

Operation of “Rīgas meži” in timber industry reduces financing for the direct tasks

20/12/2017



By becoming involved in production of sawn timber, capital company of the Riga City Council “Rīgas meži” conducts business that is unjustified and distorts competition. It is not in compliance either with the goal for establishing the company or tasks delegated later by the local government; therefore, it does not correspond to the interests of society. This fact was established by the State Audit Office when it was performing a regulatory audit on operation of the company.

In the course of the audit, it was found that the company established by the Riga City Council alongside tasks commissioned by the local government – management of forested territories of Riga, Mežaparks and public city gardens and parks – has established a sawmill “Norupe” with a purpose to process timber and gain as much revenue as possible from this economic activity.

Creation of the sawmill has a negative effect on competition in the timber market because it has a possibility to acquire raw material for a price three times lower than the price available at the free market to most of the private enterprises. Moreover, the auditors have discovered that without such an advantage sawmill of “Rīgas meži” would work with loss: instead of expected profit in 2015 and 2016 the operational costs of the sawmill have reduced the financing available for performance of direct tasks of the company to such extent that would allow to perform maintenance and development of city parks and gardens entrusted to “Rīgas meži” for a whole year without requesting financing for the purpose from the taxpayer money of the municipality.

“Conclusions of the State Audit Office show inadequate management of “Rīgas meži” as performed by the Riga municipality, and good management is crucially important in order to provide for the needs of residents effectively and honestly, as well as in order to have a favourable effect on national economy,” underlined Ms Elita Krūmiņa, Auditor General.

Ms Skaidrīte Ābrama, Chairperson of the Competition Council, confirmed that Competition Council also assessed involvement of the capital company of Riga local government in business as unjustified. “Involvement of state and local governments in business is permissible only in certain cases, including if there are imperfections in the market, and the private sector cannot provide enough goods and services. However, in this case the market has sufficient competition; therefore, the decision made by SIA “Rīgas meži” to create their own sawmill should be viewed in a very negative light. At the same time, it should be emphasised that exactly the entrepreneurs of the private sector promote development of this market because they are more effective in use of their resources. It would be important for public persons to be aware that distrust towards private business will demotivate any entrepreneur in a long run, and it will in turn endanger all possibilities of the society to receive benefits from fair and strong competition.

The State Audit Office has concluded that in the timber harvesting area operation of “Rīgas meži” does not prove planned timber harvesting in the interest of society. The wish to gain as much

revenue as possible from the economic activity has been the guiding motivation for operation of "Rīgas meži" already for several years. As a result, planned management of forest areas of the local government has been sacrificed. During the audit, the company also indicated that felling sites are planned and cut in order to provide maximum capacity for the sawmill created by it and to achieve the planned revenue.

Annual grant from the Riga City Council to "Rīgas meži" for the purposes of management of parks and gardens in Riga exceeding already 2 million euro in 2017 has been assigned to the company without indicating specific tasks the company should complete by using these funds.

On December 20, the State Audit Office shall inform Public Expenditure and Audit Committee of the *Saeima* regarding the findings of the audit.