



**Helping people to lead better lives
through responsible forest management.**

FOREST STEWARDSHIP COUNCIL ANNUAL REPORT 2007



Our vision

The world's forests meet the social, ecological, and economic rights and needs of the present generation without compromising those of future generations.

Our mission

The Forest Stewardship Council A.C. (FSC) shall promote environmentally appropriate, socially beneficial, and economically viable management of the world's forests.

Our value proposition

FSC's unique role is to bring together people, organizations and businesses of the Global South and North to develop consensus-based solutions that promote responsible stewardship of the world's forests. People, organizations and businesses invest time, resources and credibility in FSC because forests are important to them.

FSC's solutions respond to challenges created by poor management of forest resources and are supported by social, environmental and economic stakeholders in the Global South and North alike. They are used by people, organizations and businesses engaging markets to encourage responsible stewardship of forest resources.

FSC International Center
Charles de Gaulle Str. 5 - 53113
Bonn, Germany
Phone +49 (0) 228 367 660
Fax +49 (0) 228 367 66 30
www.fsc.org

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A message

from FSC's Executive Director



At the close of 2007, FSC looks back on a year marked by both significant challenges and remarkable achievements. New developments, needed improvements and valuable insights are all part of the FSC collective as we head toward 2008.

First of all, in 2007 FSC finalized its Global Strategy, which establishes the foundation for our work in the coming years. The strategy was developed following a long consultative process with the FSC membership and other stakeholders, with strong leadership from the FSC Board of Directors.

On the market side, we have seen a large increase in the demand for FSC certified products and it is now possible to say that with regards to some markets, such as paper, FSC has become mainstream. We expect this trend to continue in 2008 and expand to other areas, such as packaging, in the coming years.

The creation of FSC Global Development, a subsidiary of FSC dedicated to supporting market development and promoting the appropriate use of the FSC trademarks, was a key development at FSC in 2007. FSC Global Development will in the future facilitate the direct licensing of the FSC trademarks to certificate holders and other actors, such as retailers. Our intent is to develop a more user-friendly platform for the FSC label and strengthen its presence in the market.

The integrity of the FSC system was also strengthened in 2007 through the implementation of the FSC Controlled Wood requirements for primary manufacturers and the approval of the new chain of custody standards. Work has also started on the second phase of the Plantations Review and the FSC approach to highly hazardous pesticides has proven to be very effective in diminishing use of chemicals and promoting acceptable alternatives.

Besides our successes this past year, FSC has also been faced with critical challenges. There were some instances of controversy regarding certificate holder compliance with FSC requirements. Accreditation Services International – our subsidiary company managing the FSC accreditation program – followed up on these cases and, where relevant, issued the necessary corrective actions to certification bodies. As part of our efforts to safeguard the integrity of the system, we are also looking into these cases to assess where the system can be improved.

This annual report highlights our development this past year, and offers insight on some of the efforts that are driving the continual improvement of the FSC system. As we head towards the future outlined by our Global Strategy, I thank all the FSC members, stakeholders and staff who have brought us this far and made 2007 another successful year for FSC.

With my best regards,

Andre de Freitas
FSC Executive Director



**How FSC
improves the world's forests.**

The problem

Forests provide us with clean water, fresh air and they even help combat global warming. They also provide food, medicine and important natural resources, such as timber and paper. If managed responsibly, forests and plantations benefit people, both people dependent on forests and the global community at large. However, in some countries as much as 80% of the timber is harvested illegal, often involving the violation of human rights and destruction of protected forests.

A key factor behind the threats faced by natural forests is the perception by many societies that they lack economic value. The extraordinary social and ecological value of forests in comparison to other land uses is often not considered. In other words, forests are often converted to other land uses, which lack many of the social and environmental values of forests but promise higher economic returns.

The FSC solution

FSC uses certification to engage market dynamics to drive recognition of the value of forests to improve social and environmental standards in forest management practices worldwide.

FSC standards, developed through a balanced multi-stakeholder decision-making process, ensure that forests maintain the values and benefits they provide to society. In addition, a credible tracking system traces FSC material through the production chain to the shelf. FSC labeled products offer assurance that they are supporting the conservation of forests and helping people to lead better lives.

FSC does not encourage exploration of forests, but rather promotes the equitable incorporation of social and environmental considerations when this does happen.

How FSC makes a difference

FSC has defined ten principles that describe how forests have to be managed to meet the social, economic, ecological, cultural and spiritual needs of present and future generations. These guiding principles are the strictest and most comprehensive among forest certification systems.

Many of these principles may seem basic, but in many places in the world even these fundamental requirements are not fulfilled. This is where FSC can have the biggest impact.

“Forest management certification and product labeling play an important role in accommodating environmental and social concerns in forestry.”

Food & Agriculture Organization of the United Nations



Overview of the FSC Principles

- 1: Compliance with all applicable laws and international treaties.
- 2: Demonstrated and uncontested, long-term land tenure and use rights.
- 3: Recognition and respect of indigenous peoples' rights.
- 4: Maintenance or enhancement of social and economic well-being of forest workers and local communities.
- 5: Equitable use and sharing of benefits derived from the forest.
- 6: Reduction of environmental impact of logging activities.
- 7: Appropriate and continuously updated management plan.
- 8: Appropriate monitoring activities to assess social and environmental impacts.
- 9: Maintenance of High Conservation Value Forests (HCVFs) considered to be of outstanding significance or critical importance.
- 10: Plantations must promote the restoration and conservation of natural forests.

"With its broad backing and support from important organizations and institutions all over the world FSC has become the worldwide standard for sustainable forestry and guarantees to the markets that certified products come from sources that will also be available for future generations."

Andreas Heusler, CEO of the Precious Woods Group, Netherlands, a multinational company that manages forest areas around the world.



"Certification is undoubtedly one of the most innovative and important forest conservation tools today. It has brought producers, consumers and retailers together in a positive effort... WWF supports credible certification, and currently considers FSC to be the only credible system..."

Rod Taylor, Director of Forests, WWF International

How FSC rewards responsible forest management

FSC certification is rewarded by improved access to environmentally sensitive markets, including governments and leading businesses that specify FSC certified materials in their purchasing programs.

By providing a market differentiation mechanism, FSC enables responsible forest managers to capture more value from their forests, allowing them to compete with pressures from other land uses and the artificially low prices caused by predatory and illegal logging.



FSC presented as a tool for poverty alleviation

Experts gathered in Bangkok in September 2007 for a landmark conference examining efforts to reduce poverty through the responsible management of Asia's forests. Participants engaged in discussions on the opportunities that FSC certification brings.

International aid agencies acknowledge FSC's standard development processes as tools to empower forest dependent people, giving them a voice to enter into constructive dialogue with government officials and companies. Some 500 million people that are highly dependent on forest resources live in and around the tropical forests of Latin America, Africa and Asia.

"This conference proved there is great interest in the use of FSC as a way to contribute to community well-being and help the world's poorest people that depend on forest resources."

Dr. Alan Smith, FSC Social Program Manager



FSC certification more effective than general protection measures in Guatemala

A study by Rainforest Alliance found that forest concessions managed in compliance with FSC certification standards saw fewer wildfires and less deforestation compared with protected areas within the Maya Biosphere Reserve, an area of tropical forest in Guatemala.

In 2007, fires affected just 0.1 percent of FSC certified forest concessions in the reserve. In addition, the average annual deforestation rate in FSC certified forest concessions from 2002-2007 was 20 times lower than in other areas where harvesting of wood is prohibited.

The study demonstrates how responsible forest management can result in better conservation of forestlands when communities have a stake in the process.

Source: Rainforest Alliance



"In these communities [in the Maya Biosphere Reserve], FSC certification has helped strengthen business structures, fire prevention measures and low-impact harvesting practices."

José Román Carrera, Central America Coordinator for the Rainforest Alliance's TREES Program



**The Market Effect:
rewarding responsible
forest management.**

The Market effect:

rewarding responsible forest Management



Previous page photo: Milan Reska ©

Juan Carlos Reyes ©

Introduction: FSC creates market access and business value

From basic commodities such as timber, to value added products such as furniture, and services such as providing clean water, forests are the source of a huge range of resources traded around the world. In fact, forest products trade accounts for US \$327 billion (FAO, 2004) and more than 13 million people around the globe are formally employed in the forestry sector (FAO, 2000).

Perhaps even more important are the 'non-formal' statistics related to the forestry sector, such as the fact that more than 1.6 billion people – one quarter of the world's entire population - depend on forests for some part of their livelihoods, including fuel wood, medicinal plants and forest foods (World Bank, 2004) , and that the loss of forest resources directly affects 90% of the world's 1.2 billion people who live in extreme poverty.

Consumer awareness of environmental issues is growing worldwide. In response companies of all sizes are asking questions about the sources of their raw materials, and creating more stringent procurement policies. This trend has led to a noticeable increase in demand for FSC certified products, and companies all along the supply chain are committing to FSC.

This demand drives forest certification: these actions send unmistakable signals to forest owners that investing in FSC certification will result in improved access to environmentally sensitive markets.

Forest management

Tembec is single largest holder of FSC certified area worldwide.

In 2001, Tembec committed to certifying all of their forest lands under its ownership and management according to FSC standards. The company achieved its goal in November 2007 when the last of its forestry licenses earned certification, for a total of 9.7 million hectares of FSC certified lands.

In addition, all of the company's pulp, paper and building products facilities also hold FSC chain of custody certificates. With operations in Canada and France, the company sells pulp, newsprint engineered wood, paperboard, softwood lumber and hardwood flooring to international markets.

FAO State of the World's Forests 2007

FAO website <http://www.fao.org/forestry/28812/en/>

FAO website <http://www.fao.org/forestry/28811/en/>

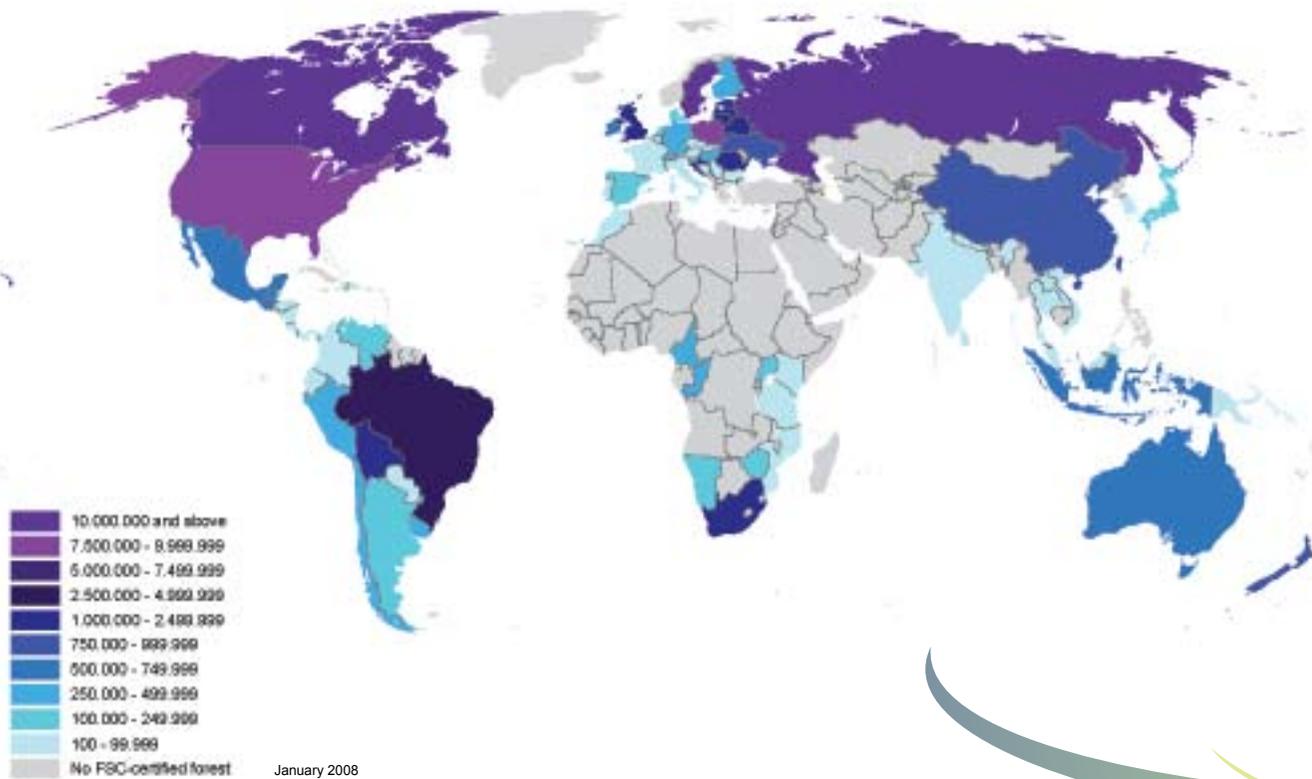
FAO website <http://www.fao.org/forestry/trade/en/>

“In 2001, Tembec made a landmark decision to seek FSC certification for all our forest lands and mills. As a member of FSC with over 10 million hectares certified, we support the FSC as the most widely respected forest certification system in the world. We are proud to put the FSC label on the largest suite of FSC certified products for our customers worldwide”.

Chris McDonnell, Environmental Relations Manager, Tembec



Hectare FSC-certified forest in 2007



FSC forest certification in Nepal creates new markets for NTFPs

A unique alliance of corporations, government and non-profits in Nepal has come together with the goal of combating biodiversity loss in Nepalese forests and preserving sustainable rural life. Centered on medicinal herbs and other non-timber forest products (NTFPs), the alliance brings about responsible business practices through education of business users.

The Federation of Community Forestry Users Nepal, a community federation of forest owners from 21 different groups with land totaling more than 14,000 hectares, earned FSC forest management certification for their lands that provide plants and a wide variety of other NTFPs to the international herbal and medicinal products industry. In addition, the certification is perhaps the first in the world for handmade FSC certified paper.

Industrial symposiums, sponsored by U.S. based cosmetics company Aveda, promote responsible buying practices and have attracted many interested corporate buyers. This facilitation allows Nepali producers to establish new business linkages, consolidate the NTFP supply, and market NTFPs in international markets.

The Market effect:

rewarding responsible forest Management



The production of paper consumes 42% of the global wood harvest for industrial uses, and most of the world's paper supply, 71%, is still made from forest harvested timber (Abromovitz and Mattoon, 1999) . Companies who manufacture, sell, and use paper are increasingly demanding that their resources have come from responsible sources.

For example, the world's largest magazine company has set time bound targets for achieving a minimum of 85% certified content in their annual paper purchases. In addition, a major U.S. home products retailer, the largest publisher in the U.K. and a worldwide computer manufacturer also made commitments to using certified paper in their catalogs (UNECE/FAO, 2007) .

This has translated directly into new FSC certifications: in the U.S., chain of custody certificates related to the paper market grew 100% just this year. In addition, the 3rd FSC Global Paper Forum, coordinated by the FSC working group in Germany, was held this year and attracted more than 150 manufacturers and buyers of FSC certified pulp and paper products.

Paper & packaging

FSC is the preferred certification choice for top paper and packaging companies

PriceWaterhouseCooper's 2007 Report on the Global Forest, Paper and Packaging Industry confirmed FSC certification as the preferred choice of the industry. The study found that almost half (49%) of the industry's top 100 companies, with a combined sales revenue of 350 billion US dollars, have achieved certification of one or more operations to FSC standards.

Source: www.pwc.com

Tetra Pak creates first FSC food packaging

Tetra Pak has launched the first FSC labeled food and liquid carton. Sainsbury's, a UK supermarket chain, is the first to use these cartons for chopped tomatoes. The company's goal is to have all the paper in their packaging certified to the highest standards, which they currently acknowledge as FSC.

With more than 20,000 employees, Tetra Pak is one of the largest food packaging companies in the world and operates in more than 165 markets supplying hundreds of different types of carton packages for food.

Source: based on Tetra Pak and Sainsbury's Press Release 29/11/07

Abromovitz and Mattoon, Paper Cuts: Recovering the Paper Landscape; 1999, Worldwatch Institute, Worldwatch Paper 149
UNECE/FAO Forest Products Annual Market Review 2006-2007

"The main raw material we use is paper. We believe that the sustainable use of renewable resources - like wood fibers - is of utmost importance in contributing to the mitigation of climate change... Today, FSC is the best proof of sustainable forestry."

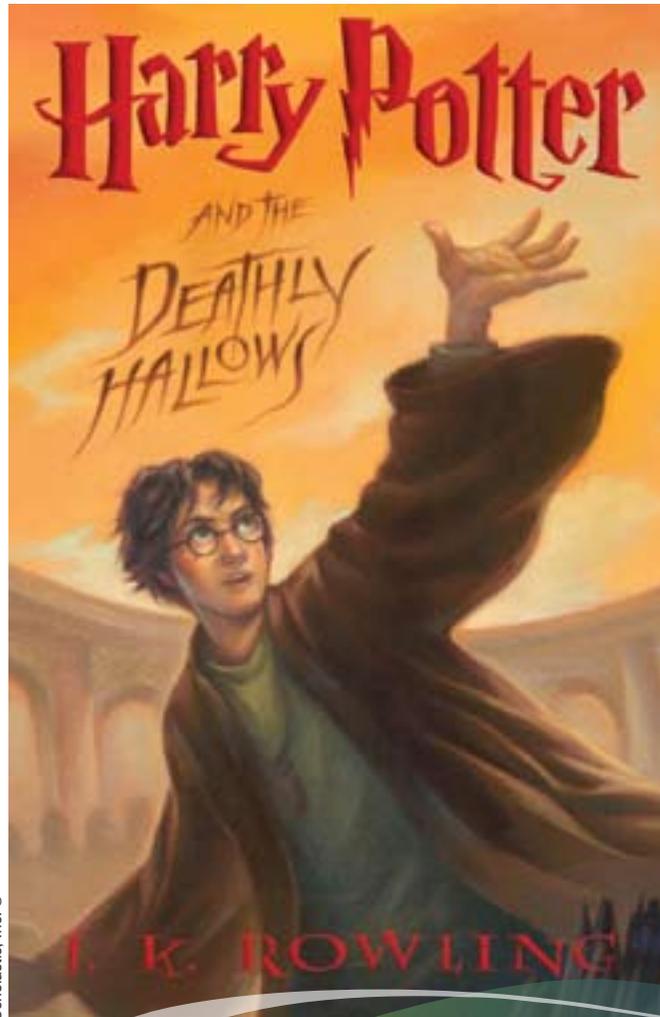
Mario Abreu, Director Forestry & Recycling for Tetra Pak



"As a bank committed to corporate responsibility, our choice for FSC paper is a logical one. The FSC trademark on paper provides certainty about the sources use for this paper."

Vincent Lokin, Director of Facilities, Rabobank, Netherlands. Rabobank Group is an all-finance services provider, with 175 local banks, 60,000 employees, and 9 million business and private customers.

Source: www.whyFSC.com, an online resource developed by Precious Woods and a number of European companies in 2007



Scholastic, Inc. ©

Publishing

Harry Potter Book spurs use of FSC paper in publishing

JK Rowling's Harry Potter series has galvanized the world's book industry into sourcing FSC certified paper for millions of copies of *Harry Potter and the Deathly Hallows*. Publishers in seventeen countries printed the book on FSC certified paper, and ignited a shift where over 300 publishers around the world adopted environmental policies to print a growing number of their book titles on environmentally responsible papers.

With a total of nearly 11,000 tons, U.S. publisher Scholastic made the largest single purchase ever in the U.S. of FSC certified paper for the final book in the popular series.

Source: Based on: Market Initiative Press Release 23/10/07 and 17/07/07

The Market effect:

rewarding responsible forest Management

UK publishers commit paperbacks to FSC paper

Random House UK, the first publisher to receive chain of custody certification, announced that by January 1st of this year, all 'b' format paperbacks would be printed on FSC certified paper – a first in the U.K. When combined with the other paperbacks already being printed on FSC certified paper, 76% of their black & white titles bear the FSC label.

Starting in October, Harper Collins Publishers UK also began printing its entire mass market paperback list on FSC certified paper. In addition to the FSC label, Harper Collins also includes a statement on the imprint page that gives more information about FSC.

Source: Based on Harper Collins Press Release 24/09/07



Uwe Sayer ©

Green building programs around the world are driving home and building owners to lessen their impacts on the environment. Although these programs traditionally focused on construction elements related to energy use, they are now also considering the materials they use, such as lumber and other timber products.

Many programs, including non-profit initiatives such as the USGBC LEED program in the U.S., as well as procurement policies for public construction projects throughout Europe, are demanding FSC certification for their wood building products. The construction market is also looking to some non-timber forest products, such as cork and bamboo, for alternative sources of building materials.

Construction

Dutch market for timber drives FSC forest certification in Indonesia

Leading timber companies, construction businesses, and housing associations in the Netherlands are set to use more FSC timber from Borneo, which holds the third largest remaining tropical rainforest in the world. In doing so, they seek to encourage further FSC certification and responsible forest management, so as to maintain the unique, severely threatened biotope in the region.

In March 2007, the Dutch delegation signed a declaration of commitment during a four day conference in Jakarta. The Dutch contingency held talks with Indonesian forest owners, timber traders and concession holders and informed them about the increasing demand for FSC timber. At that time there were approximately 740,000 hectares of forest certified to FSC standards in Indonesia.

Source: FSC Netherlands Press Release and the Building and Borneo Fact Sheet

"It is our hope that this sort of market demand will give extra encouragement to good forest management in Borneo."

Peter Boerenfijn, Director of Aedes, the Union of Housing Associations, Netherlands



US Green Building Council's LEED program drives demand for FSC

The U.S. Green Building Council's (USGBC) Leadership in Energy and Environmental Design (LEED™) program certifies the 'green' construction of new commercial buildings, major renovations, schools and healthcare facilities. FSC has been the benchmark wood certification for LEED since the program's inception, and FSC continues to be the only wood certification program accepted toward LEED certification.

In anticipation of the new LEED for Home standard for residential construction set for release in 2008, residential building materials were a focus of the USGBC's annual Greenbuild conference in November 2007. A number of FSC certificate holders sponsored the construction of an exhibit house made entirely of FSC certified materials. The project was developed by Forest Product Solutions and supported by FSC US.

With nearly ten thousand registered construction projects across the U.S., the LEED program is directly driving demand for FSC certified products. By the end of 2007, FSC chain of custody certificates issued in the U.S. for building related products had nearly doubled since 2004.

"For our customers involved in green building projects, FSC is the only label they will accept as assurance of the most rigorous certification requirements. Without our FSC certification, we would not have access to that greatly expanding market."

Brian McLeod, Executive Vice President, Panel Source International, manufacturer of building products in Canada



"The unprecedented growth of the green building market in the U.S. ... has significantly impacted both awareness and purchase power for FSC certified wood in building construction."

UNECE/FAO Forest Products Annual Market Review 2006-2007



TS Whalen © www.forestproductsolutions.com

The Market effect:

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Value-added markets for timber products, such as furniture, are an important link in the supply chain. Just as in the construction market, the furniture market is now also heavily examining their use of raw materials and the resulting impacts on the environment.

This effort is being led by companies both large and small who want to conduct business in a responsible manner. New organizations are also developing their own standards regarding the certification of sustainable furniture products and are using FSC as a tool to help them achieve those standards.



ForestWorld ©

Furniture

ForestWorld brings FSC furniture to the world

ForestWorld LLC is a premier manufacturer of responsibly harvested forest products, including interior and garden furniture. They own one of the world's largest wood products manufacturing facilities, located in Bolivia, and produce only products made with FSC certified timber or timber that comes from areas in the process of FSC certification.

ForestWorld regularly partners with indigenous communities in Bolivia and Peru in order to give the landowners an incentive to achieve FSC certification. Approximately 80% of products that the company produced this year were FSC certified, and were ultimately exported around the globe, including North America, Europe and China.



“Our customers, shareholders, employees and community want assurance that ForestWorld is adhering to the highest standards of responsible forest management, economic viability and positive social impact. Our FSC certification gives them that certainty.”

Chris Anderson, CEO, ForestWorld

Sustainable Furnishings Council promotes use of FSC

Sustainable Furnishings Council (SFC) is a new U.S.-based organization promoting sustainable practices among furniture manufacturers, retailers, and consumers. SFC promotes the use of FSC certified products because they deem FSC to be the most rigorous and globally accepted standard for sustainable forest management, while other certification schemes frequently lack the same tracking controls.

With more than 260 members, SFC is expected to continue to grow in the coming years as manufacturers and consumers in the furniture market increasingly demand materials from environmentally responsible sources.

Source: Sustainable Furnishings Council

In each of these markets perhaps the most important factor is the end customer. Without consumer interest in environmentally and socially responsible products, this effort to sustain the world's forests through an on-product labeling mechanism would not be possible.

The consumer retail sector is now actively involved in bringing FSC certified products to store shelves around the world, including the world's major do-it-yourself stores and home stores selling garden furniture who are especially concerned about their sources of tropical hardwoods.

Each FSC labeled product purchased by a consumer provides further evidence that the system works, that there is demand for the values that FSC certification represents, and sends this message all the way back through the supply chain to the forest where the wood originated.

Retail

Leading UK retailer makes commitment to sourcing FSC

In 2007, Marks and Spencer's (M&S), a leading retailer in the UK with 520 stores and more than 200 stores overseas, made an outstanding public commitment to source all of its wood from FSC certified or recycled sources by 2012. This plan is arguably the boldest commitment to date made by any retailer in the world.

M&S has already converted their entire range of 'Food to Go' sandwich packaging equating to 2,500 tons of FSC certified board each year. In addition, more than 90% of M&S garden furniture is now FSC certified and all quarterly mailings sent to more than 1 million customers are produced on FSC certified paper.

Source: WWF Guide to Buying Paper



2007 Marks and Spencers ©

King Fisher sells FSC to millions of do-it-yourselfers

King Fisher is a leading home improvement retail group with 780 stores across Europe and Asia serving 6 million customers per week. The company's procurement policy states that FSC is the "preferred certification scheme" and includes goals to encourage their suppliers toward sourcing timber products from FSC certified sources.

In their latest sustainability report, the company reports that nearly 45% of their timber is from FSC certified sources. In addition, the company has launched a special promotion of FSC certified flooring at their B&Q stores in China to educate the market about wood certification. The company is also seeking chain of custody certification for its B&Q retail stores and warehouses in the U.K., more than 300 in total.



B&Q China FSC Product & Promo ©



"We have chosen to pursue FSC certification as we consider it to be the international gold standard in forestry certification. We believe that it is the most rigorous standard that balances the views of environmental and social interest groups with industry."

Lauren Orme, Marks and Spencer's, Sustainable Raw Materials Manager.

The Market effect:

rewarding responsible forest Management

“As the leading home improvement retail group in Europe and Asia, Kingfisher is committed to working with our suppliers to ensure that our wood and paper products come from proven, well-managed forests. In order to continue to be the customer choice for sustainable home improvement products and services we will remain at the forefront of responsible timber buying and know that by stocking FSC certified products we can help our customers have a direct, positive impact on the world’s forest resources.”

Jamie Micah Lawrence, Corporate Responsibility
- Timber Advisor, Kingfisher

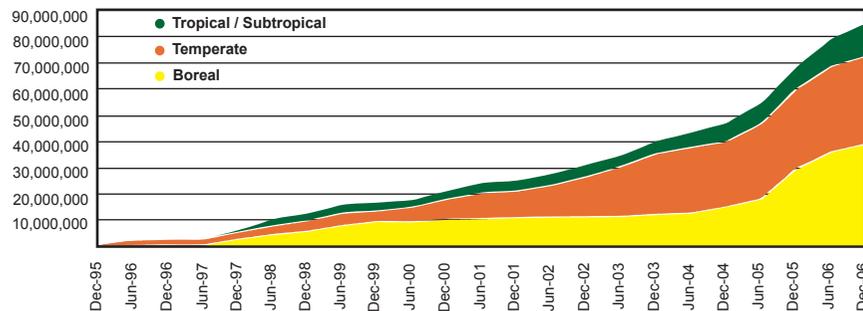


Anyway you look at it, forests and the resources and services they provide are a tremendously important piece of the world economy. That is why FSC aims to ensure that the processes and services of the FSC system create business value for those involved in buying and selling FSC certified products. This aim leads to the creation of FSC Global Development, a new business unit of FSC established to lead this effort.

Enhancing the value of the FSC brand is not simply an interest of our certificate holders or the economic chamber of our membership, but shared and supported by all three chambers equally. After all, if forests and their resulting products do not have value, those lands will be converted to other uses, and the unique environmental and social benefits that only forests can provide will be lost forever.

The message is simple: demand for FSC certified products translates directly into positive social and environmental benefits for the world’s forests and the people who depend them.

FSC market facts & figures



By the end of 2007:

- Over 94 million hectares of forest were certified to FSC standards in 78 countries
- FSC certified forests represented an area equivalent to 7% of forests identified as primarily for production purposes.
- The FSC supply chain experienced 40% annual growth in chain of custody certificates issued globally, representing 84 countries
- The value of FSC labeled product sales for 2006 is estimated at over 20 billion USD. This represents a growth of over four times the market value since 2005 in which a similar market survey estimated the value to be \$5 billion.
- Recognition of the FSC label reached new heights, as unprompted recognition of the label reached 21% in Switzerland and the Netherlands, 23% in the U.K., and 33% in Denmark.

"HSBC has a long-standing commitment to the environment. As a part of our Corporate Sustainability Strategy, HSBC has issued a Forest Land and Forest Products sector guideline in which we reference the FSC or equivalent certification as our standard of good forest management. As a leading international certification and labeling scheme we encourage our clients to adopt the FSC system. HSBC also recognizes that certification provides a business opportunity for forest managers, timber product manufacturers and retailers to gain added recognition from consumers worldwide."

HSBC has around 9,500 offices in 85 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. HSBC has over 100 million customers worldwide.



**Evolution of the FSC system:
Continually striving to the best**

The image features a vibrant, sun-dappled forest scene. Tall, slender trees rise vertically, their leaves creating a thick canopy of various shades of green. In the foreground, there are large, fan-shaped tropical plants, possibly palms or similar species, with long, pointed fronds. The overall atmosphere is one of a healthy, thriving natural environment. The text is overlaid on a semi-transparent dark green rectangular area in the lower right quadrant, with a decorative wavy line in shades of green and grey at the bottom of the page.

Introduction: Evolution of the FSC system

In the same way a carpenter carefully selects the most appropriate and up-to-date tools available for his woodworking projects, any organization is only as effective as the tools it chooses to use to achieve its mission. FSC remains effective because we are constantly reevaluating the way we work and the standards we use to achieve our goals.

In 2007, FSC experienced many changes to our ever evolving system of forest certification, including the expansion of two new business units and the release of a host of revised standards. FSC also launched a revised FSC certificate database – located at www.fsc-info.org. The database provides a more user-friendly platform for companies, consumers, and other stakeholders to find information about FSC certificate holders and certified products.

The launch of a Global Strategy

FSC took a unique and inspiring step this year of publicly renewing our commitment to leadership through the formulation of the Global Strategy. Entitled “Strengthening Forest Conservation, Communities and Markets” the strategy will guide us through our second decade of advancing globally responsible forest management.

The Global Strategy stresses the importance of making progress with forest certification in tropical forests and small producers and about growing the market share for FSC certified products and other forest services, such as carbon sequestration.

As we proceed through our second decade we need to prepare for a future defined by extraordinary new demands on our forest resources, from supplying basic fuel wood to stabilizing global warming. Alongside this, FSC must progress organizationally so that we can meet these demands and continue to provide trust and credibility in the FSC system.



“After pioneering forest certification and almost unexpected success and fast growth, the question is no longer: will it work, but how can we make it work better? The Global Strategy defines ways for FSC to deliver more benefits to forest people and businesses at the same time and to maintain the local forest ecosystem.”

Roberto Waack, Vice Chairperson, FSC Board of Directors

Five goals to drive FSC’s future

FSC will:

1. Provide leadership in advancing globally responsible forest management.
2. Ensure equitable access to the benefits of FSC systems.
3. Secure the integrity, credibility and transparency of the FSC system.
4. Ensure that products from FSC certified forests create more business value than products from non-certified forests.
5. Strengthen our global network to deliver on Goals 1 through 4.

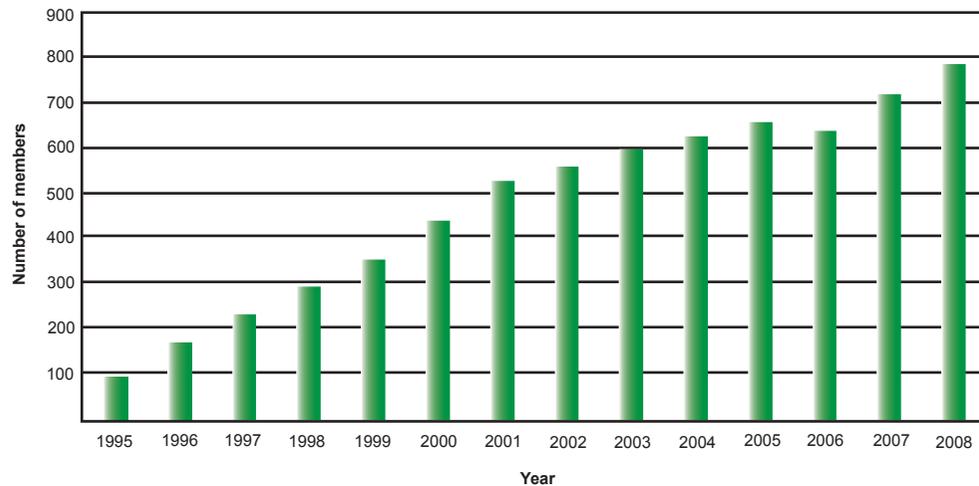
To read the full Global Strategy, please go to http://www.fsc.org/global_strategy.html

FSC members guide the Global Strategy

FSC is a membership association divided into social, environmental and economic chambers, where each chamber carries the same weighted vote. Members include some of the world's largest manufacturers and retailers of forest products, leading conservation organizations, and organizations and individuals representing social and community-level interests.

The Global Strategy was developed after a thorough consultation process in which the entire FSC membership played a vital role. Going forward, FSC will look to our membership – the ultimate decision-makers in the FSC system - in implementing the Global Strategy.

In addition we have begun our Governance Review process, based on Motion 51 from the last General Assembly. The objective of this process is to develop a strategically aligned governance system that is highly credible to FSC stakeholders, financially viable, and effective in ensuring implementation of the Global Strategy.



"We support and represent our FSC group certificate members, local communities with small-scale portable sawmilling enterprises and locally owned timber yards. We joined FSC to give them a vote, making sure the needs and concerns of small-scale community operations are heard at the international level and treated with equal importance as those of other members."

Cosmas Makamet, Manager of FORCERT, Forest Management & Product Certification Service, a non-profit organization in Papua New Guinea that promotes certification and marketing services of forests and products for local small-scale producers and timber yards.



FSC ©

Member spotlight: NWF and WWF create responsible purchasing guides

The World Wild Fund for Nature (WWF) International developed a guide and scorecard tool this year to help companies source responsible paper. From packaging paper to office paper and tissues, the WWF Guide to Buying Paper helps organizations understand the most important environmental impacts of paper-making and to source responsibly-produced paper products.

The National Wildlife Federation (NWF) also created a scorecard this year ranking major U.S. retailers in their availability of FSC certified garden furniture. NWF also ranked retailers on how easily consumers could identify the furniture as being FSC certified. This project has important implications as the U.S. is the world's largest single importer of wooden furniture from tropical timber-producing countries.

Source: www.nwf.org and www.panda.org.



Juan Carlos Reyes ©

"We want consumers to know they can make a huge difference in the fate of the world's forests by acting with their wallets. If buyers don't ask for FSC certified products, retailers won't supply them."

Stacy Brown, Forest Certification Coordinator, National Wildlife Federation, United States

National Initiatives bring the Global Strategy to local level

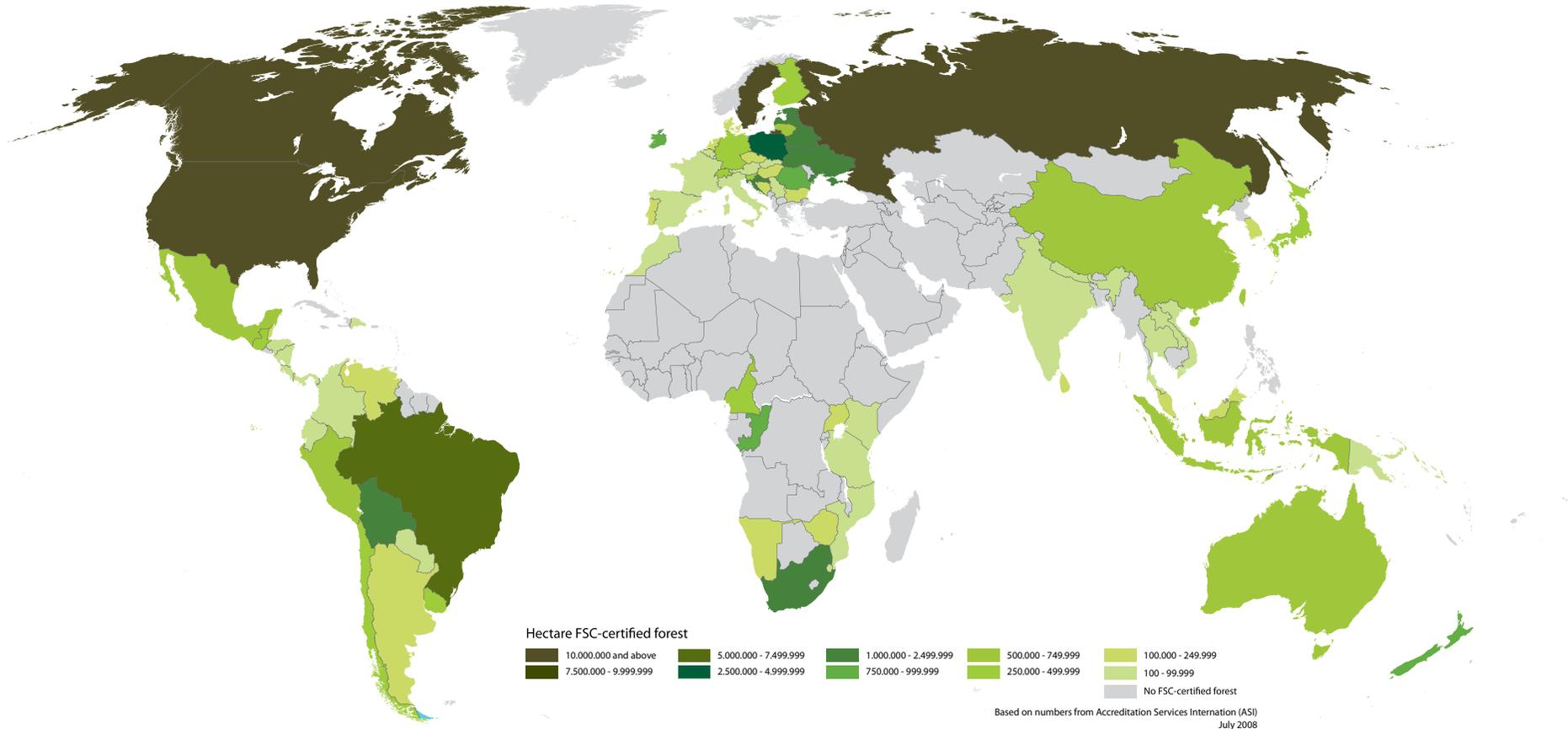
National Initiatives (NIs) promote FSC in their countries by providing information about FSC, running market campaigns, and supporting companies in using the FSC tool. They also support the development of national or sub-national standards used in the forest management certification process. NIs in 46 countries around the world are carrying out this work, with ten new NIs accredited in 2007 alone.

National Initiatives are also an important part of the Global Strategy. NIs are the lynchpin between FSC International, members, landowners, forest products companies, and other local stakeholders as the Strategy looks to grow the market share for FSC certified products and other forest services.

"The work of National Initiatives is imperative in increasing demand for FSC products. It's due to the efforts of the NI that the FSC message is becoming an integrated part of life and business. FSC Denmark, for example, created a business forum which already has 40 members. Thanks to our NI, an amazing 33% of the Danish population now recognizes the FSC label."



Kasper Kopp, Chairman, FSC Denmark Board of Directors



NI spotlight: FSC expands in the Pacific with FSC Australia and FSC China

A near capacity audience attended the launch of Australia's FSC National Initiative in March of this year. Less than a year after efforts to develop the National Initiative began, Australia now boasts almost 40 companies who are participating in the FSC certification system.

In June, the FSC International Board of Directors announced the accreditation of FSC China. FSC chain of custody certification in China is growing faster than anywhere else in the world. To date over 300 companies in China hold FSC certificates, and more than 700,000 hectares of forest are certified to FSC standards.

“China is a key player in global wood products trade and manufacturing. There is an enormous opportunity for Chinese businesses together with FSC to transform the national and international wood products trade into a responsible trade, while at the same time capturing additional value and protecting the world's forests.”

Grant Rosoman, Chairperson of the FSC Board of Directors.



Evolution

of the FSC system: Continually striving to the best

Investment in FSC market expansion through FSC Global Development

FSC established an exciting and entirely new business unit in 2007: FSC Global Development. FSC Global Development will continue to develop and expand FSC markets while strengthening recognition and credibility of the FSC trademarks.

Global Development will work to continue to streamline FSC trademark services to strengthen promotional and on-product labeling, while reinforcing continued compliance to FSC's standards. The program will further support certificate holders by offering additional tools to help them succeed at promoting their FSC products while protecting their investments.

"Our goal is for our work to result in even more opportunities for certificate holders to recognize value and success in the marketplace with their FSC offerings. We hope to also assist all certificate holders to fully understand the significant impacts they are making on the ground by choosing responsibly, and effectively communicate what FSC means to their clients."

Liza Murphy, Managing Director of FSC Global



Independent accreditation business entity focuses on credibility

Over the past several years, FSC has been working to develop ASI - Accreditation Services International GmbH - as an independent business entity. This change has strengthened the operations of the FSC Accreditation Program, allowing it to deliver more credible, transparent and independent accreditations - vital to the overall integrity of the entire FSC certification system.



FSC certification grew worldwide by 38% in 2007, to more than 8,600 certificates by the year's end. As the overseer of FSC certificates, ASI performed 77 accreditation and surveillance assessments throughout the year, ensuring that certification bodies and certificate holders remain in compliance with FSC standards. ASI also organized a number of training courses in 2007, including training for representatives of European and African National Initiatives in the development of national standards.

Continual revision of standards allows FSC to remain at the forefront of forest certification

The FSC standard setting process is transparent, democratic and inclusive with many opportunities for the interested public to participate. It is this process that has allowed FSC to become an important and recognized forum where innovative solutions have become possible with the support of all stakeholder groups interested in forestry issues.

Periodic review of the standards allows FSC certification to remain effective, relevant and applicable in ever-changing market conditions, while still remaining true to FSC's core values. FSC is additionally increasing its efforts to support the implementation of these standards by offering supplementary advice notes, user-friendly guides and training.



FSC ©



Erick Goethals ©

This year's efforts include:

Chain of custody (CoC) - Some of the main innovations offered by the new chain of custody standard are: allowing all types of CoC operations from the forest to the final point of sale to use a single set of requirements, simplified labeling thresholds, allowance of pre-consumer material in recycled products, and adherence to an international product classification system that will help buyers source products more easily.

FSC also expanded its set of accreditation standards to further increase reliability in certification decisions within and between certification bodies.

Multi-site chain of custody - Aimed at larger companies, the multi-site standard approved this year presents the requirements for organizations who wish to operate a CoC system for more than one production site or sales office at reduced costs for external certification audits. The multi-site organization can now expand its scope trans-nationally, has the benefit of obtaining a certificate with a single code for all its certified sites.

Trademarks - The requirements for the promotional use of the FSC trademarks have been revised and now address both non-certified commercial organizations as well as FSC certificate holders in a single document. The document aims to ensure easy, correct, and truthful application and use of the FSC trademarks and to avoid misleading claims and uses.

Controlled wood (CW) – FSC Controlled Wood certification provides a credible and independent verification that ensures a minimum performance level on the ground where forest management practices cannot meet the strict requirements of the Principles and Criteria.

Following the review process of the CW standards (2005-6), FSC has now has an improved and complete set of CW standards, including certification standards for forest managers and CoC holders, as well as accreditation standards for certification bodies. The improved standards address the certification and accreditation of controlled wood more effectively, and have stricter requirements. It requires third party verification to control non-certified material along the supply chain right back to the forest of origin through.

To support companies to source controlled material, FSC created a user-friendly guide and launched the CW resource center. This on-line tool has a risk register, a risk assessment wizard and provides a central location for relevant standards and information.



Juan Carlos Reyes ©

Evolution

of the FSC system: Continually striving to the best

Pesticides – Revised guidance and procedure documents for the FSC pesticides policy were approved and resulted in updating the FSC list of ‘highly hazardous’ pesticides. Work on other aspects of the guidance document is still ongoing, including the development of guidelines for integrated pest management.

The procedure document for processing temporary pesticide derogation applications was further streamlined to ensure that applications are handled transparently, consistently, efficiently, timely and in compliance with the FSC Pesticides Policy.

Partial Certification - FSC has already begun reviewing its policies on ‘partial certification’ regarding companies who certify only part of their forest management operations as well as developing a modular approach program for forest management evaluation to encourage certification in areas where “full” FSC certification can only be achieved in the long run. Also, the technical phase of the Plantations Review began following the completion of the policy phase earlier in the year.



Juan Carlos Reyes ©



FSC ©

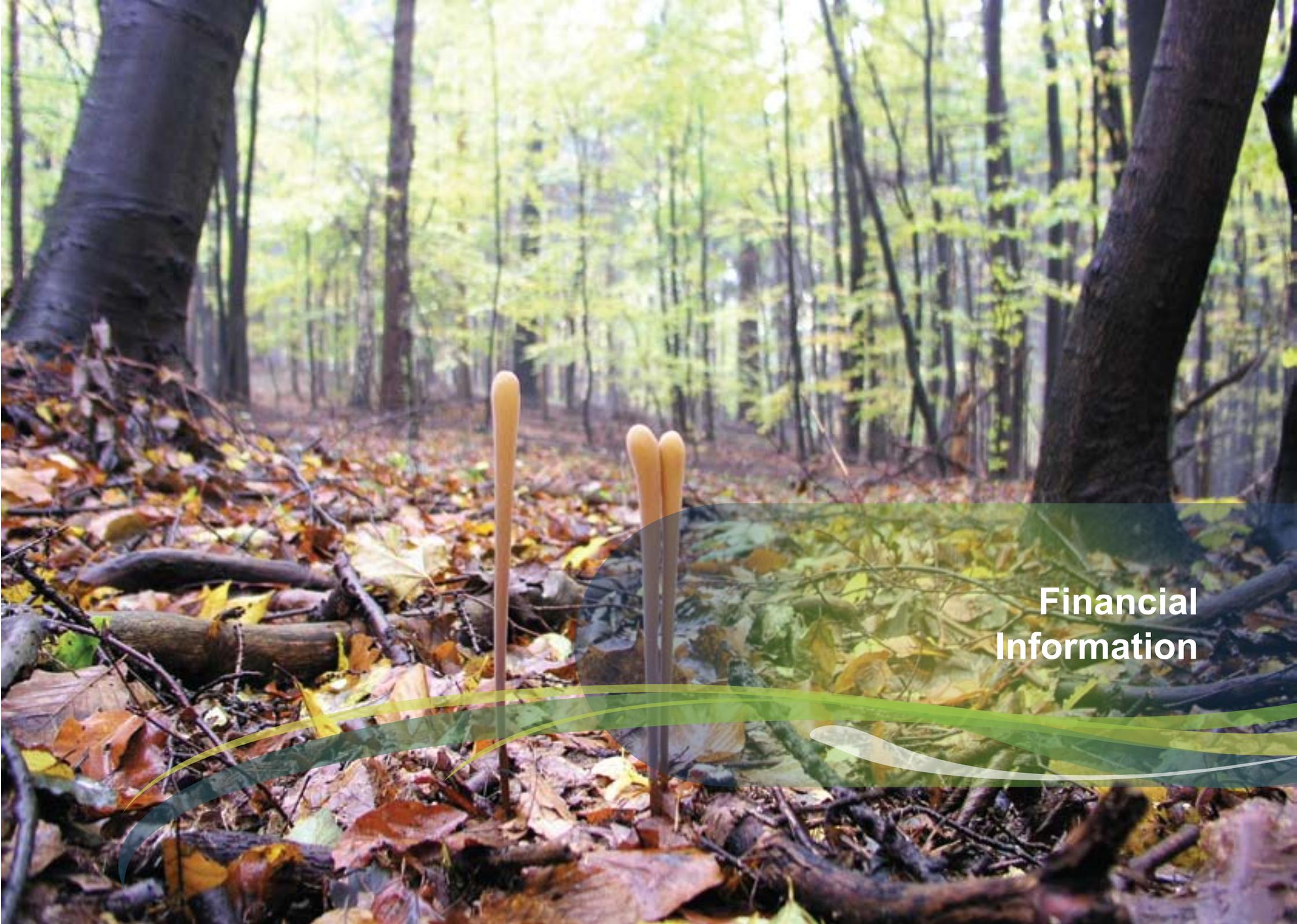
FSC standards setting process affirmed by ISEAL Code of Good Practice

FSC became one of only seven organizations around the globe, and the only forest certification organization, to have reached the highest standards for credible behavior in ethical trade by complying with the ISEAL Code of Good Practice – the international reference for setting credible voluntary social and environmental standards.

The ISEAL code specifies general requirements for the preparation, adoption and revision of standards. It applies to international standards developed using consensus based procedures.

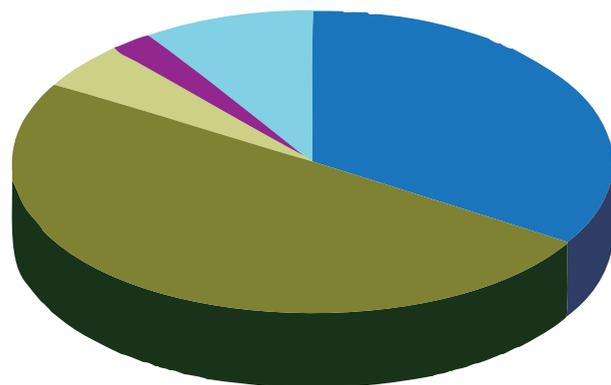
A range of governmental and inter-governmental guidelines reference the ISEAL Code as the best measure of credibility for voluntary social and environmental standards. “The ISEAL Alliance is a leading example of collaboration between labeling initiatives. Its members’ compliance with the ISEAL Code of Good Practice gives a clear sign to both governments and industry that these initiatives are the leaders in the field, backed by credible standards and capable of delivering genuine social and environmental change.”

Richard Howitt, spokesperson on Corporate Social Responsibility for the European Parliament.



**Financial
Information**

Financial Information



- 34% Donation Program
- 50% Accreditation Program
- 5% Membership Program
- 2% Commercial Services
- 9% Other

Note: The figures that appear in the financial information shown are derived from the 2007 & 2006 consolidated financial statements that have been audited and have received an unqualified opinion. The complete, audited 2007 & 2006 financial statements for FSC can be seen at www.fsc.org, or can be requested from:

FSC International Center
 Charles de Gaulle Str. 5 - 53113
 Bonn, Germany
 Phone +49 (0) 228 367 660
 Fax +49 (0) 228 367 66 30

Exchange rates used for each year:
 EURO to US dollar (1EUR =) 1.4681 1.3165
 US dollar to Mexican Peso (1USD =) 10.9043 10.8755

Forest Stewardship Council and subsidiaries Consolidated Statement of Activities in USD for the years ended 31 December 2006 and 2007

Incoming Resources	2007		2006	
Donation Program	1,828,939	34%	2,532,009	51%
Accreditation Program	2,693,662	50%	1,846,432	37%
Membership Program	260,978	5%	279,843	6%
Commercial services	128,223	2%	23,675	0%
Other	498,630	9%	266,118	5%
Total incoming resources	5,410,433	100%	4,948,077	100%

Resources Expended

Operating expenses	4,769,252	91%	4,236,517	97%
Depreciation on intangible and tangible assets	67,714	1%	45,503	1%
Taxes	25,756	0%	-632	0%
Transfer to reserves	400,131	8%	64,509	1%
Total resources expended	5,262,853	100%	4,345,896	100%

Surplus (loss) **147,580** **602,180**



FSC wishes to thank the following partners who made financial donations to FSC during 2007. Without their support, our work in improving the management of the world's forests would not be possible.

BMZ - Bundesministerium Für Wirtschaftliche Zusammenarbeit (German Federal Ministry for Economic Development Cooperation).

Freshfield Foundation.

FSC Global Fund.

GTZ - Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (German society for technical cooperation).

Global Environment Facility.

Greenpeace International.

HIVOS – International Humanist Institute for Cooperation with Developing Countries.

IKEA.

ISEAL Alliance – International Social and Environmental Accreditation and Labeling.

SIDA – Swedish International Development Cooperation Agency.

Stichting DOEN.

VROM - Ministerie van Volkshuisvesting, Ruimtelijke Ordening en Milieubeheer (Dutch Ministry for Social Building, Regional Planning, and Environment Administration).

WWF International.

WWF Sweden.

We gratefully acknowledge all the contributions made by each and every supporter, but unfortunately we are not able to list everyone.



www.fsc.org
info@fsc.org