market. At the same time, that it is a government agency, gives it the credibility and the necessary stature where a government presence or government-to-government relations are needed.

FII’s independence as a Crown corporation has enabled it to take risks to open markets, including forming subsidiaries in China and India; enter into partnerships that support FII’s mandate and the BC forestry sector (e.g., Softwood Lumber Board); successfully cost share with industry and lever funding from other organizations (unlikely in a ministry model); and undertake innovative pilot or demonstration projects (e.g., “Dream Home Canada”). On an operations level, it has been able to undertake the required international travel and support industry and trade events and trade missions without being subject to complex and time consuming government approval processes.

### *Leveraging Funding*

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*If governance is changed, what are the implications for FII’s ability to leverage industry and federal funding?*

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FII is very successful in leveraging funding to extend and support its base budget. This success is dependent on a number of factors including the competitive and rigorous process it runs for the disbursement of funds to recipients and its ability to attract co-funding from the federal government and Alberta, and its ability to attract and enter into partnerships with others to undertake joint initiatives promoting shared objectives (see table on page 13). Being a separate legal entity that has capacity and flexibility to enter into contracts directly in response to opportunities – operate in an

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<sup>16</sup> [http://www.gov.bc.ca/caro/attachments/Crown\\_Accountabilities\\_Summary.pdf](http://www.gov.bc.ca/caro/attachments/Crown_Accountabilities_Summary.pdf);  
[http://www.gov.bc.ca/caro/crown\\_guidelines\\_good\\_practices.html](http://www.gov.bc.ca/caro/crown_guidelines_good_practices.html);  
[http://www.gov.bc.ca/caro/attachments/FrameworkGovernmentCrownAgency\\_web.pdf](http://www.gov.bc.ca/caro/attachments/FrameworkGovernmentCrownAgency_web.pdf)

entrepreneurial way – means that it is more likely to lever money as a Crown than it could if it were a government ministry.

Depending on the extent and nature of any changes to FII's governance model the impact on its ability to leverage funding could be significant. It is suggested that any issues with FII governance can be addressed without significant changes to the FII structural governance model.

As shown in Appendix 13, *Lumber Price Index and Share of Funding Recipient Program*, the level of industry contribution has changed over time generally flowing along with the price of lumber. Lumber prices are rising and it may now be appropriate to reconsider the proportion of funding contributed by industry to FII funded programs.

*Recommendation:*

FII should remain a British Columbia Crown corporation.

*Recommendation:*

The current level of industry contribution to FII funded programs be reviewed and increased as appropriate to reflect current market conditions.

## *Accountability*

### *How informed and involved should government be in FII activities?*

Where government establishes a Crown corporation, and is its sole shareholder, government has the responsibility to set its strategic direction and to be fully informed about whether and how the corporation is achieving this direction.

FII is fully compliant with the Crown Agency Accountability System that ensures that Crown agencies are aligned with government direction, are accountable to government and comply with government policy. FII's annual audit by an independent auditor regularly receives a clean audit opinion.

The composition of the FII board also supports communication between government and FII.

FII takes its responsibilities to report and keep its board and responsible minister fully informed very seriously. There is clear and strong alignment of FII activities to shareholder direction and comprehensive reporting compared to many other organizations.

FII has established a robust performance management framework<sup>17</sup> including a comprehensive set of performance measures defining direct outcomes, intermediate outcomes and end outcomes to measure the impact of specific programs and FII's investment portfolio as a whole. This includes important indicators of the overall impact of investment in trade in promoting and expanding markets for BC forest products measured through increased softwood lumber exports to priority Asia Pacific markets and incremental sales generated to targeted US non-residential construction markets and BC non-residential construction. A gap in FII's framework is the lack of outcome measures of the direct impact of FII's own activities and initiatives in terms of promoting and expanding markets and what it can take attribution for in its "role as enabler".

*Recommendation:*

FII review its performance management framework and establish measures of its own impact.

The review also included consideration of FII's internal processes including its business planning cycle and recipient funding procurement and contract management process<sup>18</sup>. Some of those consulted expressed some concern that the recipient funding process was too onerous. The conclusion of the review is that the process is appropriately comprehensive and thorough and achieves the required level of accountability of recipients to FII for funds spent as well as from FII to government for management of government funds.

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*How informed and involved should industry be in FII activities?*

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Collaboration is a foundation of the FII model. To be effective and achieve its mandate, FII needs to facilitate export opportunities for industry. Successful identification and opening of potential markets where there is an available supply that can be delivered in a competitive way requires the involvement and engagement of industry.

FII has a number of methods in place for obtaining input and involving industry. The Market Outreach Advisory Committee composed of industry and government representatives and the Wood First Advisory Committee composed of industry and related and interested parties, provides input to FII staff and makes recommendations about FII programs and activities in those areas including funding priorities for the Annual Investment Plan. There is currently no market development industry based advisory group but the Annual Investment Plan for market development initiatives is based on detailed market strategies that are developed through extensive consultation with industry. FII communicates broadly with industry and others through distribution

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<sup>17</sup> FII Performance Management Framework – March 2012

<sup>18</sup> FII Performance Management Framework – March 2012



of reports, materials and updates and prepares an Annual Report to Stakeholders on results by market and activities for the past year. FII hosts events or round tables on key topics or issues and trade missions also offer the opportunity for sharing of information between FII, industry and industry associations and for market based strategy sessions.

Despite these avenues for industry involvement and engagement, there is a gap in industry involvement at the strategic direction setting level, including the representation of industry views and input to the FII Board. There are a number of options for achieving greater input of industry into FII's strategic direction setting. These range from changing the board composition to add direct industry representation, retired industry executives or experts in international trade or export development; or establishing advisory committee(s) reporting to the board with a real and meaningful role in providing strategic direction and advice to the board.

It is recognized that the option of appointing current or past industry executives is fraught with conflict of interest issues and concerns. The option of changing the composition of the board to include experts in trade may provide some added diversity, but in terms of industry input, an advisory committee model with a direct line to the board of directors to provide strategic advice may be the most effective way to ensure that industry is involved and informed and its views considered at the strategic level.

Ongoing communication about FII's plans and activities in key strategic areas is also an area that could be enhanced. As noted earlier, current mixed perceptions about FII India appear to be partially due to lack of clear and full communication about FII's rationale and market strategy for India (including its evidenced-based research underlying its efforts to open this market). Enhanced ongoing engagement and communication with industry is needed to support openness and transparency about direction and decisions, and encourage common understanding about strategies and activities and how they are intended to benefit the sector.

*Recommendation:*

To promote accountability, fully informed decision-making and to ensure the views of industry are heard:

- Establish a new “Market Development Advisory Committee”, composed of appropriate industry representatives, that reports to the Board, and is responsible for providing high level strategic advice to the FII Board on market development and market initiatives’ direction, priorities and strategies including China and India and for other emerging or developing markets
- Review the composition of the FII Board of Directors and consider adding outside experts to diversify the skills base of the Board, but retain government control through Deputy Minister appointees, and, to prevent perceived or actual conflicts of interest, do not add any representation from the forestry industry
- Require the Market Acceptance Advisory Committee and the Wood First Advisory Committee to report to the FII Board of Directors
- In addition to its annual “*Report to Stakeholders*”, FII establish a periodic, ongoing process for communicating with industry and other stakeholders about major initiatives and directions and priorities.

## Sources

### FII documents:

FII Government's Letter of Expectations – 2014/15

FII Service Plan Annual Report (latest June 2013 for 2012-13)

FII Report to Stakeholders (latest for 2013 – November 2013)

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FII and Canada Wood, Emerging Markets Report (website)

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FII Market Initiatives - 2012/13 Performance Measures Summary

FII – Wood First Performance Measures Roll-up, 2012-13

FII Administrative Review of Recipient Program, 2010

FII Recipient Agreement Performance Management

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CWG Infrastructure 2012-13 Audit Report

CWG Japan Infrastructure Audit 2011-12

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WRCLA Audit Report 2012-13 USA

FII Corporate Governance Guiding Principles

FII Board of Directors Terms of Reference

FII Guidelines for Individual Directors

FII Responsibilities of the Board Chair

FII Audit Committee Terms of Reference

FII Statement of Directors Remuneration

FII Audit Committee Membership Roster

FII Chief Executive Officer Job Description

FII Board of Directors Biographies

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#### Other:

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United Kingdom, Department for Business Innovation and Skills, *International Trade and Investment – the Economic Rationale for Government Support*, May 2011

United States Congress, Congressional Research Service, *US Government Agencies Involved in Export Promotion: Overview and Issues*, 2012

## APPENDICES

## Appendix 1

### Terms of Reference - Core Review of the Forestry Innovation Investment

#### Forestry Innovation and Investment's Mandate

Forestry Innovation Investment (FII) was established in 2003 as the provincial agency responsible for maintaining and expanding markets for B.C. forest products. FII works in partnership with the forest industry, research institutions and other stakeholders.

FII's mandate is updated annually by the Minister responsible for FII. The 2014/15 Government's Letter of Expectations instructs FII to:

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

FII's activities fall into three primary areas:

- Market initiatives – export market research; initial pursuit of long-term potential in regions not currently served by the BC forest industry; funding support for industry trade associations to maintain and expand market demand; and management of relationships with foreign government authorities.
- Wood First – work with the industry, architects, engineers, developers, and others to make BC a centre of excellence in manufacturing and using innovative forest products.
- Market Outreach – promote wood as an environmentally friendly building material and BC as a leading supplier of forest products.

#### Purpose of the Core Review

The province announced a core review of all ministries and their agencies, boards, commissions and all Crown agencies and the SUCH sector on July 31, 2013. The goal of core review is to control government spending, ensure the best possible use of government resources and respect for the interests of taxpayers. This is achieved by:

- Ensuring programs and activities are focused on achieving government's vision;
- Confirming core responsibilities and eliminating programs that can be better provided through alternative service delivery;
- Ensuring budget targets are achieved; and
- Identifying where savings can be re-directed to high priority programs.

Core review across government is to be completed by December 2014.

## Scope of the Review

The review will examine FII's mandate and programs as well as governance, including FII's subsidiary companies in China and India. Specifically, the review will address the following:

### *Mandate and Programs*

1. What would the consequence be if the government reduced or withdrew from this activity?
2. Is the FII model effective at promoting and expanding export markets for forest products?
3. Is a Crown corporation necessary to carry out the FII model?
4. Should FII's scope include all forest products or just a subset?
5. Should FII's scope be expanded beyond the forest sector? How should those sectors be determined?

### *Governance*

1. Is the current governance structure optimum for ensuring FII discharges its mandate?
2. How informed and involved should Government be in FII's activities?
3. How should the private sector inform or be involved in FII's activities? Is the current approach to securing private-sector advice effective?
4. What are the implications to FII's ability to leverage industry and federal funding if governance is modified?

### *Out of Scope*

Given the purpose of Core Review is to help the Province fulfill its commitment to control spending and balance the budget, FII's level of funding is out of scope of this review.

## Review Methodology

An independent, industry-respected individual (the Reviewer) with experience conducting reviews and familiarity with the forest industry and export market development will be appointed to conduct the review.

The Reviewer will consult with FII's key partners and stakeholder, which may include:

- FII's board of directors and executive team
- BC forest product companies
- FII's funding recipients
- Department of Natural Resources Canada
- Ministry of Forests, Lands and Natural Resource Operations

In addition to the consultations, the Reviewer will consider and incorporate the best practices, research such as jurisdictional scans, and analysis of export development and international market presence framework that is being undertaken by the Ministry of International Trade.

The Reviewer will provide a report that:

- Identifies the strengths and weaknesses of FII's mandate, governance, and opportunities to improve use of government resources;
- Provides options for addressing any apparent weaknesses and/or enhancing the use of resources, including implications associated with each option; and
- Recommends a preferred option.



## Appendix 2 – List of Individuals Consulted

### *Interviews:*

Shannon Baskerville, Deputy Minister, Ministry of International Trade (current member, FII Board of Directors)

Pat Bell, Executive Vice President, Conifex

Zoish Bengali, Director, India Market Development, FII

Karen Brandt, Director, Public Affairs & Corporate Communications, Interfor

Brent Comber, Art/Wood Design – BrentComber.com

Lisa Dou, General Manager, and Liu Guoli, Director, Marketing and Government Relations, FII China

Jack Draper, Director, Western Red Cedar Lumber Association

Don Fast, Partner, The Progressive Group

Michael Giroux, President, Canadian Wood Council

James Gorman, President and CEO, Council of Forest Industries

Michael Green, Principal, Michael Green Architecture

Brian Hawrysh, CEO, BC Wood Specialties Group

Dana Hayden, President, Hayden Consulting Services (former Chair, FII Board of Directors)

Reynold Hert, BC Forest Safety Council and FII Wood First Advisory Committee member

John Innes, Dean, Faculty of Forestry, University of BC

Cees de Jager, Chief Marketing Officer, Softwood Lumber Board

Rick Jeffrey, President and CEO, Coast Forest Products Association

Bob Jones, Director Industry and Trade Division, Department of Natural Resources

Don Kayne, President and CEO, Canfor

Christine Kennedy, Vice President, Brand and External Relations, Canfor

Susanna Laaksonen-Craig, Executive Director, Timber Operations, Pricing and First Nations, Ministry of Forests, Lands and Natural Resource Operations

John Langley, General Manager, Export Sales and Marketing, Tolko

Peter Lister, Vice President, Forest Operations & Wood Products, FPIInnovations

John McDonald, Executive Director, Strategic Investments & Key Accounts Division, Ministry of International Trade

Chris McIver, Vice President Marketing and Sales, West Fraser

Bruce Pollock, President, Interex

Tim Sheldan, Deputy Minister, Forests, Lands and Natural Resource Operations (current Chair, FII Board of Directors)

Bruce St John, Vice President, Lumber Sales and Marketing, Western Forest Products

Mary Tkachyk, Executive Director, and Sasha Clarke, Senior Advisor, Crown Agencies Resource Office, Ministry of Finance

Mary Tracy, former Executive Director, WoodWorks! BC

Lori Wanamaker, Deputy Solicitor General, Ministry of Justice (former member, Board of Directors FII)

#### *Written Submissions:*

Canada Wood Group Submission, *"FII and Core Review: Assessment of Mandate - Comments and Recommendations of the Canada Wood Group (CWG)"*. Developed in consultation with following individuals:

- Wayne Guthrie – SVP Marketing, Canfor
- Chris McIver – VP Marketing and Sales, West Fraser
- Steven Hofer – VP Sales, International Forest Products
- Bruce St. John – VP Sales, Western Forest Products and CWG director
- Bruce Pollock – President, Interex Forest Products
- John Langley – GM Export Sales, Tolko Industries
- Brian Hawrysh – President, BCWood and CWG director
- Barry Ford - GM Canada Wood Group
- James Gorman – President COFI
- Rick Jeffery - President CFPA and CWG director
- Paul Newman – President CWG

Letter to Chris Trumpy from Don Kayne, President and CEO, Canfor Corporation

## Appendix 3 - Summary of Consultations with Stakeholders

(distributed to those interviewed May 26, 2014)

In early April 2014, the Ministry of International Trade initiated a review of Forestry Innovation Investment Ltd., a provincial crown corporation responsible for promoting exports of BC forest products. The terms of reference required extensive consultation with a broad range of stakeholders. These confidential meetings took place between April 28, 2014 and May 16, 2014.

This document summarizes the range of issues raised during those conversations. Not every issue or opinion is presented in this document but rather those that surfaced in several meetings.

### *Major Themes*

There is broad (but not unanimous) support for FII's programs, the staff of FII and the systems used to deliver programs.

### Benefits to Sector

The benefits to the forest sector of FII that were cited included:

- market development role – especially in China
- market monitoring and research
- market intelligence
- bringing industry together on issues
- quality of communications materials
- the Wood First program increasing the profile of wood in non- traditional uses
- contributions to new wood technologies.

### Benefits of Model

The benefits of the "FII model", defined here as a single purpose crown corporation delivering programs largely through joint funded industry associations, which were cited included:

- ability to leverage funding from industry and federal government. Some people indicated that given the relative health of the sector increasing industry funding of some programs may be appropriate
- focus on sector
- more flexible than government ministry
- collaboration.

### FII Processes

FII processes received mixed reviews with some opinions that they were too onerous and diverted money and time away from program delivery while others felt that it was a legitimate level of oversight given that these are public funds.

### FII China

While there was support for the work FII has done in China there was a wide range of opinions on FII's role going forward. Some felt that there was much work to do – particularly to continue to open the market up to higher value products. Others felt that FII had completed its work and could leave China in the hands of the Canada Wood Group. In the middle were those that felt there was overlap that needed to be dealt with.

### FII India

The range of opinions about FII's work in India was similar to China. Some felt that the India market would never work for BC producers while others saw that India had real potential for higher value products.

### US Markets

A number of people expressed the view that there was insufficient attention paid to the US market, the closest and largest market for BC forest products with the most potential for higher value products.

### Industry Engagement

The level of industry engagement in two of the three functions of FII was applauded. However a large number of people expressed concerns with the lack of communication and consultation on the market development program.

### FII Governance

A range of views was expressed on the governance of FII. While some were satisfied with the current Deputy Minister led board they were in the clear minority. At the other end were those who felt that the board should consist of industry representatives. In the middle were those that recognized that since government is the funder of FII and it should be aligned with government direction that DM leadership on the board was appropriate. However most felt that there was a need to increase the level of industry involvement in the board decisions. Recognizing conflict of interest risks the use of retired industry executives, experts in trade or beefed up advisory committees were among the alternatives put forward.

### FII Communications

As indicated above most cited the outward directed communications material produced by FII as something they do well. However a number also expressed the view that FII could improve its communications of priorities and decisions– particularly on its directly funded programs.

### Wood First

The Wood First initiative was generally seen as a success with the commitment to use of wood and funding of demonstration projects and work on changes to building code essential. However some felt that there was still too much emphasis in FII programs on low value wood products.

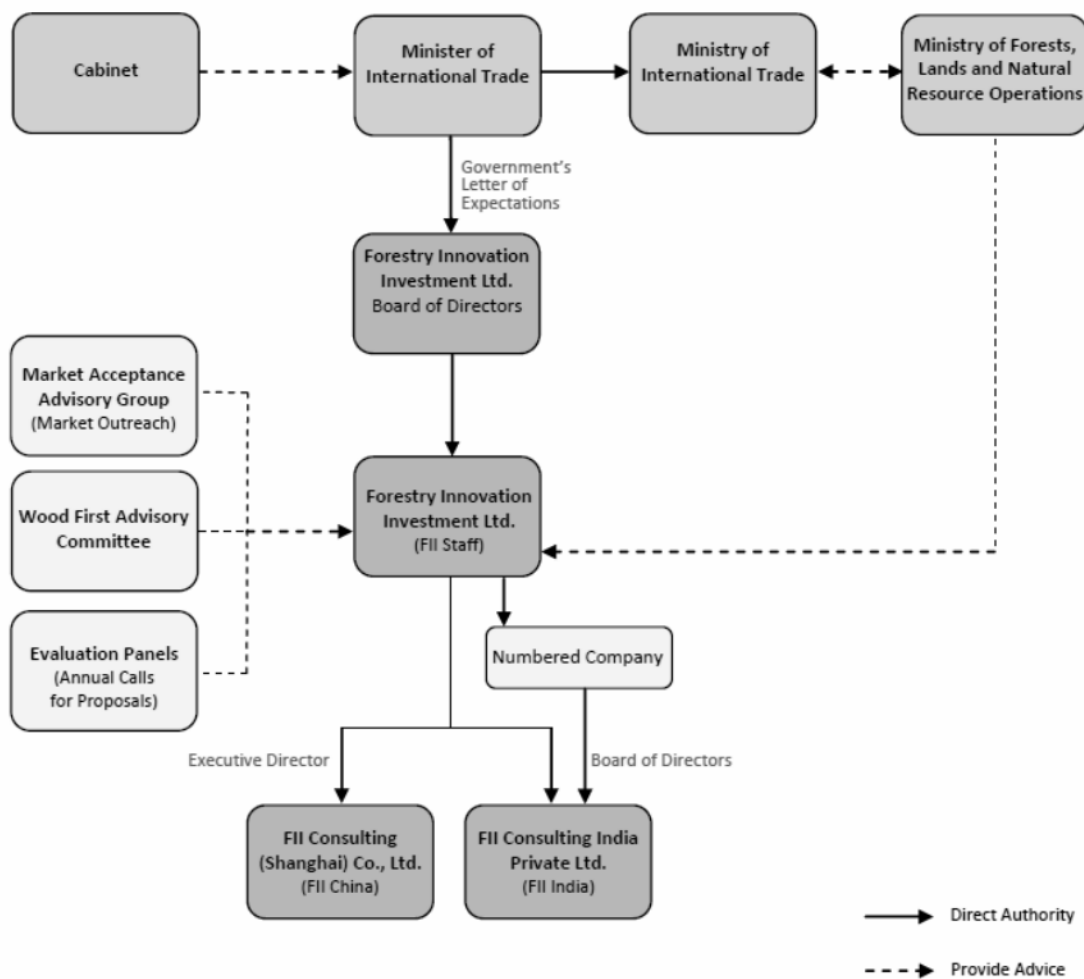
Page 37 to/à Page 41

Withheld pursuant to/removed as

s.13;s.17

## Appendix 5 – FII Corporate Structure and Governance

### Forestry Innovation Investment - Structure and Governance May 2014



## FII's Strategic and Performance Measurement Framework

**Vision:** Forestry Innovation Investment is an effective catalyst in positioning British Columbia as the leading global supplier of environmentally superior products from sustainably managed forests.

**Mission:** FII's mission is to be an innovative and collaborative forest marketing agency that anticipates and meets the needs of government, the B.C. forest sector, and international markets through well balanced investments that maximize value to British Columbia.

### Values:

- **Innovation** — FII anticipates changing market, economic and geo-political forces that impact the forest economy and invests in new programs, research and product development that offer competitive advantages to the forest sector.
- **Credibility and integrity** — FII activities and funded projects are based on government and industry priorities and strategies developed in partnership with stakeholders. FII services are transparent, timely and openly communicated.
- **Collaboration** — FII works in partnership with key stakeholders in industry, the research sector and government to develop initiatives and ensure programs are delivered effectively.
- **Engagement** — FII is actively involved in the market and product development programs it funds and delivers. FII not only responds to government and industry priorities, but also takes the initiative to identify new market opportunities and counsel industry and government on emerging issues.
- **Risk Management** — FII is oriented towards growing markets, but recognizes that there are risks in pursuing opportunities. As much as possible, investment decisions are firmly rooted in current, relevant, and comprehensive market information that provides a sufficiently compelling business case for each market initiative.
- **Accountability** — FII strives for transparent decision-making and investment processes. FII staff have a duty to ensure the appropriate use of the public funds entrusted to them. Activities are expected to be founded on clear objectives, generate a positive return and have well-developed performance measures.

### Goal 1 - Expand Market Opportunities, Emphasizing a Dramatic Increase in Forest Products to China and the Rest of Asia

#### Strategies:

- Support the B.C. forest industry to develop and diversify markets for B.C. wood products in new and existing Asian markets by:
  - funding trade association market development programs based on priorities outlined in FII's Investment Strategy
  - initiating market development efforts in emerging economies
- Partner with the federal government and work with B.C. and bi-national trade associations to expand the use of wood in the non-residential construction sector in North America

#### Performance Measures:

- Softwood lumber exports to priority Asia Pacific markets
- Incremental sales generated in targeted U.S. non- residential construction markets
- Incremental sales generated in the B.C. non- residential construction market

### Goal 2 – Position Wood as a Preferred Building Material and BC as a Global Leader in Wood Innovation

#### Strategies:

- Establish B.C. as a leader in wood use and innovation by leading B.C.'s Wood First initiative to:
  - increase wood use in public construction in B.C.
  - advance a "pro-wood" culture in B.C.
- Advocate for the B.C. forest sector by encouraging international regulators to accept B.C./Canadian products and forest practices
- Champion science- and fact-based approaches to communicate the environmental merits of wood and wood-based construction
- Position B.C. as a leading global supplier of quality, environmentally-responsible forest products and building solutions

#### Performance Measures:

- Per cent of allowable floor area (B.C. Government buildings) built with wood
- Per cent of customers who feel that choosing products from B.C. (Canada) is a good choice for the environment

### Goal 3 – Maintain FII as a Highly Effective, Innovative and Responsive Organization

#### Strategies:

- Ensure FII is efficient, transparent and results focused
- Ensure the integrity and timeliness of funding to other organizations for activities that will enhance the forest sector's economic and social benefits to British Columbia
- Maximize the financial contributions of key partners
- Minimize FII's carbon footprint and promote environmentally responsible business activities

#### Performance Measures:

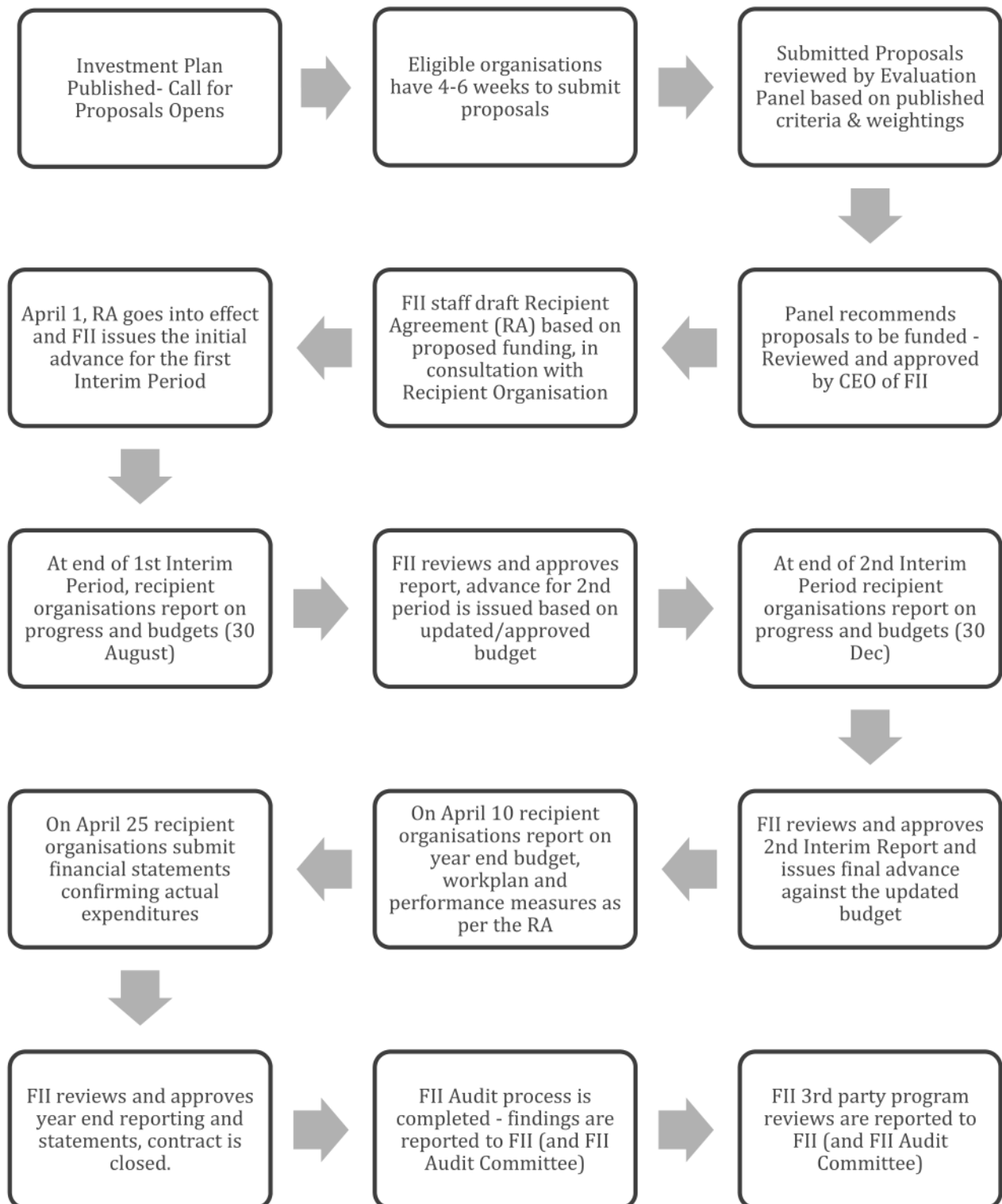
- Timeliness of annual funding cycle for trade associations, research institutes and universities
- Leveraged dollars as a percentage of total annual funding program

## Appendix 6 - Program Areas and Organizational Structure

<b>OPERATIONS</b>	
Market Initiatives	<ul style="list-style-type: none"> <li>• Research opportunities in new and emerging markets, and initiate early market exploration activities</li> <li>• Support industry trade associations in developing and/or expanding markets and market segments for B.C. forest products</li> <li>• Support industry efforts to mitigate market access and plant health issues</li> <li>• On behalf of the forest sector, manage outreach and relationship building in China with Chinese authorities and central government agencies</li> </ul>
Wood First	<ul style="list-style-type: none"> <li>• Champion the Province's Wood First initiative and encourage expanded wood use in B.C.</li> <li>• Encourage the development of a pro-wood culture in B.C., and position B.C. as a leader in wood innovation</li> <li>• Encourage product innovation and the introduction of new wood building systems</li> <li>• Encourage a robust value added sector in B.C., through enhanced capacity and competitiveness</li> </ul>
Market Outreach	<ul style="list-style-type: none"> <li>• Promote the benefits of wood as a green building material</li> <li>• Develop factual and science based materials to position wood's environmental benefits and climate change mitigation potential</li> <li>• Promote B.C. as a world leading supplier of forest products</li> <li>• Ensure markets are aware of B.C.'s sustainable forest practices and high environmental standards</li> </ul>
<b>CORPORATE SERVICES</b>	
Finance & Administration	<ul style="list-style-type: none"> <li>• Ensure financial reporting to government standards</li> <li>• Provide Human Resource, IT and office services to meet organizational needs</li> <li>• Oversee budget and planning controls</li> </ul>
Corporate Relations	<ul style="list-style-type: none"> <li>• Compile and share export data and analysis on market trends</li> <li>• Support Government and industry trade and investment initiatives</li> <li>• Provide corporate communication and analytical services to meet internal and external needs</li> </ul>
<b>SUBSIDIARY COMPANIES</b>	
China Subsidiary	<ul style="list-style-type: none"> <li>• Liaise with China government agencies at the district, municipal, provincial and national levels to understand their needs and aspirations, and determine how they can be met by the BC forest industry</li> <li>• Broker relationships between China officials and the Canadian private sector</li> <li>• Inform the programs delivered by Canadian forest industry trade associations in China</li> </ul>
India Subsidiary	<ul style="list-style-type: none"> <li>• Establish a local market presence on behalf of the B.C. and Canadian forest products sector</li> <li>• Lead research to identify opportunities in the market for B.C. / Canadian suppliers</li> <li>• Build working relationships with government officials, regulatory agencies and the wood user community</li> </ul>



## Appendix 7 - Recipient Funding Call for Proposals and Contract Management

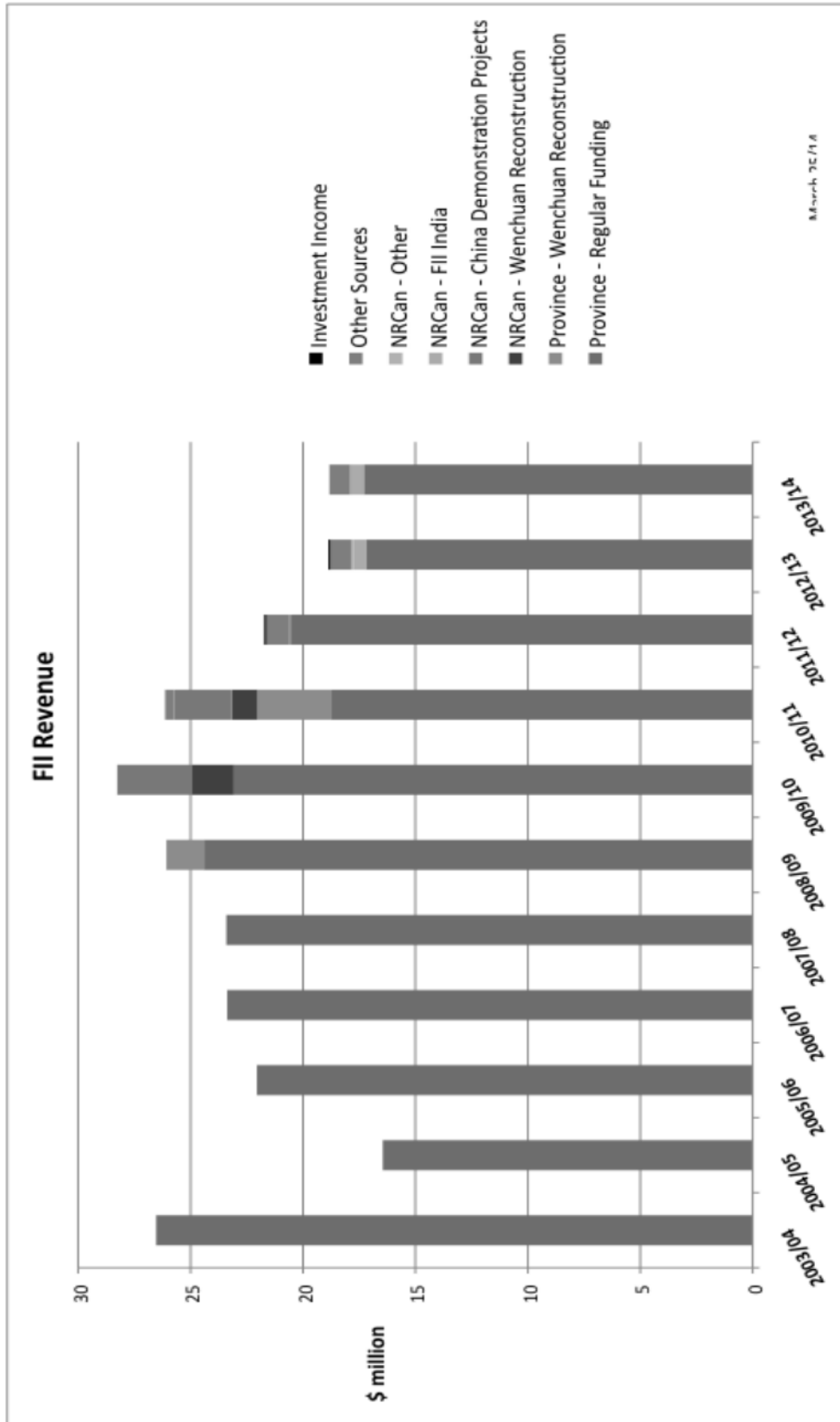


## Appendix 8 - List of Principal Partners, Clients and Stakeholders

Organization	Relationship
<b>Government</b>	
Government of British Columbia	Sole shareholder, provides FII's core funding
Ministry of International Trade	Ministry responsible for FII
Ministry of Forests, Lands and Natural Resources Operation	Responsible for forest practices and forest management as well as managing the sale of about 20% of the annual harvest on Crown land through B.C. Timber Sales
Department of Foreign Affairs and International Trade, Government of Canada	Federal agency supporting in-market trade and investment promotion
Department of Natural Resources, Government of Canada	Federal funding agency for international marketing through the <i>Canada Wood Export Program</i> (CWEP) <i>Wood First initiative</i>
Government of Alberta	Funding contributor to the China and Japan market development programs
<b>Other</b>	
<b>B.C. forest industry associations and organizations:</b>	Funding recipients that initiate and deliver domestic and international market development programs and that may also receive funding from Natural Resources Canada and/or other partner organizations
APA – The Engineered Wood Association	
B.C. Forestry Climate Change Working Group	
B.C. Shake & Shingle Association	
B.C. Wood Specialties Group	
Bi-national Softwood Lumber Council	
Canada Wood Group	
Canadian Wood Council	
Canadian Wood Council – WoodWORKS!	
BC	
Cedar Shake and Shingle Bureau	
CertiWood	
Coast Forest Products Association	
Council of Forest Industries	
Forest Products Association of Canada	
Sustainable Building Coalition	
Western Red Cedar Export Association	
Western Red Cedar Lumber Association	
Wood Enterprise Coalition	
Wood Pellet Association of Canada	
Wood Products Council	
<b>Post-secondary and research institutions:</b>	Partners and/or funding recipients that initiate and deliver product development and technical research, and overseas training programs to build local capacity in wood frame construction
FPIInnovations	
University of British Columbia	

(Source: FII website, <http://www.bcfii.ca/aboutus/corporate/>)

## Appendix 9 – FII Revenue Sources – 2003/04 to 20013/14



## Appendix 10 – FII Budget Summary and Budget Allocations

### Forestry Innovation Investment Ltd. Budget Summary

Forecast at March 31, 2014

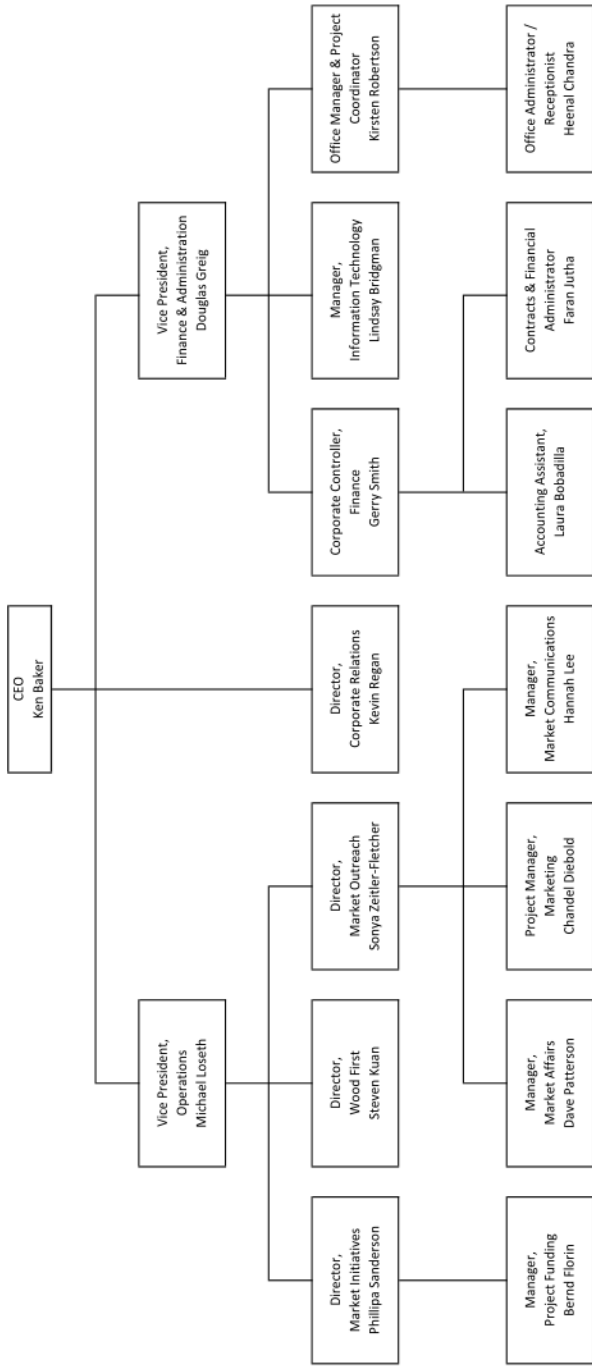
Funding:	2013/14	
	(\$ million)	%
Funding from Province (See Notes 1 & 2)	17.300	92
Funding from NRCan	0.719	4
Funding from others	0.718	<u>4</u>
<b>Total Funding</b>	<b>18.737</b>	100

Expenditures			
Funding to Other Organizations:		(\$ million)	%
	Market Development Call for Proposals	5.697	31
	Wood First Call for Proposals	<u>2.215</u>	12
	Total Funding to Recipients in Calls for Proposals	7.912	43
	Grants	<u>0.799</u>	4
	<b>Total Funding to Other Organizations</b>	<b>8.711</b>	47
Cost of Managing Funding Contracts:			
	Proposal evaluation, audits, etc.	0.202	
	FII staff salaries & benefits	<u>0.300</u>	
	<b>Total Cost of Managing Funding Contracts</b>	<b>0.502</b>	
FII internal program delivery:			
FII Vancouver Operations	Market Initiatives & Market Outreach Projects	1.230	7
	Wood First Projects & Advisory Committee	0.477	3
	Staff salaries & benefits	1.358	7
	Overhead	<u>0.736</u>	<u>4</u>
	<b>Total FII Vancouver Operations</b>	<b>3.801</b>	<b>21</b>
FII China	Projects	0.668	<u>5</u>
	Staff salaries & benefits	1.001	<u>5</u>
	Office overhead, F&A support, travel, taxes, etc	<u>0.996</u>	<b>15</b>
	<b>Total FII China</b>	<b>2.665</b>	<b>2</b>
FII India	Projects	0.353	2
	Staff salaries & benefits	0.336	<u>5</u>
	Office overhead, F&A support, travel, taxes, etc	<u>0.894</u>	
	<b>Total FII India</b>	<b>1.583</b>	<b>9</b>
	<b>Total FII internal program delivery</b>	<b>8.049</b>	<b>44</b>
Corporate Support	Staffing	0.614	3
	Other	<u>0.487</u>	<u>3</u>
	<b>Total Corporate Support</b>	<b>1.101</b>	<b>6</b>
	<b>Total Cost of FII internal program</b>	<b>9.150</b>	<b>50</b>
	<b>Total Expenditures</b>	<b>18.363</b>	<b>97</b>
<b>Surplus</b>		<b>0.374</b>	

Program Area		2013/14 Projected Costs		2014/15 Budget Allocations	
		\$ million	%	\$ million	%
<b>Funding to Other Organizations:</b>					
	Market Development	5.697	31%	6.100	34%
	Wood First	2.215	12%	2.200	12%
	Grants	<u>0.800</u>	<u>4%</u>		
Total Funding to Other Organizations		8.712	47%	8.300	46%
FII internal cost of managing funding contracts		<u>0.550</u>	<u>3%</u>	<u>0.730</u>	<u>4%</u>
<b>Total Cost of Recipient Funding Programs</b>		<b>9.262</b>	50%	<b>9.030</b>	50%
<b>FII internal program delivery:</b>					
Government Initiatives & Outreach		3.135	17%	2.900	16%
Wood First Initiatives		0.617	3%	0.470	3%
FII China		2.665	15%	2.800	15%
FII India		1.583	9%	<u>1.700</u>	9%
Total FII internal program delivery		8.000	44%	7.870	43%
Corporate Support		<u>1.101</u>	<u>6%</u>	<u>1.200</u>	<u>7%</u>
<b>Total FII internal program</b>		<b>9.101</b>	<u>50%</u>	<b>9.070</b>	<u>50%</u>
<b>Grand Total</b>		<b>18.363</b>	100%	<b>18.100</b>	100%
Estimated Under-Spend		0.374		0.000	
<b>Revenue Sources:</b>					
		<u>\$ million</u>		<u>\$ million</u>	
Province of BC		17.300		17.300	
Natural Resources Canada		0.650		0.600	
Others		0.787		0.200	
		<b>18.737</b>		<b>18.100</b>	

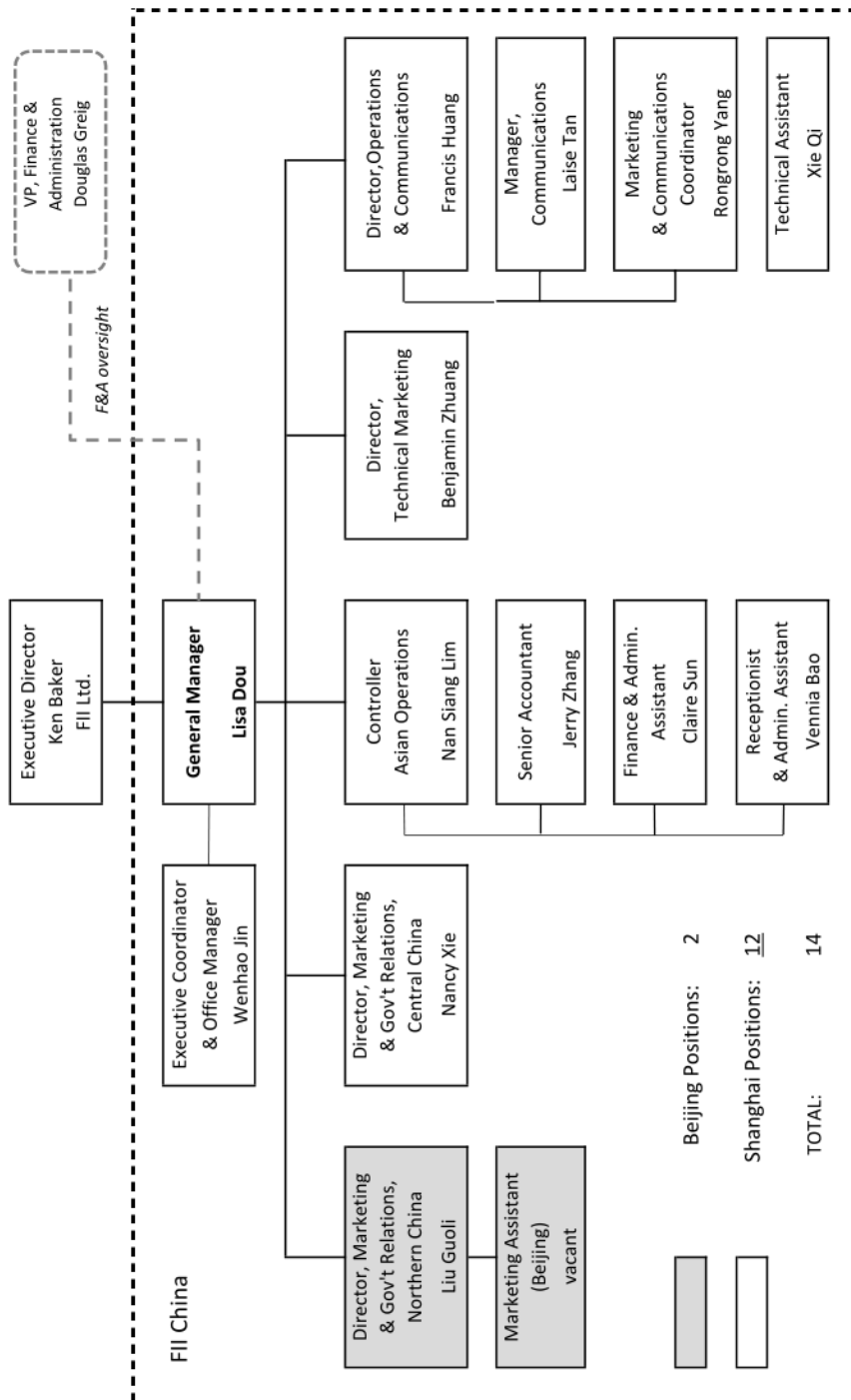
Appendix 11 – Organization Charts

FII Ltd. Organization Chart  
June 2013

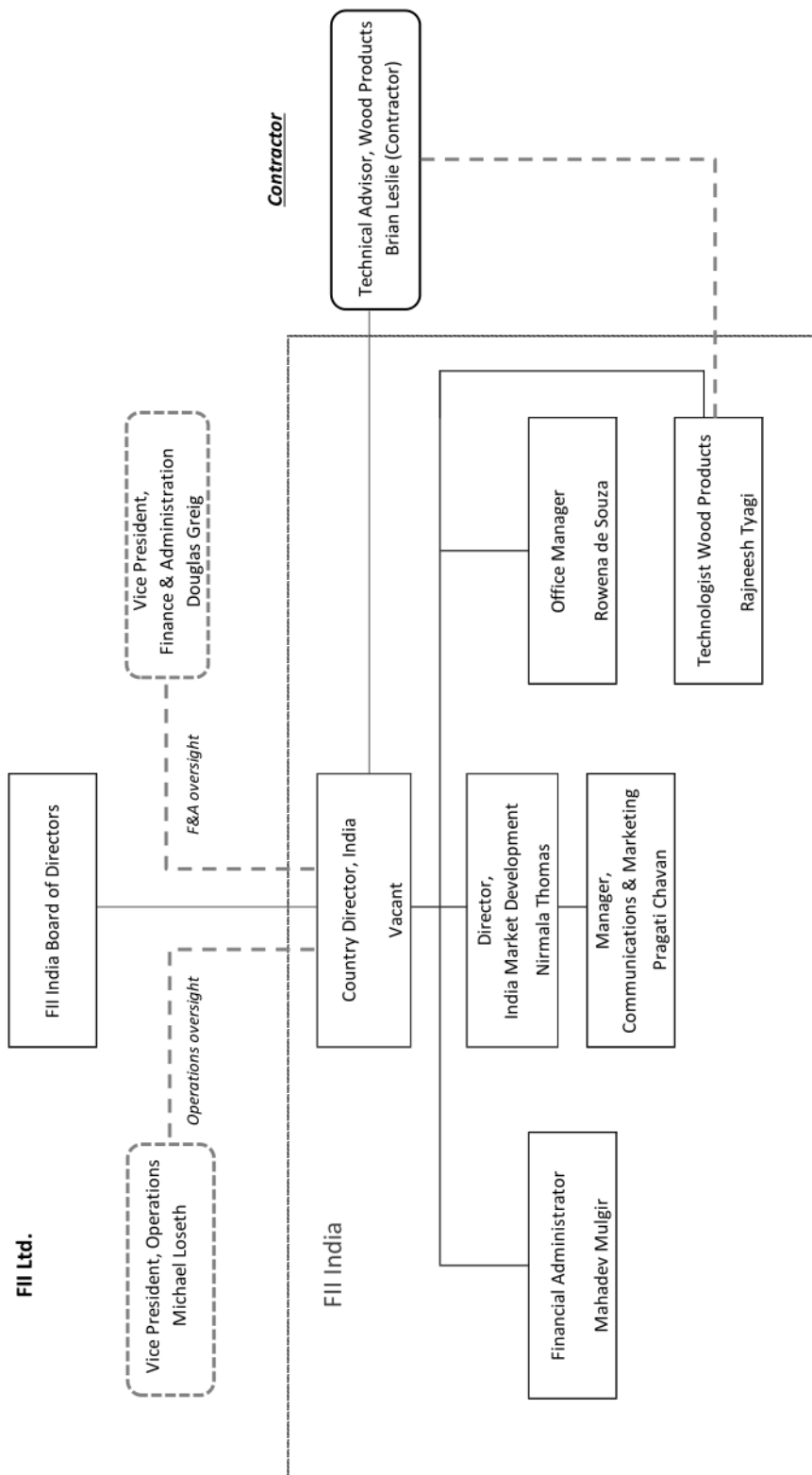


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# FII China Organization Chart February 2014



## FII India Organization Chart April 2014





## Appendix 12 - Crown Agency Accountability System and Corporate Governance Best Practices – Summary of Assessment of FII against identified Requirements and Best Practices

Best Practice	Status			Comment
	Yes	No	NA	
Crown Agency Accountability System <sup>19</sup>				
• Government’s Letter of Expectations	<input type="checkbox"/>			
• Three Year Service Plan	<input type="checkbox"/>			
• Annual Service Plan Report	<input type="checkbox"/>			
• Performance Reporting Principles for the BC Public Sector	<input type="checkbox"/>			
Crown Corporate Governance Best Practice Guidelines				
• Board composition and succession, including: <ul style="list-style-type: none"><li>○ That board members are independent of management and have no material interest in the organization</li><li>○ the board has a nominating committee that develops board selection criteria and recruits and evaluates potential board members</li><li>○ the board has a succession plan</li><li>○ the board publishes member biographies</li></ul>	<input type="checkbox"/>		<input type="checkbox"/>	Board is wholly appointed by government consisting of 3 DMs and 1 ADM; FII Board Terms of Reference indicate that there will be 3 board members; biographies published
			<input type="checkbox"/>	
			<input type="checkbox"/>	
	<input type="checkbox"/>			
• Board - written charter detailing its roles and responsibilities	<input type="checkbox"/>			Board Terms of Reference
• Board Committees – should be committees that address Finance, Governance, Human Resources and Compensation, and the Audit function; each committee or task force has written terms of reference	✓		✓*	*Audit Committee only Board committee; has Terms of Reference. Other committee functions handled by Board as a whole given size of Board

<sup>19</sup> Source – Crown Agencies Secretariat and Board Resourcing and Development Office, *Crown Agency Corporation Governance: A Good Practice Checklist and Framework for Government – Crown Agency Relationship: A Good Practices Checklist*. In addition, Crown Agencies are expected to comply with a range of Legislation and Policies of general application including: *Auditor General Act*, *Budget Transparency and Accountability Act*, *Balanced Budget and Ministerial Accountability Act*, *Document Disposal Act* and policies, *Financial Administration Act* and Core Policies and Procedures, *Financial Disclosure Act*, *Financial Information Act*, *Freedom of Information and Protection of Privacy Act*, *Multiculturalism Act*, *Ombudsman Act*, *Public Sector Employers' Act*, *Workers' Compensation Act*, Capital Asset Management Framework (TB Directive), Capital Standard – 2007, Board Remuneration (TB Directive), Executive Compensation and Labour Relations requirements under the *Public Sector Employers' Act*, climate action carbon neutral initiatives, and ActNow BC requirements.

<b>Best Practice</b>	<b>Status</b>			<b>Comment</b>
	<b>Yes</b>	<b>No</b>	<b>NA</b>	
<ul style="list-style-type: none"> <li>Audit Committee - members are financially literate, independent of internal auditors, and external auditor reports to chair of Audit Committee not to management</li> </ul>	<input type="checkbox"/>			
<ul style="list-style-type: none"> <li>Board Chair - separate from CEO position, there is a position description and the Chair meets regularly with Minister</li> </ul>	<input type="checkbox"/>			Responsibilities of the Board Chair; posted on FII website
<ul style="list-style-type: none"> <li>Individual Directors               <ul style="list-style-type: none"> <li>written charter outlining expectations</li> </ul> </li> </ul>	<input type="checkbox"/>			Guidelines for Individual Directors
<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>Public disclosure of remuneration</li> </ul> </li> </ul>	<input type="checkbox"/>			FII Board members are not paid; a Statement of Director's Remuneration is posted
<ul style="list-style-type: none"> <li>CEO or President -               <ul style="list-style-type: none"> <li>Board has job description for CEO</li> </ul> </li> </ul>	<input type="checkbox"/>			Formal evaluations not undertaken
<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>Board establishes annual performance expectations and annually assesses CEO performance</li> </ul> </li> </ul>		<input type="checkbox"/>		
<ul style="list-style-type: none"> <li>Corporate Secretary – position and position description</li> </ul>	<input type="checkbox"/>			
<ul style="list-style-type: none"> <li>Code of Conduct and Ethics</li> </ul>	<input type="checkbox"/>			Guidelines for Individual Directors
<ul style="list-style-type: none"> <li>Orientation and Professional Development – comprehensive orientation package and ongoing educational opportunities</li> </ul>		<input type="checkbox"/>		
<ul style="list-style-type: none"> <li>Board, Committee and Director Assessment – annual assessment of performance by board or chair, board and committees</li> </ul>		<input type="checkbox"/>		
<ul style="list-style-type: none"> <li>Communications Strategy – appropriate strategy in place to meet needs of Stakeholders</li> </ul>	<input type="checkbox"/>			FII publishes many documents annually including Report to Stakeholders

*FII Governance and Accountability Documents (posted on FII website)*

Mandate, Planning and Reporting:

- Government's Letter of Expectations – 2014/15
- FII Service Plan Annual Report (latest June 2013 for 2012-13)
- FII Report to Stakeholders (latest for 2013 – November 2013)
- Performance Management Framework, March 2012
- FII Strategic Plan 2012/2013 –17/18, December 2012
- FII and Canada Wood, Emerging Markets Report,

Corporate Governance:

- Corporate Governance Guiding Principles
- Board of Directors Terms of Reference
- Guidelines for Individual Directors
- Responsibilities of the Board Chair
- Audit Committee Terms of Reference
- Statement of Directors Remuneration
- Audit Committee Membership Roster
- Chief Executive Officer Job Description
- Board of Directors Biographies
- Status of Concurrence with Best Practices

## Appendix 13 – Lumber Price Index versus Share of Funding Recipient Expenditures

