

FSC MISSION STATEMENT

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

Environmentally appropriate forest management ensures that the harvest of timber and non-timber products maintains the forest's biodiversity, productivity, and ecological processes.

Socially beneficial forest management helps both local people and society at large to enjoy long term benefits and also provides strong incentives to local people to sustain the forest resources and adhere to long-term management plans.

Economically viable forest management means that forest operations are structured and managed so as to be sufficiently profitable, without generating financial profit at the expense of the forest resources, the ecosystems, or affected communities. The tension between the need to generate adequate financial returns and the principles of responsible forest operations can be reduced through efforts to market forest products for their best value.

GOVERNANCE

GENERAL ASSEMBLY



FSC's highest organ is the General Assembly of individual members and duly designated delegates of member organizations. The General Assembly is made up of three chambers: Environmental, Social and Economic. As of July 2003, FSC has 585 members from 67 countries.



BOARD OF DIRECTORS 2002



Mr. Yati A. Bun Foundation for People and Community Development, Inc. Papua New Guinea	Mr. David Nahwegahbow Algonquins of Barriere Lake Canada	Ms. Hannah Scrase FERN Foundation United Kingdom
Mr. Mauricio Castro Individual Colombia	Mr. Grant Rosoman Greenpeace New Zealand	Dra. Åsa Tham Diocese of Västerås — Church of Sweden Sweden
Mr. Sian Tuan Mok Individual Malaysia	Mr. Gisbert Schlemmer IG Metall Germany	Ms. Sandra Tosta Faillace FASE Brazil

The Board of Directors is accountable to the FSC members and is made up of nine individuals who are elected for a three-year term.



EXECUTIVE DIRECTOR



A Board-appointed Executive Director heads the FSC Secretariat and is based at the FSC International Center.

Mr. Heiko Liedeker has been FSC Executive Director since August of 2001.

FSC 2002 AT A GLANCE

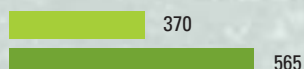
AREA CERTIFIED UNDER FSC PRINCIPLES AND CRITERIA

Increase from 2001 to 2002: 43 %



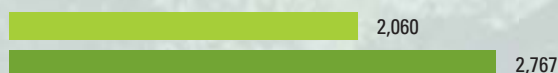
FOREST MANAGEMENT CERTIFICATES

Increase from 2001 to 2002: 53%



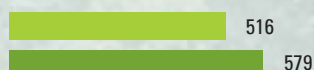
CHAIN OF CUSTODY CERTIFICATES

Increase from 2001 to 2002: 34%



MEMBERSHIP

Increase from 2001 to 2002: 12%



NATIONAL INITIATIVES

Increase from 2001 to 2002: 6%



2001 2002

HIGHLIGHTS 2002

GENERAL ASSEMBLY

From 22 to 26 November 2002, FSC members met in Oaxaca, Mexico to hold the third General Assembly of the FSC. More than 200 participants from 44 countries, including members and observers, voted on 60 motions aimed at fine-tuning FSC Statutes, Principles and Criteria.

LAUNCH OF FSC SOCIAL STRATEGY

FSC's Social Strategy was launched at the General Assembly 2002. The strategy strives to recognize the concerns of FSC's "social constituencies," to formulate core social values for FSC, and to translate these ideals into specific objectives, outputs and activities that are closely connected with the organization's core business.

THE DECENTRALIZATION PROCESS

In 2002 we initiated FSC's decentralization process. Our goal is to set up a client-oriented global network able to promote environmentally appropriate, socially beneficial and economically viable forest stewardship, strengthening our support for local, national and regional initiatives.

RE-LOCATION OF OUR INTERNATIONAL OFFICE

We started the process of re-locating our international office from Oaxaca, Mexico to Bonn, Germany.

COMMUNICATIONS

National Initiatives and the Forest and Trade Network launched several marketing campaigns for FSC certification and products in Europe and Latin America. This multi-region effort has contributed to increase the awareness of FSC as the leader of responsible forestry.

A LETTER FROM THE CHAIRPERSON



The year 2002 brought marked changes in terms of organization and overall strategy. We saw the development of several key areas of the Forest Stewardship Council (FSC) enhancing the organization's role in the international arena, and were able to set up forums for dialogue between our various stakeholders, to consider the role of the FSC at present and in the future. I would like to briefly highlight four of the most important achievements in 2002.

The most important strategic achievement in the year 2002 was the development, consultation process, and finally the endorsement of the FSC Social Strategy. The introduction of the Social Strategy, with its innovative new program, is a clear sign of our continuing effort to extend access to the benefits of certification to all sectors of society. The challenge for the coming years is to combine the efforts of all of us—members in North and South, National Initiatives, certification bodies and certified operations around the world, supporters and partners worldwide—to put this unique social strategy into action and once again demonstrate leadership on a global scale.

The World Summit on Sustainable Development in Johannesburg was certainly a milestone event. Many FSC members, including some members of the Board of Directors took part in the Johannesburg summit. It was made clear that FSC does not only profess respect for humanity and the environment, but is in fact one of the leading exponents of the implementation of Agenda 21, and one of the most demonstrable successes of the World Summit in Rio de Janeiro ten years earlier.

To further the strategic development of FSC, a moderated e-conference was set up to offer an opportunity to all interest groups, members and non-members, to discuss the aims and the future role of FSC. The conclusions of this conference were analysed and presented to the Board of Directors. It was decided to continue the strategy discussion by developing

key objectives for the successful development of FSC. This further input to the strategic discussion was completed before the General Assembly.

Finally, in November, more than 200 members and observers met for the 2002 FSC General Assembly. The members discussed some of the strategic issues outlined by the Board of Directors, and mentioned a number of other areas important for the fulfilment of our mission. At the General Assembly many of the most pressing policy issues, including changes to the Statutes, were discussed. Many of the decisions taken there now form part of the international strategy of FSC. Our many members around the world have once again shown their commitment and made an invaluable contribution to the strengthening of FSC.

Lastly, I would like to thank all members, National Initiatives, certification bodies, certified operations, supporters, partners and donors for your tireless effort and commitment, which have made it possible for FSC to continue working towards its social, environmental and economic goals. My work as Chairperson of the Board of Directors could not have been so fruitful without your support.

Best wishes, Åsa Tham
Chairperson of the FSC Board of Directors

A LETTER FROM THE EXECUTIVE DIRECTOR



Over the past ten years FSC has brought about changes in many economic, social and environmental aspects of forest management at a global, national and local level, and, correspondingly, many of the social, economic and ecological developments of forest management have in turn changed FSC. FSC needs to continue to adapt to changing socio-economic conditions now and in the future. Given the worldwide nature of our activities, with certification in progress in more than 68 countries, National Initiatives in 31 countries and members in 67 countries, the time has come for FSC to restructure its global network and seek innovative ways to ensure both support and a consistent approach worldwide.

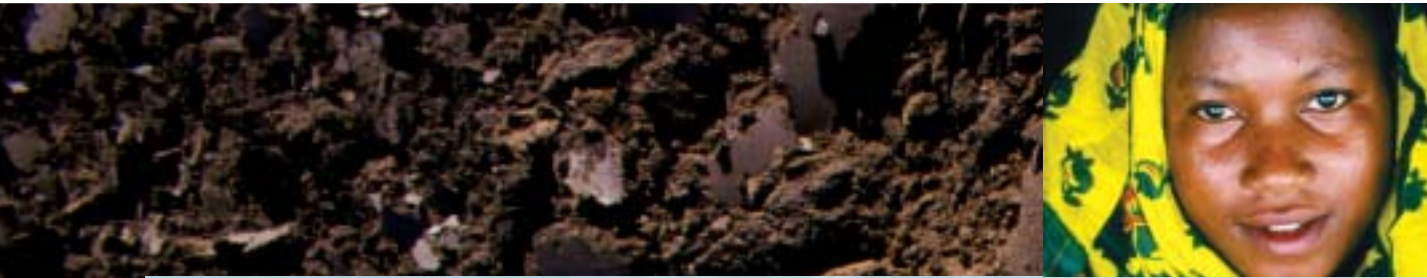
In 2002 we developed, with the help of many members, National Initiatives, certification bodies and certified operations, a comprehensive strategy to decentralize the FSC global network. It is our goal to set up a client-oriented global network able to promote environmentally appropriate, socially beneficial and economically viable forest stewardship, a network which can fulfil our mission and satisfy the needs of our wide range of clients and interest groups. In tandem with this process of decentralization of responsibilities and activities, we have to strengthen our support for local, national and regional initiatives.

For the past 10 years we have been at the forefront of the forestry debate. We have brought together stakeholders from around the world to find innovative new solutions which integrate economic needs with respect for the environment and social benefits. We have not only led the discussion on a global level, but also put the commitments of Agenda 21 into action and improved the livelihoods of many people living in and from forests around the world. 2002 was the final year in a decade of unparalleled success and a year of consolidation to lay the foundations for the future of the FSC. I am very excited about the great potential for development in so many fields, the challenges of which we are now ready to take up.

Our International Center will move to Bonn, Germany, which is strategically located to interface with our global partners, play a key role in international dialogue, raise additional commitment and support for local, national and regional initiatives worldwide, and to oversee the development and decentralization of our global network. More importantly, in the year 2002 we laid the foundations for the establishment of regional offices in Latin America, Africa and Asia. I am convinced that the regional offices in all three tropical regions will prove to be a milestone in the development of FSC, helping us to focus on and provide better support for specific needs in many Southern countries and in the tropics.

Also, we have undertaken internal restructuring, separating and consolidating the different business areas of FSC to improve service provision worldwide. Standard setting and policy development will lie at the core of our organization. Among many other improvements, we have clearly separated FSC's standards development program from our accreditation program to avoid any conflict of interest and to comply with accepted international rules.

Looking forward to the next decade of success, Heiko Liedeker
FSC Executive Director



IN EARLY 2002, FSC BEGAN ITS PLANNED DECENTRALIZATION AND TRANSFORMATION INTO A NEW GLOBAL NETWORK.

This new structure will enable FSC to provide a high level of services to its stakeholders and members around the world. FSC's Regional Coordination Unit (RCU) was established to support Regional Offices and National Initiatives.

AFRICA AND ASIA-PACIFIC

The promotion and implementation of conditions for good forest management in the Asia-Pacific region and in Africa is a need that can no longer be ignored. Both regions represent a major challenge for FSC because of the importance of the forest and the impact of forest management on people's livelihoods. FSC provides an opportunity to bring about change. During 2002 FSC developed a plan for both regions and, in two side meetings at the General Assembly, stakeholders from the Asia-Pacific region and from Africa exchanged points of view about the opportunities and challenges FSC could face in these regions. FSC also started to recruit directors for the offices in Africa and Asia. The government aid agencies DGIS (Netherlands) and DANIDA (Denmark), showed their commitment to FSC by providing support for the establishment of the Regional Office in Africa.

AMERICA

FSC in the Americas developed significantly in 2002. In October, a meeting of National Initiatives (NIs) and groups from other Latin American countries interested in FSC was held for the first time, in Argentina. Representatives from ten countries attended the meeting, analyzing regional challenges and the decentralization process. At the same time, the

NIs met to harmonize forest stewardship standards. An important step was taken when the FSC Board of Directors approved the establishment of the Latin America Regional Office in Oaxaca, Mexico, and the process of recruiting a Director began.

EUROPE

The European Office had an excellent year in terms of planning and network development. In June, the Regional Office organized its 3rd NIs meeting. Fifteen European National Initiatives met in Germany, with strong representation from Central and Eastern European countries. The meeting discussed recent developments in FSC policy-making and in the decentralization of services, as well as sharing experiences and discussing plans for the development of FSC within Europe.

ENDORSEMENT OF STANDARDS

2002 was also a productive year in terms of the endorsement of national Forest Stewardship Standards. FSC endorsed one new standard in Bolivia, one in Peru, one in Brazil and three in the United States. Canada made important advances in the development of its Boreal, British Columbia and Maritimes standards.



2002 HIGHLIGHTS

- > **THE FSC DEVELOPED** a plan to improve its presence in Africa and Asia. The implementation phase, which includes the establishment of regional offices in these regions, will be carried out in 2003.
- > **FSC BOARD OF DIRECTORS APPROVED** the establishment of the Latin America Regional Office in Oaxaca, Mexico.
- > **FSC NATIONAL INITIATIVES MEETINGS** held to discuss their future role in FSC decentralized network. The European meeting was held in Germany with the participation of 15 NIs and the Latin America meeting was held in Argentina with the participation of ten NIs.

THE GLOBAL NETWORK



POLICY AND STANDARDS DEVELOPMENT HAS ALWAYS BEEN A CORE PART OF THE FSC'S PROGRAM.

Since May 2002, when the Policy and Standards Unit was formally set up, FSC has undertaken a remarkable range of work, reflecting the large number of fields on which forest management has an impact.

SOCIAL

FSC's social mission took a major step forward with the development of FSC Social Strategy in 2002. Specific projects initiated during 2002 include the SLIMF Initiative (Small and Low-Intensity Managed Forests), the development of a group chain-of-custody scheme for smaller traders and manufacturers, and FSC's contribution to an in-depth study of the implementation of the organization's social principles in Indonesia. A lower-profile, but potentially far-reaching, policy development has been the publication of guidelines on the incorporation of International Labour Organization (ILO) conventions into the FSC Principles and Criteria.

ENVIRONMENTAL

On the environmental side, FSC's chemical pesticides policy was finalized after two years of intensive discussion and debate, and a draft policy on protected areas was published. The concept of High Conservation Value Forest (HCVF), developed by FSC as an innovative tool for the identification and

protection of key biological and social values within the forest landscape, has been taken up by a number of environmental organizations and businesses as the basis for their own new policies. At the level of forest management, the first steps towards a full review of FSC's plantations policy were taken.

ECONOMIC

FSC cannot achieve its social and environmental goals without the support of its economic partners. 2002 saw the completion of an independent review of FSC's 'percentage-based claims policy', as well as the first results of the revision process in the form of a new policy for the chain-of-custody and labelling of chip and fibre products. This policy fully integrates, for the first time, the certification and labelling of FSC-certified virgin fibre and post-consumer recycled fibre. A major new project was initiated in collaboration with the FSC National Initiatives in the USA and Canada, aiming to develop markets for FSC-labelled products in the paper and packaging sector in North America.





2002 HIGHLIGHTS

- > **FSC INITIATED THE SLIMF INITIATIVE** to find and implement practical solutions for small and low intensity forest operations.
- > **FSC DEVELOPED** a group chain-of-custody scheme for smaller traders and manufacturers.
- > **AN INDEPENDENT REVIEW** of FSC's percentage-based claims policy was completed.
- > **FSC FINALIZED** the chemical pesticides policy.

POLICY AND STANDARDS



IN 2002, THE ACCREDITATION PROGRAM FACED GREAT CHALLENGES AND OPPORTUNITIES.

As recommended in 2001 by the Change Management Team, FSC separated its accreditation role from its standard-setting function and created two different operational units to cover these two core areas.

Throughout the year FSC devoted significant resources to the strengthening of the Accreditation Business Unit (ABU) in preparation for its transformation into a self-sufficient, separate legal entity in 2003.

This included the recruitment of new staff, and the provision of an intensive lead auditor course for all staff and external auditors, aimed at improving performance in the day-to-day delivery of accreditation services, and also at reviewing accreditation and monitoring procedures in preparation for an in-depth restructuring of FSC accreditation documentation.

For the first time since the founding of FSC, in 2002 the accreditation program generated sufficient income to cover its cost. Moreover, during 2002 the ABU developed a new scheme for an Accreditation Administration Fee (AAF), aimed at ensuring an economically fair, socially equitable and transparent annual fee to replace the accreditation fee system that was in place for certification bodies until the first half

of 2002. Following consultations with certification bodies during 2002, the new fee scheme was fully implemented at the beginning of 2003. The enhanced financial and operational independence of the ABU made possible a genuine separation of FSC's accreditation role from its standard-setting function.

In line with its objective to maintain and improve the credibility and transparency of FSC certification, the ABU produces an annual FSC Accreditation Program summary report giving comprehensive information about FSC Accreditation Program activities. This report gives details of accreditation and monitoring visits and audits, and includes information related to Corrective Action Requests (CARs) and Recommendations issued by the ABU to accredited certification bodies. For a copy of the 2002 report and for any other information regarding the FSC Accreditation Program, please contact the ABU at accreditation@fsoax.org.



2002 HIGHLIGHTS

- > **THE ABU CONDUCTED** 16 office visits, ten forest management visits and 15 chain-of-custody visits. FSC's accreditation officers and external lead auditors carried out audits in many countries including Brazil, Canada, Chile, Germany, Italy, Mexico, Slovakia, South Africa, Switzerland, the United Kingdom and the USA.
- > **FSC GRANTED** accreditation to and signed contracts with KPMG Forest Certification Services (Canada), Eurocertifor (France) and SQS (Switzerland). Significant progress was also made with two new accreditation processes.
- > **FSC STATUS CHANGES:** At the end of 2002, Silva Forest Foundation (SFF) and the South African Bureau of Standards (SABS) decided to discontinue their FSC-accredited status. However, both continue to support FSC certification, SABS as the certification partner of Soil Association/Woodmark in Southern Africa, and SFF with its work in consultancy services and capacity building in Canada.
- > **THE ABU BEGAN** the process of developing a Quality Management System (QMS) for the Unit. The QMS will be based on ISO Norm 9001: 2000 and the ISO/IEC Guide 61:1996 on 'General requirements for assessment and accreditation of certification/registration bodies'.

ACCREDITATION

COMMUNICATIONS

COMMUNICATION PRODUCTS AND TOOLS

> SUCCESS STORIES

A series of case studies documenting situations in which FSC has made a difference. These social, environmental and economic success stories show the reality of FSC in the field and its implications for society.

> FSC NEWS+NOTES

A monthly electronic newsletter with information about FSC's developments and achievements. In 2002, the communications team produced 12 News+Notes.

> POSTERS & PROMOTIONAL PIECES

The communications team produced seven posters in 2002, highlighting the economic, social and environmental components of FSC Certification. One special advertisement piece was produced for the Johannesburg Summit.

> FSC 2001 ANNUAL REPORT

In this publication you can find FSC activities during 2001.

OVERVIEW

The Marketing and Communications Unit was formally set up in January 2002 and started the development and implementation of a communications strategy for the secretariat and the network. During 2002, the implementation of the strategy focused on creating a resource rich communications environment consisting of professional tools, best practices, and training.

TRAINING

During 2002, FSC focused its attention on building within its network greater core competencies, including a stronger faculty in communications. The FSC Communications Team led two communications workshops for National Initiatives in Europe and Latin America and provided instruction in message development, press-release story development, media strategies, public speaking/presentations, and other communications skills. These sessions also provided an opportunity for the National Initiatives to empower each other through the sharing of best practices.



MEETINGS

BOARD MEETINGS

The FSC Board of Directors held four meetings in 2002: March 22-24 (Rio de Janeiro, Brazil); May 5-7 (Bonn, Germany); September 21-22 (Oaxaca, Mexico); and November 27-28 (Oaxaca, Mexico). Among the actions of the Board during 2002 were:

THE ENDORSEMENT OF NATIONAL INITIATIVES (WORKING GROUPS AND CONTACT PERSONS) IN:

Argentina	Australia	Finland	Guyana
Hungary	Italy	Nicaragua	

THE ENDORSEMENT OF FOREST STEWARDSHIP STANDARDS:

Bolivia (Brazil Nut)	USA (Lake States-Central Hardwoods Region)
Brazil (Plantations)	USA (Northeast Region)
Brazil (Terra Firme Region)	USA (Southeast Region)
Peru (Forest products in the Amazon Region)	

THE ENDORSEMENT AS ACCREDITED CERTIFICATION BODIES OF:

Eurocertifor (France) – Forest Management and Chain-of-Custody
KPMG-FCSI (Canada) – Forest Management
SQS (Switzerland) – Forest Management and Chain-of-Custody

FOREST LEADERSHIP FORUM (ATLANTA, USA)

FSC staff and Board members joined some 1,300 participants and more than 120 exhibitors in Atlanta, Georgia for the Forest Leadership Forum, held on April 25-27, 2002.

The event included plenary sessions and workshops covering a wide range of issues of interest to forestry professionals, conservationists, forest-products manufacturers and marketers, and social interests. In addition to a track on certification, the agenda included discussions about high conservation value forests, illegal logging, responsible production and marketing of forest products, green building, and the responsible consumption of forest products.

The Atlanta event also included a “resource pavilion” for the display of products and services, where FSC-certified companies from around the world dominated the show-floor with a wide variety of high-quality wood products. Of particular note was the presence of many FSC-certified companies from the South, and the strong representation of community operations.



The participation of a broad spectrum of representatives from industry, science, academia, social and environmental organizations made the Forest Leadership Forum an event of worldwide significance to the FSC Network and to others committed to advancing responsible forest practices.

We are most grateful to WWF and the Certified Forest Products Council for organizing this milestone event for FSC's development.

SUCCESS STORIES

BRAZIL: XAPURI

NEW PROSPERITY FOR A LEGENDARY COMMUNITY

In the Brazilian municipality of Xapuri, Acre, community forest management to Forest Stewardship Council standards is a model for communities that seek to preserve their traditional forest-dependent livelihoods.

For decades, the community has relied upon the surrounding forest for extractives, such as latex and Brazil nuts. But according to Nilson Mendes, coordinator of Assoc. Moradores e Produtores do Projeto Agroestrativista Chico Mendes (The Agro-Extractives Project of the Chico Mendes Association), this production could no longer support the growing community.

The Chico Mendes Association obtained FSC certification in March 2002, and was the first community forest operation in Brazil to do so. The community's FSC-certified forest management operation is based on the ethno-ecological knowledge of the rubber workers.

Without FSC, we would not have a business today.

Robert Simeone
IMR Marketing Director

expects to reach over US\$ 12 million in sales of FSC-certified products by spring 2003, with the retail value of these products totalling over US\$25 million dollars.

Since 1996, IMR has been an innovator and catalyst in FSC-certified forestry in Latin

Workers consult with forest technicians to develop a harvest plan that will satisfy production needs while maintaining responsible practices. "We take extreme care to ensure that we leave standing a 'child' and two 'grandchildren' of each tree we harvest. In this way we ensure the health and genetic strength of the forest for future generations," notes Nilson Mendes.

Nine families in Acre currently participate in the FSC-certified community project, and are responsible for the management of 900 hectares of tropical forest. The FSC-certified wood is sold to the FSC-certified Etel furniture factory in the heart of the forest, which also provides revenue and jobs for the community.

There was also outside demand to buy wood from our forest so we decided to develop our own management plan that would integrate our traditional activities with wood production.

Nilson Mendes
*Coordinator of the Agro-Extractives
Project of the Chico Mendes Association*

BOLIVIA: INDUSTRIA DE MUEBLES RODA

BRINGING INNOVATION FROM LATIN AMERICA INTO WORLD MARKETS

In less than a decade, FSC certification has enabled Industria de Muebles Roda (IMR), of Santa Cruz, Bolivia to grow an average of over 30 per cent per year, opening up international markets in the USA, the UK, Europe and Mexico to certified products. IMR

America. The company currently manages 400,000 hectares of natural tropical forest under FSC certification, with another 400,000 targeted to become certified before the end of 2003.

The diversification of species has been a key in this process. Before 1995, 80% of Bolivia's wood product exports came from only one species, mahogany. Today, market demand for FSC products has opened the door for many of Bolivia's most abundant, albeit lesser-known, wood species. This has been a key element to IMR's success, since sustainable forest management (SFM) is based on giving primary importance to a forest's most abundant species and not just its commercially recognized ones.

MEXICO: SAN JUAN NUEVO

UP FROM THE ASHES THROUGH COMMUNITY FORESTRY

Like the legendary Phoenix, San Juan Nuevo Parangaricutiro, a Purepecha indigenous community located in the state of Michoacán, Mexico, has found new life amid the ashes. In 1943, an eruption of the nearby Paricutín volcano destroyed the old agricultural town, leaving only the ruins of the ancient temple. Lava and ash laid waste to more than 40 square kilometers of the village's productive land and destroyed its economic base.

San Juan Nuevo began its venture into forest management in 1970, and by the early 1980s it had opened its own sawmill, generating 25 jobs. Forestry activities are now responsible for 70% of the community's income, providing 900 direct jobs and countless indirect jobs for the town's 15,000 inhabitants. The healthy forest-based economy en-

compasses vertically-integrated FSC-certified forest management, logging, milling and furniture-manufacturing operations, as well as the harvest and sale of non-timber forest products.

Currently the enterprise includes forest management operations, two sawmills, a furniture factory, tree nurseries, packaging companies, resin distillation plants, eco-tourism operations, deer breeding services, and a cable TV service. Community management maintains high levels of quality throughout the company and puts a strong emphasis on providing its workers with specialized training.

Today, the reborn town of San Juan Nuevo stands proudly as one of Mexico's most successful forest-dependent indigenous communities.

BRAZIL: KLABIN

CERTIFIED COSMETICS KEEP WORKFORCE ONLINE

When modernization of mill operations threatened the jobs of some 600 workers, Klabin, a Brazilian pulp and paper company, sought a way to preserve the livelihoods of its employees. At the time, Klabin was already working towards FSC certification of its 230,000 hectare operation in the Brazilian state of Paraná, and had a strong commitment to the long-term social and economic welfare of its workforce. Bearing this in mind, laying off all the workers was simply not an option.

This seal of approval is testimony to the fact that forestry activities can be diversified without losing sight of their main objective: to create social, ecological and financial benefits that can be invested in society and environment.

Loana Johansson
*Phytotherapy Operations Manager
In charge of the NTFPs at Klabin*

Klabin's solution was as innovative as it was imaginative. The company aimed to expand its phytotherapeutics (plant-based medicines) manufacturing, creating a first-of-its-kind line of FSC-certified cosmetics and medicinal goods. To mitigate the impact of a reduction in its mill workforce, Klabin created a development project. The company donated a plot of land to the city, on which workers could establish their own companies. In addition, Klabin made a commitment to supply certified wood to these ventures. Today, some 20 companies with more than 1,300 workers operate at the Telemaco de Borboa site, producing FSC-certified cosmetics, medicines and furniture.

Klabin's development project is viewed as an unqualified success, contributing to an improvement in workers' living standards in terms of income, social benefits, and, not surprisingly, medical assistance.



FINANCIAL STATUS

The year 2002 ends on a note of profitability...and that's a surplus!

TREASURER'S REPORT

Our income was again positive. At the end of 2001 we received a donation of \$1 million from the Ford Foundation designated for the year 2002. Together with income we received in year 2002 this amounted to nearly \$3.4 million.

In the new millennium we were able to achieve clear increases in revenue of 33% in year 2001 and 41% in year 2002. Our accreditation program developed significantly and revenue grew in year 2001 by 39% and in year 2002 by 126%. The accreditation program achieved financial self-sufficiency in year 2002.

Beyond that, we worked hard to improve efficiency and keep costs low. As a result we finished year 2002 with a small surplus. All this was possible, in spite of the extra expenses needed to organize the third General Assembly in Oaxaca, Mexico, to employ several new staff and to implement several new projects. Lastly, it is worth noting that the accumulated budget for the first decade of FSC is nearly balanced.

One should not forget however that we introduced in year 2002 a decentralization strategy of FSC,

which places before us many new challenges. This and many other strategic challenges for the future need our full attention and a clear increase of our income. For some years to come we will still depend on the generous support of our donors. I would like to extend our deepest gratitude for their generous commitment. Nevertheless, it is clear that we will have to generate additional revenue from new sources.

Finally, at the end of year 2002 we strategically re-located our central office from Oaxaca, Mexico to Bonn, Germany. This was only possible through the generous support of the City of Bonn, the State of North Rhine-Westphalia and the Federal Government of Germany and we would like to express our deepest appreciation for their leadership and commitment.



Gisbert Schlemmer
Treasurer, Board of Directors



FINANCIAL STATUS

FSC REVENUE / EXPENSE HISTORY, 1995-2002, IN U.S. DOLLARS

YEAR	1995	1996	1997	1998	1999	2000	2001	2002	CUMULATIVE REVENUE
Membership Fees	7,760	17,185	27,180	37,657	49,000	50,131	62,365	59,200	310,478
Accreditation Billings	5,005	12,111	71,898	168,122	186,627	173,132	240,332	543,416	1,400,854
Donations	458,962	438,441	909,782	851,945	446,204	1,534,662	3,118,596	1,572,847	9,331,429
Other	18,360	112,272	6,820	114,499	81,575	50,547	5,412	202,232	591,717
Total Revenue	490,087	580,009	1,015,680	1,172,234	763,606	1,808,472	3,426,705	2,377,695	11,634,488
EXPENSES									
Operating Expenses	486,072	710,285	776,173	1,128,224	1,315,990	1,769,869	2,748,697	2,308,556	11,243,866
Capital Expenses	7,371	75,280	50,069	15,804	74,669	78,952	65,521	39,024	406,690
Total Expenditures	493,443	785,565	826,242	1,144,028	1,390,659	1,848,821	2,814,218	2,347,580	11,650,556
NET OF REVENUE									
Surplus or (Defecit)	(3,356)	(205,556)	189,438	28,206	(627,053)	(40,349)	612,487	30,115	(16,068)
CUMULATIVE									
Surplus or (Defecit)	(3,356)	(208,912)	(19,474)	8,732	(618,321)	(658,670)	(46,183)	(16,068)	

FSC Accounts are audited annually by an independent certified public accountant.

2002 DONORS

In 2002, the work of the Forest Stewardship Council was supported by generous grants from: AB Gustav Kär, B&Q, Casper Design Group Inc, Fletcher Challenge Forest, Flora Family Foundation, Ford Foundation, FSC Canada, German Government-GTZ, City of Gothenburg, Leslie D Guerci / Alan D Guerci, Hatzfeldt, IKEA, International Institute of Education, John D. And Catherine T. MacArthur Foundation-USA, Kohlberg Foundation / FSC

US, Laird Norton Foundation, The Moriah Fund, National Wildlife Federation, Natural Resources International / DFID, Netherlands Government-DGIS, Rainforest Alliance, Richard Ivey Foundation, Rockefeller Brothers Fund-USA, Summit Foundation, Timberlands, The Tropical Forest, Wallace Global Fund, WWF Global Forest and Trade Network, WWF Sweden / SIDA and WWF Switzerland

FSC UNVEILS ITS SOCIAL STRATEGY



Committed to socially beneficial forestry for all

As part of its commitment to socially beneficial forestry, FSC has developed a Social Strategy. By putting this strategy into practice, FSC will continue to set standards with its emphasis on balanced, equitable forest stewardship for the benefit of local people and society at large.

PEOPLE, AN IMPORTANT COMPONENT

The FSC Social Strategy is designed to strengthen FSC's existing participatory processes and procedures and improve two-way communication. It will enable FSC to respond more effectively to the needs of its stakeholders, especially local community forest users, indigenous peoples, forest workers, and small scale and low-intensity forest users.

The Strategy arose from ideas and recommendations at numerous workshops and meetings around the world, including the conclusions of the 2000 FSC annual conference 'Certification for the People.' Several aspects were identified as key issues for FSC. To address them, the Social Strategy set out four objectives:

- > To strengthen FSC's working systems and their responsiveness to social issues.
- > To strengthen FSC's two-way communication with its social constituents.
- > To build capacity in the FSC network to improve support for the participation of different social groups in FSC.
- > To address the difficulties experienced by some groups in gaining market access for their products.

2002 CONSULTATION PROCESS

In a wide-reaching consultation process, version 1 of the Social Strategy was distributed in June 2002 in Spanish and English to FSC members, FSC National Initiatives, FSC-accredited certification bodies and members of the FSC social email forum. By the end of the consultation process, FSC had received comments from over 330 people representing 220 organizations worldwide. These comments were used to revise and prioritize the key points of the Strategy.

In September 2002, the FSC Board of Directors and the Social Strategy Advisory Committee recommended the Social Strategy as a guide for FSC operations and planning. In November 2002, it was presented and endorsed by FSC members at the 3rd General Assembly.

IMPLEMENTATION

In 2002, FSC worked on a number of initiatives that respond to the concerns raised in the Social Strategy, for example:

- > *The SLIMF Initiative, designed to increase access to FSC certification for small and low-intensity managed forests.*
- > *The Group Chain-of-Custody policy. This was developed to give small timber-processing enterprises more options to access the FSC chain-of-custody certification.*
- > *Communications meetings with National Initiatives in Europe and Latin America.*
- > *Improved communications materials to ensure that the FSC message is clear and accessible to a wider range of stakeholders.*

2003 will be an important year for the implementation of the FSC's Social Strategy. As part of the annual planning process, at the end of 2002 each unit incorporated Social Strategy activities into their work plan for 2003. The FSC Board of Directors has also used the Social Strategy as part of their thinking on the strategic direction that FSC should take.

The Strategy emphasizes the importance of cooperation. Delivering on this commitment involves FSC working together with other organizations to promote responsible forest management for the benefit of people around the world.

GENERAL ASSEMBLY

Future goals affirmed at our 2002 General Assembly

From 22 to 26 November 2002, FSC members met in Oaxaca, Mexico to hold the third General Assembly of the FSC. More than 200 participants from 44 countries, including members and observers, voted on 60 motions aimed at fine-tuning FSC Statutes, Principles and Criteria.

STRATEGIC DIRECTION & PARTICIPATION

The FSC General Assembly included three days of legally constituted formal sessions, during which the members considered, debated, and voted on statutory and policy motions. In addition, side meetings were held, including meetings for National Initiatives and certification bodies.

With the objective of improving the future performance of FSC, members discussed nine goals proposed by the FSC Board of Directors during the first day of the Business Session at the General Assembly. During this consultation process, members defined a variety of work areas to help facilitate the achievement of the strategic goals. These include: a) independent research and pilot projects to define and evaluate parameters for measuring FSC's impact on the ground; b) an increased focus on the delivery of services through National Initiatives; c) making full use of FSC's social benefits in the delivery of services; and d) achieving financial self-sufficiency.

During the 25th and 26th of November, the members discussed and voted on statutory and policy motions. Principles of transparency and democracy prevailed as members representing different interests and cultures debated and voted to shape the future of FSC.

SIDE MEETINGS

More than 17 side meetings were held during the course of the General Assembly. Among the side meetings were: meetings of the Chambers and of the NIs, and meetings on market links, the social strategy, the participation of countries from the South, and non-timber forest products.

MEETINGS OF THE FSC CHAMBERS

On November 23 and 24th, each of FSC's three chambers met to discuss the motions before the General Assembly and to prioritize areas of interest. Representatives of each interest shared ideas and positions with their colleagues in the other two chambers with the goals of building understanding, identifying common concerns, and building consensus. As a result of these meetings, many motions were amended or combined.

MEETING OF NATIONAL INITIATIVES

Representatives from 30 National Initiatives (NIs) from Europe and the Americas discussed goals and future roles within the decentralization process of the Forest Stewardship Council (FSC). During the meeting, the NIs discussed the challenges and opportunities for FSC in their respective countries and proposed to the International FSC improvements to cooperation systems to tailor them to the NIs' needs. The meeting also served to continue discussion about the definition of the NIs' role, and their participation in policy development and in the decentralization process.



FSC: LEADING A GLOBAL NETWORK

FOREST MANAGEMENT CERTIFICATES PER REGION

Africa

Area: 1,463,897 ha
Certificates: 25

America

Area: 11,868,429 ha
Certificates: 250

Asia

Area: 355,049 ha
Certificates: 20

Europe

Area: 25,032,514 ha
Certificates: 228

Oceania

Area: 651,363 ha
Certificates: 13

FOREST MANAGEMENT AND CHAIN OF CUSTODY CERTIFICATES PER REGION

Africa

150 certificates

America

446 certificates

Asia

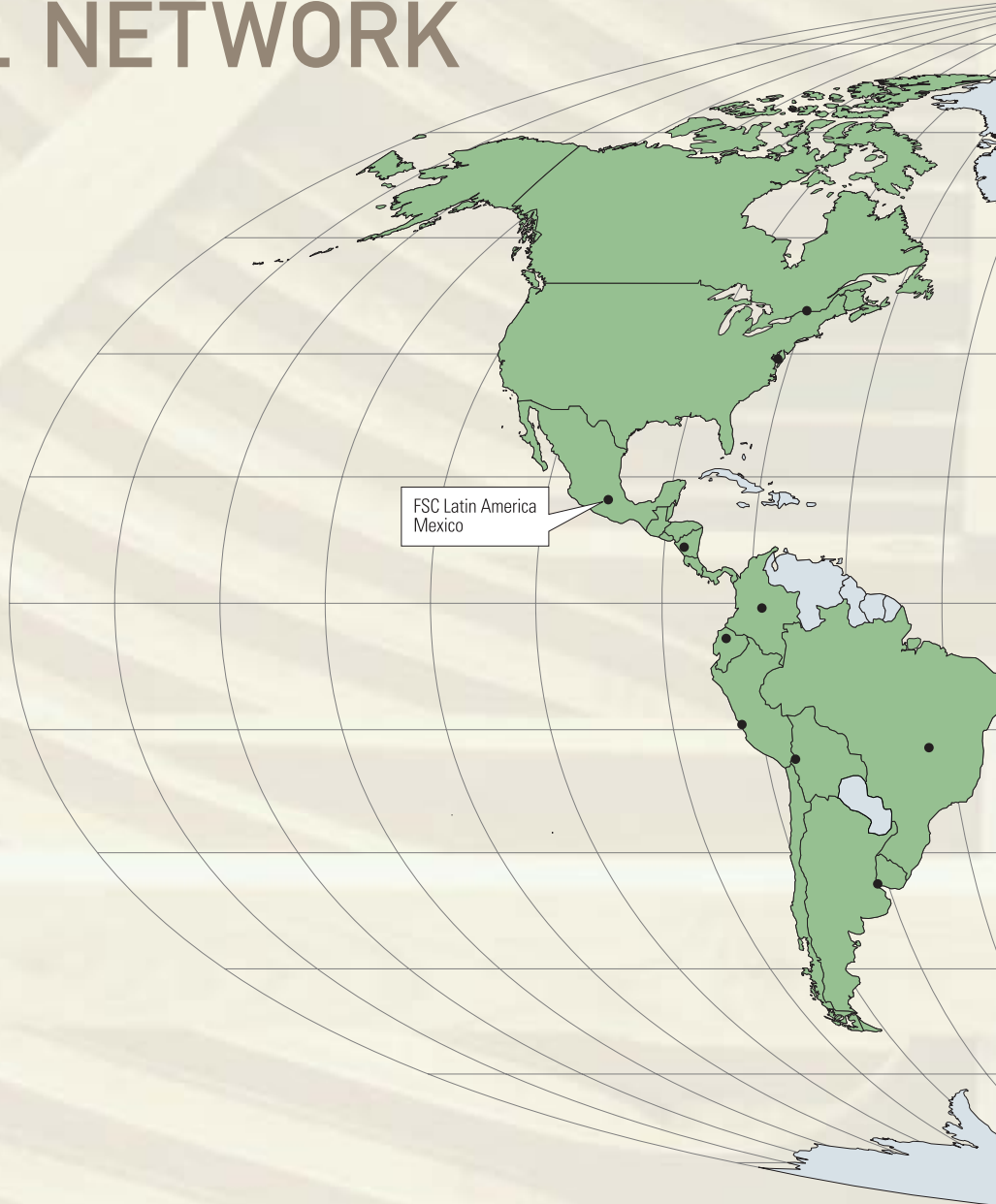
280 certificates

Europe

1,679 certificates

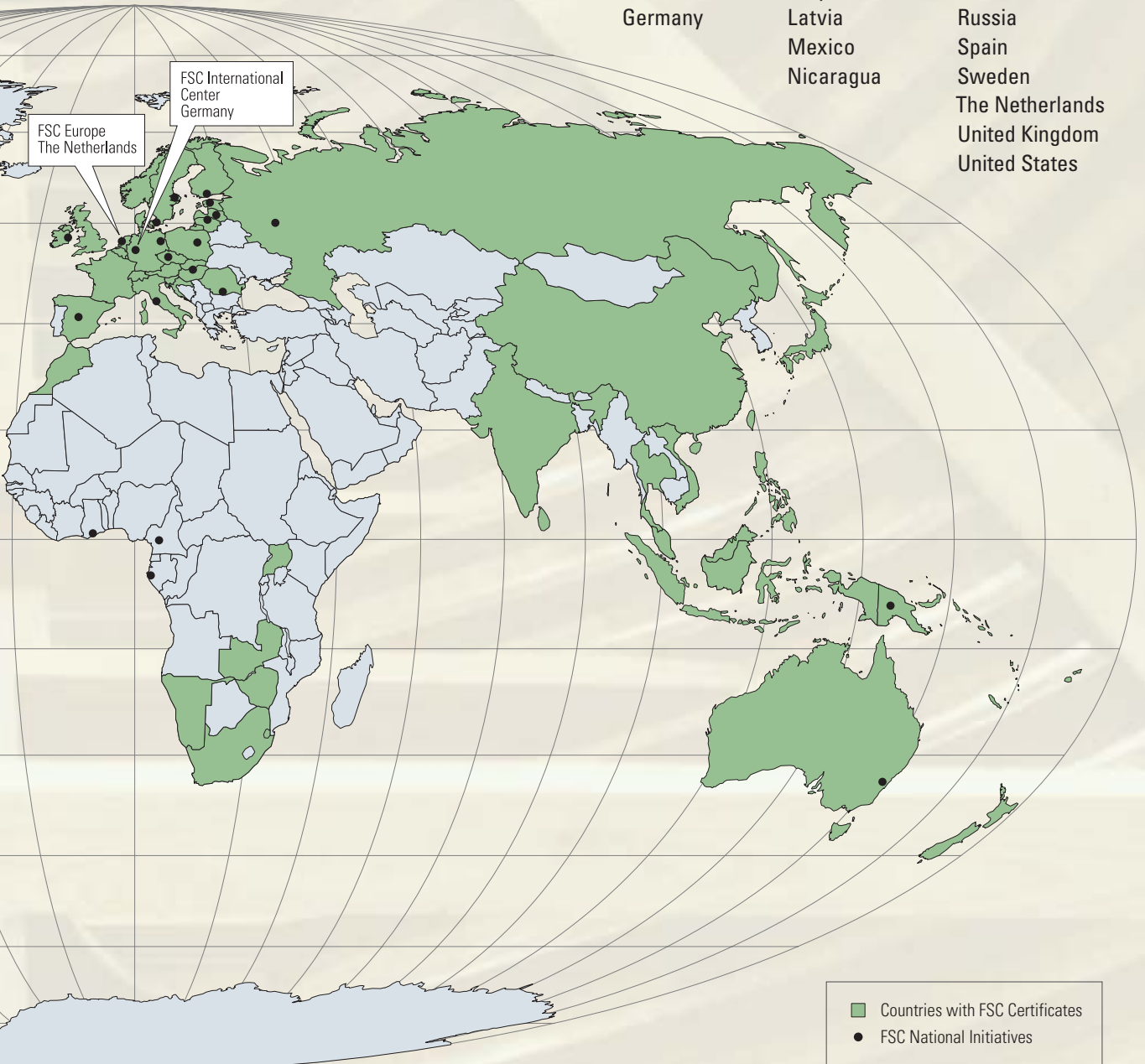
Oceania

67 certificates



FSC NATIONAL INITIATIVES

Argentina	Bolivia	Canada	Ecuador	Ghana	Papua New Guinea
Australia	Brazil	Colombia	Estonia	Hungary	Peru
Belgium	Cameroon	Czech Republic	Finland	Ireland	Poland
		Denmark	Gabon	Italy	Romania
			Germany	Latvia	Russia
				Mexico	Spain
				Nicaragua	Sweden
					The Netherlands
					United Kingdom
					United States



■ Countries with FSC Certificates
● FSC National Initiatives

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GFA Terra Systems

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ICILA (Istituto per la Certificazione ed I Servizi per Imprese dell'arrendamento del legno)

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KPMG FCSI (Forest Certification Services Inc)

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