



RIKSREVISIONEN

Summary:

Sveaskog AB and Its Mission

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Summary

Sveaskog AB, which is Sweden's largest forest owner, is owned by the state. The Swedish NAO has examined whether Sveaskog is carrying out its mission and whether the Government is managing the company in accordance with the Riksdag's decisions and intentions. The audit covers 1999-2009. The Swedish NAO's overall conclusion is that Sveaskog is not carrying out its mission in accordance with the Riksdag's intentions in all respects and that the Government is not managing Sveaskog in accordance with the Riksdag's mission in all respects.

The Swedish NAO has identified certain problems and shortcomings in Sveaskog's operations with respect to the special mission to which it is subject: industrial ownership, its role in the timber market and in offering replacement land. The Swedish NAO also finds that the special mission is characterised by conflicts of goals. One such conflict is Sveaskog's difficulty in setting priorities between its special mission and the requirement that the enterprise operate on commercial grounds.

The Government proposed an amended mission for Sveaskog in spring 2010. In the assessment of the Swedish NAO, the proposal clarifies the mission and reduces the risk of conflicting goals, but the problems associated with Sveaskog's industrial ownership and its role in the timber market remain.

Sveaskog's mission

Sveaskog has an extensive mission that is highly detailed in some respects. Sveaskog's overarching goal is to manage the state's forests in a manner that serves as a model from both a production and environmental point of view. The company is also subject to a special mission. Sveaskog's mission is:

- not to be a long-term owner in the forest industry
- to be an independent player in the timber market, contribute to increased competition and furnish purchasing sawmills with timber
- to transfer land to the state for nature reserves, offer replacement land and sell land to strengthen private agriculture and forestry
- to promote eco-tourism, recreation and experiences
- to reconstruct Svenska Skogsplantor and start selling it in 2002-2006

The Riksdag has stressed that Sveaskog's operations are to be conducted on commercial grounds, even with respect to the special mission.

The articles of association specify the company's mission on the basis of Riksdag decisions and Government bills and expressly state that Sveaskog's operations are to be conducted on commercial grounds.

The Government's spring 2010 bill concerning an amended mission for Sveaskog eliminates most of the special mission. According to the proposal, Sveaskog's future operations are to be based on businesslike grounds and generate commercial return by serving as an independent player with its core

activities in forestry. According to the proposal, Sveaskog is not to have large interests as an end-user of timber.

Conclusions

Sveaskog has not done enough to sell its industrial operations

Sveaskog acquired pulp industrial operations and sawmills in connection with the acquisition of AssiDomän in 2001. However, the Riksdag decided that the state was not to be a long-term owner of industrial operations in forestry. The Riksdag later specified that the goal of not owning industrial operations in forestry remained but that Sveaskog, in its effort to change its ownership structure, should try to obtain good value for its assets.

In 2003 Sveaskog joined with Mellanskog and LRF to found the timber industry company Setra through the merger of Mindab and AssiDomän Timber. Sveaskog acquired and has retained 50 per cent of Setra shares. In the view of the Swedish NAO, whether Sveaskog's ongoing industrial ownership is in line with the Riksdag's decisions and intentions is questionable.

Sveaskog maintains that it plans to sell its share in Setra but is waiting for the right opportunity. Sveaskog tried to reduce its holdings in Setra by means of an IPO in 2007-2008 but the plans came to naught due to the state of the economy in 2008. Sveaskog tried to acquire a controlling interest in Setra in 2008 and 2009 as a means of strengthening Setra's liquidity and getting the company back on its feet. However, the ownership structure remained unchanged.

The Swedish NAO does not believe that Sveaskog has done enough to carry out its mission of selling its industrial operations. In the view of the Swedish NAO, there are several reasons that Sveaskog has not sold its share in Setra:

- Setra has strategic importance for Sveaskog as a purchaser of timber in the vicinity of the company's forestry holdings.
- Sveaskog has not tried to divest its majority share by dividing up the sawmills.
- Sveaskog has not wanted to sell to big forestry companies.
- Sveaskog has wanted to contribute to restructuring of the sawmill industry.

The Swedish NAO finds that there are conflicts of goals between the mission of selling industrial operations in forestry and the requirement of operating on commercial grounds. The bill concerning an amended mission for Sveaskog (Government Bill 2009/10:169) stresses that Sveaskog is to sell its interest in the sawmills. However, the Swedish NAO notes that the Riksdag decided in 2001 that Sveaskog was to sell its industrial operations in forestry but that the Government has not specified whether the financial targets or the special mission should be prioritised when Setra is sold.

Sveaskog is not an independent player and is not carrying out the mission of contributing to increased competition in the timber market

One of the intentions of the Riksdag in founding Sveaskog as a state forestry company was that it serve as an independent player in the timber market and thereby contribute to increased competition. Sveaskog was to deliver timber to the purchasing sawmills, which have difficulty obtaining enough timber because private forestry companies deliver most of their timber to their own sawmills.

According to the Government and Sveaskog management, being an independent player means not owning industrial operations. Nonetheless, Sveaskog has a 50 per cent share in Setra, an industrial enterprise. The Swedish NAO's analysis demonstrates that Sveaskog sells large volumes of timber to Setra. Thus, the Swedish NAO does not believe that Sveaskog can be regarded as an independent player in the timber market.

According to the Government Offices and Sveaskog management, the company is carrying out the mission of contributing to increased competition by its mere existence. However, that is not the only possible interpretation of this special mission. Increased competition could also mean contributing to the sale of timber in the market so that the purchasing sawmills can better provide for their raw material needs. According to this definition, Sveaskog could have contributed more to increased competition, given that large quantities of timber are sold directly to Setra, an associated company, rather than on the open market. The Swedish NAO finds that conflicts of goals exist between the condition of being an independent player and the requirement of operating on commercial grounds.

Sveaskog has not offered replacement land to large forest owners

According to a Riksdag decision, Sveaskog is to offer replacement land to forest owners when the state has set aside their land for the common good, including nature reserves. Sveaskog offers replacement land to small forest owners only, even though the Riksdag has not specified any such limitation on the special mission. One reason for state's acquisition of AssiDomän in 2001 was to make it easier for Sveaskog carry out its mission of offering replacement land. The Swedish NAO finds that there are conflicts of goals that may have affected Sveaskog's restrictions on its mission of offering replacement land.

Sveaskog's restrictions have frequently been criticised by large forest owners, the Swedish Environmental Protection Agency and the Swedish Agency for Public Management. Until 2010, the Government stated that interpreting the mission was up to the Sveaskog board. The Swedish NAO's audit finds that Sveaskog's restrictive policy may make it more difficult to meet the Government's environmental goals. The 2010 Government bill concerning an amended mission for Sveaskog proposes that productive forest land be transferred to a land bank in order for the state to trade valuable land of large private forest owners in order to meet the Living Forests nature reserve goal.

Sveaskog uses a narrow definition of inhabitants of sparsely populated areas

In 2001 Sveaskog was tasked with selling land to individuals in sparsely populated areas. Until 2010 the company narrowly defined inhabitants of sparsely populated areas and argued that land should be sold to people who live or have forest property in the municipality where the land is located. The new interpretation of sparsely populated areas as of 2010 is broader and gives everyone who lives in a particular county the opportunity to purchase forest land there.

The Riksdag's goal is that land sales contribute to the support of individuals in sparsely populated areas. Sveaskog's narrow interpretation of inhabitants of sparsely populated areas may have made it more difficult to sell land to individuals. The changes that the company implemented as of 2010 are likely to make it easier for individuals to acquire land. However, the Riksdag's decision is difficult to interpret. The Swedish NAO's assessment is that there may be more effective ways of promoting local development in sparsely populated areas.

Sveaskog is not carrying out all its mission in accordance with the Government's guidelines

The Swedish NAO's audit shows that Sveaskog is not acting in all respects in line with the Government's requirement that it operate on commercial grounds. The example that the audit brings up is the company's decision to waive any demand for compensation as part of an agreement with the Environmental Protection Agency to build nature reserves on the company's land in 2008.

In the view of the Environmental Protection Agency, Sveaskog would most likely have been entitled to compensation, normally 80-90 per cent of market value. Even though the documentation that the company presented to its board prior to the agreement appraised the market value of the land at SEK 2.9 billion, Sveaskog did not demand any compensation.

The Government states that Sveaskog carried out its mission of serving as an environmental model when it entered into the agreement. However, the Swedish NAO does not regard the board's decision to waive any demand for compensation as being in line with its mission of operating on commercial grounds. If Sveaskog was to depart from commercial grounds, the Government should have formally tasked it with entering into the agreement without demanding compensation. A more transparent approach, which would have been consistent with the Budget Act's principles of gross accounting, would have been for the Government to propose that the Riksdag authorise an appropriation so that the Environmental Protection Agency could pay Sveaskog compensation. The Government could then have demanded the same amount in Sveaskog dividends.

The Government's management of Sveaskog is passive and not visible

The Swedish NAO finds that the Government's management of Sveaskog has been passive in terms of determining whether the enterprise is carrying out its mission. The Government has not ensured that Sveaskog has done

enough to sell its share in Setra. Nor has the Government evaluated the extent to which the Setra holdings have affected Sveaskog's role in the timber market. The Government has not ensured that Sveaskog is an independent player and that it contributes to increased competition in the timber market.

Not until 2010 did the Government take the initiative to alter Sveaskog's policy of offering replacement land to small landowners only. The Swedish NAO believes that the Government proposal of a land bank is likely to contribute to achievement of the Living Forests environmental goal. Nevertheless, the Government could have acted earlier to alter Sveaskog's policy of not offering replacement land to large landowners. From a technical point of view, setting up a land bank remains unclear. One remaining question is how to provide replacement land in the future, given that the Government has proposed that Sveaskog no longer have that task.

Sveaskog has an extensive mission. The Government has not sufficiently specified Sveaskog's special objectives and mission in its articles of association or other governing documents. Nor has the Government identified clear priorities in Sveaskog's special mission.

The Riksdag has stated that Sveaskog's overall goal is to serve as a role model, but the Government has not specified what that entails. If Sveaskog is to serve as an environmental role model, the Swedish NAO believes that the company must go beyond the requirements of the Forestry Act. The Government has provided little guidance in this respect.

The economic goals are reasonable, but how they are affected by the special mission of Sveaskog remains unclear

The assessment of the Swedish NAO is that Sveaskog's strategic direction is reflected and captured in the economic goals as formulated by the Government.

Nevertheless, the extent to which the special mission of Sveaskog and its interest in Setra affect the economic goals remains unclear. Both Setra and land sales are included in the return-related key ratios even though Sveaskog is not to be a long-term owner of industrial operations and the land sales are extraordinary in nature rather than part of the company's long-term strategy. To ensure greater focus and arrive at targets that are comparable over time, the Government would do well to exclude land sales and Setra from the return-related key ratios.

The Government's proposal to amend the commission for Sveaskog includes changing its economic goals.

Recommendations to the Government

- Make sure that Sveaskog is carrying out its mission in accordance with Riksdag decisions.
- Ensure that Sveaskog becomes an independent player in the timber market.
- Describe how any future need of replacement land for the common good is to be satisfied.

- Specify what it means for Sveaskog to be a model in the area of the environment and sustainable development.
- Formulate economic goals that clearly consider what the special conditions cost and that exclude industrial ownership and land sales.

Recommendations to Sveaskog

- Intensify efforts to sell its share in Setra in order to strengthen Sveaskog's ability to act as an independent player in the timber market, contribute to increased competition and furnish more purchasing sawmills with timber.
- Clarify the company's balancing act between environmental considerations and the requirement that it operate on commercial grounds.