State owned forest company Sveaskog – Contradictory targets and operations

EUROSAI-WGEA seminar on forest management
Oslo 16 May 2012

Camilla Gjerde, Swedish National Audit Office

16 May 2012
Sveaskog – largest forest owner in Sweden

- 51% Individual private owners
- 24% Other private owners
- 6% Private forest companies
- 4% Other common owners (church etc)
- 15% Sveaskog
- 6% Other private owners
Audit questions

Overall objective was to examine whether Sveaskog fulfils its mission and whether the Government manages the company in accordance with the parliament’s decisions and intentions.

› Has the forest company Sveaskog fulfilled its missions and operations according to the decisions and intentions of the parliament?
  • Has it fulfilled its goals within the sector - its special missions and targets?

› Has the government managed Sveaskog in accordance with the mission and goals given by the parliament?
Assessment criteria

Goals and mission according to parliament

› Overall goal: role model in the environmental field
› to be an independent player in the timber market, contribute to increased competition and provide purchasing sawmills with timber
› not to be a long-term owner of forest industry
› transfer land to the state for nature reserves, offer replacement land and sell land to strengthen private agriculture and forestry

Swedish Forestry Act

› equal emphasis on two main objectives: production goals and environmental goals.

Companies Act

Sveaskog must follow the Companies Act. The objective is to give shareholders returns (profit)
Audit methodology

› Document review
  • Main documents: minutes from board meetings (10 years)

› Interviews
  • Representatives of the board
  • CEO and officials from the company
  • Ministry officials (Ministry of enterprise)
  • National Environmental Protection Agency
  • Environmental NGOs

› International comparisons
Findings

Not easy for the company to balance different targets, both environmental and financial:

• Sveaskog preserved an extra 60,000 hectares in a special deal with the EPA in 2009 without getting paid – a great step towards reaching the milestone goal of preserving an additional 900,000 hectares of forest land by 2010.

• The problem: According to its mission and targets Sveaskog should operate on commercial grounds – always. When preserving a great amount of productive land without any type of compensation, it did not follow the Companies Act.

• But, Sveaskog should also be a role model in the environmental field. According to the company and the Government, abstaining from any kind of compensation was part of being a role model in the environmental field.
Impact of the audit

› A new mission to Sveaskog, presented in a government act just before the report was published...

› The new mission simplified the company's operations and special targets – but also made its role in attaining the environmental targets and forest policy goals less pronounced. A company among others.
Major challenges

› Doing a corporate control audit with strong elements of performance audit. How to balance the company's different missions when assessing its performance?
› Secrecy in state-owned enterprises (time consuming)
› Ministry not cooperative
  • No answers in interviews or only short written answers given during interviews
  • New mission
› Internal challenges
  • Fear – parts of analysis excluded and “toothless” analyses and conclusions
## SNAO experiences

| Challenges                  | • Lack of openness in the company – data collection time consuming  
<table>
<thead>
<tr>
<th></th>
<th>• Internal fear – report could have been tougher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Methodology</td>
<td>• Combining performance audits and corporate control is difficult – special missions less important than financial targets?</td>
</tr>
<tr>
<td>Findings/Recommendations</td>
<td>• Findings and recommendations in part rendered uninteresting because of the new mission</td>
</tr>
</tbody>
</table>
| Impact                      | • New, revised mission for the forest company Sveaskog  
|                            | • New mission focuses on the financial targets and operations – bad for the environment? |
| Scope and audit questions   | • Compliance? Or effectiveness?  
|                            | • Too narrow – overall performance audit on the effectiveness of forest policy instruments preferable |