



5th Session, 37th Parliament

REPORT OF PROCEEDINGS
(HANSARD)

SELECT STANDING COMMITTEE ON
CROWN CORPORATIONS

Victoria

Monday, July 12, 2004

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KEN STEWART, MLA, CHAIR

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SELECT STANDING COMMITTEE ON
CROWN CORPORATIONS

Victoria
Monday, July 12, 2004

- Chair:* * Ken Stewart (Maple Ridge-Pitt Meadows L)
- Deputy Chair:* * Harry Bloy (Burquitlam L)
- Members:*
- * Daniel Jarvis (North Vancouver-Seymour L)
 - * Harold Long (Powell River-Sunshine Coast L)
 - Dennis MacKay (Bulkley Valley-Stikine L)
 - * Karn Manhas (Port Coquitlam-Burke Mountain L)
 - * Ted Nebbeling (West Vancouver-Garibaldi L)
 - Barry Penner (Chilliwack-Kent L)
 - Rod Visser (North Island L)
 - * John Wilson (Cariboo North L)
 - * Patrick Wong (Vancouver-Kensington L)
 - * Joy MacPhail (Vancouver-Hastings NDP)
 - * Paul Nettleton (Prince George-Omineca Ind L)

** denotes member present*

Clerks: Craig James
Kate Ryan-Lloyd

Committee Staff: Mike Beninger (Committee Researcher)
Jonathan Fershau (Committee Researcher)

Witnesses: Karen Brandt (Forestry Innovation Investment Ltd.)
Christine Kennedy (President, Forestry Innovation Investment Ltd.)
Doug Konkin (Chair, Forestry Innovation Investment Ltd.; Deputy
Minister of Forests)
Michael Loseth (Forestry Innovation Investment Ltd.)
Alex Mackie (Forestry Innovation Investment Ltd.)

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MINUTES

SELECT STANDING COMMITTEE ON CROWN CORPORATIONS



Monday, July 12, 2004
11:30 a.m.
Douglas Fir Committee Room
Parliament Buildings, Victoria

Present: Ken Stewart, MLA, (Chair); Harry Bloy, MLA (Deputy Chair); Daniel Jarvis, MLA; Harold Long, MLA; Joy MacPhail, MLA; Karn Manhas, MLA; Ted Nebbeling, MLA; Paul Nettleton, MLA; Patrick Wong, MLA; Dr. John Wilson, MLA

Unavoidably Absent: Dennis MacKay, MLA; Rod Visser, MLA; Barry Penner, MLA

1. Pursuant to its terms of reference the Committee reviewed Forestry Innovation Investment Ltd.
Witnesses
 - Christine Kennedy, CEO and President
 - Doug Konkin, Chair
 - Alex Mackie, Finance
 - Michael Loseth, VP International Marketing
 - Karen Bandt, VP Market Communications
2. The Committee met in camera to consider its review of Forestry Innovation Investment Ltd.
3. The Committee met in public session.
4. The Committee agreed to meet again in September with Land and Water BC.
5. The Committee adjourned at 1:43 p.m. to the call of the Chair.

Ken Stewart, MLA
Chair

Craig James
Clerk Assistant and
Clerk of Committees

MONDAY, JULY 12, 2004

The committee met at 11:34 a.m.

[K. Stewart in the chair.]

K. Stewart (Chair): I'd like to welcome you here this morning. My name is Ken Stewart, and I'm the Chair of the Select Standing Committee on Crown Corporations.

Today we have in front of us Forestry Innovation Investment Ltd. Just a little bit of the ground rules — how we operate here. We'll start off with your presentation, and we have up to an hour. There's no requirement that you take the full hour, but you have up to an hour. After that, there will be a series of questions from the panel members. Then, at that time, that will conclude your involvement for today.

[1135]

We will have a committee report out, we suspect, by the session in the fall. We report out to the House, and that won't be until it sits. Probably early October we'll be having the report out.

Just by way of information, what we're looking for here — generally, as this is the first meeting we've had with you — is basically: what is it you do? Why do you do it? How do you know what you're doing? And what do you have to prove that what you say you're doing is what you're actually doing? If that makes any sense, that's what we more or less do here.

You'll notice in the back of the room there's a light that says: "On air, recording." This is recorded by Hansard, and within a few days this will be out on the Hansard website. You'll be able to go back and see what you said and what you wish you'd said and what you didn't say. As a result of that, you will have an opportunity, if there's anything you'd like to clarify with us, to send it in written submissions through the Clerk's office. Jonathan, who you'll meet in a moment, will be taking that. Those, basically, are the ground rules.

What we'd like to start with is a round table of introductions. Then, when we've concluded that, we'll just get right into your presentation that you've prepared for us. I'll start on my left, with Kate.

K. Ryan-Lloyd: My name is Kate Ryan-Lloyd. I'm serving as a Clerk to the committee this morning.

J. Fershau: Jonathan Fershau, committee research analyst.

J. MacPhail: Joy MacPhail, Vancouver-Hastings MLA.

H. Long: Harold Long, Powell River-Sunshine Coast MLA.

T. Nebbeling: Ted Nebbeling, West Vancouver-Garibaldi.

D. Jarvis: Daniel Jarvis from North Vancouver.

P. Wong: Patrick Wong, MLA for Vancouver-Kensington.

M. Loseth: I'm Michael Loseth, the vice-president of international marketing for Forestry Innovation Investment.

C. Kennedy: I'm Christine Kennedy. I'm the president of Forestry Innovation Investment.

A. Mackie: I'm Alex Mackie, representing the financial function for Forestry Innovation Investment.

K. Brandt: Karen Brandt, VP, market communications, for Forestry Innovation Investment.

J. Wilson: John Wilson, MLA for Cariboo North.

P. Nettleton: Paul Nettleton, MLA for Prince George-Omineca.

K. Manhas: Karn Manhas, MLA, Port Coquitlam-Burke Mountain.

H. Bloy (Deputy Chair): Harry Bloy, MLA for Burquitlam.

K. Stewart (Chair): My name is.... You can call me Ken now. What we do from here on in.... We have a rather informal system with our names. We go by first names. If anyone has an issue with that, let us know. That's the way we do it around here.

With that, Christine, if you'd like to start.

Review of Crown Corporations: Forestry Innovation Investment Ltd.

C. Kennedy: Thank you all very much for making time to hear our presentation today. I think you know that we are a relatively new Crown corporation. We've been in existence as a Crown for just over a year now, so this is our first appearance before the committee.

I don't know if you stop us to ask questions during the presentation or if you do that just at the end, but however you prefer to do that, we're happy either way.

K. Stewart (Chair): Generally speaking, what we do is if there's a question of process or a clarification, usually we'll ask you. A member may interject, but generally speaking, we hold all the questions until the presentation is over. The members will make note of the slide that they want to refer back to and ask you questions at the end. We go in round-table process for that.

C. Kennedy: Okay, great. Thank you.

Forestry Innovation Investment Ltd.'s international marketing activities deliver government's new-era commitment to apply 1 percent of direct forest revenues, not including superstumpage, to global marketing of B.C.'s forest practices and forest products.

We invest in public-private activities that promote general benefits to the forest sector throughout British

Columbia, and we work in partnership with the B.C. forest industry — both primary and secondary manufacturing — to make sure that international markets know that our forest products are of the highest quality and come from some of the world's best-managed forests.

This approach works well, because FII is not selling a specific forest product or a policy. We leave that to our sector partners in industry. What we can do is give forest product customers in existing and potential new markets the straight goods about B.C.'s forest products and forest practices.

FII was incorporated on March 31, 2003. The province of B.C., as represented by the Minister of Forests, is our sole shareholder. We deliver activities in four core business areas: international marketing, product development, market communications and a research program. The research program was transferred to a new administrator at the start of this fiscal year and is now administered through PricewaterhouseCoopers in cooperation with the Ministry of Forests.

[1140]

Forestry anchors B.C.'s economy. It supports one out of every five jobs and is the principal source of income for 25 of the 63 local areas outside the lower mainland. I know that many of you here are very well aware of that.

Forest product exports in 2002 totalled \$14.4 billion, representing half the total value of all B.C. goods exported by B.C. industries. We export more forest products than any country on earth — more than the rest of Canada, more than the United States, more than Russia and more than any of the other countries that we compete with.

Ninety-five percent of B.C.'s wood product exports are destined for the United States or Japan. As you can see on the slide, 79 percent goes to the United States, 16 percent goes to Japan, and 5 percent goes to other markets in Asia and Europe.

We face a number of key market challenges, because world markets for forest products are changing, and British Columbia's role in that marketplace is changing as well. Our challenges include market access, particularly in new market areas; environmental issues; competition from traditional suppliers and new suppliers and from substitute products, such as steel and plastics; and meeting the needs of emerging markets, particularly markets like China and Korea.

Market access presents a number of different challenges. Some emerging markets, such as China and Korea, have vast potential for wood-frame construction, but the use of wood in housing or in construction is still not at all common. As a result, these jurisdictions generally lack the building codes and building standards that are necessary to assure regulators and consumers that wood buildings are a safe construction choice. There is also a lack of skilled tradespeople in emerging market areas and the technical information that's necessary to support a wood-frame building trade.

B.C. and our forest industry must stay current with global trends, particularly changes and trends in manu-

facturing activity. Where B.C. once sold a fairly significant portion of wood products for remanufacture in countries such as Korea, Japan, Taiwan and the United States, this has now begun shifting into lower-cost labour markets like China, which now represents the largest furniture manufacturer in the world. We expect that these trends will continue, and we are watching the emergence of new manufacturing areas of the world. We're also attentive to the market access issues that B.C. companies will need to overcome to compete in these markets.

There are access issues in established markets as well. Just last April the European Union introduced a new plywood marking standard that could have closed the market entirely to B.C. producers if we hadn't been able to work closely with the Canadian Plywood Association, or CanPly, to address those new requirements. Then there are all the issues that all of us are very familiar with these days: U.S. protectionism, political and economic uncertainty in other countries, currency rate fluctuations, and the application of measures to protect against insects and other problems that are not well understood in new markets. Mountain pine beetles, for example, can sometimes... Other countries can be worried about whether or not they're going to import a mountain pine beetle problem when they import our wood that has been affected by mountain pine beetle.

B.C. forest companies are also often smaller than U.S. or European forest multinationals, which can have a fairly significant impact on their ability to compete internationally.

As well as economic challenges, B.C. continues to be a lightning rod for environmental campaigns. Last fall during the Premier's trade mission to China, an advertisement was placed in the daily *China Post* condemning B.C. forest practices. Soon after that, Japanese customers were contacted directly and urged to boycott B.C. forest products as well.

Green building standards, like the Leadership in Energy and Environmental Design standard, are becoming more popular. LEED, or the Leadership in Energy and Environmental Design, is a green building standard that favours the use of steel and concrete over wood and offers credits for Forest Stewardship Council-certified wood and rapidly renewable products. That isn't to say that British Columbia wood products can't be used in LEED-rated structures, because they can be and they are used, but B.C. wood products don't receive the same credit as other products within that rating system.

[1145]

There is no credit given for the certification systems that are most common here — the Canadian Standards Association and the Sustainable Forestry Initiative, which both offer the same assurance of good forest practices. The LEED standard continues to grow in Canada, particularly among local governments. In fact, last week the Vancouver city council approved LEED for civic buildings.

Many organizations are unaware that there are other green building standards that include a variety of

certification systems, including those that are most common here in British Columbia. Even though B.C. does an excellent and a world-class job of managing its forests, given its proximity to the United States and their very well financed foundations and environmental groups, B.C. and Canada can expect to be at the forefront of ongoing environmental campaigns.

Our province, as you all well know, is one of the most beautiful places on the planet. Although we have 60 million hectares of forest land and harvest only one-third of 1 percent per year, the province's natural beauty and our position as the world's leading exporter of lumber products make us a key target for environmental campaigns. As a result, we need to be proactive, need to be ready and need to show the world and our customers that British Columbia is a leader in sustainable forest management.

Competition is also a significant challenge. Traditional competitors like the Scandinavian countries are identifying what customers want and are delivering products to meet those needs, such as engineered wood products and hybrid construction. New competitors like Russia and the Baltic States are investing in modern mills, in new milling equipment, in kilns and in other equipment. They're driving down prices, because their log costs, their labour costs and their forest management standards are much lower.

At the same time, global harvest levels are increasing — something that's of particular interest to British Columbia — as our own harvest increases in the interior in regions affected by the mountain pine beetle. For example, Australia expects to double its harvest of wood from plantations by 2020. Similar trends can be expected from plantations in New Zealand, Brazil, Chile and in the southern United States, where trees just simply grow at a much faster rotation rate than they do here in British Columbia.

We've got competition to face from substitute products as well, which are fighting for more of our market share. Just last month, for example, we received a U.S. report showing how wood is losing market share to concrete and steel framing in the United States. These substitute building products often use anti-wood messaging in their promotions. There's a slogan on one website for concrete products that says: "Building concrete homes helps save our precious forests."

This slide, prepared by wood markets researcher Russ Taylor, shows the potential harvest in Russia right now and compares it to the actual harvest. As you can see, it's estimated that the allowable cut in Russia — the top line on the chart — is five times higher than the actual cut, depicted by the bar graph under it, and this is some of the highest-quality fine-grain timber in the world. It's going to take time for Russia to develop the infrastructure and the capacity to harvest to its full potential, but Russian competition is already impacting B.C. in key markets like Japan and Europe.

Emerging markets are a challenge and an opportunity for us, but only if we move quickly. China is a perfect example. There are ten million housing starts a year in China, and right now only about 500 of those

houses are built with wood. While British Columbia's sales to China have doubled, we need to keep pace with our competitors. Germany exports twice as much wood to China as we do and has half our allowable annual cut. The last slide showed the potential increase in the Russian harvest. China has easy access to all that high-quality wood and has relatively low labour costs, so it can import raw logs and export finished products.

This next slide is a recent photo that shows trainloads of raw logs heading from Russia into China. From eastern Siberia alone, raw log exports into China have grown from 700,000 cubic metres in 1997 to an estimated 15 million cubic metres this year. These figures represent only raw logs going into China, not including sawn lumber. That 15 million cubic metres is roughly equivalent to the size of the cut on British Columbia's coast.

[1150]

Russia is also a major exporter of logs and lumber into Japan, Europe and the Middle East — all of which are British Columbia markets — with its volumes and its products increasing every year. With more than 20 percent of the world's standing forests and among the world's highest-quality but lowest-cost wood fibre, Russia is going to continue to play an important and growing role in the global forest industry.

FII and the B.C. forest industry recognize this, and we've been active in doing market intelligence to better understand the Russian forest industry. In fact, Michael Loseth, our VP of international marketing, has just come back from eastern Siberia, where he was able to see firsthand the competitive pressures that Russia will bring to bear on the global forest industry.

Russia is only one of a number of competitive challenges that British Columbia's forest industry faces, and that's why we develop a strategic framework for our planning and investment decisions. First, every year we prepare an annual service plan which identifies the strategic goals and objectives for our organization and how we plan to pursue and achieve all of those objectives. Next, we invest in market intelligence and market research, both through working with industry associations and directly through market research studies. We share this research with our industry partners and government partners as well as the associations with whom we work, and we use that research as a basis for strategic decision-making.

Based on that overall assessment of the global forest marketplace, we prepare an annual investment strategy that identifies our priority markets, our key objectives within those markets and guiding principles for our industry cost-shared funding activities. The investment strategy then provides the framework through which the industry associations apply to FII for cost-shared project work and forms the basis on which we establish the criteria to evaluate their funding proposals.

Given the complexity of each priority forest market, we also work jointly with industry and federal government partners to develop individual market strategies for each of our priority market areas. These strate-

gies focus the efforts of the B.C. industry and provide a strategic framework from which to establish priorities for our own funding activities and to measure the impact and success of British Columbia's market development or market expansion activities.

So far I've spoken about the market challenges facing B.C.'s forest sector. Now I'd like to talk more about what we're doing to address these challenges and how we're working with our industry partners to respond.

Our first goal is to contribute to the development of a robust, globally competitive forest industry. Who and where our key competitors are has changed in recent times. We're seeing new and emerging customers for wood products outside of traditional markets. The importance of engineered wood products and newly developed wood products is playing a key role in international markets. We believe that British Columbia needs to be proactive and aggressively position its wood products to remain successful in the global forest industry.

We're tackling our increased competition head-on. Working closely with organizations like Forintek and the University College of the Cariboo, we support technology transfer that offers B.C. wood product manufacturers access to information and expertise that allows them to increase productivity, reduce production costs and diversify product lines.

We work with industry partners and associations such as the Coast Forest and Lumber Association, Canadian Plywood Association, Western Red Cedar Lumber Association, SPF Group, the Council of Forest Industries, the B.C. Wood Specialties Group and a number of others. Our investments are helping to maintain and increase B.C.'s market share in existing markets such as the United States and Japan. At the same time, we work with those associations to jointly and aggressively pursue opportunities in new and emerging markets such as China and Korea.

Although FII is barely two years old and international market changes take time, we are already seeing some positive results. The Council of Forest Industries and Forintek have helped us to successfully support the implementation of building codes that accept B.C. wood in China, South Korea and Taiwan. In Japan there have been changes in building codes that allow greater use of wood and significant expansion of fire codes to allow wood construction in multistorey and institutional structures.

[1155]

We're raising awareness and understanding about the quality of B.C. wood as the best construction choice in any climate. We've created marketing materials in partnership with industry, including a website — bforestproducts.com — directories, brochures and DVDs, all of which are available in a number of languages. I know you've all received those in the binders that many of you have on the desks. These products allow embassy staff and companies operating in international markets to offer accurate, up-to-date information to promote B.C. forest products, and it allows our customers to have information readily available in their own languages.

We also support extensive wood promotion programs such as the highly successful Wood is Good program, delivered through the Wood Promotion Network. As another example, our investment helped Canply to ensure that B.C. plywood mills could conform to the new European Union marketing requirements, protecting a market that is worth \$2.5 million a year.

We're particularly pleased with one of our newest initiatives, the B.C. world leader forest products pavilion. This is a new and innovative strategy that offers a coordinated approach to strengthen B.C.'s trade show presence in the U.S. and in Asia. Between FII, the industry and federal partners, approximately \$2 million has been spent on international trade show activities per year. While \$2 million may sound like a lot, compared to what some industries spend promoting their products, this is a very modest sum. Many trade show booths are worth in excess of \$2 million and are used within a single market only.

However, FII found through its first year of monitoring and contract-managing activities that there was significant room for improvement in B.C.'s trade show representation. So in partnership with the industry, we developed a new world leader in forest products trade show pavilion that showcases B.C. wood products in their end-use applications. The booth is shown up on the screen now and shows visitors how B.C. wood products can be used in residential construction, from decks to kitchen cabinets to interior walls.

The coordinated approach increases B.C.'s profile and reduces overall costs. The industry partners that we work with join us in this booth and have booths that are directly represented within our pavilion. The pavilion made its first appearance last week at the China International Building and Decoration Fair in Guangzhou and was selected as the best in show among 2,000 exhibitors from over 20 countries. While that award is a great honour, what's most important to us is the fact that industry responded so enthusiastically and that we had eight industry booths as part of the exhibit in China.

Further, by having industry and all of our associations working together, all of the participants have been able to achieve greater cost savings and efficiencies by coordinating their efforts, which contributes to better pre-show planning, better promotional activities and effective post-show follow-up. Even with this new and substantially improved trade show strategy — and now an award-winning trade show strategy — FII anticipates spending about the same as it contributed to the associations for trade show programming in the past, with the funds achieving much better impacts and results.

In April 2003 Premier Campbell launched the Dream Home China project, a \$12 million multi-year demonstration project in Shanghai that will help to position the B.C. industry in China. China represents the fastest-growing market for wood products in the world, with significant potential for wood producers. Dream Home China includes a demonstration centre to showcase B.C.

wood products and various other wood-frame structures, including single-family homes, townhomes, apartment buildings and external uses of wood.

The Dream Home China project will raise the demand for wood in the Chinese marketplace, support technology transfer and training, and demonstrate the versatility and benefits of wood construction. As I mentioned earlier, it's important to move quickly in China. Premier Campbell announced the Dream Home China project in April 2003. He attended a groundbreaking ceremony for the demonstration centre barely six months later, and the grand opening is planned for fall or winter of this year.

[1200]

In order to do business in China, including being able to enter into agreements and contracts and pay bills, FII needed to establish a legal entity in the People's Republic of China. Our wholly foreign-owned enterprise, FII Consulting (Shanghai) Co., was approved in February 2003. FII (Shanghai) exists solely as a vehicle for the delivery of FII service plan and mandate in China and has no operating independence. It reports through the same governance structure as FII Ltd.

This is a picture of what the Dream Home China demonstration centre is going to look like when it's completed in Shanghai this fall. Only B.C. wood is being used to build the structure. We're shipping in products from across British Columbia, including SPF dimension lumber from the interior and the north; plywood from the interior; cedar, hemlock and Douglas fir from the coast; and engineered wood manufactured in Vancouver and in the Okanagan.

While the first phase of the Dream Home China project is the centrepiece of our work in China, we're also working with the Shanghai municipal government to build multistorey, multifamily hybrid residences. Our work with the municipal government includes changes to local wood-frame building codes for structures. When the Premier was in China last fall, he witnessed an agreement between FII and the Chinese Academy of Forestry to pursue opportunities for wood damaged by last summer's wildfires and the mountain pine beetle. We can increase our access to international markets through these kinds of research partnerships.

FII's goal, too, is to enhance B.C.'s reputation as a leader in sustainable forest management. We know that international buyers care about price, quality and supply management when choosing a product supplier. We also know that they'll find a new supplier rather than risk controversy. The B.C. market outreach network was created as a division of FII to tell international customers about B.C. forest products and practices in a neutral and factual way. It has a website — bcforestinformation.com — that draws 6,000 hits a month and attracted 50,000 visitors in its first year alone, most of them from outside Canada. Through the website we're able to respond quickly to issues identified by our partners in industry and in Canadian embassies.

Just last month, before a Japanese television station aired an item on forest practices in the Clayoquot Sound area, we worked with Interfor to prepare a fact

sheet and posted it in English and Japanese. Interfor and other B.C. companies with customers in Japan were able to provide this information to their customers before the television program appeared.

The website is also a good measure of the response to our trade show activities. After the network appeared at the Japan Home Show last fall, Tokyo was among the top five cities, by visits, to the website. Based on the costs to establish and maintain this website and the number of visitors, we estimate that it currently costs about \$2.50 for each international customer that we reach, and that's a number that goes down each time one of our forest products customers accesses the website. With an industry worth \$14.4 billion per year to B.C., \$2.50 to provide neutral, factual and sales-supporting information to international customers is something we consider very worthwhile — information that B.C.'s customers want, that they appreciate and that they routinely follow up on.

In order to communicate B.C.'s world-class forest management practices, B.C. market outreach network focuses on activities targeted directly at environmentally engaged customers in key markets such as the United States, Japan and Europe, where controversy about sustainable forest management can make the difference in which supply jurisdiction buyers choose to purchase from. It also provides a secondary focus on providing sustainable forest management information to new customers in new markets, where environmental campaigns have not yet garnered much attention but where they will.

The network has an innovative trade show booth that gathers a lot of attention at every show it appears. Since it went into action last June, it's been to nine major international shows, and network representatives have had contact with more than 10,000 visitors. The network has distributed 10,000 DVDs and 70,000 fact sheets on a range of topics and in a range of languages that raise awareness about forest practices and forests in British Columbia, many of those activities through trade shows. All of this information is also posted on the website.

Through exit polls conducted at some of these trade shows we've learned that visitors find the information that we're presenting relevant, credible and useful. We often conduct seminars at trade shows as well as arrange tours for international customers that want to come to British Columbia for a firsthand look at how forests are managed.

[1205]

Last year while the network staff were preparing for the Pacific Coast Builders Conference trade show in California, they learned about a procurement bill that could have reduced the market for B.C. wood in the state. They intervened, and the bill was withdrawn. The same thing happened this year. Our VP, market communications, Karen Brandt, and staff were preparing for the Pacific Coast Builders Conference again when we learned that a California state Senate committee was about to pass a bill with unfair and inaccurate information in it about B.C. forest practices. We

worked with the Canadian consulate and the Forest Products Association of Canada to intervene, and the wording was removed. California is a \$950 million market for B.C. wood products.

Our third goal in 2003-04 was to increase the value of the timber and the forest land asset and to contribute to sector competitiveness by supporting innovative, focused and results-oriented research that is used by regulators and forest practitioners. The research program has since become part of the new forest science program, and PricewaterhouseCoopers was selected through a competitive process to take on its administration. In '03-04, FII invested \$9.7 million in 93 applied research projects.

Our fourth goal is at the heart of absolutely everything we do: coordinate and strengthen partner and stakeholder participation in FII initiatives. We achieve a lot more working in partnership with the forest sector and with other levels of government.

Our \$8.2 million investment in international marketing and product development activities in '03-04 supported projects worth more than \$18 million when industry and federal contributions were included. Our research funding of \$9.7 million led to projects valued at more than \$16 million. The B.C. market outreach network also works closely with industry and other partners, leveraging the participation and funding of affiliated organizations to manage issues and to develop and distribute materials. This slide just shows a few of the organizations that we partner closely with, including many of the forest industry associations in British Columbia, national forestry associations, forest companies and forest product research groups.

Our final goal is effective governance and to ensure continuous improvement through effective administration, streamlined operations and sound governance. FII implemented a performance-based management and budgeting framework. Throughout the year we met all of the government reporting deadlines, including quarterly reports and monthly financial reports. We submitted our service plan within the time frames required in the Budget Transparency and Accountability Act. We've implemented a comprehensive recipient auditing program and completed corporate risk assessments covering all aspects of the company's operations.

The company is governed by a board of directors, which includes the Deputy Ministers of Forests, Small Business and Economic Development, and Finance. We also have an industry advisory committee, which includes marketing and sales vice-presidents of major primary manufacturers, secondary manufacturers, and also representatives of the Ministries of Forests and of Sustainable Resource Management.

Finally, we have a Market Outreach Council specific to the B.C. market outreach network, which was implemented during the development of the B.C. MON program in 2002-03. This council includes forest company CEOs and three mayors as well as the Deputy Minister of Forests, who is also FII's board chair.

Our budget for the year ending March 31, 2004, included \$26.5 million in expenditures and \$3.1 million in

capitalized costs. Those capitalized costs include asset acquisition and investment in Dream Home China. Our administration costs were 4.1 percent of budgeted costs, less than the target we had set of 4.5 percent.

We've established a comprehensive internal audit program that covers all parts of the organization, including our China activity. Risk assessments are completed on all key projects and initiatives, and every effort is taken to mitigate key risks. For example, the agreement between the Jin Qiao Group, the developer for the Dream Home China project, and FII for the demonstration centre and the villas that were on the screen earlier involved risks that are common to construction projects and some that are specific to doing business overseas.

[1210]

We undertook the risk assessment during the initial stages of the Dream Home China project and identified the risks that would need to be addressed in order for the project to proceed successfully and with as little risk as possible to the province. Risks that were identified and addressed included structural risks such as FII's legal ability to operate in China, which was addressed through the creation of the wholly foreign-owned enterprise that I mentioned earlier. We addressed typical construction project risk such as construction delays and cost overruns through the agreement that we structured between ourselves and the Jin Qiao Group in Shanghai. That agreement established a fixed budget for the project under which Jin Qiao, the developer, carries the risk for any increases in project costs other than costs related to the material, which have been sourced and shipped from British Columbia.

Other risk areas in construction projects include materials, availability, labour issues, permitting and approvals, completion to specifications, insurance, force majeure and other risks. All of those were also addressed through the Dream Home agreement. We conduct similar levels of risk assessment on all of our other key project areas.

We've also developed a comprehensive monitoring and audit program for all of our association-funded activities. This includes regular recipient reporting, ongoing monitoring and assessments by our program staff, and annual third-party audits. We retain the services of the office of the auditor general as our external auditors, as you may have noted from the financial statements in our annual report.

In conclusion, the FII program contributed to the development of a robust, globally competitive forest industry. We believe that we've enhanced British Columbia's reputation as a leader in sustainable forest management. We've contributed to forest sector competitiveness by supporting innovative and results-oriented research. We've coordinated and strengthened partner and stakeholder participation in the forest marketplace, and we've implemented effective governance and achieved value for money in public investments.

That's the end of my presentation. Thank you very much, and we look forward to answering your questions.

K. Stewart (Chair): Traditionally, what we do here is go around, and everyone asks a question and possibly one supplementary, if it's not a secondary question. Then we continue on until we have either exhausted our questions or run out of time. As I'll mention, if there are any questions that panel members have that they don't get to today, they will send them to you in writing from the Clerk's department, and you'll have a couple of weeks to respond to them. We're not on a huge deadline here with regards to this report being completed — until the next session. So you have a few weeks to respond to those questions and, again, as I mentioned, any other thing you wanted to add to it that you thought you may have missed today.

I think it's appropriate today that we start on our left with Joy. Do you have a question you'd like to start with?

J. MacPhail: Sorry. Do we rotate, or do I ask all my questions?

K. Stewart (Chair): No, just one at a time. We'll continue all the way around, and we'll just keep going until.... So everyone has an equal opportunity to ask a question. We try to balance it out that way.

J. MacPhail: Okay. What is the relationship between the forest investment account governance model and yours?

C. Kennedy: The forest investment account is the funding vehicle for the Forestry Innovation Investment program. We participate and we provide reporting to the forest investment council, which is the governance body for the forest investment account. Both the forest investment account and the programs that report through it or are funded by it report through the Deputy Minister of Forests who is, in our case, also our board chair.

J. MacPhail: Mr. Konkin, do you sit on the forest investment council?

D. Konkin: Yes, I do.

J. MacPhail: As a voting member?

D. Konkin: Pardon me?

J. MacPhail: I'm just trying to figure out what the relationship is between the two in terms of reporting.

D. Konkin: FIA is the voted money that we get. Included in it is a bunch of envelopes, including the land base accounts, which the companies use for land-based activities. FII is another segment of that. Research is included. So there are a number of envelopes in the larger FIA budget. That flows all through the ministry to FII where, again, I am the chair of the board.

J. MacPhail: But in terms of voting, do any of these boards vote on anything? There are resolutions that

have been presented, in some of our packages here. I'm trying to figure out who raises their hand to determine the future of a certain issue, etc. Do you? Do you sit as a director?

[1215]

D. Konkin: Yes. Presently there are the three directors, which are the three deputies: myself, the Deputy of Finance and Andrew.

J. MacPhail: You have board meetings where you vote on matters, etc., or pass resolutions.

D. Konkin: Yes.

J. MacPhail: And those are all matters of public record.

D. Konkin: Yes.

J. MacPhail: My last question in this area — I have many questions throughout, Mr. Chair — is: the decision to move research, which is about half or 40 percent of the budget of FII, for '03-04, to Pricewaterhouse-Coopers was whose decision, and how was that decision taken?

D. Konkin: That was before my time; I don't know. Christine, can you offer who...?

C. Kennedy: It was a combined decision between the Ministry of Forests and ourselves. There was always a balance between the way the forest investment account broke out its land base and its marketing programs. Research was one that is of value and that has linkages to both sides. The research activities that are performed through forest investment account funding can be and often are linked to funded land base investments also funded through the forest investment account, but the research that's done can often have a significant communications or marketing impact in what we're able to tell customers overseas.

When the forest investment account was first created, the decision about where to place research was done, really, on a trial basis — to establish whether its fit was best with international marketing or if its fit was best closer linked to the land-based program.

J. MacPhail: Yes. I'm not actually questioning why the decision was made but to whom the money was given. How would I find out...?

C. Kennedy: Through a competitive process. The Ministry of Forests posted a competitive request for proposal, and Pricewaterhouse was selected as the administrator of the forest science program through that process.

J. MacPhail: Mr. Chair, I don't know whether this committee asks for information or not subsequent, but I

would appreciate the details of that competitive process and the results, if I may, please.

K. Stewart (Chair): By way of process, what we generally do is, again, first go around with the questions we have. If there is any additional information that anyone requests, our expectation is that it will be sent to us. We do everything through the Clerk's department here, just to keep a clear line on it. Any requests that you have at the end, if we don't get the questions out at the end.... We will give a period of time at the end for final questions without answers, if we're running out of time, just to give everyone equal opportunity to get their questions in. There's an expectation of this committee that any questions that someone wants to ask will be answered, if not today, then in writing, and that will be posted too, so everything's open.

J. MacPhail: Okay. That's my first request, then.

K. Stewart (Chair): Okay, then.

T. Nebbeling: I need to get a bigger picture of what you're doing as a Crown corporation and what the target areas are. I have to ask you one question that will come in parts.

First of all, considering the fact that we saw these loaded trains going from Russia to China, obviously we are not looking at raw product like logs. We are looking at reman products. Is there a real sense of a competitive element that we bring to the new markets we pursue — in China, in particular, of course?

The second part is that, you know, you are presenting Dream Home China. Can you tell me: is that done as an example of what the Chinese workers can build with Canadian product, or are we also looking at actually manufacturing here onsite and shipping this type of product straight to the new markets? That is my first question.

C. Kennedy: I'm going to have Michael Loseth, our director of international marketing, provide an answer to that.

M. Loseth: The reality is that British Columbia faces very stiff competition from a number of different suppliers around the world. In Christine's presentation we saw the logs going from Russia into China, but as well, there is a wide variety of competition coming from the southern hemisphere from plantations, and so on and so forth.

[1220]

It isn't all bad news, but British Columbia needs to position the industry, and the companies need to be active. There are things we offer that are very different than some of these other suppliers. While the quality of the pine from Russia may be similar to North American pine, we're able to offer reliable supply. Our quality is consistently at or above what other parts of the world can provide. We have an internationally recognized grade-stamping system that recognizes quality and engineering specifications for construction in residential or commercial construction.

We practise sustainable forest management here in British Columbia, which places like Russia do not. The standards that are in place there are very minimal, and even the standards that are in place are not always being followed. We have certification systems that most companies in British Columbia have in place for their wood, which many other parts of the world do not have in place. So those are just a small number of examples of things that the British Columbia industry has that other jurisdictions do not, which we can use to position our products successfully now and into the future.

With regard to your second question, on Dream Home China, there are a number of reasons why we're pursuing that initiative. The opportunities in China for residential construction are considerable. As Christine mentioned, there are more than ten million housing starts per year.

In the past China did build with wood. If you look to any of the historic cultural structures — the Forbidden City — they're all built with wood. Over the last century, because of supply issues and the closed border in China, they've gotten away from using wood in any kind of construction. So one of the things that we want to do is highlight British Columbia and North American building practices and products to show the Chinese consumers, builders, architects, engineers and developers how it is that we build housing here in North America and how that technology can be used to create cost-effective, high-quality housing in China — profiling not only the products that we produce here in British Columbia but also the different species of wood that we use, whether it be for structural applications or, as you mentioned, for remanufacturing into windows, doors, flooring, cabinetry and mouldings. All of those other wood applications in the Chinese marketplace hold real promise for British Columbia.

T. Nebbeling: I want to do a quick follow-up, because I didn't really get an answer to my question. I got a nice little sales presentation about all the values that you bring....

K. Stewart (Chair): Okay. Maybe you can be a little more concise and direct in your question.

T. Nebbeling: I think my question was clear. Can we be cost-competitive producing products for China, for example — that seems to be the target market at this point — considering that the competition produces for considerably less and certainly does not deal with these standards you mentioned that we adhere to? Are we pursuing a dream that is doable, or are we pursuing a dream that will always remain a dream? At the end of the day I believe it's the cost factors that are going to determine if you're going to be successful or not in a meaningful way.

C. Kennedy: It will be cost factors — absolutely. But it will also be established relationships with customers...

T. Nebbeling: That I accept.

C. Kennedy: ...which is particularly important in Asian markets. British Columbia's exports to China have doubled in the last year.

T. Nebbeling: From 250 to 500.

C. Kennedy: So we're showing progress. We're making progress there.

T. Nebbeling: Please don't take me wrong. I'm not criticizing you. I'm just trying to get a feeling. Are we pursuing something that can happen, or are we always going to be behind the eight ball, because the cost of a product, be it in the form of 2-by-4s or whatever they use there or in the form of a complete home from the remanufacturers...? Are we pursuing something that truly is achievable because of the other factors you have to deal with that link to cost and that we're spending a fair amount of money on? I happily see it spent, but I would like to know that at the end of the day, there's going to be a concrete result that we can point a finger to and say: "That's the difference in our forest industry today."

C. Kennedy: We believe that it is achievable and realistic.

T. Nebbeling: How?

C. Kennedy: As evidence of that, I point to the fact that it has got to be seven or eight of our major forest products manufacturers that currently have very busy sales agents working on the ground in China. It's not just a matter of cost. When we're entering into a high-end application for the best homes and high-quality multifamily residences, we're working with builders that are prepared to pay a premium price for quality.

[1225]

The Chinese government at the national and municipal levels is increasingly concerned about the environment, sustainable forest management and green construction. That's an advantage for us. Certainly we're going to have lots of competition in China. Some of it is going to be lower-quality products, some of it is going to be similar-quality products, and it'll be available at all price points. There are durable opportunities for B.C. in China.

The other thing that happens when you increase the use of wood in that market is that you're also affecting global fibre flows. That wood coming out of Russia is going to go somewhere, and whether it's our wood that's sold in China exclusively or it's a combination of ours and other countries', there's still considerable benefit for British Columbia.

T. Nebbeling: I'll come back the next time.

D. Jarvis: Perhaps a little follow-up to Mr. Nebbeling's questions, because mine are quite similar to those. I worry that the Baltic States.... You know, they're logging their timber for 50 percent, 60 percent

or 70 percent less than what we can — or a couple of hundred percent. I'm not quite sure. I read an article in the paper a little while back where they're about 30 cents compared to our \$30. So with the European environmental groups hammering at us that we're not doing our logging properly and using old growth, etc., how can we possibly compete against someone like that other than maybe going for a little bit of niche market somewhere? I don't see where it can be done in view of the wide difference in the fact of logging costs.

Another thing is that I was told by a gentleman quite high up in a forestry company that the last time he was in Russia.... He said that logging there was ostensibly being done by the Russian mafia and the old warlords or bureaucrats that were still around and that they were logging, like, 100 miles on either side of every negotiable river and shoving all the logs down into China. Knowing the Chinese entrepreneurship, if we go and spend money telling them how to build houses and use our lumber, is it not probable that the Chinese will...? It will come down to costs, and if they're going to go back to wooden houses, why would they not use the lumber that they're taking in from Russia? They can mill it for, I understand, quite a bit less.

C. Kennedy: Absolutely. The wood market in China is huge. If we and all of the other countries that are working aggressively there to convert concrete construction to wood.... It can absorb absolutely huge volumes of wood. We certainly don't think that it's only going to be British Columbia's wood, and we do recognize that there will be cost challenges for B.C. suppliers against those lower-cost suppliers out of Russia and the Baltic States — no question.

Currently, their manufacturing is not to the same standard as British Columbia's. Developers for premium properties that are going to sell at a high price in China and are going to command real value in that marketplace — villas and apartments — are looking for high-quality, regular sources of supply, where they can absolutely rely on the quality of the product that's being sent to them. There's increasing pressure from the national government in China about matters like illegal logging in Russia, about forest management standards. It's really very much an increasing issue and area of concern in China at the national and municipal levels.

D. Jarvis: Just to follow up, going back to what I originally said. How do we compete other than maybe a niche market? Even though we have a better standard and higher quality, how do we compete against the Baltic States that are logging for 30 cents...?

[1230]

C. Kennedy: The Baltic States aren't going for the high-end residential construction — that end of the market. You know, there are ten million housing starts a year in China. A sizeable portion of that is going to be the higher end of that housing spectrum. I guess if we were to call it a niche market, our first market approach

is into those high-end housing applications and commercial and institutional buildings, where the developer is looking for quality, reliability, supply stability and the availability of product immediately on the ground.

D. Jarvis: To chat about this, how about into Europe, where the Baltic States are shoving their timber into the European market, which is in direct competition to us here?

C. Kennedy: Absolutely. I'll get Mike to answer the question about Europe.

M. Loseth: For the European market and for every market that British Columbia exports products into — they're all very different. You mentioned the opportunities for niche markets in markets like Europe. In fact, that really is very much the strategy the industry is following in Europe at this point. B.C. is not trying to provide all the construction products that Europe consumes. Europe already has a very well developed wood products industry, but there are certain niches and certain kinds of products that we produce here in British Columbia that the European marketplace wants to consume. Those are the focus of the marketing or market development efforts in Europe. It isn't to provide Europe everything that they could possibly consume in wood products.

Other markets.... Again, each one is very specific, so you're absolutely right. Some markets only warrant niche opportunities, whereas other markets may have different or broader opportunities to pursue.

K. Stewart (Chair): Before we move on, I'd like to bring to the attention of the panel members that you should have in front of you a copy of the key reporting principles. If you want to refer to this as we're moving along, it might help you, as we go through the report, to kind of focus some of our questions on that.

In saying that, I'll now move over to Patrick.

P. Wong: FII definitely is a good program to help export B.C. products. I personally had an opportunity to attend the Dream Home in Shanghai. One impression I had is that because there are so many organizations in China doing marketing jobs, such as B.C. wood.... Federally they have organizations, and there are also individual companies as well as BCIT, for instance. How are we going to evaluate the success of the organization through the effort that you have made?

M. Loseth: I'll answer that one for you. One of the things that FII has begun pursuing, which will be in place for all key markets where we're actively investing funds and undertaking activities, is preparing an individual market-by-market strategy. For example in China, that will be one that will be completed this fall. There are a number of different players in the Chinese marketplace from Canada all supporting the pursuance of a strategy to promote and develop opportunities for

wood products — whether it be Council of Forest Industries, BCIT or some of the organizations that you mentioned — alongside a number of different industry players active in the marketplace.

One of the key things we believe is important is to prepare a coordinated common strategy for the marketplace which identifies all of the different components that need to be pursued in order to achieve certain targets or certain success that all of the players, including the associations and the industry, buy into and take a part in producing from which we can fund our activities, from which they can coordinate their activities, from which we have specific targets and activities and from which we can evaluate our success — whether it be at the end of one, two, three or five years — to see whether or not the objectives that were set for that marketplace are in fact being achieved.

P. Wong: Do you have any plan to have our presence at the Beijing Olympic Games in 2008?

C. Kennedy: We're certainly working on it. We're working with the organizing committee for the Beijing Olympic Games as well as with staff that are organizing the Shanghai 2010 Expo. We don't know for sure yet about building materials decisions for Shanghai 2010, and we continue to promote wood products for Beijing 2008.

J. Wilson: China is importing 15 million cubic metres of wood a year and only building 500 homes. What are they doing with that wood?

[1235]

M. Loseth: China is consuming enormous amounts of wood. China, in fact, at this point is the fastest-growing consumer of wood products in the world. China has become the largest furniture manufacturer in the world, drawing manufacturing from all over Asia and virtually, at this point, all over the world. There's a large amount of wood that's going into formwork for highrise concrete construction, and for packaging pallets there's a wide use of different wood products, including the small number of residential construction starts. It's really the manufacturing and furniture industries that are consuming huge, huge volumes.

C. Kennedy: There's growth in the residential markets too. As an example, the Jin Qiao Group, who we're working with on the Dream Home China project, agreed to build 205 wood-frame houses as part of the agreement when we placed our demonstration centre on their property. Since then they've also committed to building another 100 townhouses in wood. That's the first time this developer, which is one of the largest developers in China, has ventured into the townhome market. This is a developer that's got the potential to make the decision on thousands of units of houses or townhomes. So while we started with a benchmark of 500 homes per year, we've gone up by 300 already.

J. Wilson: Considering the volume of wood they're using, can we compete in the other markets? Can we compete to provide fibre to China, other than for building homes, to build furniture, to build the forms and the pallet industry?

M. Loseth: It depends to a large degree on what the end-use application is. For some of the lowest-cost applications, like packaging of pallets, there is some opportunity for some of the lower-quality or lower-grade products from B.C., but there's a real challenge from radiata pine and some of the faster-growing species. In some of the appearance grades — whether it be for furniture or panelling, where folks want solid wood or a more premium product — as the affluence of the Chinese marketplace continues to develop, there's a larger domestic market for that.

Much of what China produces goes into Europe, the United States or other international markets that are willing to pay for those premium products — and in those areas, absolutely we can.

J. Wilson: What's the mix in the Russian stands?

M. Loseth: Typically, you're looking at about 30 percent deciduous, which is largely birch and aspen. Of course, it varies, depending on where. It's about 40 percent pine, about 25 percent larch — or tamarack, as we call it here. The rest would be spruce or other coniferous species.

K. Manhas: We heard quite a bit about the marketing efforts in China, and there certainly seems to be a fair amount of potential there. I know that FII was looking at a number of emerging major markets, and I'm wondering what other major efforts are being conducted. In terms of other very quickly growing markets like India, what opportunities have you identified in that market? Has FII been looking at what the opportunities or the challenges are? What can you tell us about that?

C. Kennedy: We have. We'll answer those questions in two parts. I'll answer the first part, and then Michael will probably provide some additional detail.

We've been working in other emerging markets, including Korea, Taiwan and certainly India as well. There are other smaller emerging markets coming on line. As political stability increases in the Middle East, we expect that will become an increasing and emerging market for British Columbia as well. We're looking to South America and a whole variety of markets where there may be existing or future potential for B.C. forest products.

K. Manhas: Can you explain what those efforts entail in those other markets?

[1240]

C. Kennedy: Yes, absolutely. We start with market research. We start with establishing whether or not there's an existing wood-frame building code, what the

level of construction knowledge is in relation to wood-frame buildings, what needs to be done to make sure that our products and our grading standards can be included within the building codes and a variety of other market research. Michael can elaborate on some of that a little bit more.

Around that information that we gather, we then work with our forest industry partners — organizations like the Council of Forest Industries and the Coast Forest and Lumber Association — to prepare marketing and promotion campaigns specific to those markets. Some of them are gradual. Some of the markets are not familiar with using wood and certainly do take a long-term strategy to develop. India is one of the markets that will take a long-term strategy.

Michael, do you want to elaborate on any of that?

M. Loseth: Are there certain areas that you'd like some more information on?

K. Manhas: Yeah, I'm wondering what opportunities you have identified in India.

M. Loseth: Sure.

K. Manhas: India is also a country that's facing a lot of growth — upwardly mobile, 8 percent growth per year, a huge amount of new housing stock using, right now, what seems to be a lot of steel and concrete. There are huge amounts of development in all parts of the country.

I understand there have got to be some issues, so what are we doing to identify them? Are there structural or technical issues that prevent us from that market, like the issue of termites? Is there a way to deal with the issue of termites in some areas of the country? I'm trying to understand what you see as the opportunities and what FII is doing to explore those opportunities for B.C. currently.

M. Loseth: A couple of years ago there was a trend or an expectation in India that tariff rates on wood products and particularly sawn-wood products would be declining fairly quickly. We supported some effort to get into the marketplace to start to explore how B.C. and B.C. products may be able to capitalize on those market changes.

In a recent visit to India what we found, though, is that those regulatory changes are in fact happening much slower than what was originally anticipated. As a result, we'll be starting to monitor the marketplace but will become a little less active in activities in India.

To be more specific, at this point India has a 5 percent import tariff on raw logs and a 20 percent import tariff on sawn lumber or timber. As British Columbia is not a major exporter of raw logs, it creates a real challenge for us to compete in that marketplace with some of the southern producers that are actively shipping logs. You're starting off at a 15 percent higher price than the basic log products.

The other thing with India at this point is that — you're right — it will hold long-term, fairly significant

potential, but it's very early on in its development from wood products. India has typically been a hardwood, dark-colour marketplace. British Columbia is predominantly a softwood, lighter-colour species exporter. That will evolve over time, but in view of the structural issues around tariffs, it becomes very difficult for us. Rather than investing a lot of money now, we'll continue to monitor the marketplace. The Canadian government is continuing to put pressure on bringing those tariffs down so that it's an even keel for folks to be able to compete. When that happens, we would become much more active in pursuing that marketplace.

H. Bloy (Deputy Chair): I liked the presentation, but when you follow the trend of questions here, it's like you're chasing a dream and how are you getting there. I've got a couple of small questions. All the companies and the associations — are you working well together? Is there a leader, or are you working against each other? Are there people out there saying, "Gee, you don't represent my industry," or "You're not doing anything for me" — you know: "Only the big guys get it," or "Only two companies get it"? The outside research you're paying for — is it returning a value?

My last question is: how many jobs have you created? How many jobs do you expect to create over the next two years, so that I can say you have an objective at the end of the day and that you met it or you didn't?

[1245]

C. Kennedy: Addressing that question, I guess that the number of jobs created hasn't been a target we've specified in our service plan, and I don't have a specific answer to that. When you're asking the value of the research that we undertake, do you mean the market research?

H. Bloy (Deputy Chair): All of the research — you know, market research. Are you looking at value-added research?

C. Kennedy: We are. Yes, we do.

H. Bloy (Deputy Chair): Are you looking at technology research — what else you can do and how you can do it better?

C. Kennedy: Yes. We have product development as well as market research investments, so we are absolutely looking at what can be done within value-added product manufacturing and finding specific applications for B.C. forest products, both new and existing.

In terms of the relationship between FII and its association recipient organizations, I would say that it's generally very strong. There is always competitive tension getting close to the annual funding cycle, but I would say that all of our associations and organizations work very well together.

You had asked whether or not there might be some organizations that felt that they weren't represented. If

there are, they certainly have access to representation through any one of the funded associations.

H. Bloy (Deputy Chair): Yeah, but they self-fund the other associations.

C. Kennedy: I don't understand what you mean; sorry.

H. Bloy (Deputy Chair): Who funds you?

C. Kennedy: We're funded by the forest investment account.

H. Bloy (Deputy Chair): Okay, funded by whom?

A Voice: It's self-funded too.

H. Bloy (Deputy Chair): Yeah, I know, but the other associations are funded by the industry, and they're industry-specific.

C. Kennedy: Yes, by members. If there were a specific value-added manufacturer, for example, that didn't feel that they were sufficiently represented.... B.C. Wood Specialties Group is the applicant to our program that provides a provincially based value-added marketing program, and that would be the vehicle through which that manufacturer would access the program. If it were a producer of dimension SPF lumber, they would access the program, generally, through the Council of Forest Industries.

M. Loseth: Why don't I just give you a little bit of background on how we disseminate the funds to the industry associations. It's all done in a competitive way. We prepare, as Christine outlined in her presentation, an annual investment strategy that identifies the priority markets and priority activities in those markets that we believe should be funded over the upcoming fiscal year. That's then released to all the associations and generally anyone who wants to see it via our website and through the Bid B.C. website.

Associations then have an opportunity to apply to us for funding. It is then evaluated by an evaluation team, and a decision is made based on the evaluation criteria that are set for that funding year. The B.C. Purchasing Commission sits on our evaluation team as an observer to ensure that a fair and open process is followed in the allocation of all dollars going through into the industry associations.

H. Bloy (Deputy Chair): It sounds good. Just one last thing: does it work?

M. Loseth: Absolutely it does.

K. Stewart (Chair): As we move around, you'll notice.... This is your first presentation here before us, and it's a relatively new organization — or at least a regenerated organization — so there have been a lot of

general questions. I'd like to focus a little bit now on where I think Harry is going — that is, with the cost-effectiveness of the program.

When we start reviewing these organizations, we have to look and ask what value for the dollars we're spending of taxpayers' money are we getting in return? Structurally in that, when you talked about your budget, there was just a preliminary question I had. It indicated that there were \$26.5 million overall budget — correct?

C. Kennedy: For the current fiscal year there's \$18.7 million.

K. Stewart (Chair): It said on note 8 that that was from provincial funding in there. I was wondering where the other \$8.2 million is, but the math would work pretty well if the \$8.2 million from the partners was included in that. I wonder if the note was a bit misleading — note 8 on your financial report — or whether I misread it. I'll leave that to you. You can look that up and send us the answer later, if you don't have it at your fingertips.

C. Kennedy: Okay, absolutely.

[1250]

K. Stewart (Chair): The other thing I was going to talk about was cost-effectiveness. You talked, in your presentation, a little bit about a number per hit on your website. You basically said there was \$2.56 per hit of value assessment. What does that mean? Does that mean that your total costs of all the website and the information you put out based on the hits is approximately two and a half bucks a hit, or is that value assessment based on hits the amount of feedback you get? I was a little confused by what that is.

C. Kennedy: That was purely and only a cost estimate based on the number of visitors we've had to the site so far. Since that cost estimate was done, we've probably had about another 10,000 or 15,000 visitors to the site, and the dollar-per-user figure will have come down commensurate with that use.

K. Stewart (Chair): So at that point in time, basically, the cost of the site was \$2.56 per hit. That's what that whole thing was.

C. Kennedy: Yes, that's what that was.

K. Stewart (Chair): Do you have any return the other way — based on the amount of hits, the amount of business you have, if you want to directly correlate that back to a website?

C. Kennedy: It ends up being difficult to trace business directly back to the website. We're the ones that are promoting the sustainable forest management in the website you referenced directly, but the sales go to the companies. We can certainly provide summaries

of feedback that we receive via those websites — customer opinions and comments from the websites. We know there's a considerable volume of forest products customers using our websites in our key target market areas, but the sales that may be attributed to that go through the forest industry. They don't report those directly to us.

K. Stewart (Chair): In reporting back information, I noticed in your goals, when you look into your annual report, that there is certainly a lot more information and detail as to how you're meeting your goals and some of the results you're getting. When we see results, one of the concerns I always have — some of them are pretty straightforward and, I think, quite well presented and well done — is who is actually doing the testing on some of those more subjective ones. If you have an opportunity to go through some of them that aren't directly numerically validated, can you tell us who — and I'm not expecting this now — is actually doing the testing of those and what methodology they're using to come to those?

C. Kennedy: We do that in a couple of ways. First of all, we assess the value and assess some of those results through independent research, through researchers we select through a competitive process. We also do value-for-money audits within our program, and we'll be doing a specific value-for-money audit of the program this year.

K. Stewart (Chair): I look forward to seeing that.

As we have a bit of time left, what I'd like to do now is to go around for a second question. I think we have enough time for everyone that has a question to get it in.

Anyone that has an urgent, must-answer question today will ask, and then we'll go into the formal written questions that will be coming through to you at the end.

J. MacPhail: On this pie chart on page 4 of your presentation, can you update it with the most recent numbers you have, including the exports and then the shift in terms of where those exports go?

C. Kennedy: We'd be pleased to do so.

Interjections.

J. MacPhail: Can you not do it now? That would answer all of our questions about whether it's effective or not.

C. Kennedy: No, we don't have that data with us right now.

J. MacPhail: My very last one is: is the B.C. Innovation Council in place?

C. Kennedy: The forest science innovation council?

J. MacPhail: In your annual report it says that it was supposed to be appointed in April of 2004.

C. Kennedy: We worked on that last year, but responsibility for that was transferred over through the ministry and with Pricewaterhouse. I believe that it is in place.

D. Konkin: It's in place in name; it's not in place in terms of functioning. We have a forest sciences board that is providing direction and oversight in terms of the research. The Innovation Council is, to some degree, a subsidiary of a national council, of which I'm a member. We're working to finalize a national strategy, and then a provincial group was going to take that national strategy and look at what applies and what doesn't apply and develop it from there on.

J. MacPhail: Is the government still...? It says here that it was going to be appointed in April. You're saying it hasn't be appointed, but is it still going to be appointed?

D. Konkin: Yes.

[1255]

H. Long: My first question. On your pie chart, again, you've got 79 percent of all the B.C. wood cut in B.C. of course goes into the U.S. market. Then on another pie chart....

J. MacPhail: In '02.

H. Long: In '02, whatever. I hope it's similar today.

Approximately 28.5 percent of your budget — I imagine of the \$18 million or so — goes into backing up the U.S. market. It makes up 79 percent of our market, so to say, yet we're putting 28 percent into the Chinese market, which is very, very low.

I guess my question is: if in fact that much of our market is in the United States, how much more effort are we putting into the United States to make sure we secure that market, because 1 percent of that market is going to make a hell of a lot more difference than 1 percent or 10 percent overseas? I guess my question is: what are we doing to encourage U.S. companies to buy into Canadian companies, possibly, for foreign investment so that we lock ourselves together closer with the United States, create the activity that makes them feel part of us and us part of them so that they will buy our products in perpetuity, rather than have this fight going on that we have had in the past — start to mend our ways with them and get this softwood lumber behind us?

D. Konkin: I guess what I would say is there are three different kinds of markets. There's emerging, there's expanding, and there's just keeping your existing share. You develop different strategies around those different kinds of markets. The U.S. market is actually expanding. What we're finding is that we're

staying relatively the same, and the Scandinavian countries are actually taking over that expansion. I agree with you that it's a worry, but you look at that market, you look at what constraints, if any, there are, and you develop a specific strategy.

I would say that given the kind of things that are under question there, which are trade barriers — a real issue there, obviously — market pressures around our environmental standards, those kinds of things, the amount of money we're putting into it, I think, is suitable for that market.

H. Long: I'm going to follow up, and part of my question is: what are we doing to include them with us — to make it more acceptable to the United States? I'm talking about foreign investment here. I'm talking about U.S. companies investing in Canadian companies that can give us a different image in the United States to make it work better for us and cut out the Scandinavians.

D. Konkin: One thing we have to be mindful of is every jurisdiction has its own laws, and the U.S. has some pretty strong antitrust laws that dictate what they can and can't do in collaboration with us or even amongst themselves. In terms of the specifics, I'll turn to Michael and Christine for what we're doing in China and other places, if there's cooperation there.

M. Loseth: There are a couple of examples in the U.S. which I think highlight how we're trying to find ways to work closer with companies within the United States. One is the Wood Promotion Network's Wood Is Good program. I'm not sure whether anyone here has seen any of the ads. There was one that ran on television not that long ago that said the first lunar landing images from space have shown that there are more forests growing in North America now than there were 20 years ago that is being funded not only by Canadian companies and FII but also by American companies, with about 70 percent of the dollars coming from United States funders. The objective of that program and those marketing ads and such is to support wood construction and use of wood and also that North America is managing its forests well.

Another example is the Western Red Cedar Lumber Association. We're funding, in conjunction with the B.C. industry and in conjunction with the American industry, cedar promotion activities in different parts of the U.S., showing that cedar is a natural product. It's a good product to use, and in fact it's a desirable product over substitutes like plastics and such.

Those are a couple of examples where not only are we putting money in to benefit the industry here but the United States industry is putting money back in because we have joint objectives to grow the market for wood, to grow the market for certain species of wood. We'll continue to do those kinds of things where we can.

[1300]

D. Jarvis: With respect to the procurement proposals in the United States right now, are they targeting

any specific products of ours, and is it being supported by the foundations down there?

C. Kennedy: I'm sorry; do you mean procurement policies?

D. Jarvis: Yes, in California; I should have said that. Are they targeting any specific product like roofing materials or things like that, or is it all in general — all timber coming out of B.C.?

C. Kennedy: It was all in general coming out of British Columbia. I'll let Karen Brandt answer that in more detail.

K. Brandt: Both the issue that was raised last year in California and the one that was raised this year were in regards to all forest products, basically, coming from Canada. British Columbia was specifically referenced in those policies, so they would apply to all forest products.

D. Jarvis: Was it just anti-trade people, or was it sponsored by the foundations?

C. Kennedy: It was a combination of....

D. Jarvis: Is it likely to spread to other states?

C. Kennedy: The first bill was sponsored.... Bills in the California Legislature are usually sponsored by someone. Bill AB 466 in last fiscal year was sponsored by Environment California, and they had worked with an Assembly member and his staff who drafted the bill.

This year the bill was sponsored again....

K. Brandt: No, this year AB 2994 was not sponsored. It was a bill to give preference to California wood products over Canadian products and other jurisdictions. The author of the bill approached the forest industry in California to sponsor the bill, and the forest industry declined the offer. It was the same industry we worked with last year on the bill in California. It's another example of where with the U.S. industry, to some degree, we worked together to ensure that we've got access to markets.

D. Jarvis: I would have thought that that would be in contravention to our North American trade agreements.

D. Konkin: Many of these initiatives come forward around environmental concerns. They'll be presented as a way to preserve endangered forests or environmental values, those kinds of things. That's generally the way they come forward.

D. Jarvis: Yes, thank you.

P. Wong: I understand we are so successful in the Japanese market, by selling 16 percent of our wood

products to Japan alone, because they are able to accept our product and our knowledge to benefit from our products. I understand that you have gained a milestone in getting the building code accepted in China. Could you tell us the progress and also how that happens in other regions, like Taiwan and Korea?

M. Loseth: In many ways Japan is a real success story for the B.C. industry. Starting back in the early 1970s the B.C. industry, led largely by the Council of Forest Industries, got very active in Japan, promoting North American-style 2-by-4 construction as a housing option in addition to the traditional post-and-beam type construction in Japan. After many years of investment and many years of activity, they've become quite successful — to the point now where 2-by-4 construction is roughly 8 percent of the housing starts in Japan, which is almost exclusively a result of the industry and their activities to support that market.

In China, of course, things are much earlier in that cycle of development. There has been significant effort over the last two years to provide Canadian expertise, through foreign tech and through the Council of Forest Industries, to the Chinese code committees to support building codes, design codes and inspection codes, which at this point has been very successful. In January of this year the Chinese government promulgated a building code that included wood-frame construction and sections that adopted North American sizes and products.

We've also been active in Taiwan. In fact, late last year — I believe it was in November of last year — the building code was accepted in Taiwan, which also included North American products and wood species.

Those two markets are good examples where very recently, through investments that have been made, we've been successful in getting North American and B.C. wood products, and our sizes and grades, accepted into their national standards. Of course, we need to work to get the promotion and the technology transfer to the trades and others necessary to put the foundations in place now that the code is there to support an actual wood construction industry that can use our products.

[1305]

P. Wong: Would that also benefit American competitors? Should we charge them a marketing fee as well?

M. Loseth: In fact, in China the Americans, through their association, the AF&PA, were partners in the development of the wood building code. They did contribute money, they did contribute expertise, and obviously, they will share, to a certain degree, in the success of it — for those companies that choose to do business in China.

J. Wilson: This company is primarily set up to increase our markets. How do you measure that? How do we know we're spending our dollars wisely — that we're getting results?

How do we attribute the results that are out there to this organization, maybe, and not to another company that's out there on a parallel course? How do we measure the success that you're having? Is there any way of doing it, and if there isn't, why isn't there?

M. Loseth: I think there are a variety of things that we look at, a variety of indicators that are indicative of how markets are developing or changing, whether it be sales volume, sales value, market share — those kinds of things. As you alluded to, there are also a number of other factors that come to play — whether it be exchange rates, political situations, trade issues — that do sometimes get in the way. I think that by looking at all these indicators and by measuring how they change and the trends that develop over time, we can get a sense of whether or not the initiatives that we're supporting are having desired effects in these markets.

D. Konkin: John, if I may, I would just add that you're right. It is really difficult. We are doing value-for-dollar audits where we try and break it down and isolate some of those other factors to see what we are measuring. Maybe as importantly we are collaborating fairly closely with industry, and we're relying on their direct feedback, both at the advisory process around our strategies and also doing client surveys. We basically do go out and survey the industry and ask them: "Are the strategies effective?" — those kinds of things. It is hard to quantify.

C. Kennedy: It is, and I just want to add one more point into that. The other thing we do in that is we also undertake specific customer interviews. We undertake exit interviews when customers are coming out of our trade show booths. We will be, later in this year, doing some specific customer testing in the markets that we've worked in to talk directly to purchasers about our product and to confirm their opinions of the program and whether or not, in an independent sense — where we're nowhere near that interview — those customers will attribute their sales decision or any portion of the sales decision to the work that we've done or that we've funded and supported through our industry partners.

J. Wilson: Any success, though, that you have.... If you can't measure it, we don't know whether we're wasting \$18 million here or not. My point is: we need to be able to measure the success you're having in order to make a decision on whether or not this company is worthwhile funding.

C. Kennedy: We'll be able to measure our success in statistical data on market share, on sales to different market areas, on whether or not we're continuing to have the growth or the market maintenance that we are expecting to have in different market areas. Then we'll be able to supplement that with the customer research-type activities that we do.

[1310]

K. Manhas: Christine, from what you've been telling us, I'm trying to see where your major focuses are.

From my understanding, innovations and investment are sort of two-pronged; they're internal and they're external. Externally, I understand that FII is doing — correct me if I'm wrong — much of the marketing for British Columbia wood, which is very important. On that external level, if it's correct, you're acting as the marketing agent for the understanding of B.C. wood. You guys are centrally branding what that wood looks like. Externally, how are you trying to promote B.C. wood? That's one of the questions I would have. What are you branding it to be? If it's going to be selling more in different markets, what does that brand look like?

Internally, innovations and investment mean that in British Columbia we need to be seeking the change within ourselves to adapt to the changing markets of foreign markets. The research arm, I understand, is being done by another group, but what are you doing within industry to adapt and promote the new forest products, practices and technologies in B.C. so that B.C. keeps some of those jobs? It may mean that we may need to adapt our practices or sell them to the market need. How are you finding out from your knowledge of what these other markets want and helping that get transferred back to industries here in British Columbia so they're changing their industry practices to meet the market demand that you are seeing in these market-places that you're following?

C. Kennedy: I guess that one of things I didn't focus on a lot in the presentation is the component of our programming called products development. That includes our technology transfer program, which provides manufacturing assistance to a variety of producers in B.C. to improve products and to improve manufacturing processes. We've also got a category of competitively available funding that we use on product development activities. Some of those can be activities around hemlock testing and strength for the Japanese market to provide better information to support the purchase decisions of Japanese customers, as well as a whole variety of other product applications — veneer drying for plywood was one of them.

Michael, you might want to provide a couple of other examples.

M. Loseth: Sure. I think the key thing to understand about the linkage between the things we're funding and the industry in actually taking and using the knowledge is that the industry is also co-sponsoring the projects we're doing and that projects are largely delivered through the industry associations.

The coastal example that Christine provided around hemlock strength testing is being sponsored by the Coast Forest and Lumber Association, which is made up of members of all of the key forest producers on the coast doing business in Japan. The research or the activities that are being recommended are coming from the companies, through their committees on the association boards, to say: "We need more information about this in order to meet the constraints or the issues

in the Japanese marketplace." The association packages it up, applies for funding to us and then delivers the project. The results go directly back to the industry, and in most cases, the industry members that sit on the committees are involved in guiding and directing those projects to ensure that the results meet with their requirements.

There is an extremely close linkage between the things that we fund and the associations and the companies that are involved in designing and delivering them.

H. Bloy (Deputy Chair): When you come back — just being one year old.... You have a chart for 2002, so you're saying that's your base? I don't know when you get the information sooner. I guess when we see the service plan next year, you will have added another year to it, but you'll also be giving the results of what you feel was your first year?

C. Kennedy: Yes.

H. Bloy (Deputy Chair): I do have one comment. When you look at the Japanese market, there was a company — Seaboard, I think — that all the companies used at one time as a sales agent. Is that what they were called? But really, it was the companies individually, with their sales forces, that built up the sales in Japan. It's my understanding that a number of the big companies went over, had their own, consistent company sales forces, and they are the ones that developed that relationship. They worked at it and worked at it. Even at 16 percent that market is still so new and fresh that if they're not there every month or so, with the right level of person from Canfor or whoever it is, they're going to lose the business.

[1315]

C. Kennedy: Certainly, yes, forest companies are very active in Japan. Many of them have offices in Tokyo, in Osaka and in other areas of the country where they deal directly with customers. The role that we provide and that industry associations often provide is different from that of a Canfor or an Interfor. We provide neutral, objective information that is supporting their customers' sales decisions — for example, around the Clayoquot information that I mentioned in my presentation. Karen could give more detail and more information on that. That information is very valuable to forest product customers when it's delivered in a neutral and objective way from a source that has all of its data confirmed. It's very different for forest companies to deliver that exact same information themselves.

Karen, do you want to provide any more detail on that?

K. Brandt: Sure. The Clayoquot is just an example of where Interfor was being targeted and where Interfor's customers were being directly targeted. The Japanese culture is somewhat.... They'd be very nervous about that, so we prepared some background informa-

tion for customers. It was extremely well received by those customers. They then distributed it to their direct customers.

Another example of that would be the coastal report we put out last summer during the tenth anniversary of Clayoquot Sound activities. Within that month there were over 2,000 downloads of that document — from Europe, Japan and the U.S. It's those types of actions where the companies.... If they did it themselves, it wouldn't be as well received as coming from a more neutral organization that isn't going: "Rah-rah Interfor or Weyerhaeuser."

K. Stewart (Chair): At this point we've got just a few minutes of questions left. We've had over a good hour of questions today. If anyone in the panel has a burning question they'd like to ask now or a question they'd like to put out for a later answer, given the fact that you can always submit other questions through Jonathan, if you think of them later, back to the witnesses today.... Is there anyone out there that has a burning question they would like to get answered at this point in time, or are we all through?

P. Wong: One final question from me is how we ensure, when you allocate funds to research or product development or even marketing, that they be fairly allocated so that it's transparent. And do you have any audit process in place?

C. Kennedy: Do you mean the allocation of funding between those program categories or within them?

P. Wong: When you approve the funding — like, for instance, B.C. Wood or whatever, any organization applying for funding, or Forintek — do you have any process?

C. Kennedy: Yes.

P. Wong: Have you ever received any complaints or anything like that?

C. Kennedy: We go through a process that involves a competitive annual request-for-proposal process which, along with our investment strategy, is advertised on our website and the B.C. Bid website and is made available to industry associations such as B.C. Wood, which then apply for funding on the basis of the information that's provided for them in that request for proposal. That's then evaluated, as Michael had mentioned earlier, with the Purchasing Commission as a participant. We also have participants, for example, from the federal funding program called the Canada wood export program.

Are there ever complaints? There are always competitive tensions in the allocation of funding — no question. Different associations are competitive and sometimes aggressive with each other in their pursuit of funding for different aspects of their programs. That's a natural function of a competitive process and

is something that we expect. It has not been a significant issue for us to date.

M. Loseth: You may also have noted, if you took a look at our investment strategy for the year, that in addition to balancing between markets, there are guiding principles there that balance among different sectors, species, geographic areas to ensure that the industry and its makeup in the province are adequately represented in all areas through the funding that we allocate.

[1320]

K. Stewart (Chair): At this point, if there are no further questions, I'd just like to thank you for coming today. You certainly provided us with enough written information and CDs, etc. I don't know if many of the members got through them all, but I'm sure it will give them some nice reading over the summer if they want to follow up on it.

At this point what's going to happen is that we're going to have you collect your stuff and go out. Then we're going to go and have just a quick review of the discussion today, which will go on in camera.

In going over the *Hansard* — which should be available to you within a few days on the Internet — if there's something you'd like to add or information you'd like to correct, feel free to do it. Also, we're leaving the opportunity for panel members here, if they have any further questions over the next couple of days, to send them through Jonathan and back to you — okay?

C. Kennedy: Absolutely. We would just like to thank the members of the committee for the opportunity to appear, and we look forward to answering any additional questions that you have. Thanks very much.

K. Stewart (Chair): Thank you.

At this time we'll just have a very short recess. If you need to grab a refreshment or take a quick break, I'd like people to do so, but I'd like to try and keep you relatively close so we can get on to the next process here.

The committee recessed from 1:21 p.m. to 1:25 p.m.

[K. Stewart in the chair.]

K. Stewart (Chair): I'm now looking for a motion to go in camera.

Motion approved.

The committee continued in camera from 1:26 p.m. to 1:42 p.m.

[K. Stewart in the chair.]

K. Stewart (Chair): We've just come out of an in-camera session. I would be looking for confirmation that this group has decided that we will not be meeting until September and that the date of the meeting in September will be confirmed through Jonathan and with some feedback we get from members between now and then with regard to the schedules. Everyone, is that an accurate reflection of what went on?

H. Bloy (Deputy Chair): Yes.

K. Stewart (Chair): Okay. Would anyone like to move adjournment?

The committee adjourned at 1:43 p.m.