Forestry Innovation Investment
REPORT TO STAKEHOLDERS
June 2010

Cover Image: Vancouver Pavilion, Expo 2010, Shanghai, PR China

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Message from the Minister

Reflecting the importance of forestry to British Columbia, the provincial government supports a sustainable, healthy and globally competitive sector through policies that champion innovation and market growth. These policies start on the forest floor where science-based research is making B.C. a world leader in growing trees. They extend through the manufacturing chain to help businesses improve manufacturing, marketing and management practices. They encourage research into a new, green generation of forest products in bio-energy, bio-chemicals, and engineered wood products. And they promote B.C. internationally, through programs that market B.C. forest products across Canada and around the world.

As well, we have “Wood First”, the provincial policy to make wood the first choice for construction, interior design and daily living. Wood First requires provincially-funded building projects to consider wood as their primary construction material. By showing how wood can be used cost-effectively in larger building applications, Wood First supports the expansion of wood products in the multi-family and non-residential sectors in North America and abroad.

Since the vast majority of our forest products are sold outside Canada, the Government realizes that marketing and innovation are key factors in the continued prosperity of the sector. To foster a competitive industry and build on the Wood First commitment, the Government has:

- Created new programs to maximize the value extracted from the Province’s forests
- Expanded international marketing programs in China and other major markets to promote B.C. wood products
- Participated in trade missions to China and other important markets to build relationships and boost sales
- Targeted the non-residential sector across Canada and the United States as a growth market for greater use of engineered wood products and advanced wood technology.

As noted in this report, our marketing programs are having an impact, with notable successes in a number of markets, such as China. Through partnership with industry, and in collaboration with the federal and other levels of government, we are strengthening the sector’s ability to compete and win in global markets.

Pat Bell
Minister of Forests and Range
Province of British Columbia

Message from the CEO

Forests cover up about 60 million hectares of British Columbia. For the past 100 years, the timber in these forests has sustained hundreds of communities and thousands of jobs across the province. While sectors like energy and high technology have grown in importance, forestry remains our largest manufacturing sector and the largest single source of exports.

Even with the recent slowdown in the U.S. housing market, forestry continues to support more than 173,000 direct and indirect jobs in more than 7,300 businesses. The sector generates $11.4 billion in economic activity and is the world's largest exporter of softwood lumber to international markets.

The scale and reach of forestry continues to make it vital to the viability of communities across the province, and reinforces the importance of market development activities undertaken by Forestry Innovation Investment and our partners in industry and government.

OVERVIEW OF ACTIVITIES IN 2009/10

The past year reinforced the argument for diversifying long-term demand for B.C. forest products, especially lumber.

Sales in the United States, B.C.'s largest export market, remained very weak due to continuing effects of the economic recession. This had a tremendous impact on the B.C. forest sector, with the value of shipments down by 57 percent in 2009 over 2008, and employment off by 36 percent. However, despite the gloom in the housing market, there is cause for optimism in that country's non-residential sector. With funding from FII, Natural Resources Canada, and the forest industry on both sides of the border, the Wood Products Council is now in full swing with programs to promote wood frame technology in commercial and institutional buildings in three regions of the U.S.

In contrast to the situation south of the boarder, the value of exports to China doubled in volume and nearly doubled in value to $327 million, pointing to the growing importance of Asia as a market for B.C. forest products. In fact, China, and South Korea were the only significant markets to which B.C. lumber shipments rose in 2009. For China, the rapid expansion in trade is continuing in early 2010 and FII is more optimistic than ever that China will adopt wood frame technology to meet a significant portion of its housing needs.

FII's spending reflected this growth in Asian markets. Funding for activities in China was $11.8 million in 2009/10, up from $6.4 million in the previous year. The increase was due mostly to federal funding of $3 million from Natural Resources Canada for the Canada – B.C. Wenchuan Earthquake Reconstruction Project, and $3.7 million for other demonstration projects.

In total, FII committed $10.8 million for marketing and research activities delivered by trade associations and other groups. This leveraged over $17 million of contributions from industry and the federal government, so that the total value of product and market development activities was approximately $28 million.

The projected cost sharing of these activities in 2009/10 was:

FII:	40%
Natural Resources Canada and other federal agencies:	38%
B.C. forest industry:	17%
Other government and industry sources:	5%

In addition, FII directly managed $15 million worth of programming in Canada, China and elsewhere.

In delivering on its mandate in 2009/10, FII cash expenditures totalled $26.5 million against an initial budget of $30.5 million, which included a $1.7 million contribution from Natural Resources Canada for the Wenchuan Reconstruction project in Sichuan, China, and other demonstration work managed by FII.

While China and the U.S. accounted for the most significant investments in 2009/10, smaller, but still important potential was also pursued in:

- Korea, where the government and citizens have an increasing zeal for single-family and "healthy wood" housing;
- Japan, where there is growing interest in using our structural lumber in traditional post-and-beam housing, hotels, and elderly care homes; and
- Mongolia, where the government has adopted the Canadian wood frame building code, and wants to launch a program to provide 100,000 new housing units.

2009/10 was the second full year for the *Business Innovation Program,* a service delivered by BC Wood Specialties Group, FPInnovations-Forintek Division and the Centre for Advanced Wood Processing at UBC to support value-added firms in improving their business planning, product design, manufacturing and marketing.

Near the end of the fiscal year, the 2010 Olympic and Paralympic Winter Games were used to showcase B.C. wood products in many Games-related venues. International coverage of the Richmond Olympic Oval, where FII had a major hand in having the roof built of wood instead of steel, was particularly extensive.

On the market acceptance front, surveys show that customers around the world agree that B.C. forest practices are now among the best in the world. FII continues to promote the broader environmental merits of our forest products, especially as documented by the emerging science of Life Cycle Assessment for building systems.

Late in the year, FII's marketing activities were streamlined by combining the Market Development and Market Outreach program areas into a single business unit; two staff positions out of 16 were eliminated and trade associations were advised that FII would rely more heavily on them to deliver market development work.

Looking forward, Asian markets will remain a priority for FII, with support also continuing for the Business Innovation Program, the North American non-residential strategy, and programs promoting the technical and environmental benefits of building with B.C. wood products.

The remainder of this report highlights the accomplishments of FII and its partners in 2009/10 in the major markets for B.C. wood products and highlights activities underway in the current fiscal year.

K. Baker

Ken Baker
Chief Executive Officer

Overview of Forestry Innovation Investment

As the B.C. government's marketing agency for forest products, Forestry Innovation Investment has a mandate to:

- work with the forest industry to promote B.C.'s forest products and forest management practices around the world with an emphasis on developing and diversifying geographic markets and specific market segments, such as in Asia and the non-residential sector in North America;
- position British Columbia as a global supplier of world-class environmentally friendly forest products;
- help break down non-tariff trade and market barriers to sales of B.C. forest products in foreign markets; 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.

A FOCUS ON MARKETING AND COMMUNICATION

FII is organized into business units that reflect the organizational focus on marketing and communication activities.

FORESTRY INNOVATION INVESTMENT			
Program Operations Market Initiatives and Outreach		**Corporate Support**	**China Subsidiary**
Market Access	Market Acceptance and Advocacy	Financial Reporting	Government Liaison
Business Innovation	Environmental Credentials of B.C. Forest Products	Budget Planning and Controls	Market Research
Product Development and Technical Research	B.C. Sustainable Forest Principles	Human Resources	Demonstration projects including Canada-B.C. Wenchuan Earthquake Reconstruction Project
Market Research and Analysis	Green Building	Office Services	Promotion

FII's programs are designed to support the marketing priorities of the forest sector. Through market research and real-world demonstration projects, FII and its industry partners stimulate interest and demand that B.C. firms can then service through marketing and sales programs.

FII delivers its mandate by working closely with industry associations and other levels of government through a coordinated and integrated approach. FII provides funding for marketing programs, supports applied research, and delivers marketing programs to supplement those of the industry. FII-based activities vary by market segment, as explained in the following table.

NO SIGNIFICANT EXISTING DEMAND	EMERGING MARKET SEGMENT	MATURE MARKET SEGMENT
FOCUS:		
• Identify potential opportunities for sales of B.C. forest products • Introduce products and applications	• Develop market for B.C. forest products to a robust commercial scale	• Maintain or increase B.C. market share
ROLES:		
Forestry Innovation Investment		
• Conduct market research to identify opportunities	• Provide funding for trade association marketing programs	• Provide funding for trade association niche marketing programs
• Identify key factors or barriers to growth	• Partner in specific markets with associations on market development	• Position B.C. forest products as environmentally superior
• Develop market entry strategy, when potential market is identified	• Promote environmental merits of B.C. forest practices and products	
Trade Associations		
• Work with FII on market entry strategies	• Build B.C.'s market presence	• Maintain market awareness and preference for B.C. forest products
• Respond to market access barriers	• Overcome market access barriers	• Intervene to prevent new market access barriers
• Provide support for revising codes and standards	• Provide technical transfer, quality assurance and support for updating codes and standards	
Individual Firms		
• Minimal activity	• Market entry sales activities	• Build sales/market share to a profitable and sustainable level
EXAMPLE MARKETS		
• Mongolia	• China	• Japan (residential housing)

PLANNING AND PERFORMANCE MANAGEMENT FRAMEWORK

FII relies on a structured and integrated business planning framework to develop and deliver its services. The planning process is based on a strategic plan covering a 5-to-10 year horizon that sets the direction for the annual development of a 3-year service plan. These efforts, which are supported by an extensive inventory of market research, guide the annual planning process which links investment, market and project plans.

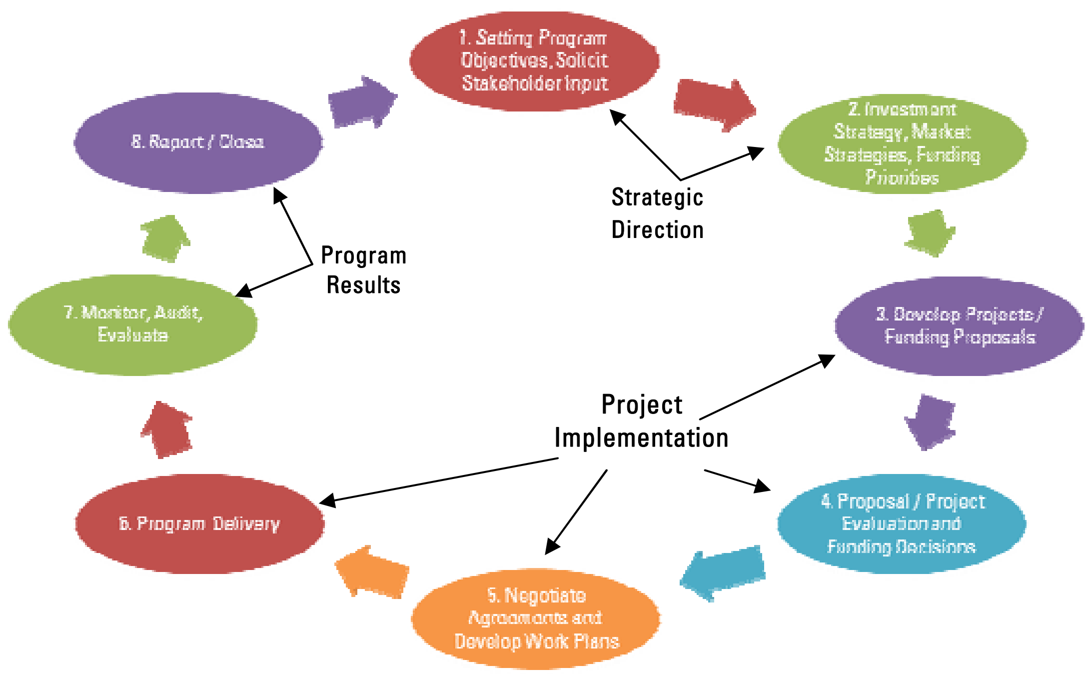
Central to FII's business cycle is the preparation of an annual investment strategy which articulates the Company's investment priorities for the year ahead and provides guidance to industry proponents in the preparation of proposals for funding. This investment strategy, which is reviewed and updated annually, is informed by an ongoing program of market research and a suite of market development strategies that have been developed jointly by FII, Natural Resources

Canada and industry. Other strategies prepared by FII, such as those focused on promoting wood in the Olympic Games, and product and technical research, also support the development of the annual investment strategy.

Industry input is involved at all steps of the strategy development and planning process to ensure FII's strategic direction aligns with stakeholder and government priorities[1].

Superimposed over this business cycle is FII's performance management framework which involves establishing expectations and measures, conducting assessments, and reporting. FII's annual planning and performance management cycle is represented in the following diagram:

FII Business Cycle



[1] FII priorities and planning are advised by a number of industry-led advisory committees, made up of senior executives from the forest products sector. Committees, which meet regularly through the year, include the FII Strategy Committee, the Market Acceptance Advisory Group, the Business Innovation Program Advisory Committee and the Funding Proposal Evaluation Committee.

PERFORMANCE MEASUREMENT

FII tracks its performance through a series of measures related to its internal activities and those of its funding recipients. Performance targets reflect FII's mandate to work with industry, the federal government and other provincial organizations to develop and diversify markets for B.C. forest products.

	Performance Measure	2008/09 Actual	2009/10 Forecast *Result*	Target 2010/11	Target 2011/12	Target 2012/13
A	B.C. Softwood Lumber Exports to Priority Asia Pacific Markets (000's of m^3)[2]	4,056	4,575 *4,808*	6,550	8,470	9,190
	Consisting of:					
	China	1,244	2,500 *2,589*	4,400	6,300	7,000
	Japan[3]	2,707	1,950 *1,986*	2,000	2,000	2,000
	South Korea[4]	105	125 *233*	150	170	190
B	Incremental Sales in U.S. Non-Residential Market (millions of board feet)	n/a[5]	155 *214*	199	243	287
C	Incremental Sales in the B.C. Non-Residential Market (millions of board feet)	36	43 *52*	52	62	75
D	Percent of customers who feel that choosing products from B.C. (Canada) is a good choice for the environment	100%	n/a	90%	n/a	90%

Performance Measure A, B and C track the extent to which the B.C. forest industry is shifting its reliance away from the United States residential construction market towards alternate market segments in North America and other regions. Performance Measure D tracks the effectiveness of FII programs to influence customer views regarding B.C.'s forest management practices and the environmental attributes of our forest products.

In 2009/10, FII substantially achieved all of its targets.

A full description of FII's detailed performance management framework, and the specific performance measures tracked for FII's funding recipients, can be found in the FII Performance Management Framework, available on the FII website:

http://www.bcfii.ca/about_fii/pdf/Performance%20Mgmt%20Framework%202009-2010.pdf

[2] Performance Measure A is broadly influenced by global economic conditions beyond the control or direct influence of FII; however, export data provide a helpful indicator of overall progress by FII and its funding recipients in fostering market diversification.

[3] Many specialty products formerly shipped from B.C. to Japan have been supplanted by Chinese firms that import B.C. lumber for manufacturing value-added products that are then exported to Japan. This is increasing B.C. export volumes to China while reducing shipments from B.C. to Japan. The trend is expected to continue and is factored into export targets.

[4] Lumber consumed in structural applications (residential and non-residential).

[5] 2008/09 was program start-up year and volumes generated were minimal.

2010/11 BUDGET

FII operates primarily on an annual funding allocation from the Ministry of Forests and Range. The projected budget for 2010/11, compared to actual expenditures in 2009/10, is provided below:

Forestry Innovation Investment
Statement of Funding and Expenditures by Program
Comparison to Budget and Prior Year

	2009/10 Actual		2010/11 Budget
Funding			
Receipts - Province of BC	$ 23,075		$ 18,800
Receipts - Wenchuan Reconstruction	1,847		3,300
Receipts - NRCan Funded Demo	3,341		2,100
Transferred from deferred revenue	-		1,500
Total Funding	$ 28,263		$ 25,700
Expenditures			
Market Outreach & Initiatives	17,443		14,830
China - Market Development	3,815	(1)	2,800
China - Wenchuan Reconstruction	1,697		4,300
China - NRCan Funded Demonstration	3,035		2,300
Corporate Support	1,381		1,170
Amortization	436		300
Total Expenditures	$ 27,807		$ 25,700
	$ 456		$ -
Transfer from Contributed Surplus	$ -		$ -
Excess of Funding Over Expenditures	$ 456		$ -

(1) Includes $1,003 of non cash DHC prepaid lease write-off

The reduction in funding from the Province for 2010/11 reflected the government's broader fiscal austerity program. FII mitigated the impact of this reduction on the industry's market development programs by shifting spending from internally managed activities to programs delivered by trade associations.

About half of FII's provincial funding is being used to pay for activities delivered by industry trade associations, universities and research institutes. Many of these activities are jointly funded by FII, industry and the federal government through Natural Resources Canada and its Canada Wood Export Program and North American Wood First Initiative. In addition, Western Economic Diversification contributes to the Business Innovation Program through contributions to FPInnovations-Forintek Division.

Through this joint funding, FII will leverage more than $16.18 million of contributions from industry and the federal government, resulting in total program initiatives of over $25 million in 2010/11.

Global Market Trends

British Columbia continues to be the largest exporter of softwood lumber in the world. As a result, the fortunes of the B.C. forest sector and the provincial economy are directly linked to the strength of the global market for forest products.

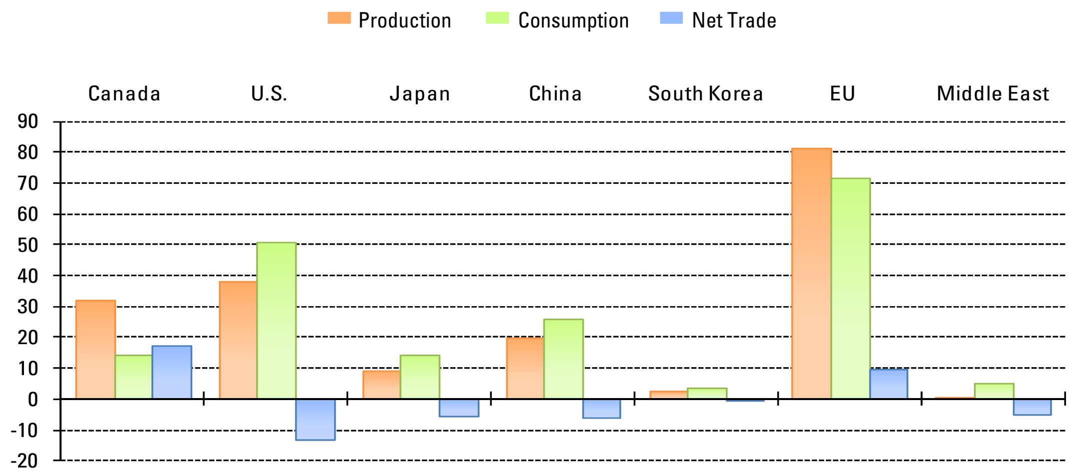
While the global economic recovery in 2009 proved to be stronger than anticipated, overall GDP still posted a negative return – the first since WWII. In advanced economies like the United States, recovery remained sluggish, while the pace of the economic rebound in China was remarkable. Other Asian markets such as Japan and South Korea fared somewhat better than their western counterparts, though 2009 was also a difficult year for them.

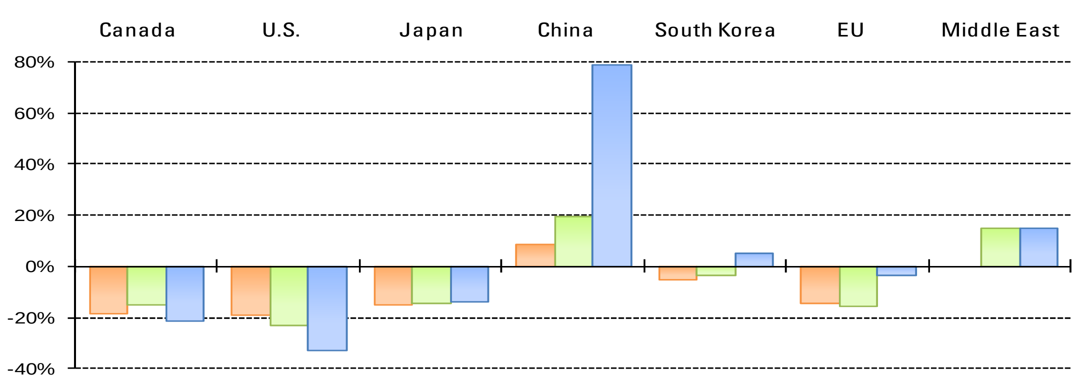
SOFTWOOD LUMBER

Despite another significant year-over-year drop in softwood lumber consumption (-23 percent in 2009, or 15.2 million m^3 net), the U.S. remains the world's largest single market for softwood lumber. While no other country can match the U.S. in terms of overall demand for softwood lumber on a regional basis, the European Union emerged as the largest consumer at 81 million m^3 in 2009. This is in spite of a decline in demand in the EU of 15.6 percent during the year and a drop in production (14.3 percent) as mill curtailments and temporary closures continued from 2008 (further exasperated by shifting log supply issues related to the continuing impact of Russian log export policies).

Lumber - Global Supply and Demand Balance

2009 Volume (million m^3) / % change 2008-09





As a result of the deep economic recession and related collapse in housing markets from the latter-half of 2008 through the first-half of 2009, U.S. sawmills posted the largest drop (-19 percent, or 9 million m^3 net) in softwood lumber production. Correspondingly, net trade dropped to historic lows (-33 percent, to only 13 million m^3 net). However, fiscal stimulus applied over the course of 2009 appeared to be gaining traction towards the end of the year with a stabilization of the economy and a greater-than-expected recovery in construction.

The Canadian market followed similar trends as the U.S. in 2009; however, consumption declines were mitigated (only -15 percent, or 2.5 million m^3 net) due to a stronger economic position at the onset of the financial crisis. As the Canadian forest products industry relies so heavily on the U.S. export market, production (-18.5 percent, or 7.2 million m^3 net) and net trade (-21 percent, or 4.8 million m^3 net) also declined to levels comparable to the drop in U.S. demand. By the end of 2009, sawmills in Canada were running at only 45 percent of practical capacity, a historically low operating rate. That said, the net trade decline was somewhat offset by substantial growth in softwood lumber exports (+109 percent) to China, primarily from B.C., where sawmills ran at slightly better rates than the rest of Canada.

Overall, China was the only main softwood lumber market to show significant demand growth (+20 percent, double that of 2008), with consumption now at 26 million m^3, far exceeding Japan at 14 million m^3. Core demand in China is an extension of that country's continued strong economy as well as an improved acceptance of lumber in construction and an improving distribution network for such material. However, the dramatic jump in net trade demand for softwood lumber (+80 percent) in 2009 also reflects log supply shortages, again due to uncertainty over the Russian log tax situation and the corresponding need to import lumber to fill the domestic production gap.

Japan's softwood lumber market was hit particularly hard by the financial crisis, with consumption down 14 percent (or 2.4 million m^3). Both Canada and Finland saw their market share in Japan decline in 2009, while Sweden, Russia and the U.S. modestly increased shipments and market share. South Korea, as one of the stronger Asian economies, fared better in 2009 with consumption remaining relatively stable (-3 percent) and net trade actually increasing slightly (+6 percent). It is significant to note that Canada's lumber exports to Asia accounted for 23 percent of all softwood lumber exports in the fourth quarter of 2009 compared to 13 percent in 2008 and only 7 percent five years ago. This increase in Asia's share of Canadian lumber exports is a reflection of both the continuing weakness in the U.S. market for softwood lumber, as well as growth in demand in key Asian markets, particularly China, but also South Korea.

PANEL PRODUCTS

The downward trend in most softwood lumber markets, China excepted, applied to other softwood products (plywood, MDF, OSB, particleboard) in 2009. In almost all categories, global demand fell and production and trade were down.

PULP

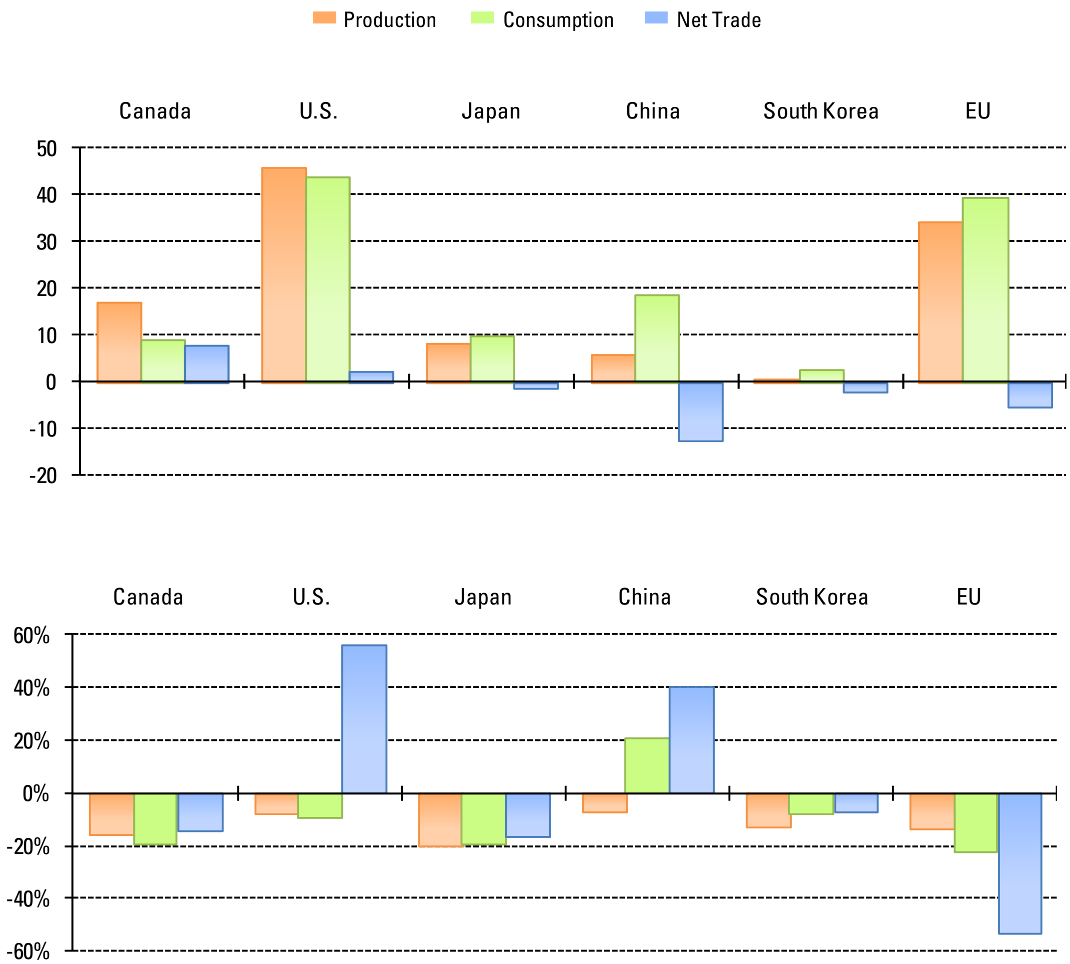
The U.S. was the largest global pulp producer at 46 million tons in 2009. Domestic consumption however, declined by 9 percent, driven by continued mill closures. Net exports increased, but on relatively low volumes (- 2.1 million tons). Canada's pulp production declined by an estimated 16 percent in 2009 to 17 million tonnes, but with a net trade surplus of 8 million tonnes, though this surplus has been trending downwards. Canada continues to be one of the world's largest pulp exporters.

Pulp consumption in China has been growing aggressively in recent years and continued to do so in 2009 (+21 percent). Production growth has been unable to keep pace with consumption, however. As a result, China is now the world's largest fibre importer and again saw a significant year-on-year increase in net imports (+40.5 percent).

The EU was the 2nd largest global pulp producer in 2009 at 34 million tons. Consumption in the region declined by 20 percent, however, which in turn drastically affected net imports (-53 percent to 5.3 million tonnes).

Pulp - Global Supply and Demand Balance

2009 Volume (million mt) / % change 2008-09



PAPER

The EU continued to be the leading global producer of paper (printing and writing paper and newsprint) in 2009, with the U.S. and China the next largest respectively. However, as was the case in the previous year, China is the only country where production grew in 2009.

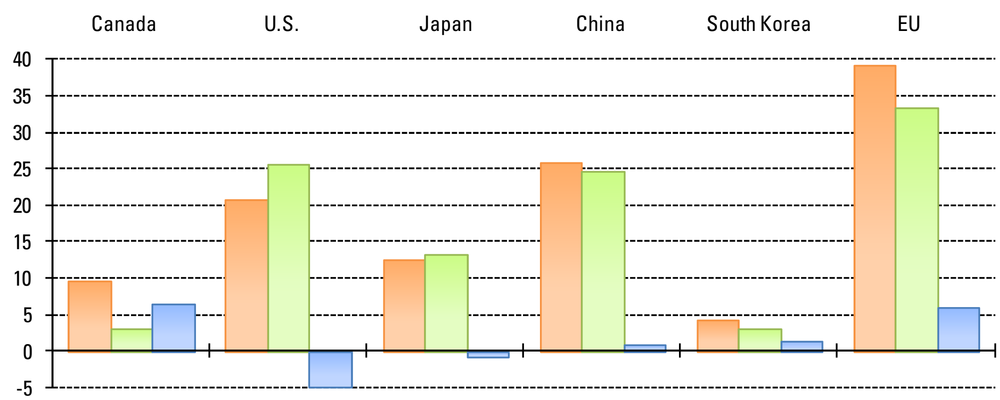
As with production, consumption of paper grew only in China in 2009 and declined in all other regions. While China's consumption has been growing faster than production in recent years, the country's production continues to be able to meet domestic demand. The global recession has, however, slowed new capacity investments in China.

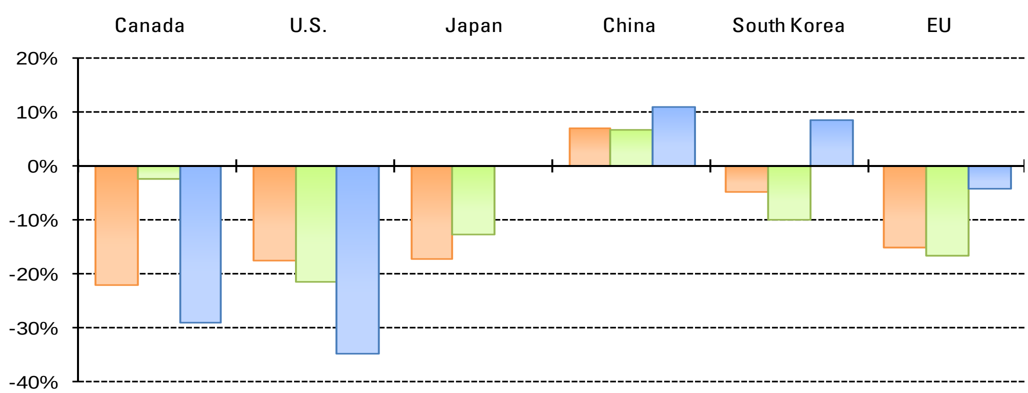
U.S. production remains lower than consumption, and imports have been able to carve out significant market share across all grades. Canada has always been a significant import source for the U.S., but recently, Asian offshore imports have been disrupting the market for domestic producers. However, continuing into 2009, market demand favored U.S. producers due to the weak dollar; hence, net imports decreased substantially (-35 percent).

Paper - Global Supply and Demand Balance

2009 Volume (million mt) / % change 2008-09

Production Consumption Net Trade





Markets for B.C. forest products

SOFTWOOD LUMBER PRODUCTS

In 2009, B.C. produced 23.9 million m^3 of softwood lumber. This was down from 28.2 million m^3 in 2008 and 36.7 million m^3 in 2007. Total value of manufacturing shipments from British Columbia sawmills exceeded $5.0 billion, while shipments of veneer, plywood and engineered wood amounted to $1.9 billion.

B.C. Production & Exports of "Commodity" Solid Wood Products 2009 (000m^3) [6]

EXPORTS	SOFTWOOD LUMBER	SOFTWOOD PLYWOOD	OSB	MDF & FIBRE-BOARD	PARTICLE BOARD	OTHER LUMBER & PANELS	TOTAL	% OF EXPORTS
US	11,861	119	766	127	1	9	12,881	67.5%
Japan	1,986	8	132	0	0	1	2,127	11.1%
China (incl. HK)	2,589	0	7	6	0	4	2,606	13.7%
Taiwan	229	0	5	2	0	0	237	1.2%
South Korea	233	1	47	1	0	0	282	1.5%
Other Asia	196	0	0	0	0	0	196	1.0%
Australia	68	0	0	0	0	0	68	0.4%
New Zealand	10	0	0	0	0	0	11	0.1%
Europe (EU)	220	8	1	0	0	0	230	0.2%
Other	429	4	11	2	0	0	446	2.3%
TOTAL	17,822	140	968	139	1	15	19,084	100%
% of Tot. BC Exports	93.4%	0.7%	5.1%	0.7%	0.0%	0.1%	100%	

As the table shows, the United States remains the dominant market for B.C solid wood exports, accounting for 67.5 percent of total exports in 2009; however, the U.S. share of B.C's total exports of solid wood was down substantially from the previous year's 76 percent of exports. This shift in the U.S. share of B.C. exports reflects both the depth of the recession south of the border, as well as the increasing share of B.C. exports now destined for China (13.7 percent in 2009 up from 5 percent in 2008). Equally significant, in 2009 China replaced Japan as the province's second largest export market for solid wood by volume, with total exports to China amounting to 2.6 million m^3 versus 2.1 million m^3 to Japan. It should be noted that Japan remained the province's second largest market by value in 2009, though this too is expected to shift in China's favour with continuing growth in Chinese imports of B.C. lumber.

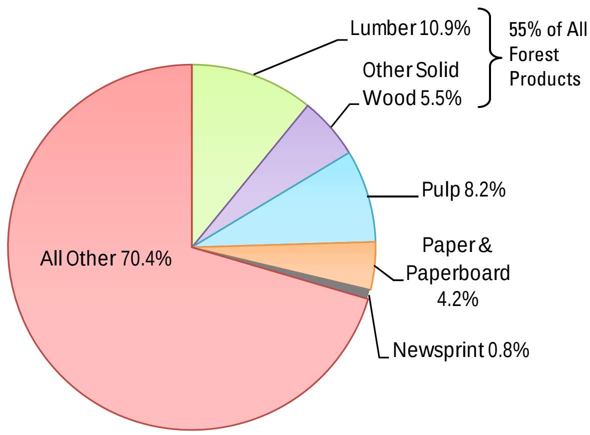
In terms of the importance of forestry to the B.C. economy, forest product exports accounted for 30 percent of all provincial exports in 2009. While this was down only marginally from 31 percent of total exports in 2008, it represents a significant drop from the 39 percent of total exports held by forest products in 2007.

A more detailed breakdown of export data shows that the U.S. and Japan have been joined by China as the most important markets for B.C., but the very weak market in the United States caused the American share of B.C.'s forest product exports (by value) to fall to 53 percent in 2009, from 56 percent in 2008. Much of this decline has been due to the ongoing weakness in the solid wood market, where U.S. sales fell to 59 percent of exports, down from 65 percent in 2008. Value-added sales to the U.S. fell by 8 percent to 34 percent of 2009 export sales.

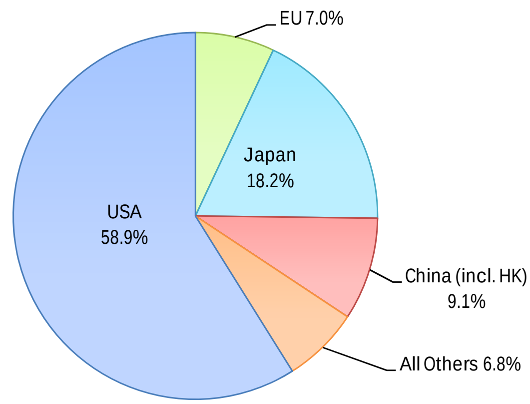
[6] Data source: Statistics Canada

The share of B.C. forest product exports to Japan (by value) remained at 12 percent in 2009, with solid wood exports also remaining at 18 percent of all export sales. As noted previously, strong growth in sales to China, which now accounts for over 16 percent of B.C.'s forest products exports by value, helped to pick up some of the slack from the soft U.S. market in 2009. In the value-added sector, sales in 2009 were weaker in both the U.S. and domestic markets with total exports totaling $928 million against 2008 exports of $1.2 billion. Value-added exports to the U.S. (34 percent of exports) and domestic markets (61 percent of exports) fell by $130 million each.

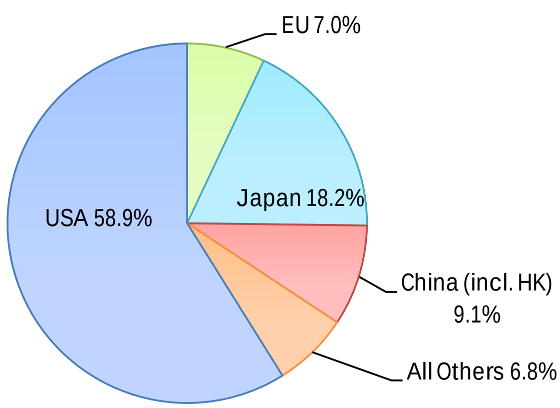
B.C. Exports
Sales 2009 - $25 Billion



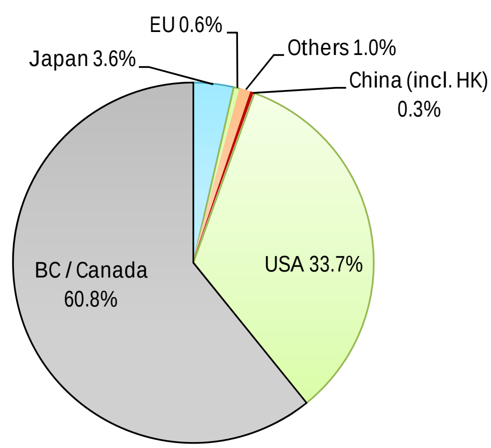
B.C. Forest Product Export Market
Sales 2009 - $7.6 billion



B.C. Solid Wood Market
Sales 2009 - $4.1 billion



B.C. Value-Added
Sales 2009 - $0.93 billion



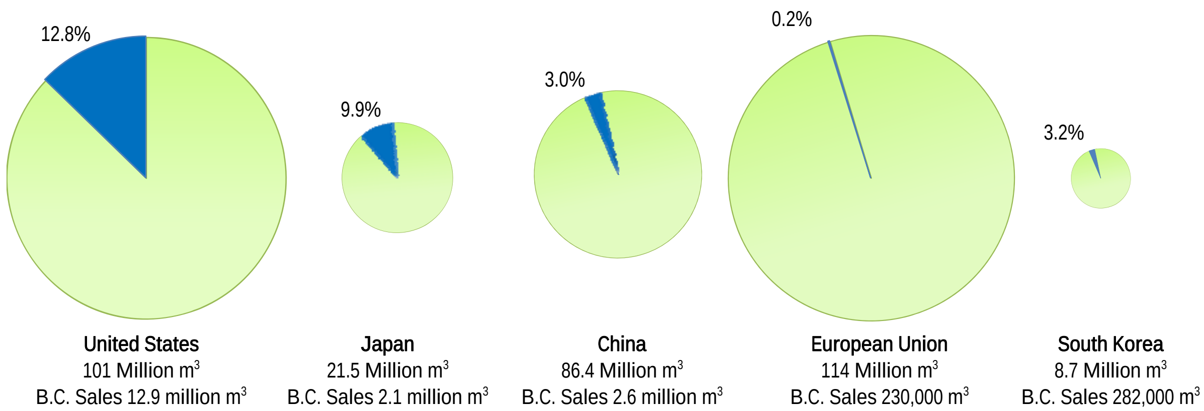
CURRENT MARKET SHARE - SOLID WOOD

B.C.'s share of U.S. consumption of solid wood products held steady in 2009 at 12.8 percent, down only marginally from 2008; however, as in 2008, overall U.S. consumption fell sharply in 2009 to 101 million m^3 from 132 million m^3 in 2008 (and 171 million m^3 in 2007). This translated to a drop in B.C. sales to 12.9 million m^3 from 17.3 million m^3 in 2008.

In China, sales were up dramatically to 2.6 million m^3 and B.C. captured approximately 3 percent of total Chinese consumption, up significantly from the province's 1.6 percent in 2008 and 1.0 percent in 2007. In Japan, B.C.'s third largest foreign market (by volume), the province's share of the market was 9.9 percent, down from 11.5 percent in 2008.

EU consumption of softwood lumber remained constant in 2009 after a significant drop in 2008 when consumption fell more than 60 million m^3, on a net basis. B.C. sales again declined in volume terms, and market share of solid wood products slipped to 0.2 percent from 0.3 percent the previous year. Exports to South Korea were more encouraging, increasing to 8.7 million m^3 from 8.0 million m^3 in 2008, with market share climbing from 2.3 percent to 3.2 percent in 2009.

2009 Sales and Market Share in Key Markets - Solid Wood



PULP & PAPER PRODUCTS

In the pulp and paper sector, B.C. produced 5.6 million metric tonnes of pulp and paper products in 2009 with a total shipment value of $4.4 billion, down from $5.4 billion the previous year. Pulp represented 49 percent of total pulp and paper shipments, or $2.1 billion.

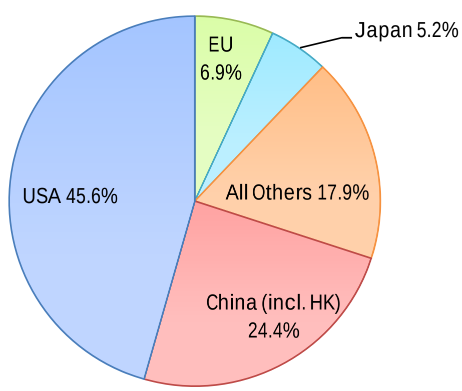
The table shows that, on a volume basis, the United States is the largest market for B.C. pulp and paper products, accounting for exports of 1.8 million metric tonnes in 2009. China was the second largest export destination in volume at 1.4 million metric tonnes, followed by the EU (406,000 metric tonnes), Japan (278,000 metric tonnes), South Korea (205,000 metric tonnes) and Taiwan (170,000 metric tonnes).

B.C. Exports of Pulp and Paper Products - 2009
(000 metric tones)

	PULP CHEMICAL	PULP ECHANICAL (+SEMI)	PAPER NEWSPRINT	PAPER PRINTING & WRITING	PAPER TISSUE	PAPER WRAPPING & PKGING	TOTAL	% OF B.C. EXPORTS
Export Markets								
USA	751	19	159	688	12	147	1,776	36.9%
Japan	264	1	4	6	2	1	278	5.8%
China (incl. HK)	1,214	145	37	8	0	5	1,411	29.3%
Taiwan	110	12	37	9	0	1	170	3.5%
South Korea	140	37	0	0	0	28	205	4.3%
India	30	1	12	3	0	0	46	0.9%
Australia	51	1	0	2	0	0	54	1.1%
Mexico	3	0	1	8	0	33	45	0.9%
Europe (EU)	312	7	0	4	1	83	406	8.4%
Other	176	16	49	21	2	155	419	8.7%
TOTAL	3,051	238	300	750	17	455	4,810	100%
% of B.C. Exports	63.4%	4.9%	6.2%	15.6%	0.3%	9.5%	100%	

The total value of B.C. pulp and paper exports in 2009 was $3.48 billion. Sales to the U.S. generated $1.59 billion (45.6%) with sales to China following at $848 million (24.4%), the E.U. at $241 million (6.9%) and Japan at $180 million (5.2%).

B.C. Pulp & Paper Exports
Sales 2009 - $3.5 billion



In terms of the significance of the pulp and paper sector to the B.C. economy, total pulp and paper exports represented approximately 45 percent of total B.C. forest products exports and approximately 13 percent of all provincial exports in 2009. This amounted to roughly $3.5 billion, down from $4.7 billion in 2008.

Developing Markets for B.C. Forest Products

B.C. has become the world's largest international supplier of softwood lumber products by delivering high quality, competitively priced products to buyers in major markets around the world. Maintaining this leadership position requires constant attention to shifting marketplace needs, awareness of actions being taken by competitors, and constant innovation to retain a competitive edge. Achieving these ends takes coordination between business, trade associations, various levels of government, post-secondary institutions and research groups. The following table lists the groups that FII worked with in 2009/10 in its market development programs.

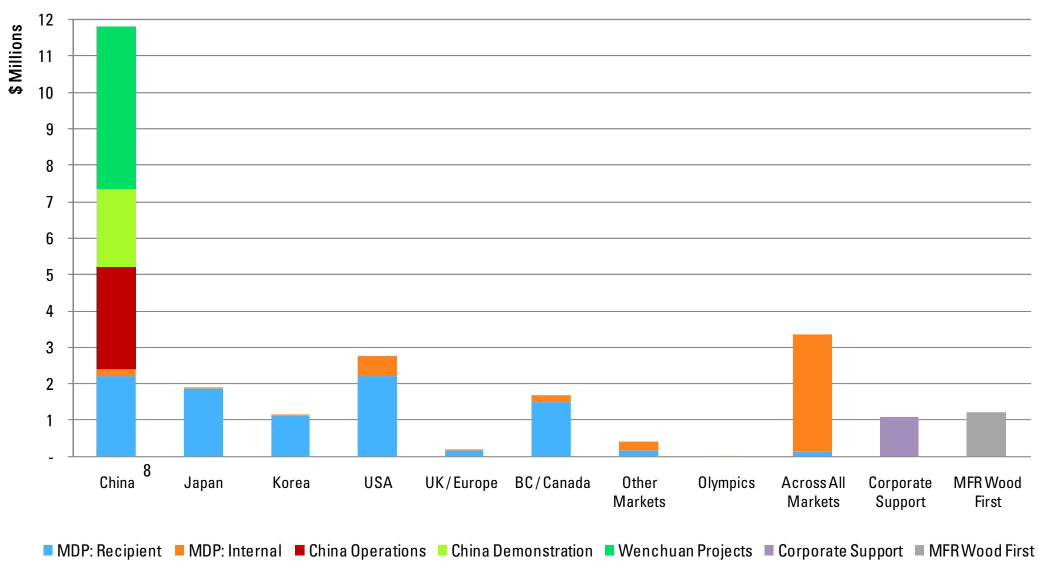
ORGANIZATION	RELATIONSHIP
Government	
Government of British Columbia	Sole shareholder, providing most of FII's funding
Minister of Forests and Range	Minister responsible for FII
Ministry of Small Business, Technology and Economic Development	Co-ordinator of international economic development, trade, and investment initiatives
Department of Foreign Affairs and International Trade, Government of Canada	Federal agency supporting in-market trade and investment promotion and, in China, representing the Government of Canada in the Canada-B.C. Wenchuan Earthquake Reconstruction Project
Department of Natural Resources, Government of Canada	Federal funding agency for international marketing programs through the *Canada Wood Export Program* (CWEP) and the *North American Wood First Initiative*
Western Economic Diversification Canada	Provides funding for the Business Innovation Program
B.C. Forest Industry Associations	
• APA – The Engineered Wood Association • BC First Nations Forestry Council • BC Log & Timber Building Industry Assoc. • BC Shake and Shingle Association • BC Wood Specialties Group • Canada Wood Group • Canadian Wood Council – WoodWORKS! BC • Cedar Shake and Shingle Bureau • Coast Forest Products Association • Council of Forest Industries • Western Red Cedar Export Association • Western Red Cedar Lumber Association • Wood Products Council	Funding recipients that initiate and deliver domestic and international marketing programs and that may also receive funding from Natural Resources Canada and/or other association members, organizations
Post-Secondary and Research Institutions	
• University of British Columbia • British Columbia Institute of Technology • FPInnovations (Forintek, FERIC and Paprican Divisions)	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

ORGANIZATION	RELATIONSHIP
Other	
• Forest Products Association of Canada • Department of Natural Resources, Government of Canada • Department of Foreign Affairs and International Trade, Government of Canada • FPInnovations (Forintek Division) • B.C. Forestry Climate Change Working Group	Partners in developing and delivering programs promoting B.C.'s sustainable forest practices and the environmental benefits of wood products and the forest sector

MARKET PRIORITIES

Each year, market investments are reviewed to ensure they align with industry priorities and opportunities as set out in market strategies developed in partnership with the industry. Investment plans are also assessed to ensure consistency with priorities identified for FII in an annual letter of expectations prepared by the Province. In 2009/10, a greater share of funding was shifted to China to take advantage of a rapid growth in Chinese interest in B.C. forest products. A second major change was that spending was shifted from internally delivered FII programs to industry-lead activities. In 2010/11, FII funding priorities will continue to emphasize market development in China as well as activities delivered by trade associations.

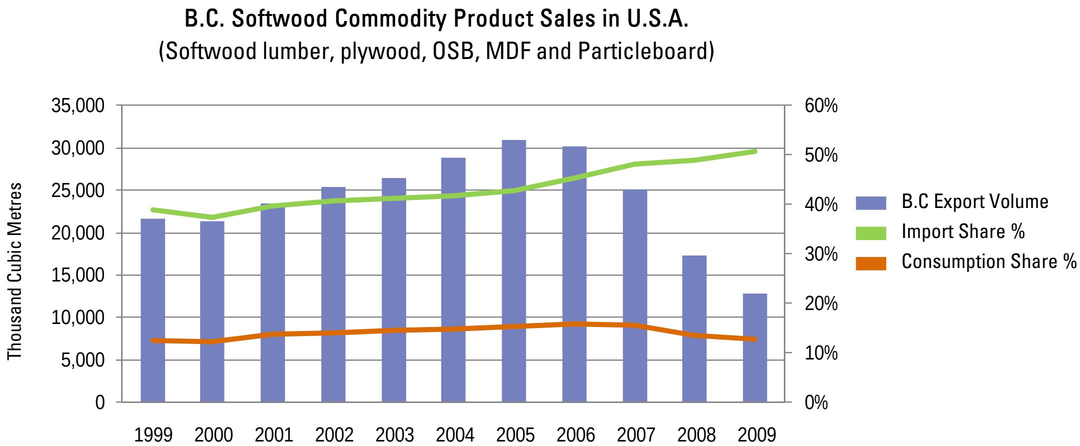
Summary of Funding Allocations[7]
2010/11



[7] 'MDP: Internal' refers to funding for market development activities managed directly by FII staff, including market research and demonstration projects. 'MDP: Recipient' refers to funding provided to industry trade associations and other groups to carry out market development activities. MFR refers to the Ministry of Forests and Range.

[8] Includes $1.75 million that was reclassified as a prepaid expense at year-end 2009/10

United States of America



MARKET TYPE

- Remains B.C.'s largest market for wood products, though with declining share of total B.C. exports
- Mature housing sector dominated by wood; large non-residential market sector with limited wood use
- Potential growth opportunities in expanding from residential housing to non-residential (commercial) and multi-family dwelling sectors

B.C. POSITION

- Market leader with 50.6 percent share of softwood commodity product imports

2009 SALES

- 12.88 million m^3 of commodity wood products valued at $1.8 billion

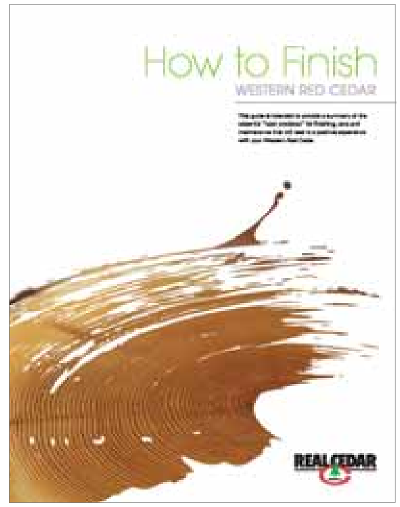
MARKET OVERVIEW

The U.S. economy contracted by about 2.5 percent in 2009 with the residential construction sector and, by extension, the forest products industry on both sides of the border, among the hardest hit.

Production of softwood lumber in the U.S. declined for the fourth consecutive year by 13 million m^3 to 55.4 million m^3 in 2009, a level unseen since the early 1980s. Output declined 19 percent broadly across all U.S. regions (unlike 2008 where the U.S. West took the brunt of contraction); however, the California redwood industry was hit particularly hard in 2009 (-30 percent). Consumption of softwood lumber in the U.S. declined a massive 22.1 million m^3 (following a similar drop of 25.5 million m^3 in 2008 and a decline of 20.2 million m^3 in 2007). The current level of 74 million m^3 is about 77.7 million m^3 less than the peak year of 2005 (roughly 49 percent lower).

Overall softwood lumber imports to the U.S. declined by 30 percent (9 million m^3, as reported in-market), and Canada's share of that drop was 87 percent. However, on this overall reduced volume, B.C.'s import share remained relatively stable at 57 percent.

The leading European exporter to the U.S., Germany, faced dramatic declines (down 80 percent, from 0.8 million m^3 to 0.2 million m^3). In total, EU softwood lumber export value to the U.S. dropped to under USD $100 million – far below the peak of USD $1 billion in 2005. Falling lumber prices,



coupled with a weakening U.S. dollar against the Euro drove many European producers to focus domestically as well as on other markets such as Japan and Middle East. Southern Hemisphere softwood lumber imports were down in 2009 as well.

On a percentage basis, there was little difference with the softwood lumber exports by species from B.C. in 2009 as compared to 2008. Overall volume declines were between 20 and 50 percent, except for coastal hem-fir exports which continued their sharp drop. With slumping Japanese markets compounding the domestic supply surplus in the U.S., hem-fir exports collapsed to only 78,000 m^3 nominal (down by 63 percent vs. 2008 record lows).

Single-family construction ended 2009 at 350,000 starts, 56 percent of 2008 levels. Multi-family construction was at 120,000 units, 42 percent of 2008 levels. With an improving economy and credit system in the U.S., this 470,000 conventional housing total for 2009 is forecasted to improve to 675,000 units in 2010. Also on the positive side, over one million households are being formed in the U.S. each year, and assuming many renters are now saving for a home, there should be new housing demand on the horizon.

Growth in residential remodeling expenditures peaked in 2006, but have been in steady decline since. With home prices declining, the ROI for many projects is not viable. As a result, 2009 saw an estimated 12 percent decline in the U.S. remodeling market; however, demand is expected to increase in 2010 as consumer spending recovers. Further, the market for “green homes” is expected to increase from $USD 2 billion to $USD 20 billion over the next five years, but the opportunity could be much higher depending on changing consumer philosophies.

MARKET STRATEGY

Although new offshore markets offer solid growth potential, for the foreseeable future the U.S. will continue to be the world’s largest market for wood and the single biggest opportunity for commodity and valued-added products from British Columbia.

Responsibility for promoting sales of commodity forest products in the U.S. lies with individual companies and is not the focus of FII funding initiatives; these markets are mature and the business is well established. Instead, over the past several years, FII support for U.S. market development has focused on assisting industry in developing niche markets for higher value, specialty products and in fostering growth of non-traditional markets offering sizable potential. In particular, industry, with support from FII, has focused its investments on four areas identified as holding the most significant near- and long-term potential for growth in the U.S.:

- Exterior products[9];
- Value-added specialty wood products;
- Non-residential construction; and
- Green building and related advocacy.

[9] “Exterior Products” refers to higher value cedar and related specialty products. Stock commodity products such as lumber destined for the U.S. treating industry, plywood, OSB and particleboard are not directly covered under this strategy. While treated lumber is sometimes considered to be a value-added product, opportunities for B.C. treated products in the U.S. market are limited.

In considering options for investment in U.S. market development, FII and its partners in industry recognize that there is considerable potential to enhance returns in the U.S. and that stimulating growth in this market is critical for the long term health of B.C.'s wood industry. However, declining demand for wood in traditional segments, increased competition from offshore and domestic producers, aggressive promotion of non-wood substitutes, and ongoing anti-wood campaigns from elements of the environmental movement have all combined to place significant downward pressure on the overall demand for wood. To address these challenges, industry and government have adopted a market development approach that supplements traditional product and sector promotions with a more aggressive, broad-based campaign to communicate the general benefits of wood use and, where appropriate, B.C.'s environmental pedigree in the production of wood products.[10]

The market development approach for the U.S. is therefore focused on three major goals:

1) Pursue opportunities in specific niche markets that offer significant potential for growth;
2) Identify and capitalize on non-traditional and/or emerging segments that may develop into sizable opportunities; and
3) Position wood as an environmentally friendly building material, and British Columbia as the preferred supplier of high quality wood products from sustainably managed forests.

ACCOMPLISHMENTS IN 2009/10

FII channeled $3.8 million to U.S. market development activities in 2009/10, the largest country-specific investment after China. More than 75 percent of funding was directed to market development by trade associations. Results included:

Non-residential construction: More than $75 million in wood sales is directly attributed to promotional efforts by the Wood Products Council to boost wood use in non-residential construction. Even more positive for the long term, another 400 builders, architects and specifiers now recognize B.C. as a preferred supplier of forest products, and surveys show that architects and engineers are more interested in using wood products than in the past, while interest in concrete and steel is declining. To support this shift, all 7,000 firms with RISA licenses received software upgrades that allow them to completely design buildings using wood.

Western red cedar: Promotional efforts by the Western Red Cedar Lumber Association reached 66.5 million Americans through print, online and broadcast channels. A separate program regarding the environmental benefits of wood products was covered in almost 1,000 television and radio stories.

Value-added wood products: BC Wood Specialties Group's campaign generated $1.5 million in sales, even though the U.S. housing market was very weak, with 72 firms involved in the marketing program.

[10] The approach to developing the market for wood products in the U.S. differs from similar initiatives in many offshore markets. An aggressive "buy-B.C." campaign undertaken in the U.S. would likely be received negatively whereas a similar promotion effort in South Korea or Taiwan may be seen more favourably in view of the limited supply of domestic alternatives in those markets. Promoting B.C. wood products as the preferred choice (as opposed to promoting the benefits of wood generally) needs to be undertaken in a selective way (i.e., where there is an identified need to provide/defend product choice).

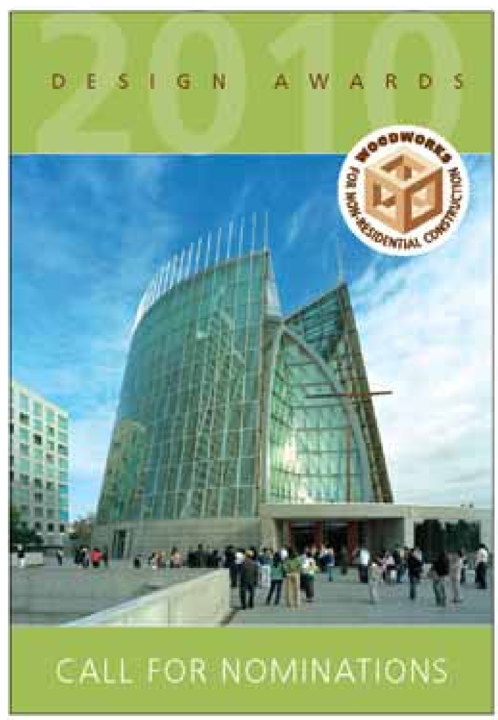
Green product marketing: Through participation in Greenbuild, a major trade show promoting green building products, two B.C. manufacturers expect to realize $400,000 in sales for their eco-friendly products.

FII's directly delivered activities focused on promoting the environmental benefits of B.C. forest products through advertising targeted to architects, engineers and other opinion leaders in the building sector. More than 1 million readers were reached through the campaign. FII also continued its promotion through tradeshows, seminars and updates to the Athena Institute's EcoCaluclator tool for assessing the environmental footprint of a building. Life Cycle Assessment proves that wood-based assemblies out-perform other materials in terms of energy use, pollution and solid waste during construction.

ACTIVITIES IN 2010/11

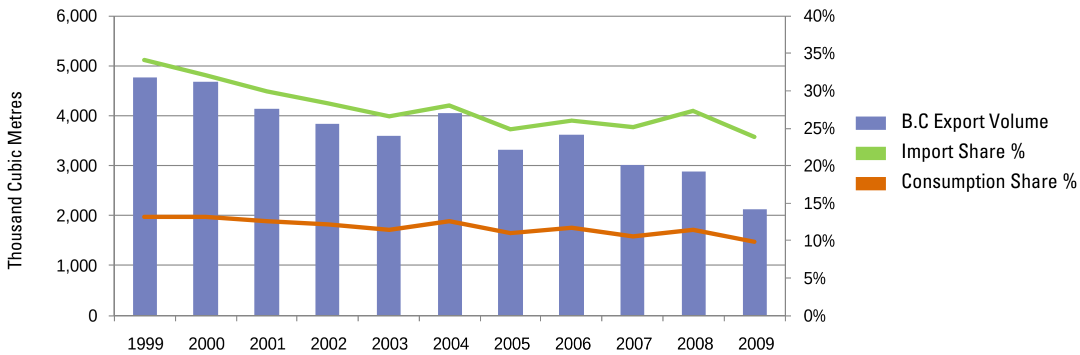
FII is budgeting $2.71 million in spending for U.S.-based activities in 2010/11, with $2.20 million, or 81 percent targeted to programs delivered by trade associations. Highlights of these programs include:

- The BC Shake and Shingle Association plans to use trade shows to convince at least 200 builders, architects and suppliers to make B.C. a preferred supplier of forest products.
- The BC Wood Specialties Group will be linking at least 60 U.S. buyers with B.C. value-added manufacturers and hosting American customers at the 7th annual Global Buyers Mission in Whistler.
- The Western Red Cedar Lumber Association will be positioning western red cedar as an environmentally friendly and high value choice for indoor and outdoor use in the U.S. through a comprehensive marketing program which utilizes an innovative electronic and print advertising, a PR strategy, and promotes the species at tradeshows, with at least 18 of the 20 members of the association participating in the program.
- The Wood Products Council will continue marketing to the non-residential construction sector by educating and training specifiers regarding building code requirements, solving technical concerns and assisting in developing cost-effective wood solutions, and hosting Wood Solutions Fairs. The goal is to convince approximately 7,000 engineers, architects, general contractors, developers and others to consider wood use in non-residential building types. The program is working with 120 U.S. companies on 130 projects worth over $65 million in new wood sales; a further 300 projects are being targeted.



Japan

B.C. Softwood Commodity Product Sales in Japan
(Softwood lumber, plywood, OSB, MDF and Particleboard)



MARKET TYPE

- Third largest market for B.C. wood products by volume and second largest by value
- Mature over-all housing sector, but opportunities in hybrid construction and "green building"

B.C. POSITION

- Market leader with 23.9 percent share of softwood commodity product imports

2009 SALES

- 2.13 million m^3 of commodity wood products valued at $570 million

MARKET OVERVIEW

Japan's economy contracted in 2009 with real gross domestic product (GDP) falling by 5.1 percent in 2009 as business investment, industrial output, consumer spending, and business and household confidence plummeted due to the global financial crisis.

With an economy slowed by the recession, demand for all wood products was weak during 2009 and imports of wood products declined due to the slowdown in the market. The tough economic conditions during the year also affected Japan's housing starts. Japan's new housing construction starts were 764,474 units in 2009, a 43 percent decline on housing starts in the previous year. The house remodelling sector was also affected by the economic slowdown, declining by about 9 percent from the previous year. Since housing starts heavily influence lumber consumption, the decline accounted for a concurrent decrease in lumber demand. As a result of sluggish demand for North American lumber items, prices of both hemlock and Douglas-fir products dropped during the year.

Japan consumed 14.3 million m^3 of softwood lumber during 2009, down 15 percent from 2008 levels. This continues a downward trend that began in the 1990s as the market matured and the population aged. And while Japan has been the largest importer of softwood lumber in Asia, importing 5.3 million m^3 in 2009, total imports have declined over the past three years as a result of continued weak demand and an increase in the supply of logs processed domestically.

Canada has been by far the largest exporter of softwood lumber to Japan, shipping 2.2 million m^3 in 2009 and accounting for 40.5 percent of Japan's total softwood lumber imports. Of this, British Columbia exports accounted for 2.0 million m^3, giving the province a 37 percent share of Japan's total imports and a 14 percent share of total softwood demand, down from 16 percent in 2008.

While Canada retains its leading position in the Japanese softwood lumber market, the increase in competition from Europe/Scandinavia over the past decade has been significant.

British Columbia faces challenges in the Japanese market in relation to the economic downturn, product quality, competition from Russia and Europe, demographic changes and dramatically shifting exchange and transport costs. There are, however, a number of factors that bode well for B.C.'s future in the market. Among these:

- a decline in log supply from Russia and rising domestic processing costs - meaning that Japan will likely have to import more wood;
- the Japanese government's own "Wood First" push, led by the Japan Forest Agency and the Ministry of Education, Culture, Sports, Science and Technology, which are collaborating to expand the demand for wood by building more wooden schools – given the decline in housing starts, construction of public buildings from wood can be expected to support domestic suppliers and imports;
- expected demand for renovation and remodelling, as well as construction, as much of Japan's existing housing stock is aging and will need upgrading or replacing; and
- the fact that the traditional post-and-beam market is in transition, with builders increasingly open to adopting new components/wood products and species.

MARKET STRATEGY

Although Japan has been displaced by China as B.C.'s largest market for wood (by volume) in Asia, Japan often competes with the U.S. in terms of profitability for B.C. companies. Japanese buyers are willing to pay a premium for the highest quality materials and this translates into margins that B.C. firms often cannot realize in other markets. Maintaining sales in Japan is therefore an important element in the overall market development approach pursued by FII, the federal government and industry. But given the potential for higher returns, Japan is a very competitive market, with European products, lower-value materials from China, and Russian lumber all competing for market share.

Marketing in Japan must also contend with an aging society and slowing economic growth, both tending to reduce demand for wood products. However, shifts in consumer attitudes and an opening up of the building code are creating opportunities for wood-frame construction and value-added products. To capitalize on these trends the recently updated market development strategy for Japan emphasizes moving B.C. products up the value chain, such as a greater focus on engineered products, including OSB sheathing and laminated hemlock posts. Because B.C. SPF has a dominant and secure share of the 2X4 housing market, the strategy in this segment focuses on promoting growth in the market by broadening 2X4 construction to apartment buildings, elderly care housing and other public facilities.

ACCOMPLISHMENTS IN 2009/10

FII funded $2.4 million in Japanese market development activities in 2009/10. Reflecting that the Canada Wood group manages activities in Japan, about 94 percent of funding was directed to trade associations. Results included:

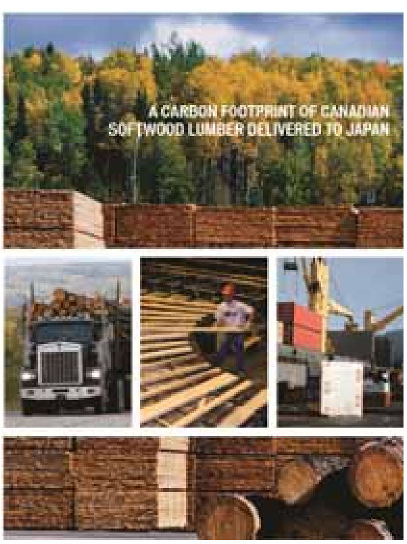
2X4 housing sector: On-going promotion by the Council of Forest Industries helped increase the 2X4 share of housing starts to 11.6 percent from 9.8 percent in 2008. More than 106,000 residential and institutional projects were built using SPF lumber. Seven elderly care facilities are now being built with wood.

Value-added: More than $19 million in new sales resulted from BC Wood Specialties Group's Japanese marketing program. The trade show component won "best of show" at the 100 percent Design Tokyo trade show and two B.C. firms were commissioned for major projects. 59 B.C. firms were involved in the marketing efforts.

OSB: Promotions through tradeshows, seminars and trade services reached 131,000 Japanese building professionals and significantly raised the profile of B.C. panel products.

Technical standards: Lobbying with Japanese partners avoided a restrictive grade standard that could have blocked the market for J-grade SPF with blue stain from mountain pine beetle affected pine. B.C. wood products qualified under Japan's Long Life Quality Houses standards, a program designed to promote Japanese wood products that had the potential to place wood exports from B.C. at a disadvantage.

Training and education: More than 2,000 firms received training on the use of B.C./Canadian forest products. In the post-and-beam sector, 40 companies were informed about the potential use of B.C. panel products as sheathing and about the uses for SPF lumber.



FII's direct delivered activities included working with Canada Wood to support a trade mission to Japan led by Forests and Range Minister Pat Bell and industry representatives where the Minister met with key government officials and industry contacts to promote B.C. forest products, forest management practices and the government's new Wood First initiative. The Minister and industry executives also participated in a ground-breaking ceremony for a new facility dedicated to elderly care, a sector targeted as a growth market for B.C. forest products.

FII provided Canada Wood staff with research to defend B.C. forest products against Japan's "Wood Miles" initiative, an effort by the Japanese forest products industry to position domestic wood products as superior to foreign products based on analysis of the carbon footprint of transportation. Research shows that the actual carbon-related difference for Canadian wood is minimal when compared to Japanese products.

FII delivered seminars to Japanese delegates on Life Cycle Assessment for estimating the carbon footprint of a building and provided a Canadian perspective on the Wood Miles issue.

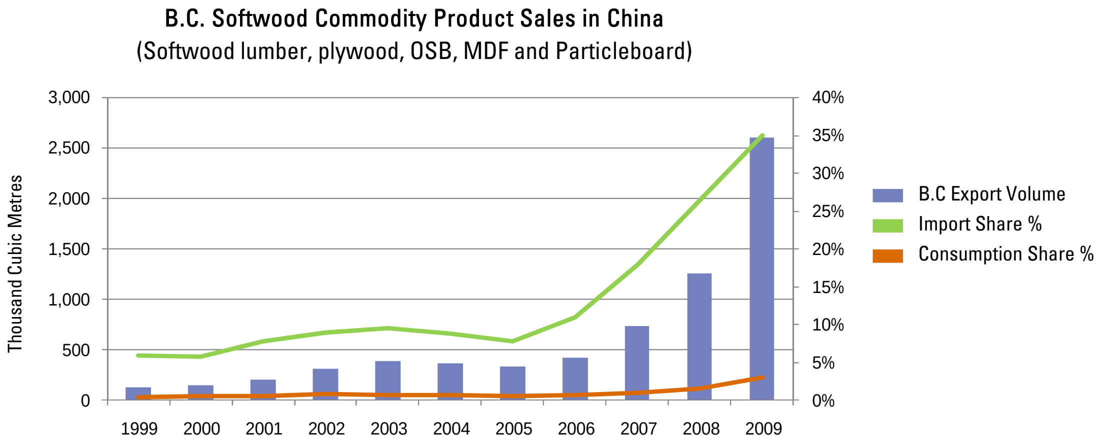
ACTIVITIES IN 2010/11

FII is targeting $2.10 million in spending for Japanese-based activities in 2010/11, with $2.05 million, or 97 percent of funding being used by trade associations to deliver marketing programs.

The Canada Wood Group will continue leading market development activities in Japan targeting value-added sales, as well as the post-and-beam and institutional housing sectors through a program designed to highlight the strength and seismic performance of B.C. forest products. Specific activities by Canada Wood members will include:

- B.C. Wood Specialties Group will be linking more than 20 Japanese buyers with B.C. value-added manufacturers at the 7th annual Global Buyers Mission in Whistler.
- Building on the superior performance of Coastal hem-fir in a recent multi-storey shake table test in Japan, the Coast Forest Products Association plans to expand the use of "Canada Tsuga" into seismically sensitive applications in the Japanese post-and-beam and non-residential housing markets. The program is targeting 90 percent awareness of these attributes of Canada Tsuga in the target audience.
- The Council of Forest Industries plans to pursue new opportunities for SPF lumber and promote wood-frame construction in the Japanese non-residential sector through technical seminars and promotional activities, with a goal of having an additional 1,000 construction projects use wood and 1,000 Japanese companies acknowledging B.C. as a preferred supplier of forest products.
- APA - The Engineered Wood Products Association will be promoting oriented strand board (OSB) for wood frame construction through market develop activities in Japan, with a target of reaching 635 Japanese buyers through trade shows and seminars.

China



MARKET TYPE

- B.C.'s second largest export market for softwood lumber, after the United States (third largest in value)
- Rapidly growing market for softwood lumber

B.C. POSITION

- Leading market player with 40.1 percent share of softwood lumber imports, and 35.1 percent share of total softwood commodity product imports

2009 SALES

- 2.6 million m^3 of commodity wood products valued at $331 million

MARKET OVERVIEW

While many countries' economies contracted significantly in 2008 and 2009 due to the global financial crisis, the Chinese economy recorded a real GDP growth of 8.7 percent in 2009, partly aided by the Chinese government's economic stimulus.

China's construction industry activity showed some resilience during the financial crisis and remained relatively strong through 2009, supporting strong wood products demand. The government stimulus package of RMB4 trillion (USD $586 billion) was rolled out in 2009 and has helped to fuel growth in construction and infrastructure development. Continued urbanisation, massive government-led housing programmes, expectations of improved living standards and the privatisation of the housing system have also contributed to strong construction activity and further expansion of the related manufacturing industries in China. Construction spending is also underpinned by the continued growth in the domestic economy and rising household incomes.

China has emerged as the world's second largest consumer of wood products, after the U.S. and its softwood lumber imports from all the key supply countries increased in 2009, with imports from Canada, the U.S. and New Zealand showing the greatest gains.

B.C.'s softwood lumber exports to China totaled 2.59 million m^3 in 2009, up from 390,000 m^3 in 2006, and are continuing to grow rapidly. This was more than twice the record of 1.24 million m^3 shipped in 2008. China is now B.C.'s largest off-shore market for softwood lumber in terms of volume, with exports to China exceeding sales to Japan by 602,000 m^3 in 2009.

B.C. holds a 40.1 percent share of softwood lumber imports to China (second only to Russia) and a 35.1 percent share of total softwood commodity product imports. B.C.'s annual lumber shipments to China are also soaring in value. Sales have nearly tripled from about $113 million in 2007 to more than $327 million in 2009 and 2010 is off to an even stronger start with January exports about 4.5 times more than those in the same one-month period last year.

MARKET STRATEGY

China is the rising star in markets for B.C. forest products. Due to its size and rapid economic growth, the market continues to offer very strong growth opportunities for B.C. companies and species from both the Coast and Interior. More than five years ago, FII recognized that a long-term program was needed to build relationships with Chinese officials, developers and distributors, and to educate architects, engineers and builders on the merits of wood-frame construction. This strategy, delivered through the combined efforts of FII's subsidiary company in China, FII China, and industry, through the Canada Wood Group, continues with an emphasis on:

- updating building codes and standards;
- creating a "critical mass" of professionals and tradespersons to support a wood-frame construction sector; and
- demonstrating the benefits of the wood frame construction system through real world demonstration projects.

Today, more than 42 B.C. forest products companies, representing both the primary and secondary industries, are pursuing opportunities in China.

ACCOMPLISHMENTS IN 2009/10

Spending totaled $10.3 million in 2009/10 for market development activities, including $4.7 million from Natural Resources Canada for demonstration projects. Results achieved by FII China and Canada Wood Group included:

Canada Wood College: More than 2,500 builders, designers and inspectors were trained in wood -frame design and construction skills.

Wood-frame construction: More than 2,000 single and multi-family homes were started in 2009/10.

Re-roofing projects: 12 new re-roofing projects were started – more than all previous years combined – signaling the emergence of the sector as commercially viable. More than 7,500 Chinese families now live under these roofs, up from zero in 2005.

Wenchuan earthquake reconstruction: Work started on the second of three wood-frame institutional facilities being built to replace buildings destroyed in the earthquake of 2008. The project is funded by the federal and B.C. governments and managed by FII. Canada Wood Group also supported construction of 200 wood-frame farm homes in the region.

Brand recognition: Canada Wood Group began the process of establishing the Canada Wood logo (used in other countries) as a trademark in China, and eight Canadian agencies that certify wood products received Chinese trademark approval.

Trade missions: Forests and Range Minister Pat Bell led two trade missions to China, where agreements were signed to use wood-frame construction in Shanghai's massive Affordable Housing Program and to develop a multi-storey demonstration building incorporating wood-frame elements.

Demonstration projects: An agreement reached with the city of Shanghai will lead to construction of a wood-frame multi-family housing structure to showcase how wood-frame construction is cost-competitive and fits in with the city's affordable housing strategy. An agreement signed with the Chinese Ministry of Housing and Urban-Rural Development will facilitate on-going sharing of Canadian expertise in energy efficient building construction based on wood-frame design.

Value-added: Supported by BC Wood Specialties Group, member companies generated $2.7 million in new sales.

An overview of activities in China is available in "FII China Projects 2005-2009", a companion document to this report.

ACTIVITIES IN 2010/11

Spending on programs in China is projected to total $10.691 million, including demonstration projects funded by NRCan and a contribution by the B.C. Ministry of Small Business, Technology and Economic Development to the Canada – B.C. Wenchuan Earthquake Reconstruction Project. About 72 percent of this spending will go to demonstration and association activities, with the remainder used for activities delivered by FII.

On behalf of industry, the Canada Wood Group will continue its market development activities with a focus on:

- providing quality assurance and design assistance to innovative wood-frame construction demonstration and earthquake re-construction projects;
- establishing a codes and standards framework that favors the use of B.C. wood products in China;
- continuing to operate Canada Wood College with a goal of training 600 builders, architects and specifiers;

- increasing the quality of wood-frame construction through technology transfer and training for designers, builders and inspectors; and,
- expanding the use of B.C. wood products to include innovative uses such as hybrid building systems, in-fill walls, and multi-family/multi storey and roof truss applications, with a target of up to 80 new projects using wood.

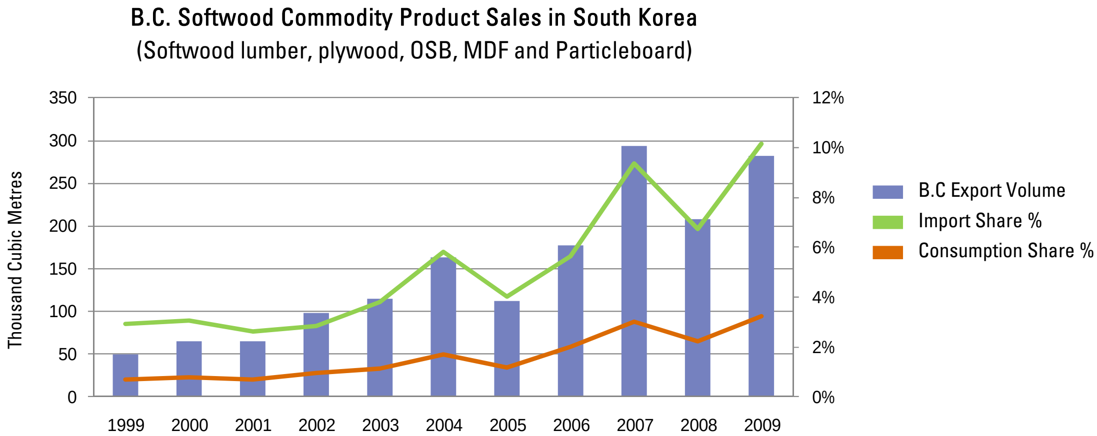
Member activities will include:

- The Coast Forest Products Association plans to research niche markets in China and promote the use of coastal species through tradeshows and seminars, with a goal of six new landscape projects, six showcase projects and a doubling of shipments in shop and better volumes to remanufacturing facilities.
- The Council of Forest Industries will continue promoting wood-frame construction in China through wood seminars, tradeshows, builder and consumer awareness building and other promotional initiatives and targets 10,000 more builders, architects and specifiers acknowledging B.C. as a preferred supplier of forest products.
- The Western Red Cedar Export Association plans to promote western red cedar products in China through targeted advertising and selected seminars.
- B.C. Wood Specialties Group will be linking at least 8 Chinese buyers with B.C. value-added manufacturers at the 7th annual Global Buyers Mission in Whistler.

FII direct activities will include:

- FII China is managing a pavilion at Shanghai EXPO 2010, a 6-month world's fair projected to attract more than 70 million visitors, to showcase wood-frame construction and promote the environmental benefits of building with wood. The pavilion is co-sponsored with the City of Vancouver, thanks largely to a $2.8 million contribution from the federal government.
- FII China will also be continuing its market development program, including:
  - completion of the Canada – B.C. Wenchuan Earthquake Reconstruction project through construction of the Mianyang Special School for the Disabled, and the Beichuan Leigu Town Elderly Care Centre.
  - facilitating construction of a multi-storey, multi-unit wood-frame housing structure as a follow-up to an agreement signed with the City of Shanghai in support of its Affordable Housing Program.
  - working with the Chinese Ministry of Housing and Urban-Rural Development on collaborative research in the use of wood-frame construction for energy efficient buildings.

South Korea



MARKET TYPE

- 4th largest overseas market for B.C. softwood commodity products after China, Japan and the European Union
- Growing market for B.C. softwood lumber exports (exports up 25 percent in 2009)
- Strong potential in the residential housing sector

B.C. POSITION

- Market leader in supplying softwood lumber with a 10 percent share of total imports

2009 SALES

- 282,000 m^3 of commodity wood products valued at $43.4 million

MARKET OVERVIEW

In 2009, South Korea's real GDP growth was 0.2 percent; however, the fiscal and monetary stimulus initiatives which were put in place to mitigate the effects of the global financial turmoil are beginning to take hold. The consensus forecasts for GDP growth for 2010 and 2011 are 4.9 percent and 4.2 percent. During the next five years, the country's economic growth is expected to hold steady at about 4 percent per annum.

During the next five to ten years, South Korea's positive economic outlook and increasing household income will support high construction activity, which in turn will support consistent demand for softwood products. Although the market for softwood structural lumber remains small, growth in B.C. shipments of lumber, primarily structural grades, has trended upwards over the past decade.

Korea consumed 3.5 million m^3 of softwood lumber in 2009, down 3 percent from the previous year. To support the consumption, Korea imported a total of 576,000 m^3 in 2009, up 5 percent from 2008. Softwood lumber imports have been increasing steadily since the late 1990s as Korea's domestic sources of supply are limited and imports have been price competitive.

Imports accounted for 16 percent of Korea's total softwood lumber consumption in 2009, up from 10 percent in 2008, continuing a decade long trend of rising imports.

Canada has been the largest exporter of softwood lumber into Korea, supplying 145,000 – 225,000 m^3 per annum in recent years, almost all of which comes from British Columbia. B.C.'s share of Korea's total softwood lumber consumption was 6.6 percent in 2009, up from 5 percent the previous year; however, B.C.'s share of total softwood lumber imports was over 40 percent in 2009. SPF has been the main lumber species group imported by Korea, followed by hemlock. B.C. softwood lumber is primarily destined for the growing wood frame construction market; however, an increasing volume is being pressure treated in Korea and used in exterior applications. Unfortunately, the quality of pressure treating in the Korean market is often poor.

MARKET STRATEGY

South Korea, which continues to develop as an industrial and service-based nation, has been a success story in B.C's efforts to develop new markets for wood products offshore.

Korea has emerged as a country with a deeper concern and greater motivation for a healthier and more natural lifestyle. In recent years, considerable public and media attention has focused on topics such as "sick house syndrome", which is believed related to living in concrete buildings of the type that dominate Korea's housing sector. As is the case in Japan, wood is seen as a natural natural/healthy product and the best suitable construction material to reduce CO_2 emissions. Since Korea has a long history of building with wood and still builds a modest number of traditional Korean-style post and beam homes, the concept of 2x4 wood frame construction and single family housing has not been a radical and difficult shift for consumers. In addition, Korea has long, cold, dry winters and hot, humid summers; wood frame construction is ideal for insulation in both these conditions. Together, these factors are creating the potential for substantial expansion of the market for wood products. The B.C. industry has been particularly interested in development of Korea as the market is heavy to structural grades as opposed to the weighting on the lower grades currently marketed to China.

In pursuing the Korea market, FII and its partners in the Canada Wood Group are focused on the following core objectives:

- supporting the accelerated development and growth of wood construction in Korea by providing critical technical and mentoring factors presently absent in the domestic scene;
- positioning Canadian structural wood products, including lumber and OSB, to capture a disproportionate share of market supply for this segment;
- supporting the expansion of wood construction beyond current applications - limited to single-family construction and holiday homes - to multi-family and hybrid systems used in mainstream low - and mid-rise developments;

- supporting and bolstering the use of Canadian lumber used for pressure treating in Korea;
- improving standing and recognition of wood frame construction among consumers, policy makers and designers; and
- increasing the penetration of value-added specialty products in the market.

ACCOMPLISHMENTS IN 2009/10

Funding for projects in South Korea totaled $891,000 in 2009/10. Since Canada Wood Group manages activities in South Korea, 98 percent of funding was channeled through industry associations. Results included:

Promotion: A Korean developer switched a 120-unit project to wood-frame construction from concrete following promotional efforts by Canada Wood Group.

Quality control and training: Almost 500 professionals and architecture and design students were trained in wood-frame construction techniques. Another 245 recognized B.C. and Canada as a preferred supplier of value-added and building products.

Codes and standards: Sound-proofing approval was received for party walls and a final draft on fireproof approval for load-bearing walls is now being reviewed by Korean officials. The approvals will lead to wider use of wood-frame construction in larger projects.

Value-added sector: New sales of $2.65 million were generated by members of BC Wood Specialties Group.

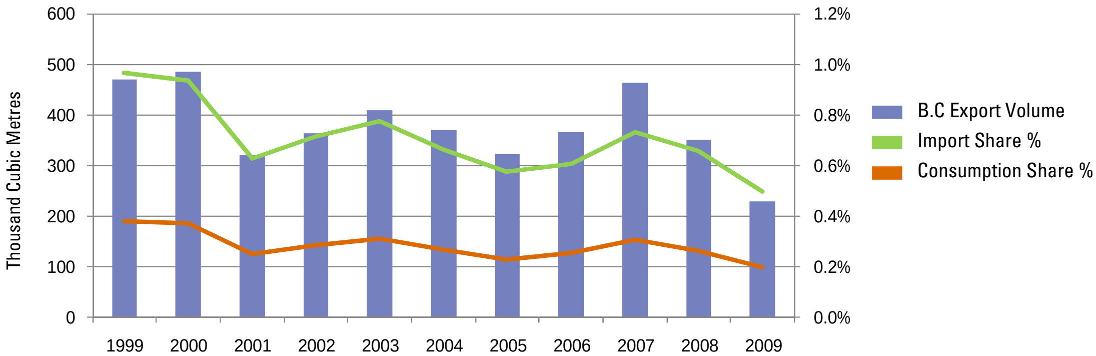
ACTIVITIES IN 2010/11

Projected spending in 2010/11 in South Korea is $924,000, with all of this flowing to industry associations for market development programs. Under the Canada Wood umbrella, planned activities include:

- BC Wood Specialties Group will be linking at least eight South Korean firms with B.C. value-added manufacturers at the 7th annual Global Buyers Mission in Whistler.
- The Council of Forest Industries will continue leading market development activities in South Korea and will partner with other in-market associations to deliver wood-frame construction designer and builder training, with a target of educating 670 builders, architects and specifiers in the use of B.C. wood products.
- The Council of Forest Industries will also promote the benefits of wood-frame construction to large builders and developers in South Korea through seminars and workshops attended by at least 2,000 South Koreans, with an expectation that the industry will start 12,000 construction projects using wood.

European Union and the United Kingdom

B.C. Softwood Commodity Product Sales in EU
(Softwood lumber, plywood, OSB, MDF and Particleboard)



MARKET TYPE

- 5th largest overseas market for B.C. softwood commodity products (by volume) after China, Japan, South Korea and Taiwan
- Mature housing sector with niche opportunities, particularly for high quality products

B.C. POSITION

- Minor overall supplier at less than one percent of imports, but traditionally a strong market for western red cedar and Douglas-fir

2009 SALES

- 229,000 m^3 of commodity wood products valued at $156.4 million

MARKET OVERVIEW

As a region, the EU remains the world's largest consumer of wood; however, it relies primarily on its large domestic industry for most lumber and panel products. Traditionally, B.C. has supplied western red cedar and Douglas-fir – two species not widely grown in the region. Construction is the biggest end-use segment for B.C.'s softwood lumber, accounting for almost half of total demand; however, a declining construction sector in the EU has significantly impacted the demand for wood products across the region. Total volume of B.C.'s exports of wood products to Europe declined by 107,000 m^3 in 2009 (to 229,000 m^3) after dropping 165,000m^3 during 2008. As a result of these sharp declines, in 2009 the EU dropped to fifth largest offshore market for B.C. wood products from third in 2008, now behind China, Japan, South Korea and Taiwan.

B.C. softwood lumber exports to Europe enjoyed a peak year in 2007 with exports totaling 430,000 m^3; however, since then, B.C. exports to the region have fallen rapidly. In 2009, total British Columbia exports were down 33 percent to 220,000 m^3, reflecting continued deterioration in Euro area economic growth and excess supply within the EU. B.C.'s softwood lumber exports to the United Kingdom were also down in 2009, falling over 34 percent after plunging 40 percent the previous year as the recession took hold.

Canadian plywood exports, all of which originate in British Columbia, also fell (-59 percent) in 2009 to only 8,400 m^3 after a small peak in 2007 at 35,000 m^3.

MARKET STRATEGY

Europe is a very large market for wood products, but B.C. has only a very small share because Europe produces most of its own structural lumber, engineered products, and paneling. This is not expected to change in the short term. In addition, it can be anticipated that competition in the market will increase as more supply enters from Russia as that country increases both lumber production and duties on the export of raw logs.

Most of B.C.'s exports are high quality species not readily available in Europe, such as hemlock, Douglas-fir and western red cedar. Typically these species are used for windows, siding, doors, and other appearance grade uses. The cooperative market strategy for the EU continues to focus on protecting these niche markets through targeted promotion, responding to policy changes that could reduce market access, and marketing the green benefits of B.C. forest products.

ACCOMPLISHMENTS IN 2009/10

Funding for the greater Europe region was $266,000 million in 2009/10, with about 55 percent directed to industry activities and the remainder dedicated to market outreach programs. 18 B.C. companies were actively marketing their products in Europe in 2009/10. Results included:

Promotion: A special promotion was launched in the Daily Telegraph in the United Kingdom to reach an estimated 3 million readers.

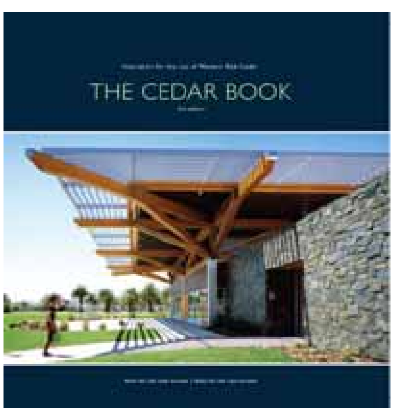
Quality control and training: Over 100 builders, architects and specifiers recognized B.C. and Canada as a preferred supplier of forest products.

Green education: The Western Red Cedar Export Association's Distinctive Design seminars reached more than 500 architects and design professionals to promote the importance of wood use in green building.

ACTIVITIES IN 2010/11

FII plans to fund $309,000 of activities in the EU in 2010/11, with almost 80 percent targeted to industry-lead programs under the Canada Wood Group. Highlights include:

- The BC Shake and Shingle Association plans to promote western red cedar roofing and siding products in the United Kingdom and France, with a goal of generating 100 business referrals for its members.
- Canada Wood Group members will continue their market development program through seminars, trade shows and selected promotions, with a goal of informing 200 companies about B.C. forest products.



Domestic Markets - Canada and British Columbia

Exports have allowed the B.C. forest sector to grow to become the world's largest supplier to global markets, but the Canadian marketplace still consumes a sizeable 20 percent of provincial production. Like the United States, the Canadian market is generally mature in the housing sector, but niche and non-residential opportunities are opening new markets for structural lumber and value-added products.

In 2009/10, FII invested $2.3 million for in initiatives targeted at growing the B.C. and Canadian markets for forest products and for building the capacity of the B.C. industry.

WOOD FIRST

FII's domestic activities are coordinated with a larger effort by the Province to promote the use of forest products. This Wood First initiative includes guidelines to increase wood usage in the construction of public buildings in B.C., and a major change to the provincial building code. Enacted in April 2009, the code now allows wood-frame dwellings of up to six storeys.

The Province announced the "Generating More Value from Our Forests" strategy in March 2009 with a vision to generate more economic value per hectare of forest land than any other jurisdiction by 2020.

In 2009/10, FII supported this vision primarily through investments in the Business Innovation Program (see below); the Canadian Wood Council's Wood*WORKS!* BC (CWC-WWBC) program, with its mandate to pursue opportunities for increased wood consumption in non-residential construction; and the new Wood Enterprise Coalition (WEC), a partnership of the Canadian Wood Council – Wood*WORKS!* BC, BC Wood Specialties Group and FPInnovations-Forintek Division.

The CWC - WWBC program received $405,628 from FII in 2009/10 to support its activities. Ten projects that Wood*WORKS!* BC technical advisors had been working on for an extended period went to construction during this fiscal year. These projects had an estimated value of $493 million with an estimated wood content of $16 million. Following Royal Assent of Bill 9 (Wood First Act), Wood*WORKS!* staff assisted the City of Quesnel in adopting a Wood First by-law, and then the Township of Nakusp in writing a "Wood First Resolution".

FII provided the Wood Enterprise Coalition with $1.7 million in start-up assistance in 2009/10, with a focus on promoting greater use of wood products in non-traditional applications.

BUSINESS INNOVATION PROGRAM

The Business Innovation Program's objective is to work with individual value-added wood manufacturers to strengthen their business practices, develop new products and designs, improve technology and its uptake by businesses, and enhance marketing activities. By focusing on these "success factors", BC Wood Specialties Group, FPInnovations-Forintek Division and the Centre for Advanced Wood Processing at UBC, the designated service providers, are helping British Columbia's value-added industry become more globally competitive.

2009/10 represented the second full year of operation for the Business Innovation Program. With FII funding of $1 million, and another $518,000 made available through Western Economic Diversification, the program operators expanded the services that were successful in the pilot year, and continued to build capacity and assist companies in becoming more competitive. To improve and simplify interactions with the value-added industry, the BIP adopted a three-tiered structure of services targeting the value-added industry as a whole, specific sectors within the industry, and individual companies:

General industry services – focused on building knowledge and skills of value-added wood products manufacturers. Activities in 2009/10 included workshops and seminars on improving business marketing and manufacturing approaches, developing and distributing bulletins with market intelligence, and technical and product updates.

Sector-specific services – focused on specific sets of concerns common to value-added manufacturers in the same sector. Activities in 2009/10 were undertaken in four areas:

Architects and Designers Outreach Program to increase the knowledge, acceptance, and demand for value-added wood products.

Conferences, symposiums, and workshops providing value-added manufacturers with educational support and opportunities to network with other professionals.

Working Wood Mentoring Program to build the business skills of a small group of independent furniture manufacturers through a series of seminars, workshops, and mentoring.

Industry-driven projects, including the Cedar Summit (speakers/educational element) at the Global Buyers Mission in Whistler; initial Thermowood study; and support for the Sunshine Coast Value-Added Wood Products Marketing Forum.

Company-specific services – focused on improving knowledge and skills related to business planning, marketing, adoption of new technology, and enhanced product design and development. Activities in 2009/10 included 10 company-specific sales and marketing training projects, 12 technical assessments, and over 40 technical projects that resulted in costs savings in material, improvements in productivity, and gains in quality.

Efforts were also continued to improve communications, provide a single point of contact for information about the program, and integrate the team of service providers and external consultants.

Market Outreach

FII is working with other government agencies and the forest industry to strengthen the image of wood as a more environmentally-friendly product than many competing products, and to highlight continual environmental improvements in the pulp and paper sector. FII represents B.C.'s interest in working closely with the federal government and overseas embassies and consulates to address international governments' procurement policies and their recognition of forest products from legal and sustainably-managed sources. To this end, FII's Market Outreach materials are continuously updated to provide information on B.C.'s forest practices.

The overall goal of FII's work in this area is to secure international recognition of B.C. as the leading supplier of environmentally-friendly forest products. FII pursues a number of strategies in support of this objective:

1. ANALYZING MARKET INTELLIGENCE, MAINSTREAM TRADE AND INTERNET MEDIA

FII conducts ongoing media and internet monitoring in order to stay abreast of current and emerging environmental issues that may impact the ability of B.C. producers to access environmentally-sensitive markets. FII's media monitoring program covers a comprehensive list of internet sites with environmental content, as well as networks with in-market embassy and consular staff with regards to issues of importance. FII also undertakes research on issues of importance to our mandate, both at the request of industry and government partners, as well as select projects initiated by staff directly. The objectives of this activity are to:

- ensure comprehensive and efficient monitoring of domestic and foreign media on environmental issues concerning B.C. forest products;
- serve as a resource to government and industry by maintaining up-to-date coverage of sustainability issues in markets of importance to the B.C. sector;
- ensure that inaccurate reports receive response when warranted; and
- ensure FII staff have relevant research and information to direct programming dollars effectively and efficiently.

Studies and analysis conducted in 2009/10 included:

Japan and UK Wood Miles

FII was asked by industry association representatives to fund research on the facts behind the transportation impacts of Canadian wood exports, and particularly in the case of Japan, provide the scientific rebuttal of inaccurate claims by those in Japan advocating against Canadian imports in favour of expansion of their domestic industry.

Certification & regulation
B.C., Canada and other forest jurisdictions

FII funded a study on the relative stringency of various certification standards in relation to forest regulations in jurisdictions around the world. The results indicate that B.C.'s forest laws and forest certification programs are among the most comprehensive of jurisdictions studied.

Green building rating systems comparison

FII funded a study examining the world's major green building rating and certification systems in order to evaluate their relationships with wood, and to gain a better understanding of what opportunities may be available for promoting wood as a green building product. The Green Building Rating Systems Comparison has now been presented to the UN Economic Commission for Europe Timber Committee in Geneva, the annual Architectural Institute of BC conference and Wood Solutions Fair in Vancouver.

Paper versus Pixels

The report compared the life cycle impacts of electronic versus traditional paper media.

Market acceptance – Global Customer Survey

Bi-annual survey, undertaken in cooperation with the Forest Products Association of Canada and Natural Resources Canada, of forest products customers in the U.S., Europe and Asia concerning their purchasing decisions and environmental issues.

In 2009-10, there were over 380 downloads of market research reports. These reports are being used in advocacy efforts to promote an inclusive approach to wood, forest certification and recognition of B.C.'s excellence in sustainable forest management.

2. PROVIDING ADVOCACY SUPPORT WHERE B.C. FOREST PRODUCTS ARE UNFAIRLY TARGETED

Governments around the world are responding to illegal logging by implementing new legislation, policies and regulations to ensure that products come from legal and sustainable sources (e.g., U.S. Lacey Act, EU Illegal Timber Regulation, UK Central Point of Expertise on Timber Procurement (CPET) and Timber Procurement Policy). FII is addressing environment-based market access challenges through a number of initiatives.

EU & illegal logging

The European Union is in the process of developing a new law banning the import of illegally-harvested timber. While Canada is not identified as a supplier of concern, international trade rules stipulate that such policies must apply to all nations equally. At industry's request, FII has been actively engaged with the Federal Department of Foreign Affairs and International Trade (DFAIT) on this issue, assisting in the development of official demarches advocating Canada's position with the objective of minimizing or, where possible, eliminating administrative and financial impacts of the EU regulation on British Columbia exporters.

European country procurement policies

FII works with the Canadian government and several provinces, as well as in-market DFAIT staff to access high-level influencers within government and industry in foreign markets. FII pursues involvement in missions when the markets and issues targeted are of relevance to B.C. FII participates in consultations by sending expert representatives, either from government (usually B.C.'s Chief Forester) or in-house staff where appropriate. FII's objective is to ensure coordinated and accurate messaging regarding the B.C. forest sector and its sustainability record.

In 2009/10, FII supported two federal government International Forestry Partnerships Program (IFPP) outgoing missions – one to the EU to address issues related to sustainable procurement, and one to Japan, led by B.C.'s Chief Forester, to address issues more generally concerning sustainable forest management in Canada. FII will continue to monitor and advocate for public procurement policies that do not put British Columbia's forest products at a disadvantage.

3. PROMOTING WOOD'S ENVIRONMENTAL FOOTPRINT, GREEN BUILDING AND B.C.'S FORESTS

While people remain generally sensitive to how forests are managed, this has been superseded by the concern about climate change and humans' environmental footprint. At the same time, making new buildings more environmentally friendly has emerged as one of the most significant trends in the construction industry, not only in North America but also in Europe and Asia.

B.C. is well positioned as a supplier of quality, innovative, and environmentally-responsible products to markets around the world. Over the past few years, FII has created an integration of product and environmental messaging and materials to reinforce the environmental attributes of wood, as well as the variety and quality of wood products produced from B.C.'s sustainably managed forests.

While associations and companies promote their specific sectors and products, there is a need for information and materials that promote the B.C. forestry sector and its competitive advantages as a whole. This supports informed and consistent messaging by industry. FII has prepared a variety of print, electronic and event materials for use by B.C. forestry companies and associations to assist with marketing efforts at all levels.

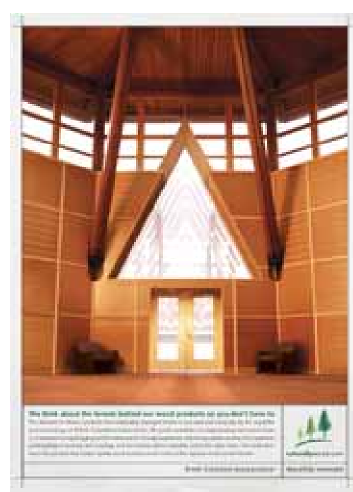
Activities undertaken by FII in 2009/10 included:

B.C. environmental reputation outreach and advertising

To communicate factual and timely information on the environmental benefits of B.C. wood and paper products, FII implemented a media buy plan to target North American architects and builders as well as the sustainable design and publishing sectors.

B.C. environmental reputation and certification wood advertisements were placed in 26 magazines focused on architects, builders, sustainable design, publishing and related trade shows. Total circulation of the publications was just over one million, generating over 200 direct follow-up requests. These advertising activities also drove further uptake through earned media activity that resulted in a variety of articles on British Columbia wood and non-residential applications (*see Olympics*).

A similar program is taking place in 2010/11, with a tighter focus on publications catering to the non-residential sector and supplementing advertising efforts by other industry stakeholders.



All earned media and promotional initiatives undertaken by FII point to a range of information and tools such as B.C. forest management facts, Green Building toolkit and building case studies. Activity recorded by FII for 2009/10:

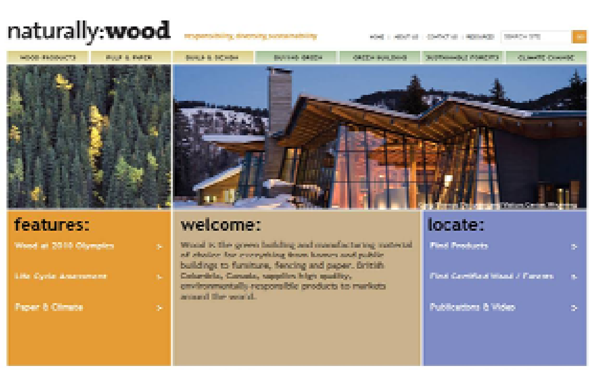
- bcfii.ca Image Library – 225 requests from industry associations, companies, government and press for 962 images
- naturallywood.com Website – over 36,700 unique visitors to the website since June 2009
- factsheets, green building toolkits, case studies, DVD's – over 20,000 distributed upon request to tradeshow leads, media kits, industry associations.

The Internet is increasingly a preferred information source. FII continues to refine its web-strategy and redevelop new Internet-based modules and information, using www.naturallywood.com as a key conduit for information and materials to promote overall use of wood in building and the diverse wood, pulp and paper products from B.C.

There is further opportunity for collaboration with forestry stakeholders to align wood as an environmentally-friendly material with Wood First messaging, as well as develop comprehensive and targeted tools for audiences such as architects and policymakers.

A 2009-10 global customer survey in the U.S., Europe and Asia confirms that:

- of any province in Canada, B.C. is recognized as having a better than average environmental reputation – and the best reputation of any province in Canada; and
- B.C. also stands out as having achieved the strongest visibility and the highest regard on the environmental reputation support and information it offers – rated as almost double that of Ontario or Quebec.



4. PROMOTING B.C.'S FOREST PRODUCTS THROUGH OLYMPICS AND NON-RESIDENTIAL OPPORTUNITIES

In February, 2010 British Columbia hosted the Olympic and Paralympic Winter Games. The events generated world-wide media coverage of the Games, the venues and the Province.

FII, along with the Canadian Forest Industry Coalition, had worked for several years to engage VANOC, responsible 2010 Olympic venue jurisdictions and design teams, to influence planning and maximize the use of wood within 2010 Olympic venues and related facilities. The objective of these efforts was to increase the use of wood in Olympic venues, overlay facilities and related buildings, and to assist design teams to develop unique cost effective wood solutions for structural and architectural elements of Olympic venues and overlay facilities. In the end, over 12 key Olympic venues and facilities utilized wood in their structure and finishing, including:

- The Richmond Olympic Oval
- The Vancouver Convention and Exhibition Centre
- The Whistler Olympic Park
- Trout Lake Arena / Percy Norman Aquatic Centre
- 2010 Commerce Centre (Robson Square).

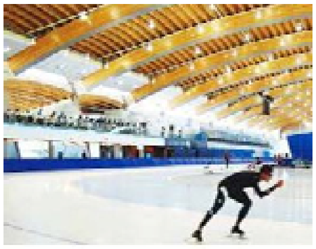
With the construction phase virtually complete, the approach in 2009/10 shifted from getting wood into the venues to a media-focused campaign designed to leverage the publicity around the Olympics to promote the provincial forest sector. The three-part strategy aligned with the industry's push into the non-residential sector and focused on the following:

- leveraging the use of wood in Olympics construction and the international attention focused on the 2010 Games to increase demand for, and sales of, wood in broader domestic and international markets;
- securing increased market preference for B.C. and Canadian forest products by communicating the advantages/benefits of building with British Columbia/Canadian wood products to targeted audiences; and
- increasing demand for B.C. and Canadian forest products from an environmental and forestry standpoint by communicating that Canada/B.C.'s forest policies and practices are among the world's best.

Media outreach campaign

The primary objective of the media outreach campaign was to promote the innovative and functional uses and environmental attributes of B.C. wood. Priority audiences for these efforts were architects, designers and related trade media. The specific goals of the outreach effort were to:

- educate audiences about the variety of B.C. wood products and how wood is a wise and friendly choice for the environment;
- showcase unique uses of B.C. wood in 2010 Olympic venues and other commercial and recreational buildings locally, nationally, and internationally so as to influence decisions made by architects and builders; and
- build B.C.'s reputation as a global supplier of a variety of wood and paper products from renewable, certified and sustainably managed forests.




세상에서 가장 큰 '나무 지붕'

Excellence in Green Building Practices Award: Fifteen architectural firms involved in nine projects for the Games were presented with a one-time award for Excellence in Green Building Practices.

International architect trade media tour: In August, 2009, international media visited B.C. to tour some of the new Olympic venues that incorporate a substantial amount of wood, as well as see B.C.'s sustainable forest practices at work. As a result, a number of articles were published in leading U.S. and UK architectural and related trade publications.

Materials distribution: In addition to architect trade media, distribution of media materials outlining Vancouver's green Games and the incredible use of wood in Olympic venues was made to as many high-profile international media outlets as possible – placing a particular emphasis on outlets in countries next in line to host Olympic Games, currently bidding for future Games, and those believed to have a keen interest in the environment and forestry. This tactic allowed key messaging to be placed in front of numerous outlets covering Olympic related stories, thereby providing them with images and original content for their planned coverage. Among materials produced were:

- Media backgrounders, ranging in topics from benefits of wood and the Olympic venues to B.C.'s Innovative wood designs, as well as t key factsheets about B.C.'s sustainable forest management practices and industry were created for media distribution.
- A "Wood in the 2010 Olympics" page was created for the naturallywood.com website. The page highlighted some of the key media backgrounders, plus other pivotal topics such as the media kit, Olympic podiums made from B.C. wood, CTV sets featuring B.C. wood, and key photographs of interest.
- Ten building case studies on wood use and green building aspects of key B.C. commercial and institutional structures were created for architect and media audiences. Focus was placed on buildings related to the Olympics and unique buildings in high profile locations such as Whistler.
- Memory sticks made with three different B.C. wood species – mountain pine beetle, hemlock, and western red cedar – were loaded with key media backgrounders, B.C. forest fact sheets, case studies, and videos. The memory sticks were distributed to media during the Olympics.

In addition, FII utilized its relationship with a key public relations firm and the Olympic Games Secretariat to create several unique approaches to gain exposure for B.C. forest industry to the world. These included:

BCMC media hard drive content – FII was able to include relevant information on B.C. forest products, climate change and managing for sustainability on a miniature hard drive that was distributed to 5,500 members of the international press corps during the Olympics (the forest products industry being one of only three industries that were given the opportunity to showcase information on the media hard drives).

B.C. Media Centre media bag content – The BCMC distributed welcome bags to 1,500 journalists using the facility during the Games. Included in each bag was furniture designer

Judson Beaumont's unique wooden rock and a set of Aspenware's biodegradable wooden cutlery, each with the www.naturallywood.com website engraved on it.

CTV sets -FII worked with CTV to incorporate B.C. wood into the television sets of Canada's Olympic host broadcaster. Extensive amounts of wood were incorporated into sets used daily by CTV Olympic anchor Brian Williams, who made mention of the products on multiple occasions – and specifically referenced the B.C. wood species used.

In total, five sets were in use at the International Broadcast Centre in Vancouver, which featured B.C. red alder veneer. The CTV Mountain Square set in Whistler used western red cedar and western hemlock.

B.C./Canada Pavilion - The BC/Canada Pavilion was located on the fourth floor of the Vancouver Art Gallery and featured a number of interactive displays highlighting the rich cultural fabric of both B.C. and Canada. One of the interactive displays featured forestry and highlighted B.C.'s product and sustainable forest management practices. FII worked closely with the Pavilion designer team to ensure key messaging and products were included.

Forestry day - FII worked with the Ministry of Forests and Range to host "Forestry Day" at the Olympics on February 23, 2010. Forestry Day centred on a series of media and business networking events that showcased British Columbia as a world leader in sustainable forest management and renewable, innovative, climate-friendly forest products. The program included media events and hospitalities, a wildfire aircraft demonstration, local government Wood First announcements and a "Wood First" reception that brought together over 200 international and domestic architects, engineers and forest sector stakeholders around the subject of wood use in institutional, commercial and industrial applications worldwide. Awards were provided to recognize B.C.'s "Wood First Champions", including those involved with industry/government effort to secure wood usage across the Olympic venues.

In addition to spurring the successful drive to secure the use of wood in key Olympic Venues, FII, through its media outreach campaign (tour, awards, materials) was able to generate substantial international and domestic media coverage that showcased the use of wood in venues and helped position B.C. as a supplier of wood and paper products from renewable, certifiable and sustainably managed forests. Specific results of the campaign:

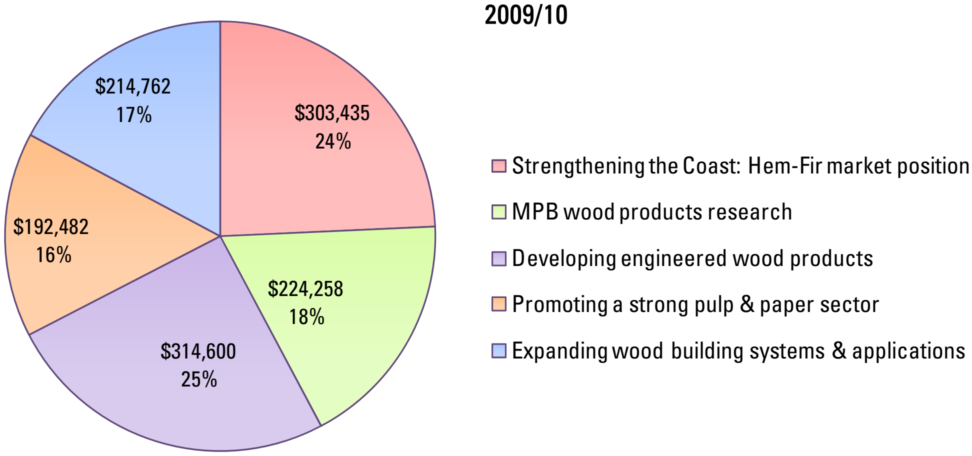
- Generated over 60 positive articles in more than 50 domestic and international magazines and journals targeted at architects, designers and builders.
- Total circulation - over 1.5 million.
- Estimated ad value - approximately $1.2 million.

Market Focus: Product Development and Technical Research

In 2009/10, product development and technical research activities included projects targeting issues facing both interior and coastal forest sectors, focusing on both solid wood and pulp and paper, and covering a full range of focus areas.

Eight recipient projects were funded and successfully completed in 2009/10. Mountain pine beetle -related research included a study on the feasibility of a satellite merchandizing and log storage yard in the Cariboo region of B.C., and an innovative product use (glue extender / filler in plywood manufacturing) for MPB residual fibre. A project involving the use of novel sensing technology was also undertaken, employing Visible / Near Infrared (Vis/NIR) scanning technology to allow for more accurate separation of hemlock and amabilis fir species in the lumber form. Continued research in the development of Cross Laminated Timber (CLT) technology was also undertaken, studying the effects of species, grade and adhesives on CLT panel strength properties.

FII Funding by Focus Area 2009/10



Of note in 2009/10 were FII's continued efforts to promote a stronger pulp and paper sector in B.C. Through FII's Mountain Pine Beetle research program (2005 – 2008), pulp and paper sector funded research projects focused on the impacts of processing blue stained chips. FII also supported research specific to new and innovative product uses for market pulp, and product applications involving the use of nanocrystalline cellulose (NCC).

In order to gain a better sense of key product and technical priorities facing the B.C. pulp and paper industry, FII commissioned a paper – "Key Product and Technical Priorities – B.C. Pulp and Paper Industry" (A. Garner, October 2009). The report summarized input from industry stakeholders on key priorities facing the sector. This B.C. strategy paper generated ten recommendations covering a range of issues, including fibre supply (MPB-related issues), demonstrating the advantages of B.C. pulps, cost structure, and need for continued product and technology development. This report was distributed to B.C. pulp and paper producers and received positive feedback. The research paper was used in a panel discussion "R&D – Charting the Future", at the June, 2010 Pulp and Paper Technical Association of Canada's PacWest Conference.

Market Focus: China Demonstration Projects

In its first several years of operation, FII's China-based subsidiary company, FII China, focused on conducting market research to inform the overall market development strategy. By 2006, FII had learned that real-world demonstration projects could be an efficient way of drawing Chinese attention to the benefits of wood frame construction and of building credibility with Chinese entrepreneurs and government officials. The program has matured to the point where demonstration projects now form the bulk of FII China's market development effort. Canada Wood Group[11] partners are playing a key role in the demonstration work by providing technical training and quality assurance on wood construction job sites.

1. ROOFING PROJECTS

Shanghai roof renovation

Shanghai roof renovation is FII China's longest running project, having its roots in the first demonstration project in 2006, and now unfolding as part of Shanghai's beautification initiative for EXPO 2010. The City was looking for partners who could help beautify many of the older communist-era housing units in a fast, environmentally friendly and cost effective way. In cooperation with Shanghai housing and construction bureaus, developers, wood frame builders, and design institutes, FII China's initial three demonstration roofs have led to the building of an additional 85 wood truss roofs in Shanghai.

With EXPO 2010 having opened in May, 2010, demand for wood truss roof renovations has decreased. However, the re-roofing demonstrations established FII China's credibility and triggered China's first commercial wood re-roofing projects.

Nanjing roof renovation

As China's commercial centre, Shanghai's development is the model most emulated by other Chinese cities and the Nanjing roof renovation project was a direct result of the success of the initial work in Shanghai. In Nanjing, FII China donated materials to build eight demonstration roofs. The Nanjing housing and construction authorities responded by building an additional 24 wood truss roofs. As with Shanghai, the long-term outlook for roof renovations is moderate. However, the Nanjing experience has validated FII China's strategy to concentrate efforts in Shanghai with the understanding that Shanghai's leadership would influence decision-makers in other cities in the Yangtze River Delta, and eventually beyond.

[11] Canada Wood members involved in the China market program are the Council of Forest Industries, Coast Forest Products Association, Western Red Cedar Export Association, BC Wood Specialties Group and the Quebec Wood Export Bureau.

Hebei roof renovation

Hebei Province in Northern China is showing that less developed cities in China constitute significant potential for wood frame construction. In July 2009, the Hebei Provincial Government signed an MOU with FII China to build 150 wood truss roofs in the capital city of Shijiazhuang. The MOU called for FII China to build three demonstration roofs and for 50 roofs to be completed on a commercial basis by the end of 2009, with a further 100 to follow if the participants are satisfied with the first 50. Hebei offers a unique opportunity because the Chinese Central Government is encouraging Provincial government authorities to undertake urban renewal projects but to use energy efficient, environmentally friendly building materials.

FII China hopes Hebei Province, like Shanghai, will adopt the use of wood frame elements in publicly funded housing units.

2. WENCHUAN RECONSTRUCTION

Following the May 12, 2008 Wenchuan Earthquake, the Governments of British Columbia and Canada committed $8 million towards reconstruction in Sichuan Province using modern wood frame construction technology and wood materials from Canada. An overarching MOU for the project was signed with the Chinese Central Government, Ministry of Civil Affairs which is responsible for receiving and coordinating foreign donations.

As originally documented in the 2008 Report to Stakeholders, FII was appointed as the implementation agent for the reconstruction project in July, 2008 and three projects were selected:

- Xiang'e Primary School in Dujiangyan, in partnership with Tongji University and the Shanghai Municipal Reconstruction Committee
- Special School for the Disabled in Mianyang, in partnership with Mianyang Municipal Government
- Elderly Care Centre in Beichuan, in partnership with Beichuan, Leigu Town.

The Wenchuan Reconstruction Projects are designed to give comfort to the people of Wenchuan County who survived the devastating earthquake. Of particular importance is to introduce local and national leaders to the seismically stable, energy efficient, and fast construction of all wood frame and hybrid structures. Thanks to the high visibility of the reconstruction area, FII China's reconstruction projects receive strong attention from the local media, and visiting housing and construction officials who are interested in learning more about the benefits of wood frame construction. In delivering these projects, FII China works cooperatively with Canada Wood Group whose staff ensure the facilities are constructed according to Canadian and Chinese construction standards, and provide wood frame construction training to Chinese construction workers, designers and inspectors.

The first project undertaken was the 5,300 m^2 Dujiangyan X'iange School, completed in August 2009. To-date it is FII China's showcase project in Sichuan. While helping to rebuild the community, the school implicitly promotes the benefits of wood frame construction. It has received sizable media coverage, even on national television, and this has helped to dispel many misconceptions regarding wood frame construction. For example, it was in fact 10 percent less expensive than a comparable school built in concrete and steel by the same developer while being at least as seismically stable.

Wenchuan projects initiated in 2009/10 include:

Mianyang Special School for the Disabled
To help those devastated by the earthquake, the Mianyang Government is constructing a comprehensive facility for the disabled that will include approximately 5,888 m^2 of wood frame dormitories, classrooms and care facilities. Construction on the Mianyang School began in 2009/10 and will to be complete by mid-summer, 2010. Unlike the Dujiangyan Primary School where FII China only donated wood materials and quality assurance, for Mianyang and Beichuan (see below), FII China has taken on greater responsibility such as hiring general contractors.

Beichuan Elderly Care Centre
China's rural elderly rely heavily on their children for support when they can no longer care for themselves. The Ministry of Civil Affairs provides basic social assistance, such as food, clothing, housing, medical care, or other financial means for those without children.

Beichuan County, located approximately one hour from Mianyang City, was one of the areas hit hardest by the Earthquake. The Leigu Town Elderly Care Centre in Beichuan County that previously housed 75 elderly was completely destroyed by the earthquake. An additional 127 elderly are in need of care after the quake, leaving over 200 elderly without proper care facilities. Beichuan County Government has given high priority to the reconstruction of the elderly care centre, which is included in the County's first round of construction projects.

Beichuan project is the last of three Wenchuan projects FII China committed to in late 2008. When complete, the new structure will include approximately 4,800 m^2 of residential buildings, public service facilities such as clinic, cafeteria, leisure rooms, offices, meeting rooms, as well as garden and outdoor recreation facilities.

FII China’s biggest challenge working in Beichuan has been the shortage of locally based officials with any organizational or managerial skills. Despite these challenges, the Beichuan project is expected to be completed in late 2010.

Sichuan hybrid infill project

This project came to FII China’s attention through Canada Wood China. FII China/Canada Wood China’s (CWC’s) partner, one of the largest developers in Sichuan, is looking to expand its understanding of wood frame construction, and is open to using infill walls in its rebuilding projects. CWC sent several technicians to provide quality assurance for this two-month long project which provided an excellent opportunity to work directly with a large developer who has a China-wide presence.

3. NRCAN FUNDED DEMONSTRATION PROJECTS

In additional to demonstration work funded by FII, FII China is also managing several demonstration projects funded by the federal government through Natural Resources Canada.

EXPO 2010 - EXPO in Shanghai is expected to draw over 70 million visitors, mostly Chinese. The Urban Best Practices Area (UBPA) of EXPO is dedicated to sharing and promoting technologies for better urban living.

In mid-2009, EXPO officials accepted FII's proposal to build a Vancouver pavilion in the urban best practices area (UBPA), which would focus on how Vancouver's False Creek area has changed from the time of Expo 86 until the 2010 Olympic and Paralympic Winter Games. At the same time, the pavilion would provide a platform to showcase wood frame construction in a multi-storey application. FII approached the City of Vancouver and ultimately negotiated an agreement whereby FII would be responsible for managing the construction and operations of the pavilion, while the City of Vancouver would be the legal entity signing the contract with EXPO (since EXPO would deal only with cities in the UBPA). Natural Resources Canada agreed to provide the funding for construction to a maximum of approximately $2 million in 2009/10.

Despite a very late start, FII finished construction and fitting in time for the May 1, 2010 opening of the fair. The first floor of the pavilion is dedicated to the Vancouver theme, while the second and third floors are focused on promoting the advantages of wood frame construction, drawing on the real-world projects completed in China over the past three years. FII China is using the pavilion as a vehicle to educated targeted Chinese audiences (government officials, architects, developers, engineers, builders) about the benefits of building with wood.

In the first month of operation, the pavilion has seen a steady flow of Canadian and Chinese officials, and on June 6, 2010, just over a month after opening, the pavilion passed the 100,000 visitors mark.

Jinqiao townhouse - "Jinqiao" is the name of an area in Pudong District, Shanghai, and the abbreviated name of the development company that has been working with FII China since 2004. The Jinqiao area is home to many expatriates and wealthy Chinese. Jinqiao Development intends to be at the forefront of the low-carbon/energy efficient residential housing developments in China. As such, it plans to equip all of the units in a new townhouse project with the most advanced, energy efficient and environmentally friendly appliances and fixtures. By teaming up with Jinqiao to build 40,000 square metres of three-storey wood frame townhouses (which were initially designed in concrete), FII China hopes to make wood frame construction synonymous with the energy saving products and systems also employed by Jinqiao. As a leading developer in Shanghai, Jinqiao has enormous influence on the future development of Shanghai. FII China has developed several agreements with Jinqiao outlining the level of cooperation and the division of labour for this initiative and a wood frame builder has been selected. In late 2009/10, wood materials were purchased with construction expected to begin in mid-June.

4. BEIJING DEMONSTRATION PROJECT

During their March, 2010 visit to China, B.C. Minister of Forests and Range Pat Bell and several leading Canadian lumber executives met with Ministry of Housing and Urban- Rural Development (MOHURD) Vice-Minister Qiu. Both sides agreed to collaborate on construction of a multi-storey demonstration project in Beijing that would feature innovative applications of wood in construction. This will be FII China's first Beijing-based project and also signals high-level support for wood frame construction from the Chinese Central Government. A joint working-level committee has been formed and is outlining a comprehensive agreement to include not only the demonstration project, but also the signing of a five-year MOU to promote wood frame construction in Northern China. The characteristics of the new demonstration project will be developed by the working committee as a priority in 2010/11.

Market Focus: Affordable Housing

SHANGHAI AFFORDABLE HOUSING

"Affordable Housing" is the Chinese government's response to spiraling housing prices in large urban areas. In order to give some financial relief to middle-class households who cannot afford to pay market prices for housing, and who earn too much to qualify for fully subsidized housing, the Shanghai government plans to build six million affordable housing units throughout the city over the next 20 years. Those residential units will be accompanied by large administrative buildings and service centres.

FII China's previous work with the Shanghai housing authorities helped to convince them to adopt wood infill walls and new wood truss roofs on many of the new residential buildings to be built under the Affordable Housing initiative. Shanghai is the first city in China to adopt this technology for new buildings. FII China sees this as an opportunity to not only move into another wood frame construction phase in Shanghai, but also use this as a springboard into affordable housing projects in other cities in China. FII China has recently completed designs for an administrative centre for the Affordable Housing project that features prominent wood frame components. FII China anticipates designing other structures wholly or partially in wood as the project progresses. Wood material was purchased for the initial administrative centre (there are several planned), with construction scheduled to begin in 2010/11. Design and construction of residential units will follow.

Market Focus: Immediate Need Housing

MONGOLIA PROJECT

Many countries around the world have an immediate, and in some situations a desperate need, to provide new and expanded housing options for their citizens. The need for housing is often a result of reconstruction following natural disasters, rapid urban growth, the need to relocate older residential communities outside of the urban core, the call for improved housing options, and political events such as regime changes or conflicts.

The United Nations estimates that around 100 million people are without a place to live, and over one billion are inadequately housed. The Centre for Research on the Epidemiology of Disasters estimates that natural disasters affect more than 250 million people per year, with an increasing number of natural disasters in recent years. While there are many challenges in identifying and pursuing commercial opportunities for housing in the developing world and in response to natural disasters, they do also represent what could be a significant opportunity to provide modern, affordable wood frame housing solutions.

In 2005/06, FII first gained experience in this area through the reconstruction efforts following the Tsunami in Indonesia. FII has since expanded its efforts in introducing B.C. wood products and construction technology to the earthquake reconstruction efforts in Sichuan, China. FII continues its efforts with the Canada Wood Group in China to develop opportunities for rural housing in China, and to introduce B.C. wood products into affordable housing projects led by government agencies in that country (see the section on China Demonstration Projects for more information on these related efforts in China).

Since 2007, FII has worked with the Government of Mongolia as it adopted Canadian wood construction codes and developed a program to introduce modern Canadian wood construction technology to the country. Still a very poor, and developing country, Mongolia represents a modest but significant future market for B.C. wood products and wood construction technology, driven by the considerable mining and mineral reserves being developed in the country. Also of significance, Mongolia provides an opportunity for FII and the B.C. forest industry to gain valuable experience introducing Canadian wood frame technology to a highly receptive poor, developing nation – experience that can be transferred to other parts of the developing world.

Building on a base of solid support from Mongolia's Ministry of Roads, Transport, Construction and Urban Development, the Mongolian University of Science and Technology and the Mongolian Wood Construction Association, FII's role has shifted from demonstration work to offering quality assurance support and information as Mongolian agencies lead the promotion and development of a domestic wood construction sector. The first significant, Mongolian-led wood frame construction project was just getting underway at the time of writing this document – a 5400 ft^2 kindergarten/school being built by the Mongolian Ministry of Education with a Mongolian wood construction company.

Of note in 2009/10 was the Mongolian "Superhouse Reality TV Program". Led by the Mongolian Wood Construction Association and C1 TV (Mongolia's largest commercial TV network) – with support from the Mongolian Ministry of Roads, Transport, Construction and Urban Development, the Mongolian University of Science and Technology, FII, and 16 different B.C. companies that donated product – an 1800 ft^2 wood house was designed and built over 14 one-hour TV episodes. Promoting the many benefits of Canadian wood construction technology and B.C. wood products, the prime time TV program rose to number three in C1 TV's overall ratings – and ranked within the top 10 TV ratings across all networks nationally in Mongolia. For a modest investment of time and resources by FII and the B.C. companies that participated in the project, significant national exposure of the benefits of wood frame technology for Mongolia was achieved, leading to increased future demand for B.C. products and opportunities for B.C. companies.

For More Information

MARKETING AND COMMUNICATIONS RESOURCES

Forestry Innovation Investment develops materials and tools to help promote British Columbia's forest products and sustainable forest management domestically and internationally. The following materials are designed for use by government, forestry companies and trade associations to:

- Identify market opportunities, and
- Support marketing and communications activities through a variety of resources including print, video and digital images.

Full details on market research, marketing products and services are available from the Industry Resources section of the FII web site www.bcfii.ca/industry_resources or on www.naturallywood.com.

MARKET RESEARCH AND TRENDS

FII and its funding recipients recognize that an increasingly competitive and evolving global forest sector requires that industry have access to timely market research to identify market opportunities and maintain competitive advantage. FII has an extensive library of research/analysis reports on major and emerging geographic and sector markets. FII also publishes monthly export sales statistics and an annual trend analysis with export data and market reviews. To view summaries of the reports, as well as to obtain a password to access full copies, please visit www.bcfii.ca/industry_resources.

PRODUCT DEVELOPMENT & TECHNICAL RESEARCH

FII is responsible for encouraging development of new product uses and markets for the two distinct geographical sectors in the Province - the Coastal forest sector and an Interior forest sector – each with unique issues and opportunities. Priority initiatives include Strengthening the Coast Hem-Fir Market; researching opportunities for Interior SPF and OSB; developing engineered wood products; promoting a stronger pulp and paper sectory; investigating opportunities with secondary manufacturing and value-added wood products; and expanding wood building systems and applications. Details on the FII program and copies of studies are available at: http://www.bcfii.ca/industry_resources/technical_research_product_development.htm

MARKETING TOOLS: DIGITAL AND INTERNET

FII maintains a suite of marketing tools in the public domain, as listed below.

1) Image Library & Video Library

The FII Image and Video Libraries contain a wide range of professionally photographed and filmed images of British Columbia's forests, forestry activities, manufacturing, building, trade and overseas market use of wood products. Imagery is provided to British Columbia forestry companies, associations and partners at no cost. FII retains copyright on all images and may request acknowledgment, when the images are used at no cost.

Images - For high resolution images suitable for printing or advertising please fill out the on-line request form at: http://imagelibrary.bcfii.ca/

Video - For a list of available footage, or to arrange a time to view clips at FII's office, please contact FII at: info@bcfii.ca.

2) Website: www.naturallywood.com

A comprehensive compendium of information about British Columbia's forests, wood and pulp and paper industries. The website is a portal to the British Columbia forest industry and draws attention to it as a supplier of high quality, environmentally-friendly products to markets around the world. Facts are provided on wood as the green building and manufacturing material of choice for everything from homes and public buildings to furniture, fencing and paper. There are also many links to trade associations and companies supplying a host of forest products.

3) Product Directory: http://www.naturallywood.com/ProductDirectory/
The FII online directory provides potential customers access to over 600 companies manufacturing and/or selling British Columbia wood and pulp and paper products. Customers can also search for third-party certified product such as Canadian Standards Association (CSA), Forest Stewardship Council (FSC) and Sustainable Forestry Initiative (SFI) certified forests, wood or paper products. There is no charge for a British Columbia forest products company to be included in the directory.

4) Life Cycle Assessment Tool: http://www.athenasmi.ca/
An online tool that facilitates the impartial comparison of building assemblies over the course of their entire lives, based on quantifiable indicators of environmental impact. The ATHENA® Eco-Calculator for Assemblies provides instant life cycle assessment results for common assemblies based on detailed assessments previously conducted using the Estimator.

MARKETING TOOLS: PRINT PUBLICATIONS & DVDS

The following tools are available for download from: http://www.naturallywood.com/Resources/. For print copies, please contact FII at: info@bcfii.ca.

1) Buyers Guide to British Columbia Wood Products
A comprehensive guide on British Columbia's forests and wood industries, this publication speaks to everything from the diversity of tree species and sustainable forest management, to available wood products, quality assurance and trade association listings.

2) Non-Residential Case Studies
Series of case studies on commercial and institutional buildings in British Columbia featuring buildings related to the Olympics and other high profile institutional and commercial projects.

3) Fact Sheets
Provide information on British Columbia's forest management, ecology and biodiversity, diverse forest products and green building.

4) Tackle Climate Change, Use Wood
Highlights the environmental attributes of Canadian forest products and the achievements of the country's forest industry with respect to climate change.

5) Canadian Wood: Renewable by Nature, Sustainable by Design
Examines the environmental benefits of building with wood.

6) Building Green with Wood Tool Kit
A PowerPoint presentation with supporting modules that address the principles of green design, what makes a product green, and how wood fits in.

7) Videos
Address a variety of topics from how wood helps mitigate climate change, green building and performance of wood, to managing British Columbia forests for sustainability.

British Columbia Forest Sector "Quick Facts"

Harvest volume in cubic metres by wood type

WOOD TYPE	2004	2005	2006	2007	2008	2009
Coast Total	25,685,029	21,724,792	20,055,772	18,883,073	15,415,705	11,139,576
Deciduous (Hardwood)	375,455	377,546	261,606	253,234	135,625	114,955
Coniferous (Softwood)	25,309,574	21,347,246	19,794,166	18,629,839	15,280,079	11,024,621
Interior Total	56,004,957	61,866,605	60,264,201	53,775,197	45,651,168	37,653,592
Deciduous (Hardwood)	2,239,411	2,534,537	2,882,364	2,692,059	2,120,905	933,679
Coniferous (Softwood)	53,765,546	59,332,069	57,381,836	51,083,137	43,530,263	36,719,913

Excludes waste, reject and Christmas trees

Timber supply in millions of cubic metres, 2001-2020

YEAR	VOLUME	YEAR	VOLUME	YEAR	VOLUME	YEAR	VOLUME
2001	76.44	2006	93.05	2011	84.61	2016	77.10
2002	76.51	2007	94.20	2012	84.61	2017	76.51
2003	76.02	2008	93.81	2013	84.61	2018	75.15
2004	75.86	2009	89.20	2014	78.18	2019	74.11
2005	87.56	2010	86.44	2015	77.78	2020	73.27

For woodlots and community forest agreements, actual AAC data are used for 2001 to 2008.
The 2005 level of AAC is projected to 2008-2020

Area planted by forest region in hectares, 2008-2009

LAND TYPE	COAST	NORTHERN INTERIOR	SOUTHERN INTERIOR	TOTAL
Crown Land	15,713	70,627	93,457	179,797
Private Land	11	0	0	11
Total	**15,725**	**70,627**	**93,457**	**179,808**

Seedlings panted by forest region in thousands, 2008-2009

LAND TYPE	COAST	NORTHERN INTERIOR	SOUTHERN INTERIOR	TOTAL
Crown Land	15,113	95,734	117,807	228,669
Private Land	15	0	0	15
Total	**15,128**	**95,734**	**117,807**	**228,669**

Forest sector gross domestic product in millions of chained 2002 dollars

INDUSTRY	2003	2004	2005	2006	2007	2008	2009
Forestry and Logging	2,761.2	3,129.4	3,101.6	3,036.9	2,778.1	2,275.4	1,847.7
Wood Product Manufacturing	4,074.2	4,574.0	5,029.8	5,060.9	4,651.2	3,732.6	3,046.3
Pulp, paper and paperboard mills	1,333.8	1,411.3	1,527.3	1,516.7	1,483.2	1,304.6	1,076.9
Converted paper product mfg.	128.7	138.3	143.5	131.3	121.5	109.5	109.5
Total BC GDP	130,025.6	135,020.9	141,338.8	147,120.2	151,161.8	151,531.6	148,101.2

Forest sector gross domestic product as a percent of total GDP

INDUSTRY	2003	2004	2005	2006	2007	2008	2009
Forestry and Logging	2.1%	2.3%	2.2%	2.1%	1.8%	1.5%	1.2%
Wood Product Manufacturing	3.1%	3.4%	3.6%	3.4%	3.1%	2.5%	2.1%
Pulp, paper and paperboard mills	1.0%	1.0%	1.1%	1.0%	1.0%	0.9%	0.7%
Converted paper product mfg.	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Sub-total	6.4%	6.9%	6.9%	6.6%	6.0%	4.9%	4.1%

Natural resource direct revenue from forests (i.e. revenue to government)

2009/10 Estimate: $345 million
2010/11 Forecast: $491 million

Value of manufacturing shipments in millions of current dollars

INDUSTRY	2005	2006	2007	2008	2009
Sawmills and Wood Preservation	8,185.1	7,272.8	5,046.5	4,222.7	2,726.7
Sawmills (except shingle and shake mills)	7,399.1	6,597.8	4,427.1	3,663.6	2,328.6
Veneer, plywood and engineered wood	2,099.3	1,850.1	1,587.6	1,274.6	923
Other wood products	1,435.7	1,578.3	1,436.5	1,290.4	999.9
Pulp & Paper Products	5,607.0	5,556.1	5,842.9	5,401.1	4,423.9
Pulp	2,719.1	2,746.2	3,153.0	2,773.8	2,145.9
Paper, Newsprint and Paperboard	1,969.4	1,922.2	1,886.3	1,889.3	1,563.1
Converted Paper Products	459.2	443.8	401.8	369.0	357.4

Softwood lumber production by species in thousands of cubic metres, 2009

SPECIES	BC TOTAL	COAST	INTERIOR TOTAL	NORTHERN INTERIOR	CENTRAL INTERIOR	SOUTHERN INTERIOR
Douglas Fir and Western Larch	645.3	317.2	328.1	0.0	45.3	282.8
Western Red Cedar	983.4	X	X	0.0	0.0	X
Yellow Cedar	120.6	120.6	0.0	0.0	0.0	0.0
Western Hemlock and Amabilis Fir	1,193.2	986.8	206.4	0.0	0.0	206.4
Sitka Spruce	X	X	0.0	0.0	0.0	0.0
Spruce, Pine and Fir	19,997.6	135.5	19,862.1	10,475.3	4,241.6	5,145.1
Other softwoods	X	X	X	0.0	0.0	X
Total softwoods	22,974.7	2,421.5	20,553.2	10,475.3	4,286.9	5,791.0

X – Suppressed to meet confidentiality requirements

Pulp and paper production in thousands of tonnes

INDUSTRY	2005	2006	2007	2008	2009
Pulp	4,927	4,742	4,730	4,115	3,547
Newsprint	1,067	1,055	933	600	419
Other paper and paperboard	1,890	1,952	1,828	1,919	1,661

Forest sector exports in millions of current dollars

COMMODITY	2005	2006	2007	2008	2009
Wood Products	9,485.1	8,776.2	7,163.9	5,408.1	4,126.2
Pulp and Paper Products	4,649.0	4,783.8	5,117.8	4,699.1	3,475.5
Total BC Exports	34,167.3	33,466.0	31,512.0	33,154.5	25,190.7

Forest sector business location counts by employee class, 2009

INDUSTRY	INDETERMINATE*	1-49 EMPLOYEES	50+ EMPLOYEES	TOTAL
Logging and Silviculture	3,026	2,662	88	5,776
Wood Manufacturing	527	808	154	1,489
Pulp and Paper Manufacturing	23	46	34	103

** Indeterminate includes self-employed with no paid help, as well as those businesses that do not have an employee payroll, but may have a workforce that consists of contracted workers, family members or business owners*

British Columbia forest sector employment, 2006 Census

INDUSTRY	DIRECT	INDIRECT	INDUCED	TOTAL
Logging	30,095	7,884	12,886	50,865
Pulp and Paper	14,815	9,461	10,188	34,464
Other Wood Mfg.	50,516	15,559	21,867	87,942
Total Forest	95,426	32,904	44,941	173,271
Total BC (All Industries)	1,343,274	227,086	675,245	2,245,605
Percent of Provincial Employment				
Logging	2.2%	3.5%	1.9%	2.3%
Pulp and Paper	1.1%	4.2%	1.5%	1.5%
Other Wood Mfg.	3.8%	6.9%	3.2%	3.9%
Total Forest	7.1%	14.5%	6.7%	7.7%

Employment in the forest sector (Labour Force Survey)

INDUSTRY	2005	2006	2007	2008	2009
Forestry and Logging	21,600	21,700	24,300	17,400	13,900
Paper Manufacturing	12,300	15,100	15,200	13,200	10,900
Wood Product Manufacturing	45,800	44,800	44,700	34,300	27,200

Wages and salaries in the forest sector in millions of current dollars (SEPH)

INDUSTRY	2005	2006	2007	2008	2009
Forestry and Logging	1,036.5	988.2	992.8	879.5	627.8
Paper Manufacturing	751.0	731.4	712.3	648.0	529.7
Wood Product Manufacturing	1,742.5	1,563.7	1,610.2	1,514.5	1,165.1
**Survey of Employment, payrolls and hours (SEPH) is an employer survey, so self-employed are excluded from these numbers*					

Capital expenditures in the forest sector in millions of current dollars

EXPENDITURE TYPE	INDUSTRY	2006	2007	2008	2009	2010*
Total Capital expenditures	Forestry and logging	133.9	109.8	103.2	62.1	45.7
	Wood product mfg.	576.4	289.9	324.2	225.8	239.9
	Paper manufacturing	319.4	251.3	232.5	87.0	174.4
Construction	Forestry and logging	49.9	44.7	27.4	9.0	13.7
	Wood product mfg.	93.1	24.9	22.0	12.6	13.4
	Paper manufacturing	27.8	6.6	10.2	0.6	1.3
Machinery and equipment	Forestry and logging	84.0	65.1	75.8	53.2	31.9
	Wood product mfg.	483.3	264.9	302.3	213.2	226.5
	Paper manufacturing	291.6	244.7	222.3	86.4	173.1
**Intentions*						

Data Sources

Harvest volumes, timber supply forecasts, area planted and seeded, area affected by pests: Ministry of Forests and Range

Number of fires and area burned: Wildfire Management Branch, BC Forest Service

Gross domestic product, shipments, production, business locations, employment, wages and salaries, capital expenditures: Statistics Canada

Government revenue: Ministry of Finance, Budget Estimates

Direct, indirect and induced jobs, exports: BC Stats using data provided by Statistics Canada

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