



FSC®
ANNUAL
REPORT
2018



This is our journey

We are on a journey, working with our members, employees and other stakeholders, to deliver against a range of key commitments for 2020 and beyond.

This report provides an overview of what we have achieved in 2018 as we work towards the goals set out in the FSC Global Strategic Plan 2015-2020.

It includes a range of stories that showcase our success, as well as the bold steps we are taking to continuously improve our system for the good of our members and the world at large.

05	Welcome messages
08	Global strategy overview
10	Strategy 1: Strengthening our framework and governance
12	Streamlining our policies and standards
16	Increase quality and consistency in practice
21	Advance governance and engagement
24	Deploy new solutions
28	Strategy 2: Increase market value of FSC
30	Rapidly increased consumer demand
38	Maintaining system integrity
40	Expanding our services
42	Partnerships for change
46	Strategy 3: Transform the way we work
48	Our people are our power
50	Unleash the power of knowledge
52	Facts and figures 2018
56	FSC Financial Report
58	Special thanks

Highlight stories

15	How one man's labour of love led to sustainable construction breakthrough in Japan
20	How one forestry company is helping Ugandan farmers improve their living while tackling encroachment issues
25	How New Approaches is helping smallholders engage with FSC
35	Putting the 'green' in greengrocer: German retailers increase commitment to FSC
39	Saving a species: One company's mission to save the Brazilian Tapir
41	How a group of Tanzanian villagers have seen their lives improve thanks to a local tree called 'mpingo'
45	Fortifying sustainable forestry practice with the help of global zoos



Kim Carstensen
Managing Director, FSC

One of my most memorable moments of 2018 was visiting Uganda, meeting the standard development group and various stakeholders at a time when they had just finalized the national standard. It wasn't only the relief that this work was now finally done; it was also the sense of opportunity; a new FSC standard made by the people in their own country. That energy was invigorating.

Our work on controlled wood has been very challenging for us for some years. But in 2018, we made excellent progress, getting national risk assessments finalized and moving closer to developing a controlled wood strategy.

Another significant achievement was finalizing the ecosystem services procedure. Excitingly, we now have the first areas being certified for their performance on carbon, biodiversity protection and watershed management. This is critical work and offers fantastic potential for the future. **You can read all about it on page 32.**

FSC received a lot of critical press for our work in 2018, including TV documentaries. But we stood up well to these challenges and said: 'Look, we know our system works, we know we have created a positive impact, and we know we are honest people who are trying to make a difference. We don't always get everything right because we can't. But most of the time we produce a real effect on the forest.' And I'm proud of what we're doing, as well as responding to criticism by continuing to improve.

“I'm really proud of what we're doing, as well as responding to criticism by continuing to improve.”

One of the big challenges in 2018 was dealing with reports that charcoal was coming into the European market with FSC labels, without actually having FSC material in it. We took action, suspending many certificates in Poland and Ukraine.

We have become so well-known as a global brand that some people feel tempted to cheat on us and find ways to get FSC labels on products that are not actually FSC certified. This type of fraud is becoming more frequent. But we now have the tools to take effective action against it, using what we call transaction verification. This will enable us to combat this new challenge that comes from our success.

In 2019, we will continue our efforts to become directly relevant to global agendas, such as climate change and issues mapped out by the UN Sustainable Development Goals. There will also be an update of our global strategic plan that we're working on towards our next general assembly in 2020.

Welcome



Hans Djurberg

FSC International Board of Directors chairperson, SCA, Sweden

From the FSC Board's perspective, 2018 was a strong year. We came out of the general assembly in Vancouver in 2017 with a strong sense of commitment and confirmation of the direction set by the board and the membership back in 2015. And now, we can see the alignment happening of our priorities with our global strategy, both at an international and national level.

The increased capacity at FSC International in critical areas, such as marketing, communication, and digital innovation, is very promising for the future. We can already see positive results, including improved crisis communications management.

We can also see increased clarity in FSC's role as a convener. We have discussed important topics, such as workers' rights and labour conditions, as well as issues of particular interest to different forests types, including boreal forests and plantations.

I'd also like to highlight our achievements in improving and streamlining our normative framework, to make it more relevant to smallholders, communities, and indigenous peoples.

But, of course, we're not done yet, and a lot of challenges remain for 2019 and beyond. One of them is to update our global strategy, and we would like to see that as an integral part of preparing for the 2020 general assembly. Our second priority is, of course, to increase our impact among smallholders, communities, and Indigenous Peoples.

We will also continue to evolve our ecosystem services. We now have a procedure in place, and we are ready to put it into action for our certificate holders and increase our impact on forest management. We will further develop our network strategy, expanding the capacity of our presence in various countries around the world.

I would like to remind you all that FSC is a member-based organization. Your engagement and commitment to FSC are what this system is all about. So, thank you for your achievements in 2018, and I'm looking forward to 2019 and beyond.

“FSC is a member organization. Your engagement and commitment is what this system is all about.”



Frank Harnischfeger

Chief Operating Officer, FSC

My most memorable moment of 2018 was visiting a remote Indigenous community in the Amazon. It showed me how FSC can connect even the most remote producers, who have limited access to markets, to another continent where there is demand for their products.

Our greatest achievement overall was hitting the 200 million hectares of certified forest mark, for the first time. We're now getting ready to hit the next magic number – 250 or 300 million hectares. But we understand that it's not getting easier because every additional forest will require an extra effort. But we are optimistic that we are in good shape.

2018 also saw some impressive work on supply chain integrity. We're now using sophisticated analytics and technology to ensure that the maths add up in some of the most complex, global supply chains. We're also making sure that the wood and fibre actually stems from the place that it's supposed to come from, ensuring that the origin is actually from an FSC-certified forest.

It was also an excellent year for consumer awareness. We can now confidently say that in the 13 largest economies in the world, more than 50 per cent of the consumers recognize our brand. This helps us tremendously in terms of offering a real added value for our certificate holders.

“In the 13 largest economies in the world, more than 50% of consumers recognize our brand.”

In 2019, we will continue to work on how we resolve disputes between stakeholders or unacceptable practices by certificate holders. We need to find and define processes that enable a timely engagement and swift action from our side – working with stakeholders who are directly affected

by some questionable practices and finding solutions that empower everybody to move on.

We're at an exciting point because our global strategic plan will run out in 2020. We will need to take a close look at what have we achieved, where we have fallen short, and what the next steps are. One of the key things we will focus on is to revive our global growth trajectory beyond the 200 million hectares that I mention above.

We thank you for your interest in FSC and this annual report; I hope you can find some useful information on the following pages. We hope to hear from you in whatever form and look forward to engaging with you in the coming months.

Global strategy overview

M

Mission

FSC will promote environmentally appropriate, socially beneficial, and economically viable management of the world's forests.

4

Commitments

- Increased focus on outcomes
- Empowerment of people
- Mission advancement through alliances
- User orientation

**20
50**

Beacon

- A new forest paradigm realized.
- The true value of forests is recognized and fully integrated into society worldwide.

3

Strategies

S1

Strengthening our framework and governance

S2

Increase the market value of FSC

S3

Transform the way we work



Strategy 1

Strengthening our framework and governance

This strategy lays the foundations for all our work. It ensures that we streamline our standards and increase consistency across our work, while we work towards improving our governance and developing new forest solutions.

S1

- > **Streamlining our policies and standards**
- > **Increase quality and consistency in practice**
- > **Advance governance and engagement**
- > **Deploy new solutions**

S1 Streamlining our policies and standards

We know we need to be more cost-effective and outcome-oriented to be of value to our certificate holders. In 2018, we continued to find ways to simplify and streamline our system, while maintaining integrity and transparency.

We continue to make changes to the way our standards and policies are interpreted and followed. In 2018, 23 interpretations were processed promptly, approved and published on the FSC website.

13 countries' national forest stewardship standards assessed

13 national forest stewardship standards – Australia, Denmark, US Federal Lands Indicators, Nepal, Japan, Spain, Malaysia, The Netherlands, Canada, Vietnam, Luxembourg, Switzerland and Bosnia and Herzegovina – and one Interim national standard (regional standard for Caucasus, Central Asia, Moldova and Mongolia) – were assessed by the policy and standards committee.

Of these:

- 1 national standard was approved without conditions (Nepal).
- 12 national standards were approved with conditions. The conditions of six of them have since been closed, and the standards formally approved (Australia, Denmark, US Federal Lands Indicators, Japan, Malaysia and The Netherlands).
- 1 interim standard was returned to the standards development group for further work (Caucasus, Central Asia, Moldova and Mongolia).

By the end of December, 18 national standards were approved for Bulgaria, China, Denmark, France, Germany, Italy, Nepal, Portugal, Uganda, United Kingdom, Tanzania, Australia, United States (Federal Indicators), Japan, Malaysia, South Africa, Romania, and The Netherlands.

All of these, except the US Federal Indicators, are new or transitioned standards based on our Principles & Criteria version 5.

The finally approved standards can be downloaded at the FSC International Document Centre.



13 countries have had their national forest stewardship standards assessed, including Nepal



Developing a risk-based approach to national standards

A project team has been hard at work to develop a risk-based approaches model to streamline national forest stewardship standards.

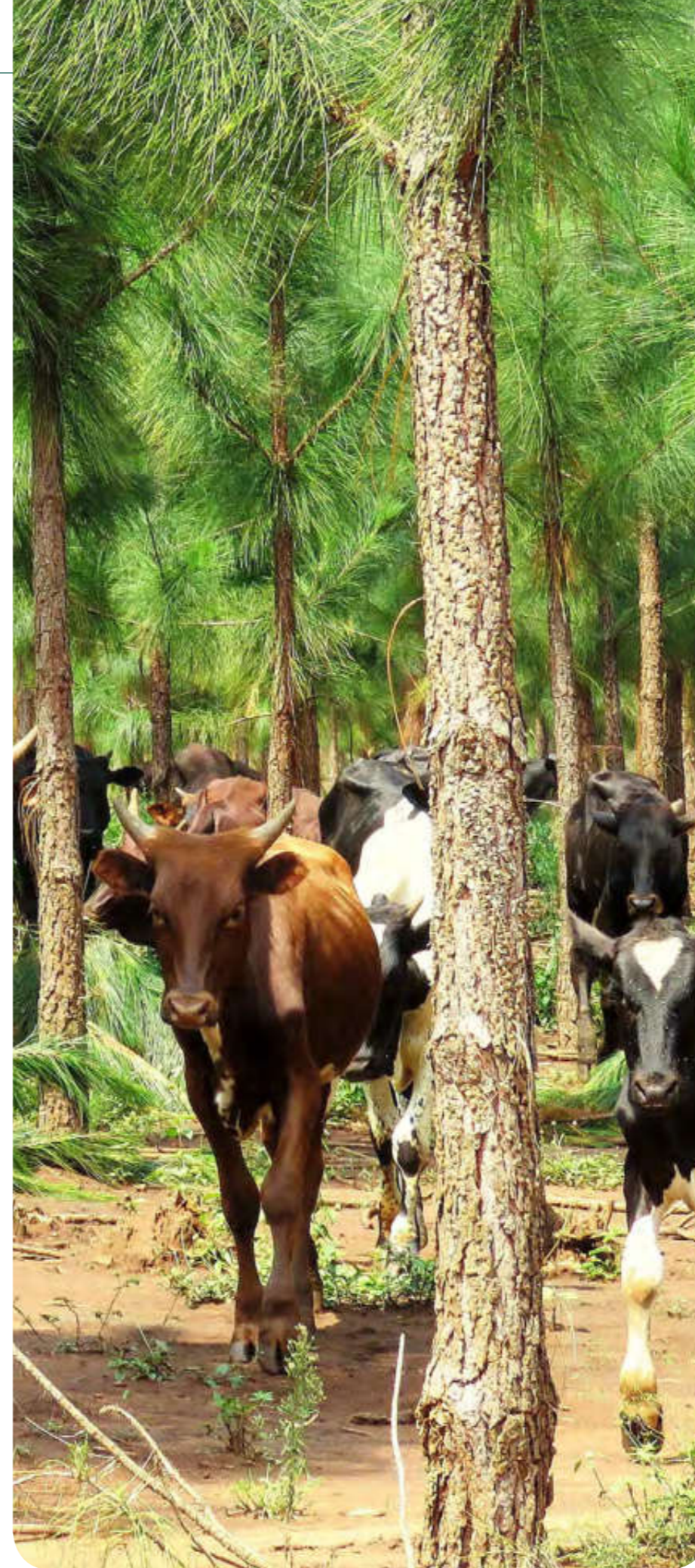
The model has four parts:

- assessment of risk
- designation of risk
- adapted risk response
- monitoring and evaluation

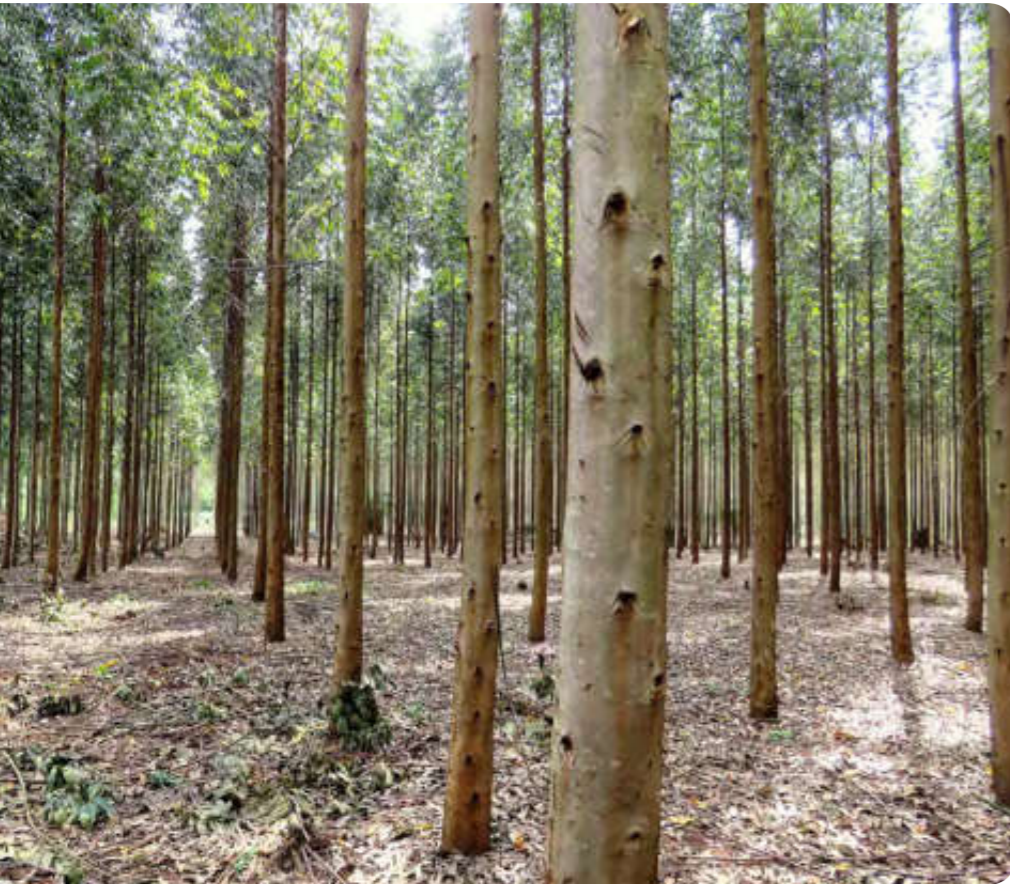
It will help standard development groups to focus on the issues that matter most to our stakeholders.

We published a new procedural document for standard development groups that expands a concept for risk management in our process for developing national forest stewardship standards.

A user-friendly guide accompanies the procedural document for those conducting risk assessments and proposing risk designations for indicators in national forest stewardship standards. Both documents deliver on the FSC Implementation Plan.



S1 Streamlining our policies and standards



Further developments to chain of custody standards

A new two-year project started in 2018 to incorporate core labour requirements into our chain of custody standards. These requirements are based on the International Labour Organization's core conventions.

A feasibility study to assess the impacts of introducing new requirements for certificate holders and FSC-accredited certification bodies was conducted, and a technical working group was established to develop accreditation requirements for FSC-STD-20-011 V4-0 EN FSC Chain of Custody Evaluations.

First stages in creation of conversion policy

To address motion 7 (2017), we began developing a conversion policy, which considers: restoration and/or conservation for environmental values; and restitution for socio-economic values.

In August, we established the Policy on Conversion working group composed of six members who represent economic, environmental and social interests; and the global South and global North.

30 countries identified for interim national standards

2018 saw 30 countries identified for developing FSC interim national standards. A total of 23 interim standards were registered.

Financial resources, amounting to more than 175,000 Euros (EUR), and technical guidance were provided by FSC to support the development of the interim standards, in collaboration with certification bodies.

Revisions to FSC pesticides policy

The pesticides policy working group, consisting of six stakeholders and three technical experts, developed the contents of the second draft of the policy.

Highlight

How one man's labour of love led to sustainable construction breakthrough in Japan



Masahiro Kawatei's home has received FSC project certification

Some would simply refer to it as the first FSC project certification for a newly constructed detached house in Japan. But for those who labored shoulder-to-shoulder to construct the house, it will always be known as 'A House with Many Good Stories'.

The two-storey house is privately owned by Masahiro Kawatei. As a representative from CEPA Japan, a pro bono association in environmental communication, Masahiro was concerned with what he perceived as a decline in forestry leadership and good management practices. He decided to lead by example and used FSC-certified domestic timber to build his own house.

To turn his vision into reality, a new procurement route had to be established to obtain the needed materials. He reached out to Shuichiro Ishikawa, president of the building company Home Sweet Home Made and the designer Yoshiyuki Endo, to make this possible.

Masahiro's journey started with a personal visit to the forest in Minamisanriku Town to select the perfect tree. He was accompanied by Taichi Sato, Director General of Minamisanriku Forest Stewardship Alliance and an active promoter of local timber, and Kunio Onodera, President of Maruhei Timber Co., Ltd., who works on the revitalisation of residential buildings. They chose a Minamisanriku cedar for the exterior walls and the interior of the house.

It takes a village

To complete the house, Masahiro rallied over 50 members of his community to roll up their sleeves and get to work. These dedicated citizens

worked side by side with carpenters, craftsmen and a DIY advisor. They spent three weeks undertaking tasks such as surface preparation and applying plaster to the walls.

There are currently 36 FSC-certified forests in Japan (as of 13 November 2017). Masahiro used two types of FSC-certified timber, namely *Larix kaempferi* from Yamanashi Prefecture, and *Cryptomeria japonica* from Minamisanriku Town, Miyagi Prefecture, a town close to his heart as he was involved in its reconstruction after the great eastern Japan earthquake of 2011.

About the certification

FSC project certification is certification for one-off articles such as buildings, vessels and event venues. There are two types: full certification and partial certification.

For full certification, at least 50 per cent, by volume or cost, of all wood materials used in the project must be FSC 100 per cent, FSC Mix or post-consumer reclaimed materials, with the remainder being controlled wood.

For partial certification, there is no minimum requirement on the ratio of certified materials used, but all materials claimed to be certified must be 100 per cent FSC-certified and this must be stated clearly in all communications.

This project was awarded partial certification as some plasterboard had to be used.

S1

Increase quality and consistency in practice

Improving the quality and consistency of our standards is an important step in strengthening our certification scheme. Enhancing the application of these standards is just as important.

Taking action

In 2018, we announced plans to begin work on a baseline for possibly ending diassociation with businesses involved in significant forest conversion

The integrity of our system is a core consideration in everything we do. Without it, we cannot operate. This means we will take action against certificate holders – whether a small forest owner or a multinational business – should they not manage their forests in accordance with our rules.

In 2018, we announced plans to begin work on a comprehensive generic roadmap that will become a baseline for possibly ending disassociation with businesses that have been involved in significant forest conversion issues and unacceptable activities, as defined by the FSC Policy for Association.

It will offer a robust set of guidelines and a framework that will be adaptable to businesses involved in future processes to end disassociation to support credible, transparent and fair procedures.

For example, in 2018, we worked on the following cases:

Jari

A panel of experts was appointed in January 2018 and started a proactive investigation of alleged Policy for Association (PfA) violations of Jari Group in Brazil. FSC initiated the investigation based on a preliminary investigation carried out to address stakeholder concerns about the operations of the group. By the

end of 2018, the investigation was completed and ready for a decision by the FSC Board of Directors.

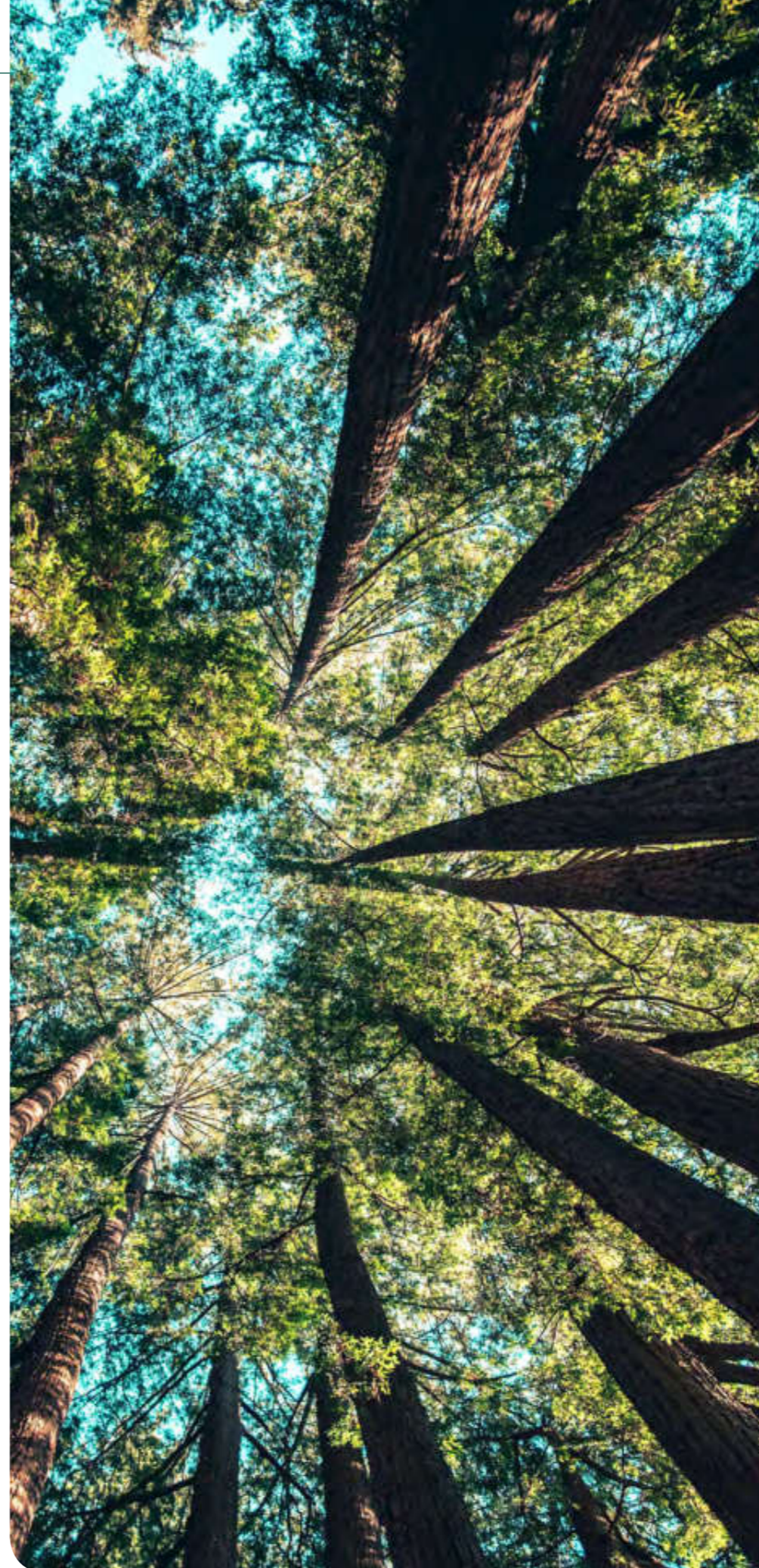
Korindo

A panel of experts investigated the alleged involvement of the Korindo Group in conversion of forests to plantations or non-forest use, destruction of species of high conservation value, and violation of traditional and human rights in Indonesia. We also carried out additional research to complement the complaint panel's final report. At the time of finalizing this report, the process was still ongoing.

Schweighofer

In 2018, we continued to monitor the development of an action plan by Schweighofer describing the measures the company plans to implement to improve its systems and operations, following the requirements stipulated by FSC as part of its conditions framework.

The conditions framework is a document describing the conditions the company must fulfil for FSC to reconsider its disassociated status. These conditions include the correction of identified failures in the company's systems, the prevention of reoccurrence of the identified issues, mitigation of risks of being involved in the trade of illegal wood and the implementation



of social and environmental projects as compensation for the negative impacts caused to the Romanian forest and its people. FSC developed them following a structured and transparent stakeholder engagement process.

The process for Schweighofer to develop an action plan describing how it plans to meet FSC's requirements was ongoing at the time of finalizing this report.

S1 Increase quality and consistency in practice



Maintaining our quality standards

One of the ways we protect the integrity of our system is through our quality assurance programme. By collaborating with Assurance Services International (ASI), we can maintain the high bar against which certification bodies are measured. This also helps to make sure FSC meets the high standards set by various bodies and authorities across the globe.

In 2018, the third annual assessment of ASI was carried out, and summary results were presented. In addition, FSC showed conformance against the ISEAL Assurance Code, by closing two minor non-conformities.

Meanwhile, an assurance risk registry and the second annual assurance risk management plan were developed. And the quarterly meetings coordinated by the 'CB Triologue' are helping to support more regular and effective communication between the certification bodies.

An update on controlled wood

Introduced into the FSC system in 1997 to meet the demand for FSC material in the marketplace, we continue to monitor the quality of controlled wood to make sure unacceptable sources do not enter the stream.

In 2018, a series of controlled wood case studies were compiled to provide a report on the current state of the market at the global level.

A workshop on the development of a controlled wood strategy was also held. More than 70 participants from around the world attended. The outcome was a list of eight objectives, and 30+ actions to reach the desired future of all those present.

2018 saw the approval of 26 FSC risk assessments. This makes a total of 41 risk assessments approved since 2017, meaning we have approved nearly 70 per cent of all planned risk assessments.

Certification bodies from around the globe visited Bonn in October for a calibration session hosted by the controlled wood team. We discussed real and hypothetical situations and arrived at a better understanding of the realities in the field, and the best practices available.

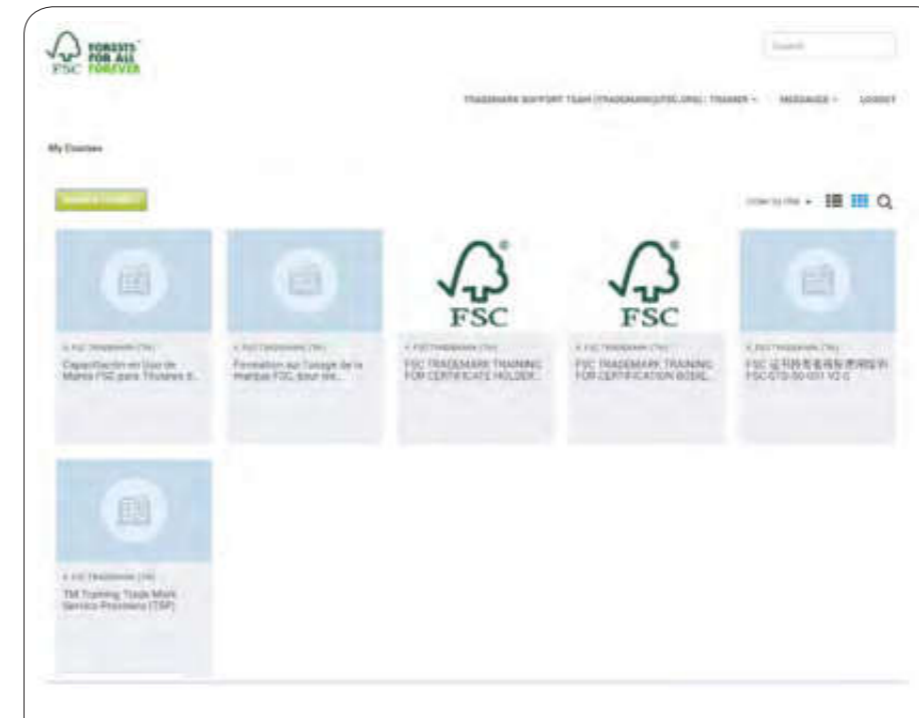
Controlled wood risk assessments

Our risk assessments are used to determine the risk of an organization obtaining material from unacceptable wood sources when sourcing controlled material.

These risk assessments are of two types:

- National risk assessments (NRA), which are developed by network partners with locally established working groups
- Centralized national risk assessments (CNRA), which are developed by FSC International directly, with or without the help of network partners.

We have worked hard to develop either an NRA or CNRA for 59 countries. Of these, 41 countries already have an approved FSC risk assessments, as of end of 2018. The remaining 18 countries are expected to be approved and published by end of June 2019.

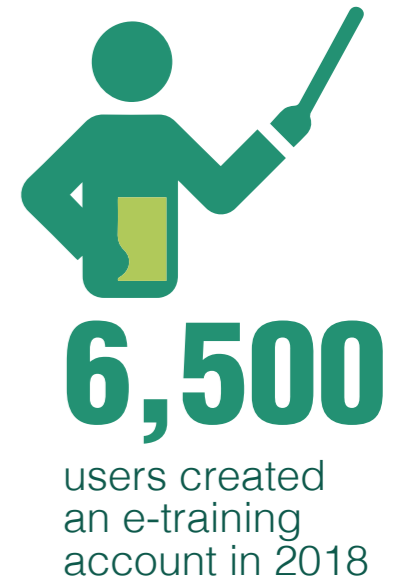


eTraining platform is a big success

Launched in 2014, FSC's eTraining platform continues to support auditors and FSC certificate holders in understanding, applying and implementing FSC's normative requirements. Courses on topics including the use of the trademark, forest management, chain of custody, controlled wood, and a general understand of FSC, have been published in nine different languages. By the end of 2018 around 6,500 users had created an account.

2018 saw the launch of one new online training course, following the publication of the revised standard on the use of FSC's Trademark FSC STD-50-001 V 2-0.

In early 2018, the controlled wood team created a Spanish translation of the English online learning course version on sourcing of controlled wood (FSC STD-40-005 V 3.1) that had been published in 2017. There is a version for auditors and another one for practitioners/certificate holders. By the end of 2018, the course in the different language versions had around 500 users for each target group.



Highlight

How one forestry company is helping Ugandan farmers improve their living while tackling encroachment issues

When Rogers Kutesa moved to the village of Kyabajojo in central Uganda, he was looking for land where he could farm and let his cattle graze. The land he had just left was fragmented, and he had struggled to make a living. Despite high hopes, his situation did not initially improve in Kyabajojo, until he came across a locally-based forestry company named global-woods.



Villagers use the roads through the forest

In 2012, the company gave Rogers manure for his coffee and banana plantations and a cow that supplied milk for his family. The cow gave birth to a calf which Rogers named Kent. Rogers decided to sell the cow to another family who needed additional income and to keep Kent for himself. Kent, now a fully grown cow, recently gave birth to her calf. Rogers named the new addition Hope, as a symbol of how his life and spirits have improved.

Rogers' plantations now feed his family, and they have plenty of surplus to sell. The income he receives from these sales covers school fees for his five children and pays for a water tank. "Everything comes from here," he says, sweeping his hand proudly towards his leafy banana trees.

Rogers and other farmers in the area have signed a protocol with global-woods to protect the Kikonda forest reserve surrounding Kyabajojo. However, all this progress did not happen overnight.

When global-woods received a farming licence for more than 12,000 ha in the Kikonda forest reserve, they rapidly found themselves facing one of Uganda's major challenges: Encroachment. The land is not demarcated in this country, and as a

result land tenure is not always strictly respected.

Today, crop growers are supported in improving their land fertility, production and post-harvest management. Cattle keepers receive the assistance that has improved breeding, feeding, output and animal health. So far, global-woods has supported 1,012 crop growers and 367 cattle keepers.

Farmers supporting themselves

Fred Muwalampya once planted subsistence crops in Kikonda Forest Reserve when his land in the Kazo area became infested with weeds. "I knew it was illegal to plant in the forest," he says. "But I took the risk for the sake of good soil."

This all changed in 2012 when he started working with forestry company global-woods. "I learned that my soil could be as fertile as the forest if I cleared the weeds, mulched and used manure." He began planting his maize in rows with the correct spacing. Within a year, his plot was chosen as one of the best in two counties.

Fred now gets 2.8 tons of maize per acre, per season and employs ten other individuals in seasonal jobs. He is gradually adding more livestock to diversify his farming. Profits from his current crop will settle the global-woods loan that paid for a crib for maize storage. Fred now pays school fees for ten children. He's also building a brick house, bought additional land from his neighbours, and plans to buy a car. "My land is good," he says, stooping to pluck a weed from the thickly mulched soil.

Working together

The company has trained around 6,000 adults and 3,000 school children from neighbouring villages in environmental conservation and sustainable forestry activities.

FSC certification is central to the approach of the company. Their programme relates to FSC Principle 4 which directs companies to contribute to maintaining or enhancing communities' social and economic well-being.

"We've had to adapt ourselves to this environment," says global-woods Sustainability Manager JohnMary Kisembo, "It's through our corporate social responsibility and management processes – structured around FSC Principles and Criteria – that we can deal with the land challenges and operate. If we'd waited for others to resolve land issues, we would not have this forest today."

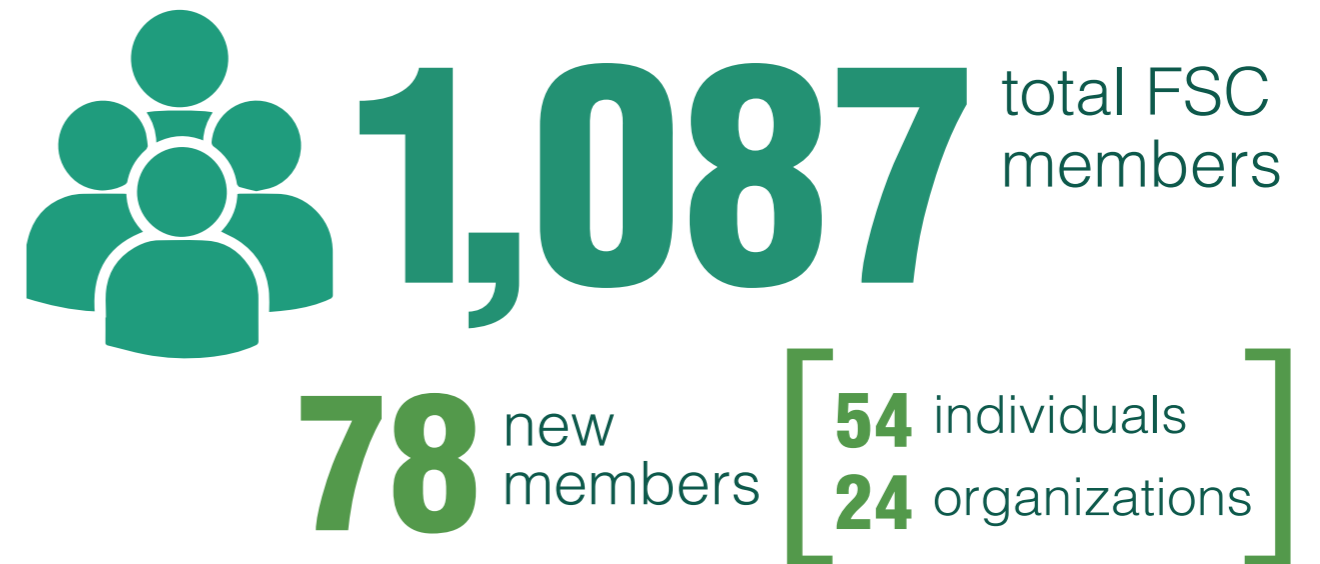
S1 Advance governance and engagement

Within our membership, everyone has a voice of equal importance and equal decision-making power. This gives our members the chance to shape the future of FSC and helps us to continuously improve the way we operate and govern our certification scheme and the wider organization.

Our strong growth continues

As the number of FSC members continues to grow, so does the strength of our organization. In 2018, we were delighted to welcome 78 new members, including 54 individual members and 24 organizations.

At the end of December 2018, our total membership stood at 1,087 members.



Breakdown of total members

	Individuals	Organizations	Subtotal
Africa	105	30	135
Asia Pacific	70	67	137
CIS	9	9	18
Europe	57	184	241
Latin America	192	161	353
North America	71	132	203

S1 Advance governance and engagement

Our Board provides crucial leadership

Our Board is made up of a diverse range of professionals and experts from across the world.

FSC International Board of Directors



FSC chairperson
Hans Djurberg
Economic North
SCA
Sweden



Vice-chair
Fran Raymond Price
Environmental North
The Nature Conservancy
USA



Vice-chair
Rulita Wijayaningdyah
Social South
Individual
Indonesia



Treasurer
Estevão do Prado Braga
Economic South
Suzano
Brazil



Barbara Bramble
Environmental North
Individual
USA



Mauro Jose Capossoli Armelin
Environmental South
Amigos da Terra
Brazil



Anthony Conrad Sebastian
Environmental South
Individual
Malaysia



Ralph Schmidt-Liermann
Economic South
Eufores
Uruguay



Alan Thorne
Economic North
Tembec
Canada



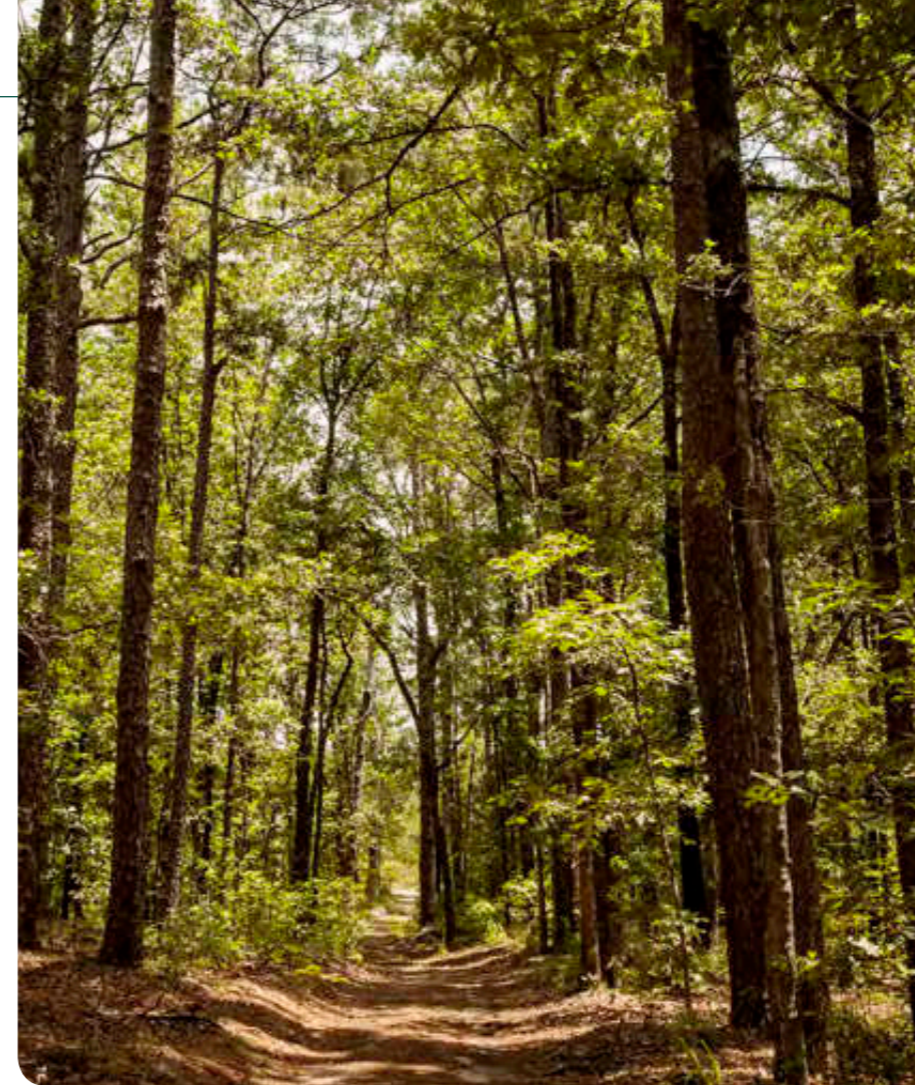
Martha Núñez
Social South
Individual
Ecuador



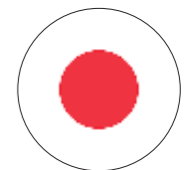
Alan Smith
Social North
Individual
Germany



Leendert van der Vlist
Social North
Netherlands Centre for
Indigenous Peoples
The Netherlands



In 2018, our Board meetings were held in:



Board Meeting 77
Hamamatsu, Japan
13-17 March 2018



Board Meeting 78
Bonn, Germany
7-10 August 2018



Board Meeting 79
Mestre, Italy
27-30 November 2018

Continuing to monitor how we're governed

To improve the way we are governed, 2018 saw the FSC governance review phase 2 carried out to implement motion 69 from the previous year. As part of this, we interviewed 114 individuals and heard from 2,000 stakeholders via an online survey between March and December.

We found that FSC's core governance – a three chamber system with the membership as the highest decision-making body – to still be our core strength, giving us a competitive advantage due to the superior credibility it gives our standards.

The recommendations we received therefore focused more on how this core could be protected while transparency could be increased.

The governance review was carried out by teams at the Universities of Magdeburg in Germany and Feevale in Brazil. Full analysis and recommendations will be presented to the Board of Directors for its revision and approval at the board meeting in August 2019.

Keeping it locally relevant

For our work to have an impact on the ground, we must consider the needs of our members at a regional level.

To build on a series of regional meetings in preparation for the 2020 FSC General Assembly, we hosted the FSC International Asia-Pacific Membership Regional Meeting in Mumbai (24-25 September 2018).

S1 Deploy new solutions

4%

of the FSC system is currently comprised of small and/or low-intensity or community managed forests

We're pioneering in our approach to stay ahead of the changing needs of the forestry and certification industries. As such, we continue to explore and implement new ways to take care of forests and provide a platform for dialogue to ensure our work includes the voices of all our stakeholders.

Increasing FSC-certified smallholders

Our New Approaches project seeks to improve access to, and uptake of, the FSC system by small forest owners and communities.

Currently, approximately 4 per cent* of the FSC system is comprised of small and/or low intensity or community-managed forests and plantations throughout the world.

Small and low intensity managed forests (SLIMF) make up roughly three per cent of the FSC system and community forest areas are conservatively estimably to amount to around one per cent.

At the end of 2018, the total smallholder certified area, including SLIMF and community certified forest areas, amounted to approximately 8.6 million hectares. Roughly 25 per cent of all FSC forest management and chain of custody certificates issued included SLIMF or community managed forest areas.

Our goal is to globally increase the current FSC-certified smallholders and community forests by 2020. Achieving this will require new solutions to responsible forest management that reflects FSC innovation efforts, as well as guaranteeing ownership of these solutions through active local stakeholder participation.

**Data from FSC certificate database, December 2018. Numbers represent best estimates based on currently available data.*

Highlight

How New Approaches is helping smallholders engage with FSC

The New Approaches project is developing specific tactics for smallholders and communities to engage with the FSC system and to maintain FSC certification. The effort ensures FSC remains internationally recognized and locally relevant.

Key achievements of the project include:

- A pilot project was initiated in China to evaluate alternative approaches for smallholders within the Chinese national forest stewardship standard.
- In 2018, a technical working group was established to lead the revision of the FSC-STD-30-005-V1-1 Standard for Group Entities in Forest Management Groups.
- Another pilot project was launched to evaluate the role of forestry contractors in the group certification process as a strategic lever to increase smallholder accessibility to the FSC system.
- The New Approaches project facilitated a series of workshops to explore the concept of continuous improvement, where small forest owners and communities can achieve FSC certification over a period of time.

Latin America

Fifteen consultation workshops were conducted in eight countries, including: Honduras, Mexico, Chile, Ecuador, Brazil, Guatemala, Peru and Bolivia.

Africa

Focusing on Kenya, Uganda, and Tanzania, the project is exploring the concept of continuous improvement. The results of this effort will contribute to the development of national forest stewardship standards in Eastern Africa, implement a risk-assessment of the FSC national standards, and



Our pilot project to better support smallholders and communities has been a real success

generate guidance for the standard development groups for the better inclusion of smallholders in the FSC system.

Asia Pacific

The project is developing a regional standalone forest stewardship standard and associated tools for smallholders that seeks to improve smallholder access to the FSC system, covering four critical countries in the Asia Pacific region: India, Indonesia, Thailand, and Vietnam.

North America

In partnership with FSC US and Rainforest Alliance, the project is pilot testing a risk-based approach to evaluate if low-impact logging (when done only once every 40 to 60 years, without intermittent management) can be a proxy for responsible forest management for very small landholders in the Appalachian hardwood forests of the US. In turn, the activity seeks to enable smallholders, in particular, small family forest owners, to

participate in the FSC system.

Active stakeholder participation drives the design, innovation, and implementation of these new solutions. As these new solutions are scaled-up across the world, consistent engagement with stakeholders will facilitate rapid uptake and implementation. FSC will engage smallholders, and relevant local stakeholders and interest groups, such as forest owners' associations, in dialogue events to seek their input on the new solutions. Their input will drive the assessment and evaluation of how viable these solutions will address local challenges and barriers to engage with FSC.

S1 Deploy new solutions



Controlled wood strategy: Increase FSC certified area and impact in uncertified areas

In Lisbon in June, 64 people representing the entire FSC system took part in an innovative workshop to find common ground on the future of controlled wood. The workshop agreed a strategy that over time will lead to a reduction in the FSC system's reliance on FSC Mix products and the controlled wood used to produce them.

After three days of dialogue, the FSC stakeholders agreed to nine objectives, as well as deciding on some short-term and long-term actions to help meet them.

Agreed objectives

- 1 Increase the area certified to forest management standards in all forest types
- 2 Strengthen supply chain integrity by using technology (e.g. verification of controlled wood origin)
- 3 Adapt the system to regional and national realities
- 4 Use data for decision-making and understand impact over time
- 5 Influence the management of non-certified forests by building strategic alliances and collaborating with like-minded organizations
- 6 Create an enhanced value proposition and benefits of sustainable forest management, from forest to consumers
- 7 Streamline the controlled wood normative framework and communicate with clarity
- 8 Communicate openly and comprehensively to be transparent about controlled wood (e.g. on product labels)
- 9 Develop tools to help all interested parties to meet the standards and get certified (e.g., smallholders and forest communities)

64

representatives of the FSC system took part in a workshop on controlled wood



The Smallholder Fund has boosted smallholder capacity to achieve FSC certification

The Smallholder Fund awards 41 projects with EUR800,000

The FSC Smallholder Fund ended in 2018 after six years. During this time, 41 projects were granted in all regions with an overall investment of EUR800,000.

Launched in 2013, the fund was created to improve smallholders' capacity to achieve and maintain FSC certification, to strengthen their ability to benefit from the FSC system, and to increase the supply of FSC certified materials.

The overall results, as a direct impact of the granted activities, include:

- 9 new certificates;
- 18 extensions of existing group schemes;
- over 200,000 hectares of newly certified forest area;
- further projects invested in to boost certification capacity.

Understanding the need of closing the financial gap for initial investment and ongoing support to smallholders and communities, the gained knowledge and experiences from this funding project are now being incorporated into the agenda of FSC's New Approaches for Smallholders and Communities Certification project (see previous page).

Kyrgyz smallholders get first Central Asian FSC certificate for non-timber product

2018 saw a group of 52 smallholders obtain the first FSC certification delivered for non-timber forest products in Central Asia. Their products are sold under the brand Silk Road Taste and include nuts, dried fruits, and honey.

The Great Silk Road played an essential role in the development of the Kyrgyz people. Occupying a favourable geographical position on trade routes and absorbing the cultural achievements of the East and West, the Kyrgyz Republic became the bridge connecting the West and the East.

Now, there is an opportunity for this tradition to continue through FSC-certified smallholder-collected products that find their way to European and Asian markets. The Silk Road Taste products, the first FSC-certified non-timber forest products from Kyrgyzstan, are an example of how a smallholder group certificate can offer significant opportunities for local producers.



Strategy 2

Increase the market value of FSC

FSC certification provides assurance that forest products are obtained in such a way that improves economies, increases social empowerment, and improves environmental quality in the forest.

And ensuring we have an active and growing FSC marketplace is crucial to make sure these benefits are realized for the forests and the people that depend on them.



- > **Rapidly increase consumer demand**
- > **Maintaining system integrity**
- > **Expanding our services**
- > **Partnerships for change**

S2

Rapidly increase consumer demand

We continue to significantly increase the promotion of FSC as a consumer brand, as well as develop collaborations with partners to achieve meaningful empowerment of people and conservation outcomes. At the same time, this will create benefits along the entire value chain from forests to consumers.

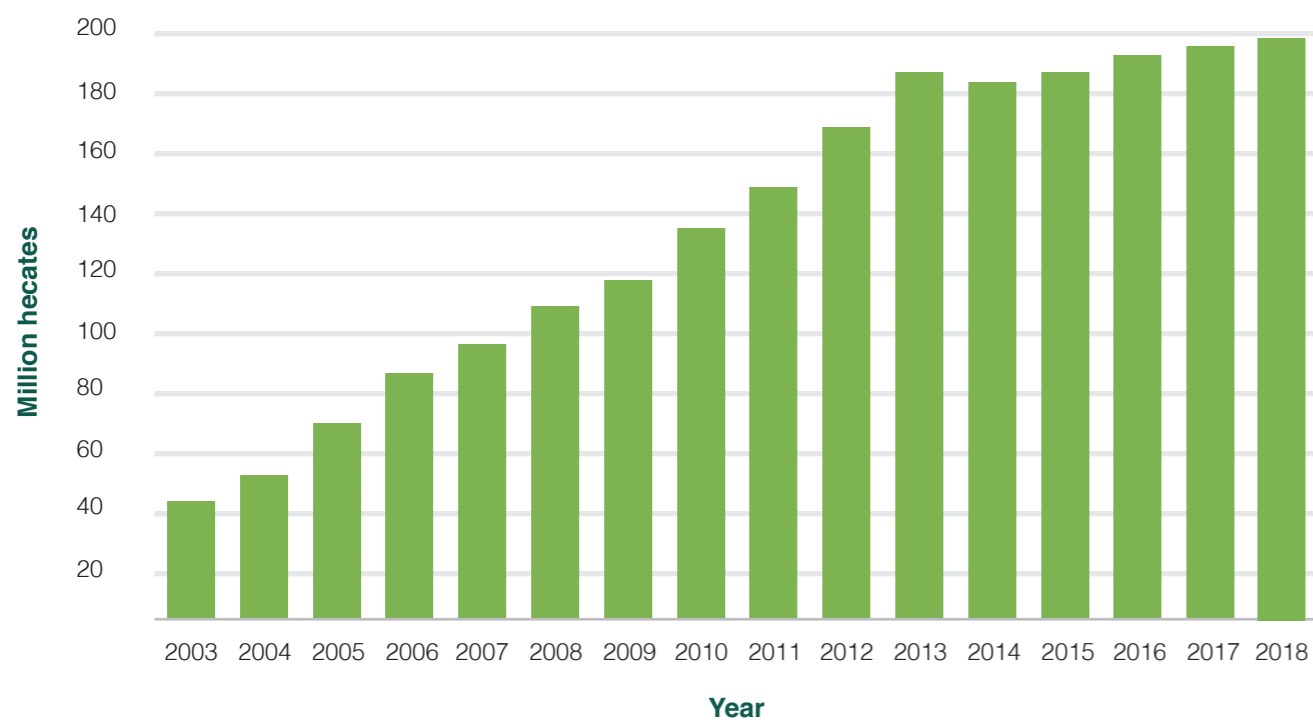
Growth in FSC coverage worldwide

The total area of FSC certified forest and the number of chain of custody certificate holders has increased steadily over the years.



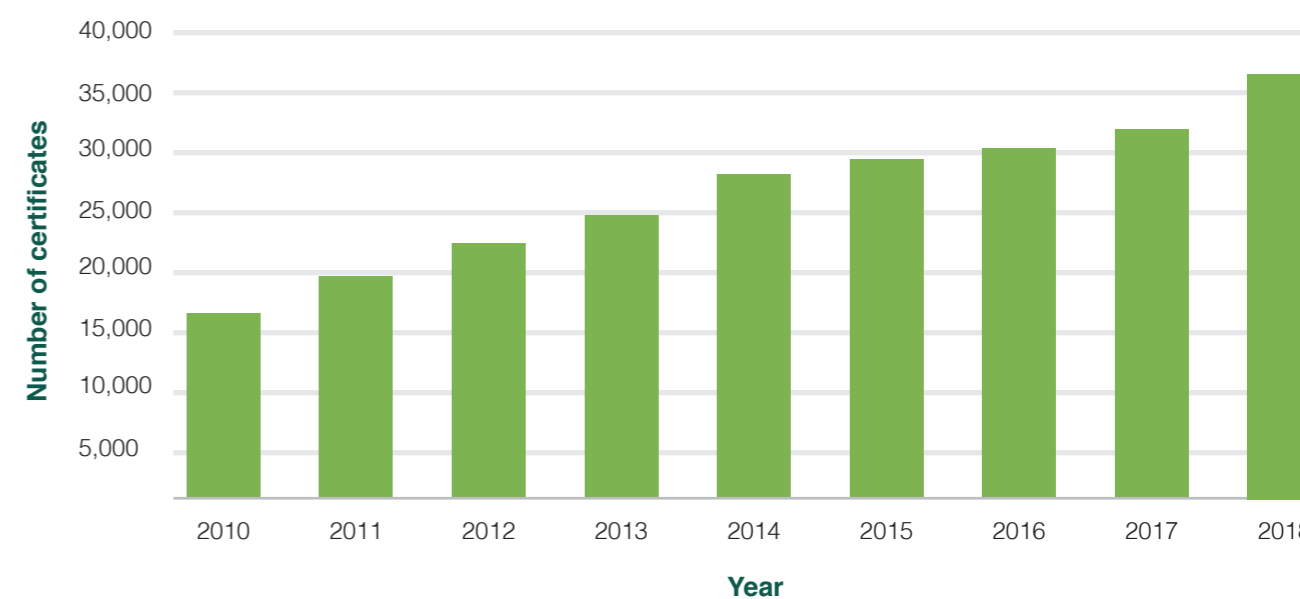
Total FSC-certified forest area, as of end of December 2018

200,963,183 hectares



Total number of chain of custody certificates, as of end of December 2018

35,772 certificates



S2 Rapidly increase consumer demand



423 million cubic metres of wood harvested from FSC-certified forests globally

We periodically analyze the volume of FSC-certified wood produced worldwide. The last analysis revealed that approximately 423 million cubic meters of wood are harvested per year in FSC-certified forests around the world.

Compared to the Food and Agriculture Organization of the United Nations' wood production data from 2016, this volume corresponds to:

- 22.6 per cent of global industrial roundwood production (all roundwood excluding fuelwood); and
- 11.3 per cent of global roundwood production (which includes industrial roundwood and fuelwood)

These numbers represent the maximum volume of FSC-certified wood which is potentially available across the globe.

Our certificate holders remain satisfied

Our global market survey is a biennial survey that aims to collect market intelligence about FSC markets, products and stakeholders. It helps us to gather and understand the views of certificate holders and promotional license holders, to assess their satisfaction with FSC certification or promotional licenses, for example.

In 2018:

75%

of certificate holders indicated that they were satisfied with their FSC certification

76%

of promotional license holders indicated they were satisfied with their FSC promotional license

A new trademark standard for certificate holders

2018 saw the launch of newly revised trademark requirements for certificate holders to use.

The FSC-STD-50-001 V2-0 Trademark Requirements for Certificate Holders became effective on 1 March. It provides a simplified framework to make use of FSC trademarks for labelling and promotion.

Our trademarks are the main way for FSC certificate holders to communicate about their products meeting FSC requirements and about their status as certificate holders. Labelling products and promoting them with FSC marks, helps consumers to make informed decisions about their purchases.

We wanted to make the use of the marks easy for our certificate holders and to provide examples of use cases. So, we published a visual Trademark Quick Guide to help users get started, highlighting the main aspects with examples. To help further, we published a specific guide on the use of the Forests For

All Forever mark in promotion across different media and use cases.

An online training course was launched about the revised requirement for certificate holders in English, Spanish, French and Chinese. The course provides an introduction to the FSC trademarks and gives an overview of how they can be used on products and promotional materials. An online training course was also published for certification bodies to support their work with the requirements. The courses were received very well and by the end of 2018, the certificate holder course had 1,319 participants. The one for certification bodies had 1,244.

A new, improved version of the FSC Trademark Portal for certificate holders was launched at the same time to support labelling of FSC certified products and creating promotional material with FSC marks. The portal has almost 13,000 visitors per month and sees an average of 10,000 labels generated every month. The labels are available in over 60 languages.



We provide a trademark service to encourage and help retailers and brand owners to promote FSC certified products.

In 2018: 33 FSC national and regional offices provided trademark services to

866

retailers and users of finished products in 61 countries

Number of licensees grew

117%

between the start 2013 and end of 2018

Top 10 countries with FSC promotional license holders, 2018

Country	No.
1. Germany	145
2. UK	101
3. Japan	59
4. Denmark	57
5. Italy	55
6. Sweden	46
7. Netherlands	43
8. USA	36
9. Australia	29
10. Switzerland	28

S2 Rapidly increase consumer demand

New ecosystem services procedure launched

2018 saw the launch of a world-first in forest certification: FSC-PRO-30-006 The FSC Ecosystem Services Procedure. The ecosystems services programme is an initiative which aims to create incentives for the preservation of valuable ecosystem services in responsibly managed forests.

Ecosystem services represent a range of benefits, such as clean water, that people derive from nature. FSC-certified forest managers already preserve ecosystem services and bear the associated costs.

This new procedure provides forest landowners, smallholders and communities with the tools to verify and derive value from their positive impacts on ecosystem services. The impacts on carbon sequestration and storage, conservation of biological diversity, watershed services, soil conservation, and recreational services can now be verified.

The ecosystem services procedure is available in English, Spanish, Chinese, Portuguese and Italian. A guidance document has been developed for forest managers to help with the implementation of the procedure to improve their access to ecosystem services markets.

This approach is already being used and the worlds' first FSC ecosystem services impacts have been verified successfully.

And in Italy, the Waldplus group forest management certificate had its impacts on five ecosystem services verified.



The environmental impact on challenges such as soil conservation can now be verified

Highlight

Putting the 'green' in greengrocer: German retailers increase commitment to FSC



German packaging displaying the FSC logo

Grocery shopping in Germany got a lot greener in 2018. Leading retailers Lidl, Aldi, and Edeka published their purchasing guidelines, focusing on the procurement of FSC-certified paper and wood.

According to Lidl's *Position Paper for the Purchase of Cellulose*, published in July 2018, it intends to switch to FSC-certified virgin fibre materials for all food packaging in Germany by the end of 2018.

For non-food items, including textiles packaging, garden and camping products, furniture, and stationery, Lidl wants to switch to FSC by 2020. The retailer is currently active in about 30 countries and generates global sales of about 70 billion Euros (EUR)

Aldi Nord and Aldi Süd each published a wood purchasing policy at

the beginning of 2018, favouring the procurement of FSC-certified products under certain circumstances.

For example, Aldi Nord requires FSC if the products come from 'high-risk' countries.

Edeka had previously announced plans to switch to Blue Angel-verified materials for recycled wood, paper and tissue, and FSC for virgin fiber. This objective was achieved by the end of 2017 for their private label packaging.

By taking these steps, these retailers are joining other German end-user retailers which have, for some time, demanded FSC-certified materials for their products, catalogues or internally used paper.

S2 Rapidly increase consumer demand



Market news from the regions

Europe

In **Belgium**, a survey by the Belgian Federal Environment Service revealed that the proportion of FSC-certified timber has doubled between 2012 and 2016. Roughly half of the certified timber in Belgium carries the FSC label, which therefore accounts for approximately one-third of the total volume of primary timber products on the national market.

In **Denmark**, the Kalles Kollektiv consumer campaign launched in the second quarter of 2018 in four languages – Danish, Finnish, Swedish and Norwegian. More than 633,500 consumers have seen the campaign across the Nordic region, more than 190,000 have interacted with it, and more than 25 per cent of all individuals who were exposed to the campaign videos watched it in full.

Elsewhere, FSC **France** conducted a market analysis on the demand for verified impacts on ecosystem services – and how that might add value to FSC forest management certificates.

Africa

FSC Africa used the popular **Gabon Wood Show**, held for the first time, in Libreville, to promote the benefits of FSC certification as one of 100 exhibitors from the forestry sector.

The FSC Africa team took part in Racewood, an annual conference organized by the International Tropical Timber Technical Association in conjunction with the Gabon Union of Forestry Industries.

North America

In the **US**, Kimberly-Clark conducted the largest FSC-focused consumer campaign to date, including six of the biggest grocery store chains in the country. Sales lift was the highest in 'most-green' consumer markets, indicating targeted campaigns to 'greener' consumers are more likely to maximize results.

Meanwhile, Procter & Gamble's (P&G) Puffs brand has made it easier for consumers to choose FSC-certified facial tissues. Puffs strengthened its commitment to responsible forest management by earning and labelling FSC certification on all its facial tissue paper products. Consumers can now find the FSC labels on-pack ensuring that 100 per cent of the virgin fiber sourced for Puffs comes from responsibly managed sources.

FSC US and FSC **Canada** launched a new digital campaign to promote FSC in construction. To better serve those interested in using responsibly-sourced wood products in construction, a new FSC North American website was built to attract architects, property developers, contractors and interior designers.

To celebrate Earth Day, P&G, FSC Canada, WWF Canada and other organizations came together at the P&G Toronto office for a sustainability fair. And Calgary Zoo has been encouraging visitors to be forest friendly. It hosted an FSC campaign in the summer, asking guests to pledge to choose FSC branded toilet paper. The zoo saw over 17,000 participants

who encouraged consumers to use their shopping power to help forests and the animals that inhabit them.

Asia-Pacific

In **Thailand**, the government made a significant pledge to support smallholder rubber planters to comply with the standards of FSC. Prime Minister Chan-o-cha stated that he believes complying with FSC standards "will make Thai products more viable for export to other markets in addition to China and will help raise their value in international markets".

In **Australia**, FSC Australia hosted an informal session for the Chinese State and Provincial forestry delegation, to discuss the development of forest management standards, the FSC experience and benefits, and the drivers and incentives for certification. The CEO of FSC Australia CEO also met with Australian MPs to discuss the release of the Australian FSC National Forest Stewardship Standard.

In **Japan**, FSC Japan's Forest Week campaign – its version of FSC Friday – attracted 19 household brands and more than 45,000 people in a series of the activities.

Certificate holder satisfaction rates remain high. On average, satisfaction rates across Asia-Pacific stand at 74 per cent, with the rates for Malaysia, Indonesia and the Greater Mekong region even higher at more than 90 per cent. Those in China and India exceeded 85 per cent.

South America

In **Chile**, 2018 saw the creation of the first group certification for chain of custody, kicking off with eight members from different sectors.

Meanwhile, millions of FSC-certified paper bags with the FSC Forests for All Forever logo were delivered in the Chilean market from retailer Falabella, a retailer that is also present in Colombia, Perú and Argentina.

In **Peru**, a school campaign with Impreso Gráfico saw it promote FSC via its Macedonia product line.

In **Mexico**, FSC was included in the commercial communication reaching final consumers for key accounts, including Tetra Pak and its Herdez brand.

In **Colombia**, there was a successful consumer campaign with WWF and Smurfit Kappa.

In **Costa Rica**, a digital campaign was launched with Tetra Pak and Dos Pinos, including point of sale materials.

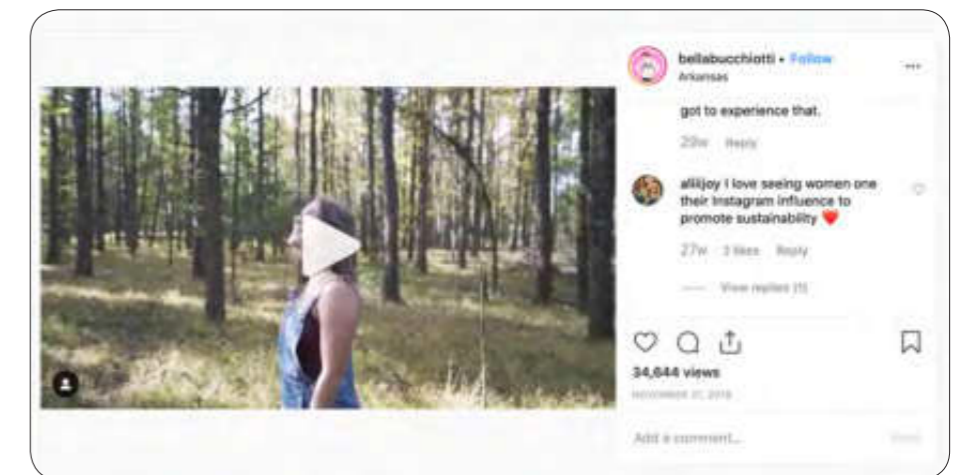
Tapping into the power of social influencers with immersive forest tour

In general, green consumers appreciate value and understand the evidence that is presented to them. But it must be credible and concisely presented. At the same time, consumers are overwhelmed by media and visual content daily.

So they are increasingly turning to social influencers as a way to identify products, services – and eco-labels – that resonate. A social influencer has more than 50,000 followers, is seen by followers as being credible when promoting products, and regularly shares information about products they love.

In 2018, FSC US worked with Procter & Gamble to develop and run a consumer influencer campaign whose central focus was a forest tour of their FSC-certified suppliers' forests near Arkadelphia, Arkansas.

As a result of this tour, the campaign generated 8.6 million social media video views and engagements, 7.8 million story views, and 8 million unique blog post visitors who spent an average of 6:40 minutes reading about FSC.



Social influencer Bella Bucchiotti used her Instagram account to spread the FSC story

S2 Maintaining system integrity

Strengthening the FSC supply chain

Safeguarding the integrity of the FSC brand is at the heart of FSC and we therefore have a series of initiatives and programmes with the sole aim of assuring that FSC remains the most trusted and credible certification system for forestry in the world.

One of these programmes focuses on identifying and addressing risk in supply chains. In collaboration with Assurance Services International (ASI), we have been conducting a global assessment of inaccurate claims in high-risk supply chains in a series of different commodities.

We are also piloting new solutions to manage risk in supply chains, where a high level of risk has been identified with the aim to expand successful initiatives to other high-risk supply chains in the future. Some supply chains currently included are bamboo, certain kinds of oak and charcoal.

Maintaining the integrity of the FSC system is crucial if we are to succeed in our mission.

Combatting trademark violations through legal enforcement

Since its inception, FSC's worldwide intellectual property (IP) registrations have comprehensively grown to provide certification mark, trademark, brand and copyright protection (collectively called 'FSC trademarks').

- In 2018, FSC actioned 58 trademark violations of unauthorised trademark use;
- 34 of these were new trademark violation reports gathered from FSC's network partners or FSC website users;
- The other 24 cases were existing ongoing matters or had been identified through FSC's in-house and proprietary monitoring systems;
- Most of the cases actioned by FSC were resolved by FSC's legal department, who undertook in-country actions against alleged infringements.

Companies or individuals who attempted to use FSC's trademarks without authorization were faced with civil and criminal legal sanctions.

FSC actioned unlawful trademark use through a team of inhouse legal counsels and trademark specialists. Externally, FSC worked with a network of top tier specialist global law firms and enforcement agencies to resolve reports of trademark violations worldwide.

Online markets and social media platforms posed an increasing threat to protecting FSC's trademarks, with FSC responding to these challenges by modernising its IP policies, IP guidelines, and IP management systems organizationally and by using online enforcement tools, as well as increasing enforcement capabilities in specific regions and supply chains to address these concerns.

New steps were introduced to increase cross border enforcement of FSC trademarks through registration of our trademarks at foreign customs offices. In addition, we began preparing customs enforcement manuals for the seizure of suspected infringing goods.

FSC continued to capitalize on its organizational strength with the FSC network partners playing a central role in reporting trademark violations and supporting trademark enforcement actions globally.

Highlight

Saving a species: One company's mission to save the Brazilian Tapir



Once upon a time, many Brazilian Tapirs roamed the Atlantic Forest

In the pitch black night, a stout creature roams through the thick undergrowth of the Brazilian rainforest. Notoriously hard to spot, even at night when it is most active, the locals call it the sachavaca, literally translated as 'bush cow'.

You'd be forgiven for thinking this was some species of wild boar. But in truth, this animal is more rhinoceros than swine. If you've ever seen a Tapir in the flesh, it is a sight you won't soon forget. This shy creature is a bundle of paradoxes. Adorable, yet odd-looking. Heavy, yet light-footed. It is a now-endangered species that have roamed the planet for around 50 million years.

There were once many Brazilian Tapirs inhabiting the Atlantic Forest when it was a continuous forest spanning the 3,000 kilometers along the Brazilian coastline and stretching inwards as far as Paraguay and Argentina. Now, this once great forest is a shadow of its former self, and barely 7% remains in fragmented pieces. However, it still

boasts biodiversity second only to the Amazon. FSC-certified Brazilian company Klabin has dedicated resources to not only preserving forests such as this one but also to repopulate them with endemic species. In the 1990s the company launched a tapir reproduction project in the Samuel Klabin Ecological Park, to help increase the number of animals in the wild.

In July of this year, three of these tapirs, Petróquio, Flora and Ronaldo travelled over 1,000 kilometers to be released into the wild in Rio de Janeiro, a state where Tapirs have been extinct for over a century.

After a careful release, in collaboration with and supervised by the Refauna Project, the three inadvertent explorers are settling into their new home. Camera traps and tracking collars will remotely monitor their progress.

Klabin was the very first pulp and paper company to receive FSC forest management certification in the Southern Hemisphere, and the first Latin American company in the sector to achieve FSC certification throughout its entire supply chain.

For Klabin, the values championed by FSC run deeper than certification and form part of the company's DNA. Its entire management is guided by the principles of sustainable development. "Investing in the preservation of biodiversity is part of our contribution to a renewable future and strengthens our commitment to the UN Sustainable Development Goals," says Klabin's Sustainability and Environment manager, Júlio César Batista Nogueira.

S2 Expanding our services

Our work to get closer to our range of partners and stakeholders – including forest owners, producers and retailers – enables us to innovate and build out our services to create value for people and the environment.

Using earth observation to protect our integrity

FSC is on a mission to be a global leader in digital innovation and certification. 2018 was the year where we set the stage for delivering on this mission. We laid the foundations for our work with Earth observation to strengthen the integrity of the FSC system.

In 2018, we established partnerships with global leading geographic information system (GIS) experts to build an FSC platform to publish maps showing FSC certified forests. This included building the GIS infrastructure to allow data to flow securely, and for geospatial analysis to be performed.

Wood identification to combat illegal logging

FSC's supply chain integrity programme has been on the cutting edge for years, using scientific wood identification techniques – like isotope referencing – to strengthen the veracity of FSC-certified product claims.

In 2018, in collaboration with leading experts and laboratories like the Royal Botanic Gardens Kew, the US Forest Service Forest Products Lab, the US Forest Service International Program, and the Agroisolab in the UK, FSC scaled up its efforts to collect wood reference samples, in the form of isotope signatures, to provide more accurate detection of supply chain issues, and in turn, to support taking action on legality issues like illegal logging.

In 2018, we scaled up our collection of geo-referenced wood samples of timber in FSC-certified forests in 12 countries. We also helped to pioneer a new model for collecting reference samples by defining the minimum viable sample to be collected (a piece of wood and a leaf) and the satellite positioning coordinates of where the sample was taken.

Highlight

How a group of Tanzanian villagers have seen their lives improve thanks to a local tree called 'mpingo'



The mpingo tree produces one of the world's most expensive timbers

With wood so hard that it can blunt axes, this small scruffy tree is one of the world's most expensive timbers. It is prized for making the best-quality clarinets and oboes. But mpingo is at risk due to illegal logging.

And there have been fears that if conservation efforts are not made, Tanzania will have no more harvestable mpingo within 20 years; its national tree will be on its way to full extinction.

Jasper Makala saw that humans had destroyed most mpingo in his village and decided to help his community reverse the trend by studying forestry. He also chose to work closely with FSC so they will be there for many generations to come.

In 2009, MCDI was awarded the first FSC group certificate for community-managed natural forests in Africa. Currently, 14 communities in three different districts participate in the scheme, with more than 185,000 hectares of forest FSC certified.

MCDI works with communities, equipping them to own, sustainably manage and benefit from their forests. It also connects them with buyers to facilitate sales of their timber.

Since the village started to sell FSC-certified harvested timber, Nanjirinji A has made more than \$400,000 from selling sustainably harvested timber. The natural resources committee uses the sales to develop community projects, funnelling the profits back into the community.

On 5th February 2014, a large group of children were gathered in a tree-shaded square of Nanjirinji A, a village in south-eastern Tanzania. They were patiently waiting for their names to be called while sitting on the ground. In front of them, a table had been placed for their district commissioner and the representative of the village natural resources committee. The two men were distributing new school uniforms to each of the selected primary school pupils while their mothers proudly watched the scene from further back. The commissioner then inaugurated the brand-new primary school of Nanjirinji A.

Fatuma Maimbo, 43, fondly recalls that day. The farmer, and mother-of-four, is proud to see that her children can now go to their own school. Before, they had to travel every morning to another village to attend classes. The school conditions have steadily improved for the village. In 2016, the natural resources committee bought new uniforms for all the students of the village. And the improvements did not stop at the

doorstep of the school. "Now we've bought mattresses and bedsheets for our hospital. And pregnant women get (financial) support for the delivery of their babies," says Fatuma. "Before, we weren't able to engage in any development activities because of our low income."

Since 2013, the community has also built a marketplace, a dozen wells to access clean water, and a guesthouse to host tourists and, hopefully, bring even more money to the community.

But from where does the funding for all these projects come? "Forests have changed our lives," says Fatuma. "We understand why it is so important to conserve and secure forests for our benefit and future generations."

In 2004, ex-farmer Jasper Makala began working with rural villagers to better their lives by saving their trees. He founded the Mpingo Conservation & Development Initiative (MCDI) to reach this goal. Mpingo is the Swahili name for the east African blackwood.

12

In 2018, we scaled up our collection of geo-referenced wood samples of timber in FSC-certified forests in 12 countries

We recognize that certification is just one of the solutions available to tackle forest loss and degradation. We cannot solve such huge issues on our own and so our partnerships – with businesses, governments and NGOs – are crucial in continuing to push the boundaries.

Strategic partnership signed with Stora Enso

We joined forces with Stora Enso in 2018 to start a long-term strategic collaboration to develop and promote sustainable forestry.

The partnership agreement is designed to increase FSC certification, especially among small- and medium-sized private forest owners in the Nordics, Baltics, and across Europe.

The aim is to increase the FSC certified wood supply. The work undertaken within the partnership will make FSC certification more accessible, simpler to implement and easier to promote across the value chains in which Stora Enso operates. The agreement was signed on 17 December and covers a three-year period which starts in January 2019. The first year's focus will be on the Nordics.

“We work actively with our stakeholders to promote sustainable forest management,” said Noel Morrin, EVP Sustainability at Stora Enso. “As a customer-centric renewable materials company, Stora Enso also wants to respond to its customers' needs for FSC certified products.”

Stora Enso has been an FSC member since 1999 and through this has experience of working with FSC to advance the principles of responsible forest management. This new strategic partnership builds on that relationship to focus more on the key operational aspects of FSC in those countries where both organizations have an active presence. It will seek to develop and promote forest certification as a key tool to improve the well-being of forests while providing increased supply sources for companies that want to source FSC certified material.



Leading the charge for a sustainable fashion industry

A growing number of fashion brands are now including FSC as a requirement for all their raw materials coming from forests, including fibres and natural rubber.

At the end of 2018, fashion brand H&M had committed to having all its man-made cellulosic recycled fibers FSC certified by 2025.

Our work with cellulosic forest fibers for the textile industry and natural rubber has been consolidated through an active agenda which has brought FSC to be a visible and active player in several events, including Innovation Forum's Sustainable Textiles and Apparel event in Amsterdam.

We're working closely with the environmental non-profit Canopy to help make key changes in the fashion industry. Collaborating for almost five years, the CanopyStyle initiative – with more than 160 brand partners, such as H&M, GAP, Zara and Stella McCartney – is committed to eliminate the use of timber harvested from ancient and endangered forests in fashion supply chains, explore innovative fibres like recycled clothing and to contribute to advancing conservation solutions.



S2 Partnerships for change



Target is converting its forest-based product lines to FSC by 2022

Retail partnerships go from strength to strength

We continue to enjoy strong and effective partnerships with retailers across the world.

In the US, REI and Target became strategic partners of FSC in 2018. Target Corporation, the eighth-largest retailer in the US, is converting its forest-based product lines to FSC by 2022 – starting with the Spritz line, which is now 100 per cent FSC-certified.

REI, one of the US largest outdoor goods retailers, has worked with FSC US to articulate a new procurement policy and work with its suppliers across pulp, wood, rubber and cellulosic-based products to ensure aggressive sustainability goals are achieved.

In Canada, the world-renowned snowboard brand Burton opened its first flagship Canadian store featuring FSC-certified snowboards.

Making strides with key advocacy activities

The International Standards Organization published its Standard 38200 on chain of custody for wood products. FSC had strong involvement. As a result, the Standard requires that, for certified outputs, the chain of custody standards of specific certification schemes must be used instead of this more general standard, which does not need third-party verification.

The Collaborative Partnership on Forests, which brings together all relevant United Nations and other international organizations working on forests, concluded on a core set of sustainable forest management criteria, which include forest certification. This is a direct consequence of FSC involvement in discussions on indicator sets in the past few years.

The European Commission approved sustainable fibre sourcing requirements in the new criteria for EU ecolabels on copying and graphic paper and tissue paper in line with FSC's labelling requirements.

Highlight

Fortifying sustainable forestry practice with the help of global zoos



WAZA has 400 members, representing the world's leading zoos and aquariums

2018 saw FSC enter into a partnership with the World Association of Zoos and Aquariums (WAZA) to develop a global framework aimed at creating a more sustainable world through responsible forest management.

The memorandum of understanding (MoU), signed at WAZA's 73rd Annual Conference in Bangkok aims to support FSC's national network partners and members of WAZA in promoting responsible forest management as an important tool for the conservation of nature and endangered species.

Pledging its commitment towards this shared mission, WAZA's chief executive officer, Doug Cress, said that zoos and aquariums are at the forefront of tackling global environmental issues and we receive over 700 million visitors each year. "We can play an important role in

working with the FSC to help ensure forests are responsibly managed and protected for future generations."

WAZA, which represents the world's leading zoos and aquariums and includes more than 400 members, will collaborate with FSC to develop a joint programme that emphasizes the benefits of FSC certification for nature conservation. The MoU sets clear targets for members of WAZA to source FSC certified materials in their procurement of paper and wooden products by 2023.

Working with WAZA creates some very important communication opportunities for FSC. Cooperation is already happening between specific zoos and aquariums and their national FSC organizations, but this will be the first time a global framework is created to strengthen these efforts.



Strategy 3

Transform the way we work

To deliver against our Global Strategic Plan 2016-2020, we need the right people in our organization. We continue to evolve how we operate, both within the international secretariat and with our affiliated offices around the world.

S3

> Our people are our power

> Unleash the power of knowledge

S3 Our people are our power



Our people are our greatest asset. Since 2017, we have continued to evolve our organization and build on our human resources strategy.

Attracting, retaining and empowering our people

To live up to the FSC mission and commitments in our global strategic plan, we continue to empower our people and make the organization a great place to work.

At our headquarters in Bonn, Germany, we have successfully maintained or increased gender diversity across all hierarchical levels. In an already diverse staff body, we have also increased diversity by increasing the number of staff members from the global south. We

have embarked on re-designing our approach to evaluating performance, skills and competencies with a view to people development.

We moved towards improving leadership and teamwork through implementing a leadership and team development pilot in our Performance and Standards Unit. This will see the development of leadership principles, and a leadership development programme for a group of eight programme managers.

FSC's offices around the world



New offices

As our global secretariat has grown over the past few years, we had to move some staff members to a second office space a few years ago.

This separation was not ideal, and we are happy to announce that 2018 saw us move the whole organization in Bonn back under one roof.

Elsewhere, FSC Chile opened a new office in Concepción in January 2018. Previously, its central office was located in the capital, Santiago. Now, it is closer to the different stakeholders, including rural communities, Indigenous communities, NGOs and smallholders.

In April 2018, the national office of FSC Argentina was born. The news was announced at a special event held at Patagonia Flooring, a local partner. In Argentina, FSC has been certifying various companies for about 15 years.

From key accounts to value chain development

Our key account management structure was revamped in 2018 and is now the Value Chain Development Programme. The new programme entails market intelligence-led prioritization of value chains of forest-based products. It enables us to identify opportunities to create impact and deliver solutions with FSC that add value to the final product.

The programme has three major focus value chains with dedicated teams to cater to them and an overarching objective to transform the markets and meet our global strategic plan targets. The three value chains are:

1. Timber, including furniture, construction and tropical timber;
2. Fibre, including packaging, paper and hygiene;
3. Innovation, including textiles, rubber and non-timber products

This change has led to a more focused and organized way of working, as well as enabling us to establish a better connection in market development, from the forest to the consumer.

We aim to report comprehensively on the economic, social and environmental benefits and impacts of FSC. We strive to be a leading provider of actionable information, giving internal and external users the power to inform insight-driven decision making and communications.

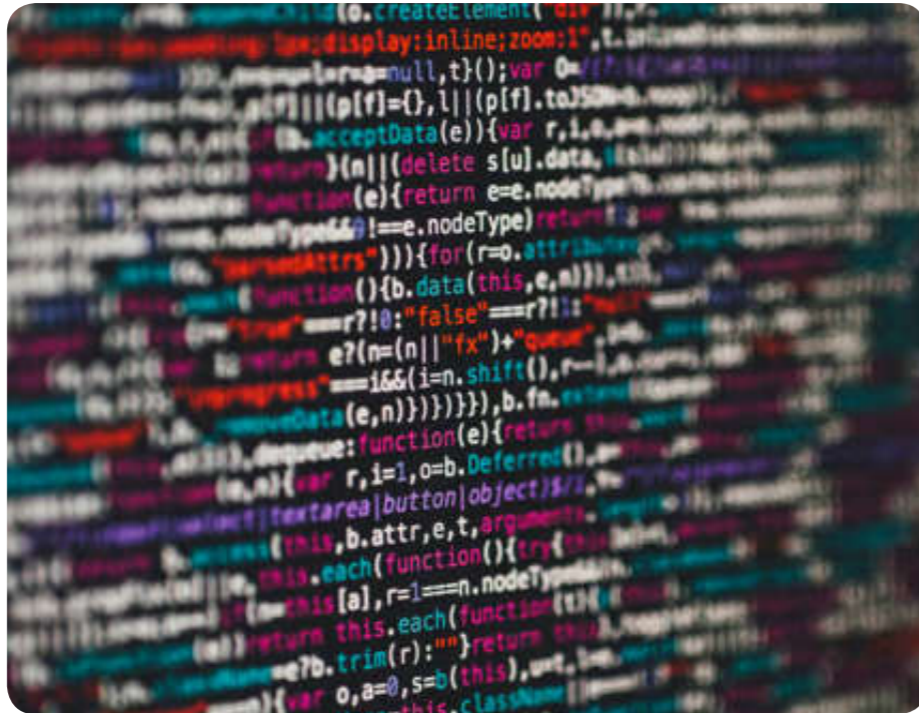
Becoming an improved data and digital-driven organization

The central part of our strategic plan is to introduce digital technologies into the FSC system to improve the integrity of the system, while lowering costs of certification.

To do this, we need to be digitally innovative.

Our efforts in 2018 focused on building the relationships, infrastructure, capacity and culture to become insight-driven and support decision making and communications.

You can join us on our LinkedIn group, called FSC Digital Innovations, to keep up to date with our ongoing work in this area.



Transforming our monitoring and evaluation programme to become data-driven

For FSC to remain relevant and ensure that we deliver on our promise to safeguard the forests of the world, we must be able to analyze our impact and our areas for improvement. Only then can we become truly digitally data-driven and unleash the power of our knowledge.

To realize this aim, we transformed our monitoring and evaluations programme, and reframed its focus. The new programme, called Data Analytics, Evaluation and Learning, ensures FSC has an analytics-capable and holistic framework to focus on outcomes that inform the shaping of FSC. The programme is centered on data and its quality, which complements and supports the qualitative results of research reviews.

Information and data standard for sustainability

To enable FSC and our stakeholders to become data-driven, we must first and foremost ensure that our information systems can speak to each other and that our data is understandable to the outside world.

FSC faces an issue here, which is similar to many other certification schemes: our data setups weren't initially built to speak to each other or the outside world.

We are working to solve this problem by building a new information and data standard for sustainability.

FSC and ISEAL are therefore leading up a joint project funded by the ISEAL Innovation Fund to develop an information and data standard for sustainability. In 2018, we started work on stakeholder engagement to support the project.



We're working with ISEAL to develop an information and data standard for sustainability

Understanding our positive impacts

A number of studies were released in 2018 that showed the value of FSC certification. Among these were:

- A literature review on the conservation impacts of FSC certification among other voluntary sustainability standards;
- A literature review on the environmental impacts of FSC certification in the boreal, temperate and tropical biomes;
- A study using models to compare carbon and biodiversity outcomes among different timber production systems, including FSC-certified reduced-impact logging;
- A study evaluating the causal effect of FSC certification on tree cover loss in tropical forest landscapes;
- A study on the impacts of FSC certification on deforestation, and on the benefits to local communities and stakeholders dialogue in Chilean forestry businesses;
- A study on investments on social services and infrastructures resulting from FSC certification of forest plantations in Tanzania

As well as looking at the positive impacts, we also analyze other impacts of the FSC system, and take actions where necessary.

Facts and figures



Global FSC certified area

200,963,183

hectares

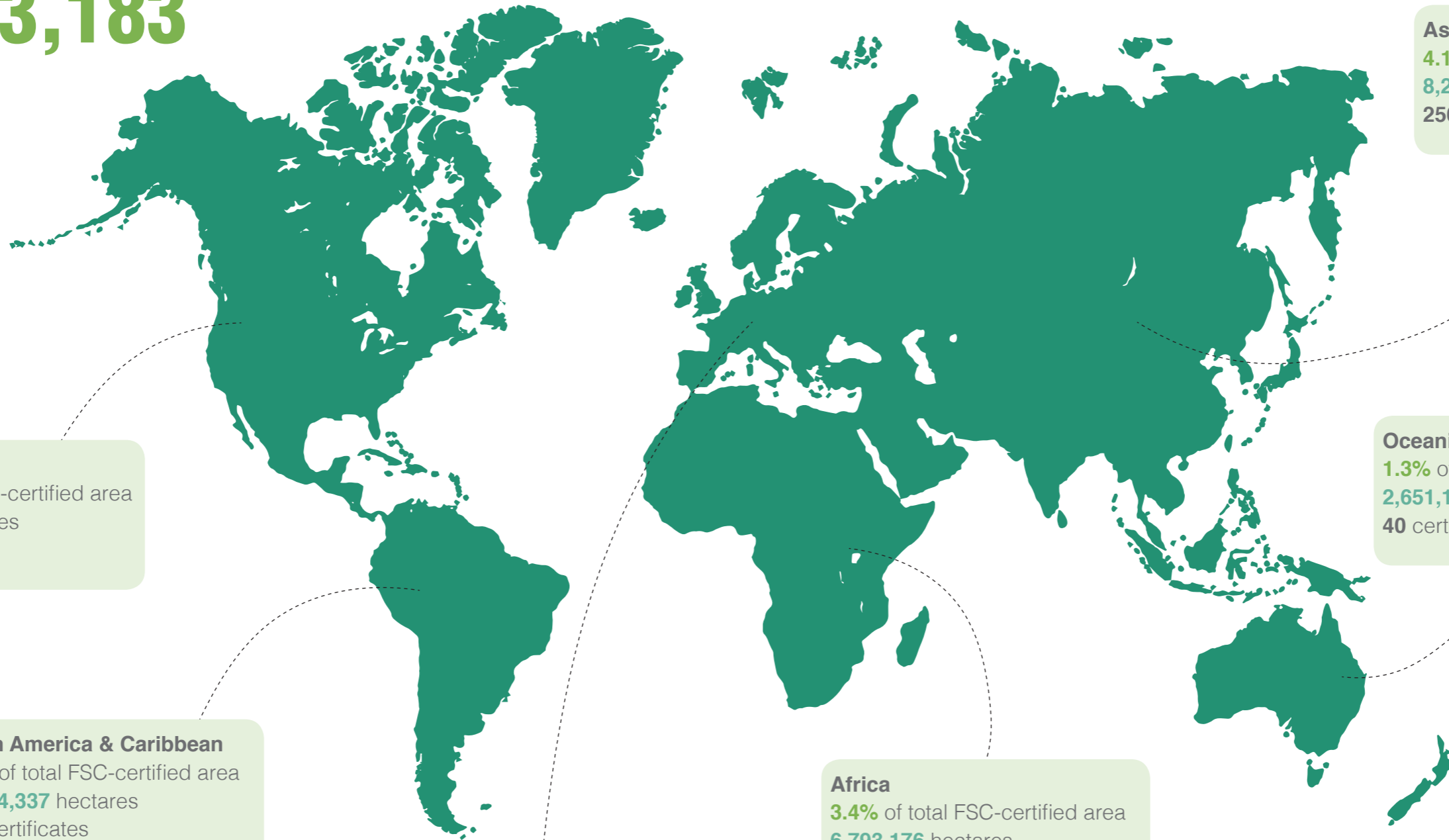
85

countries

1,606

certificates

Data as at 3 December 2018



North America

34.5% of total FSC-certified area
69,285,190 hectares
253 certificates

South America & Caribbean

6.7% of total FSC-certified area
13,454,337 hectares
264 certificates

Europe

50% of total FSC-certified area
100,482,414 hectares
743 certificates

Africa

3.4% of total FSC-certified area
6,793,176 hectares
50 certificates

Asia

4.1% of total FSC-certified area
8,296,930 hectares
256 certificates

Oceania

1.3% of total FSC-certified area
2,651,135 hectares
40 certificates

Facts and figures

Global FSC chain of custody (CoC) certificates

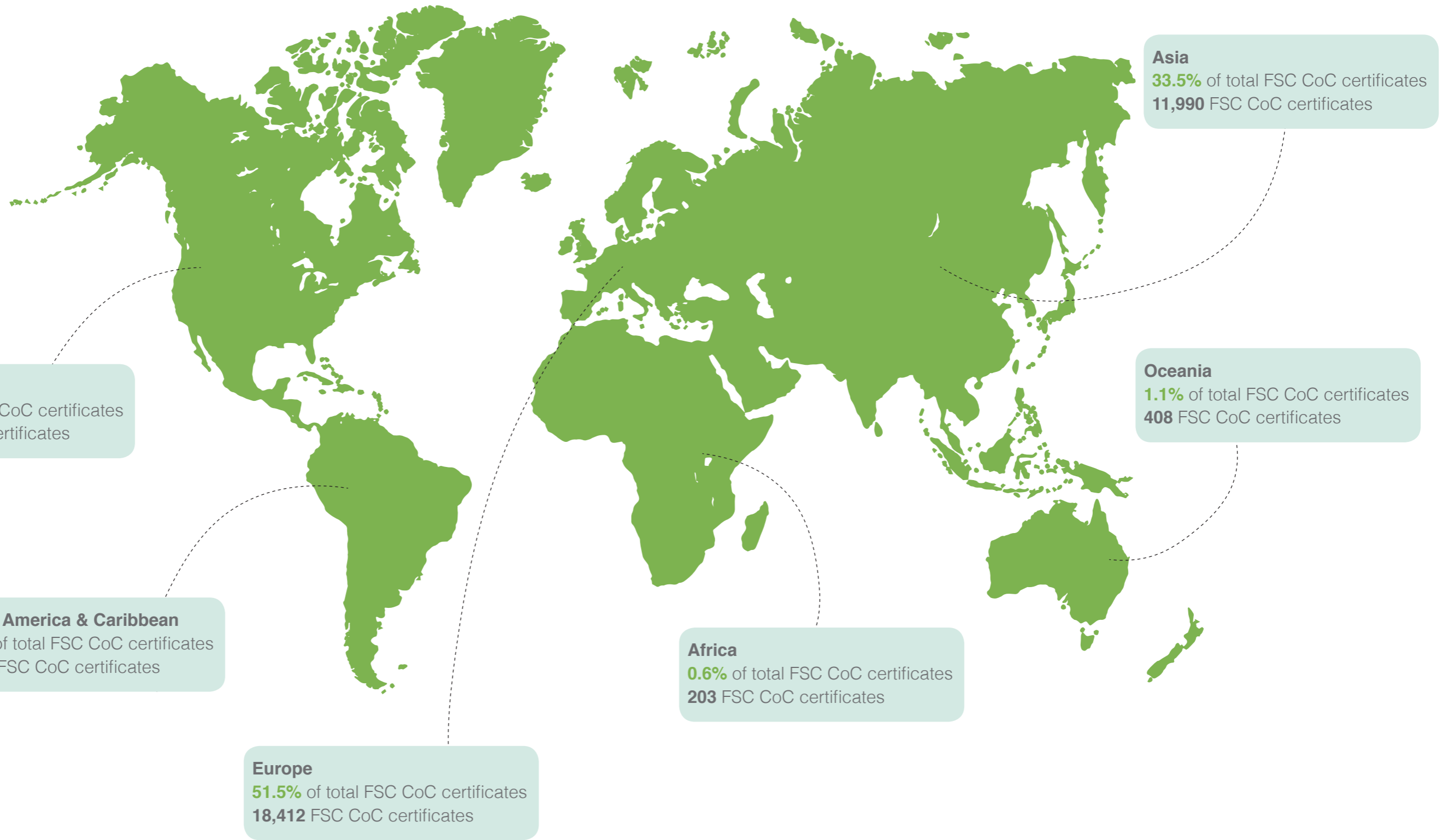
35,772

certificates

123

countries

Data as at 3 December 2018



Towards a financially sound FSC network

FSC International is present in almost 50 countries with the help of its expansive network of national partners, called network partners. Together, we form a network that allows FSC to collaborate closely with its stakeholders on the ground to deliver on our shared mission.

In reviewing the financial flows in and out of FSC, two factors stand out. First, the most important source of income for FSC International is a fee paid by our certificate holders which is used to support the core operations of the FSC system. This is called the Annual Administration Fee (AAF).

Conversely, the biggest expense of FSC International is the so-called Activity Compensation Fee (ACF), where FSC International grants a specified amount to its network partners. This fee supports local service provision to the many FSC stakeholders on the ground by their local network partners. It is the most important income source for the far majority of our network partners, amounting to on average 58 per cent of their income.

As well as the funding allocated by FSC International, network partners supplement their income through sources such as their membership (16 per cent) and fundraising to public and private donors (12 per cent). Looking at expenses, network partners use their income for market development (52 per cent) and forest management-related issues (48 per cent).

To reduce complexity, improve predictability in funding, and create greater alignment and network-wide focus on FSC's strategic objectives, a new funding allocation system has now been introduced. The new allocation system is based on three pillars. Firstly, the amount of certified forest under FSC's responsible forest management scheme. Secondly, the number of chain of custody certifications in the country. And thirdly, network partners receive strategic investment for their specific contribution towards the strategic goals of FSC.

Income sources of FSC network partners in 2018, on average	
FSC International	58%
Membership	16%
Fundraising	12%
Trademark service provider	4%
Service delivery	4%
Others	4%

FINANCIAL REPORT Forest Stewardship Council, A.C. and Subsidiaries Consolidated Statement of Comprehensive Income

	2018 US\$'000	2017 US\$'000
Revenue		
Annual administration fees	29,242	27,772
Donations	1,042	1,126
ASI generated income	5,553	4,719
Commercial services	721	113
Memberships and fees	284	238
Licence fee	-	0
Other	483	822
Total revenue	37,325	34,790
Expenses		
Total staff costs	9,486	7,550
Total travel costs	2,678	3,205
Total third party costs	19,857	21,183
Total back office costs	1,703	1,425
Total costs	33,728	33,365
Net exchange rate gains/losses	168	51
EBITDA	3,765	1,476
Amortisation, depreciation and loss from disposal of non-current assets	- 1,263	- 702
EBIT	2,502	774
Tax expense	- 2,043	- 1,897
Interest	7	13
Exchange gains arising on translation of foreign operations	- 47	137
Profit/loss for the period	419	- 973

Special thanks

We extend our thanks to the following partners for their ongoing support during 2018. Our work in promoting responsible management of the world's forests would not have been possible without:

Aeon Mail	MJ Murdock Charitable Trust
Bayrische Motoren Werke AG - BMW	Mondi plc
Commission de Forets d'Afrique Centrale represented by Programme de Promotion de l'Exploitation Certifiee des Forets (COMIFAC/PPECF)	North American Partnership for Environmental Community Action
Deutsche Gesellschaft fur Internationale Zusammenarbeit GmbH (GIZ)	Officeworks Ltd
Domtar Corporation	Peter and Mary Russo Family Foundation Inc
ESRI	Precious Woods Holding Ltd
P.T. Faber-Castell Indonesia	Rothenberg Ludden Trust
Fondazione Cariplo	SAP SE
Food and Agriculture Organization of the United Nations – FLEGT Programme	Sappi North America
Fuji Xerox (Hong Kong) Limited	Stora Enso Oy
Google LLC	Sustainable Tropical Timber Coalition
Heavenly Blush - Nutrifood Indonesia	The Swedish Postcode Foundation (Svenska Postkodstiftelsen)
HERO Group	T-Mobile US Inc
IKEA Supply AG	Tetra Pak India
P.T. Indosal Jaya Mandiri	P.T Tetra Pak Indonesia
Instituto Brasileiro de Árvores (IBA)	UPM-Kymmene Corporation
International Paper	UPM Raflatac (China) Co., Ltd
ISEAL Innovations Fund	US Forest Service International Programs
Kimberly-Clark Professional	Wildlife Forever Fund
Lenzing Fibers (Hong Kong) Limited	World Bank Group
Man Sang Envelope Manufacturing Company Limited	WWF Netherlands
Microsoft Corporation	Individual and anonymous donors



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