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## Economic Commission for Europe

### Committee on Forests and the Forest Industry

#### **Eightieth session**

Geneva, 2-4 November 2022

Item 5 of the provisional agenda

**Forest economics and markets**

## **Draft Forest Products Market Statement**

### **Note by the Secretariat**

#### *Summary*

This document provides a brief overview of forest products markets in the Economic Commission for Europe (ECE) region for the period of 2021 and the first half of 2022. It will serve as a starting point for developing a Market Statement based on (i) the outcome of the market discussion, (ii) details provided by member States in their country market statements and (iii) further information available by the time of the meeting. Points for consideration can be found in heading III of this document.

Under this agenda item, member States are invited to make statements on the main issues and developments in their forest products markets and to attend the drafting group session of the Committee on Forests and the Forest Industry (COFFI). Delegates are invited to contribute to the discussions under Item 5 Forest economics and markets, referred to as the market discussion (for more information, please refer to heading II of this document).

## I. Introduction

1. The present document has two main purposes. It summarizes the main points of the Forest Products Annual Market Review 2021-2022, and it provides the basis for drafting the final Market Statement of the Committee on Forests and the Forest Industry.
2. Delegates are invited to review the information contained in this document and highlight their proposed revisions to be incorporated into the final Market Statement. Amendments will be discussed and included at the drafting group meeting on this topic (timing to be announced at the start of the market discussion).
3. The key points from the countries' own market statements, requested to be provided prior to the meeting, as well as the market discussion will be integrated into the present document, along with revisions introduced at the drafting group session. This will then result in the final Market Statement (which will be annexed to the final report of the session).
4. During the market discussion, participants are invited to make statements concerning their main issues and developments in their national and regional forest products markets.
5. The following text is the draft Market Statement and will be reviewed by the drafting group at a meeting which will be held as a side event. The final version of the Market Statement will be made available in the afternoon following the drafting group meeting.

## II. Overview of forest products markets in 2021 and 2022

6. Economies in the ECE region bounced back from the large contractions observed in most countries in 2020. Growth accelerated in the second half of 2021, as the gradual relaxation of COVID-19 containment measures unfolded. Momentum from the reopening of the economies carried over into early 2022, when signs of a slowdown began to emerge, and inflation started to pick up. The war in Ukraine exacerbated supply disruptions, fuelled inflationary pressures and eroded consumer confidence.
7. Housing construction and sales in the ECE region were strong in 2021 and the first quarter of 2022. Construction activity in Europe rebounded strongly in 2021, exceeding pre-pandemic levels. In North America, residential construction and investment increased robustly in 2021 and early 2022. Permitting and spending will likely decrease in the second-half of 2022 due to monetary policies, but housing starts are expected to reach or slightly exceed past years levels by the end of 2022. House sales and new house construction are interest-rate sensitive components of the economy and housing tends to get battered by a recession, as potential home buyers delay purchases due to employment and income being less certain. Currently the deceleration appears to be driven primarily by rising interest rates and reduced housing affordability. The current forecast calls for housing to have a soft landing in 2023.
8. Prices for some wood-based commodities, namely sawn softwood, and structural panels such as plywood and Oriented Strands Board, reached all-time record price levels. Prices in general have become much more volatile since the COVID-19 pandemic. Inflation and prices of sawn softwood continued to be a concern in North America, with inflation hitting 40-year highs. In the United States, total wood fibre costs increased by 15% from 2000 to 2021, while consumer inflation increased 50% and wood pulp prices increased 33%.
9. COVID-19 is no longer as critical a policy concern but the potential to create further dislocations cannot be dismissed. Geopolitical concerns and further disruptions in energy markets could keep prices elevated and result in additional supply shocks with a negative impact on economic activity. The dampening effects of more restrictive policies will be more strongly felt in 2023. Monetary authorities face a challenging task, seeking to rein in inflationary expectations while facing growing economic headwinds.

## A. Economic developments with implications for the forest sector

10. In 2021, the economies of the ECE region bounced back from the large contractions observed in most countries in 2020. Growth accelerated in the second half of the year, as the gradual relaxation of COVID-19 containment measures unfolded, and vaccination campaigns progressed. Output returned to pre-pandemic levels in more than half of ECE countries. Differences in performance reflected the diversity of economic structures and capacity to implement anti-crisis measures. The recovery, however, was accompanied by lingering supply constraints, reflecting the distortions created by the COVID-19 epidemic.

11. While momentum from the reopening of the economies carried over into early 2022, signs of a slowdown began to emerge, and inflation started to pick up. The war in Ukraine, which began in late February 2022, has exacerbated supply disruptions, fuelled inflationary pressures and eroded consumer confidence. Large output contractions are expected in countries directly affected by the war, while negative spillovers will lead to a generalized economic slowdown. Strong labour markets and the accumulation of savings during the pandemic have boosted consumption, but growing inflation is eroding real incomes while higher uncertainty is deterring investment. The dampening effect on output dynamics will be more strongly felt in the second half of 2022, as the COVID-19 recovery loses further steam, amid a difficult external environment and more restrictive policies. Variable government actions and economic policies throughout the ECE region may result in different local outcomes.

12. In the European Union, the implementation of investments under the Recovery and Resilience Facility and further support to address the impact of the war will continue to underpin economic activity in 2022. Large refugee inflows are boosting demand but also creating fiscal pressures in countries close to the conflict. In the United States, fiscal policy is being tightened, as COVID-19 assistance programmes are discontinued, with a particular negative effect on household incomes. The Inflation Reduction Act passed the 117th United States Congress and was signed into law by President Joe Biden on August 16, 2022. With nearly \$40 billion in investments for agriculture conservation, forestry and renewable energy, this act may affect economic outcomes in late 2022.

13. Labour markets showed favourable dynamics throughout 2021 and remained strong so far in the first half of 2022, despite growing concerns on the economic outlook. The recovery led to labour shortages in some sectors, with growing shares of companies reporting difficulties in filling vacancies, given skill mismatches. However, in the European Union, the number of employed in the last quarter of 2021 was still 0.2% below the level observed two years earlier, before the beginning of the pandemic. In the euro area, dynamics were more favourable, and employment had already made a full recovery. The unemployment rate peaked in the first quarter of 2021 and declined afterwards in both the euro area and the European Union at large to levels below those observed before the pandemic.

14. Unlike in the European Union, where labour retention schemes prevented the destruction of employment at the height of the pandemic, in the United States the rate of unemployment remained elevated in early 2021, after soaring in March 2020, but after continuous decline reached 3.6% in June 2022, the same level as two year earlier. Payrolls also hovered around pre-pandemic levels. By contrast, as of mid-2022 the labour-force participation rate has recovered slowly and remained around 1 percentage point below the level observed before the pandemic.

15. In the Russian Federation, labour markets improved rapidly in 2021, with labour participation increasing and the unemployment rate falling to pre-pandemic levels. As in other countries, job creation has been concentrated in sectors that were most affected by COVID-19 and then performed better in the recovery. Lower migrant flows contributed to the tightness of labour markets, in particular in sectors such as construction, where foreign labour is important. The expected contraction of the Russian economy in 2022 will take its toll on the labour market, but data in the first half of the year showed some resilience.

16. The reopening of the economies, as COVID-19 restrictions were eased or removed, together with lingering supply constraints, started to drive up the price of energy and other commodities in the second half of 2021. These increases have spread to other sectors, pushing

headline inflation further. The growth of energy prices, which has been fuelled further by the war in Ukraine in 2022, has particularly negative implications for transport, construction and other energy-intensive sectors. While in the European Union cost pressures have dominated dynamics so far, strong demand also played a role in driving inflation in the United States, where core inflation, which excludes food and energy, started to increase rapidly in early 2021, reaching 6.5% in March 2022, against 3.6% in the European Union. This gap, however, has narrowed as core inflation has continued to increase in the European Union. Inflation dynamics have been comparatively more benign in the euro area than in the rest of the European Union. In the Russian Federation, headline inflation had been steadily increasing through 2021 and soared after the beginning of the war in Ukraine. After peaking at 17.8% in April 2022, it started to decline, amid softer demand and a stronger ruble.

17. Growing inflation has prompted the tightening of monetary policies across the ECE region, with housing affordability deteriorating as mortgage payments increase. The US Federal Open Market Committee started to raise the Federal Funds Rate in March 2022, with a total 225 bps tightening up to July 2022. The aggressive pace of hikes and clear guidance of monetary authorities have translated into a rapid tightening of financial conditions, with mortgage rates almost doubling from June 2021 to June 2022. The euro area deposit benchmark rate, which had been in negative territory since 2014, was brought to zero following a 50bps increase by the European Central Bank in July 2022. Further hikes are expected but a deteriorating economic outlook will temper the pace of tightening. This monetary policy shift, which was initiated by the discontinuation of a bond purchase programme in June, has been accompanied by a widening of sovereign bond spreads. In European member States outside the euro area, where inflation has been running higher, monetary authorities initiated policy tightening earlier. The Central Bank of the Russian Federation started to hike rates in March 2021, with increases totalling 425 bps by the end of that year. In February 2022, it raised its benchmark policy rate by 10.5 percentage points to 20% to stave off the depreciating pressures over the ruble and shore up the financial system. As capital controls contributed to stabilize the situation, a series of cuts followed. By the end of July, the rate was 150 bps below the level before the beginning of the war in Ukraine, amid high but declining inflation.

18. Interest rates differentials, geopolitical drivers and concerns on the economic outlook in Europe have strengthened the US dollar vis-à-vis the euro, which has declined steadily since early 2021, when it traded at around \$1.20/EUR, to reach parity, a level not seen in two decades. The appreciation of the US dollar has been generalized, with a broad trade-weighted index increasing by 7.5% in the year to the end of June 2022. The Russian ruble depreciated sharply in the weeks following the beginning of the war, but a combination of capital controls and large current account surplus brought the exchange rate back to levels not seen since early 2018, when it averaged less than 60 rubles per dollar for the first quarter of the year (see graph 1 in Annex).

19. Geopolitical concerns and further disruptions in energy markets could keep prices elevated and result in additional supply shocks with a negative impact on economic activity. The dampening effects of more restrictive policies will be more strongly felt in 2023. Monetary authorities face a challenging task, seeking to rein in inflationary expectations while facing growing economic headwinds. After years of loose monetary policy, tightening could lead to disorderly adjustments in financial markets. COVID-19 is no longer as critical a policy concern but the potential to create further dislocations cannot be dismissed.

## **B. Policy and regulatory developments affecting the forest products sector**

20. In July 2021, the European Commission adopted its forest strategy 2021 – 2030, pursuing the biodiversity and climate neutrality objectives enshrined in the European Green Deal and the EU Biodiversity Strategy for 2030. The strategy aims to improve the quantity and quality of EU multi-functional forests, by reversing negative trends and increasing their resilience against the high uncertainty brought about by climate change. The strategy has sparked heated debate among various stakeholders and policymakers. The implementation of the forest strategy exposed competing policy goals for the use or conservation of forest resources.

21. Although mutually supportive in principle, the reality of the post-COVID-19 economic situation, as promoted by the European Union's recovery, expresses itself as higher industrial wood demands facing off against several supply-side challenges, the degree of which varies across countries.

22. Short- and long-term wood supply constraints may be driven by several factors. A leading factor is the need to retain forest carbon stocks under the European Union's land use, land use change and forestry scheme that have been strengthened with the publication of the European Union member States' forest carbon stock reference levels. Wood supply is also anticipated to be impacted by the continuing bark beetle infestation and aggravating climate change impacts to forest ecosystems (from e.g. drought, species structure). Furthermore, the ambitious targets of the Biodiversity Strategy include having 30 % of forests in the European Union as high biodiversity status reserves by 2030. Although this aim does not preclude continuing some wood production per se, it does challenge most member countries of the European Union to balance wood production against demands for closer-to-nature forestry and nature conservation needs.

23. The European Union's economic sanctions against the Russian Federation and Belarus have progressively reduced flows of both roundwood and processed forest products, such as sawnwood and wood-based panels. Although the volume reductions may not be large overall, they are focused disproportionately on the formerly importing countries. More generally, the impact on the prices of such commodities has been very marked, compounding the pressure on stocks which were already at very low levels from low production during the early COVID-19 lockdowns and the subsequent surge in demand.

24. On top of this, the full effects of the European Union's own measures to reduce its dependence on Russian oil and, moreover, natural gas, are yet to be seen. Despite forest-based industries in the European Union having a generally high level of heat and energy autonomy, largely from forest and processing residues, certain subsectors, notably paper recycling, are heavily reliant on imported gas for process heat and steam production or electricity generated from it. Although the European Union's electricity grid offers significant connectivity between its member countries, interconnections for gas delivery are much less developed. Even under a best-case scenario, it will be at least several years before the European Union can improve its energy autonomy.

25. The United States Department of Agriculture estimates that new sustainable products and practices within seven biobased industry sectors reduced oil consumption by 9.4 million barrels in 2017. Those vanguard sectors are: agriculture and forestry, biorefining, biobased chemicals, enzymes, bioplastic bottles and packaging, forest products and textiles. This reduction was likely due to two main mechanisms: the use of biobased chemical feedstocks in place of crude oil derived chemicals, and the use of biobased materials as substitutes for traditionally petroleum-based products. Circular economy efforts in North America include use of paper as an alternative to plastic packaging and materials. This trend is supported in part by high recycling rates. The recycling rate of 68% makes paper the most recycled material in the United States and that number jumps to a remarkable 91.4% for cardboard packaging.

26. The Softwood Lumber Agreement between Canada and the United States expired on 12 October 2015. In place since 2006, this agreement addressed tariffs on sawn softwood traded between the two countries as part of a decades-long trade dispute covered by several editions of the Forest Products Annual Market Review. In the latest instalment of the dispute, in July 2022, the World Trade Organization determined that Canada has the right to impose tariffs on imports from the United States in the future to ward off the threat of the United States penalizing Canadian manufacturers for alleged unfair subsidies. On 4 August 2022, the United States Department of Commerce announced the results of the third administrative review for sawn softwood products imported from Canada. The countervailing duty was reduced from an average of 17.9% to 8.6%. On 29 August 2022, Canada filed notice that it will challenge the results of the third administrative review of the anti-dumping and countervailing duty orders on Canadian sawn softwood.

27. The Securities and Exchange Commission of the United States continues to advance plans for environmental, social and governance disclosure requirements to allow investors to

evaluate risk efficiently and consistently, including climate-change related impacts such as greenhouse gas emissions. Renewable energy technologies and low-carbon industries, such as wood products, could benefit, as well as domestic producers with lower impact supply chains.

### **C. Forest Certification**

28. The area of certified forests worldwide increased by 1.85% (8.4 million ha) in 2021, to 463 million ha, a new all-time high. The two major schemes, the Forest Stewardship Council, and the Programme for the Endorsement of Forest Certification, reported a combined total of 558 million ha of certified forest as of December 2021. This area includes 95 million ha of forest under double certification (i.e. forest areas certified by both schemes) (see graph 2 in Annex).

29. In response to the invasion by the Russian Federation in Ukraine, the two major international forest certification schemes revoked certificates for all wood and wood products originating from the Russian Federation and Belarus. These decisions by the two main forest certification schemes significantly affected global availability of wood from certified forests. After deducting double certified forest area, the global forest area under third-party certification schemes is estimated to have dropped by almost 20% to 372 million ha by the end of 2022.

## **III. Summary of regional and subregional markets for key forest products**

### **A. Sawn softwood**

30. 2021 was an excellent year for the production and trade of sawn softwood in the entire ECE region. Sawn softwood production increased by 4.3% in Europe, about 4% in the Russian Federation and 1.5% in North America. The consumption of sawn softwood in 2021 is reported to have increased in Europe by 6.1% and in North America by 1.9%.

31. Sawn softwood consumption in Europe reached 100 million m<sup>3</sup>, the second highest volume on record (only exceeded by the consumption in 2007). Nordic countries (Finland, Norway, and Sweden) were the main drivers of increased sawn softwood production in Europe with an additional output volume of 1.6 million m<sup>3</sup>.

32. Exports of sawn softwood from Europe remained stable but shifted from overseas to intraregional destinations due to the strong domestic demand and rising prices in 2021. Trade developments are quite heterogeneous with Germany and Finland increasing their exports by 8.8% and 6.4%, respectively, while the largest European exporter, Sweden, had a 9.8% decline in exports.

33. Market conditions in North America were extremely strong but also volatile in 2021 as a result of the global pandemic. Sawn softwood consumption in the United States, driven by a strong housing market, grew by an estimated 1.3 million m<sup>3</sup> in 2021 while Canada added 0.6 million m<sup>3</sup>.

34. Sawn softwood production in the United States grew by only 0.4 million m<sup>3</sup> in 2021 and the balance was made-up by imports from Canada and Europe increasing by 1.1 million m<sup>3</sup> and 0.38 million m<sup>3</sup> over 2020.

35. Canada recorded a drop in offshore exports of 11% (450,000 m<sup>3</sup>) in 2021 to 3.5 million m<sup>3</sup>, its lowest volumes since 2002. United States' exports of sawn softwood increased by 29% (551,000 m<sup>3</sup>) despite extremely high domestic prices. Sawn softwood prices soared and reached record high levels in almost all global markets in 2021 as a result of the pandemic and broken supply chains.

36. The Russian Federation's war on Ukraine has created a new global crisis that has spilled over into North America. Prices for sawn softwood slowed markedly starting in March

of 2022 from the growing uncertainty from the war. Rising inflation and much higher mortgage rates have resulted, and this then caused a slowdown in sawn softwood demand starting in mid-2022 that should slump further into 2023.

## **B. Sawn hardwood**

37. European sawn hardwood production, except for France and Belgium, recovered from COVID-19 with a double-digit increase in 2021 due to high demand to levels last seen in 2015. Consumption of sawn hardwood exceeded production in Europe, leading to depletion of stocks. Countries are considering measures to reduce the volumes of oak logs exported outside Europe to improve the availability of hardwood logs for small- and medium-sized sawmills. In addition to the global competition for raw material, increasing cost for electricity are becoming a big challenge for sawn hardwood producers in Europe.

38. European production of wooden flooring – a major consumer of oak sawnwood – recorded the second-best result since 1991. Exports of sawn hardwood from Europe increased by 20% to over 3.2 million m<sup>3</sup> in 2021. China imported 29% or 950,000 m<sup>3</sup> of those volumes.

39. North American sawn hardwood production increased by 520,000 m<sup>3</sup> or 3.9% from 2020 to 2021, although Canadian production declined by 12%. North American apparent consumption increased by 520,000 m<sup>3</sup> or 5.9%. In the United States, hardwood demand from the furniture industry continues to decline, as net imports reached a nearly 80% market share of the wood household furniture market.

40. Imports of temperate sawn hardwood by the United States increased by 8.1% in 2021. This increase was driven largely by increased imports of beech (mostly from Germany) and birch (mostly from Canada). Canada accounted for nearly 48% of total sawn hardwood imports by the United States in 2021. Aggregate sawn hardwood prices in the United States reversed a declining trend and exceeded the long-term average for the first time since 2005.

41. The United States imported 593,000 m<sup>3</sup> of tropical sawn hardwood in 2021 – the lowest volume since 2009 – driven by a continued significant decline of tropical sawnwood imports.

## **C. Wood-based panels**

42. The wood-based panels sector in the ECE reversed its decline from 2020 and is reported to have grown strongly in 2021 throughout the ECE region.

43. COVID-19 related impacts, including a shift towards remote work arrangements and travel restrictions that curtailed many vacation plans, resulted in increased investments in new housing and remodeling of existing homes that significantly increased demand and caused prices for wood-based structural panels to soar to record levels.

44. Despite the continuing challenges caused by the COVID-19 pandemic in 2021, total wood-based panels production in Europe is reported to have recovered from production declines in 2020 to surpass the pre-pandemic production volumes recorded in 2019.

45. Total wood-based panel production in the European sub-region is reported to have reached 63.7 million m<sup>3</sup> (+9.8% compared to 2020 and 4.5 million m<sup>3</sup> higher than 2019). All panel types contributed to this growth, especially within the construction and furniture sectors.

46. The apparent consumption of wood-based panels increased by 11.4% in North America in 2021, fuelled by strong increases in housing starts and remodelling activities within the region. Production capacity increased by 1% while capacity utilization increased by 1.2% in the North American structural panel industry in 2021.

47. Production of all wood-based panels in the Russian Federation grew by 15-17% in 2021. The exports of plywood and Oriented Strandboard from the Russian Federation increased substantially in value and volume in 2021. Values of exports of non-structural

panel, such as fibreboard and particle board exports, also increased but volumes remained stable due to market developments.

## **D. Paper, paperboard and woodpulp**

### **1. Woodpulp**

48. Total woodpulp production rose by 3.5% in Europe in 2021 to reach 37.3 million tonnes due to renewed customer demand. Total production of chemical pulp increased 3.9% with total production of sulphite and sulphate pulp increasing 1.1% and 4.1% respectively compared to 2020.

49. Chemical woodpulp production rose by 3.9% in Eastern Europe, the Caucasus and Central Asia in 2021, to 6.9 million tonnes, due mainly to capacity expansion in Belarus. There was a corresponding increase in apparent consumption in that region of 2.5%, to 4.5 million tonnes.

50. In North America, woodpulp production dropped by 3.0% in 2021, to 64.4 million tonnes mainly due to paper-machine closures, conversions and unplanned downtime. Chemical pulp production was down by 2.0% (to 52.6 million tonnes), while apparent consumption fell 4.0% (to 45.1 million tonnes).

### **2. Paper and paperboard**

51. Europe's production of paper and paperboard rebounded by 6.1% in 2021, at 90.6 million tonnes. The increase was driven by a renewed customer demand in Europe as well as in global markets. Exports grew by 4.1% in 2021, surpassing pre-COVID-19 levels from 2019. They were driven by strong growth in sales to North and South American markets. Exports accounted for 22.3% of paper and paperboard production in 2021. The subregion's apparent consumption of paper and paperboard in 2021 grew by 5.8% to 75.2 million tonnes.

52. European production of packaging paper and board grades were the subitems with the best results and increased by 7.5% in 2021 to reach a record high 53.5 million tonnes. Case material production grew by 8.4%, while boxboard rose by 2.4% and wrappings increased by 11.6%. Consumption of packaging paper board grades grew by 8.5% in 2021 to 44.9 million tonnes. Case materials rose 9.9% to 31.6 million tonnes, while boxboard grew by 0.8% to 6.1 million tonnes and wrappings experienced a 13.0% rise to 2.8 million tonnes.

53. Sanitary and household tissue were the only subsegment with a negative result in 2021. Production of sanitary and household tissue fell by 2.2% in 2021. Consumption of sanitary and household tissue fell 3.0% in 2021. Fearing shortages of tissue at the start of the pandemic in 2020, consumers hoarded these products. In 2021, the market went through a period of destocking as such fears were laid to rest.

54. The impact of the war in Ukraine on the European pulp and paper industry has been, like other commodities, significant in terms of cost of raw materials, trade and especially energy prices. The rise in costs is on top of the effect of the European economy exiting the pandemic and the resulting disruptions in the supply chain. Raw material prices have soared, while as of August 2022 fibre imports into Europe from the Russian Federation have stopped due to sanctions. Energy prices continue to be extremely volatile. Rationing is already causing paper mills to cease manufacturing when electricity and natural gas prices climb. Surcharges for paper and paperboard have been implemented by most producers in 2022. However, this is inevitably going to lead to significant reduction in demand and higher imports from sources where production costs are lower. As the European industry enters the winter 2022/2023, energy prices are bound to rise further and could force the closure of several pulp and paper mills. The plan by some integrated paper mills is to stop their pulping operations and purchase market pulp to run their paper operations.

55. The North American production of paper and paperboard dropped by 1.5% in this subregion in 2021, to 73.8 million tonnes. The apparent consumption of paper and paperboard continued its downward trend, declining by 3.3%, to 66.3 million tonnes. All paper commodities, except for packaging material, followed the negative trend in production and



consumption. The biggest decline could be observed in the segment of newsprint. Newsprint production fell 6.7% in 2021 to 2.3 million tonnes, while apparent consumption fell 6.5% to 1.6 million tonnes due to lower circulation and advertising. At the height of the newsprint market, North American demand was in excess of 14 million tonnes some 20 years ago.

56. North American production of packaging materials increased by 3.7% in 2021, to 53.7 million tonnes, due to new capacity, including upgraded equipment as well as conversions from graphic paper. North American containerboard production reached 42.5 million tonnes in 2021, an increase of 5.2% versus 2020. North American containerboard apparent consumption reached 35.8 million tonnes in 2021, an increase of 2.2% versus 2020. Net exports reached 6.7 million tonnes, an increase of 24.0% aided by an increase in capacity, mainly the result of conversion from newsprint production.

57. In the United States, containerboard capacity expanded for the 11th consecutive year (the fastest in 25 years on conversions and upgrades), reaching a record high of 38.4 million tonnes. Boxboard capacity increased 0.6% in 2021, following a 2.5% decline in 2020, and outperforming its long-term trend of a 0.4% decline.

### 3. Paper and paperboard recycling

58. The European paper recycling rate decreased to 71.4% in 2021, down from 73.3% in 2020. The decline is largely due to the drop in apparent consumption at collection points such as office buildings as pandemic-related lockdowns and restrictions had white-collar workers functioning remotely at home. The utilisation of paper for recycling grew at 5.8% in 2021 to 50.7 million tonnes. Corrugated and kraft papers represented 58.9% of the total, while mixed grades were 18.9%, newspapers and magazines were 13.1% and other grades represented 9.1%. The recycling rate of 68% makes paper the most recycled material in the United States and that number jumps to a remarkable 91.4% for cardboard packaging.

59. China banned imports of recovered paper in 2021 and the markets adjusted to that by providing recycled pulp instead. Since the ban, global trade of paper for recycling seems to be slowing down. Net import of paper for recycling from outside the European subregion was at its lowest level since 2005. Recycled pulp seems to be gaining ground in global trade. Recycled pulp imports into China grew by 31.3%, reaching 3.3 million tonnes.

## E. Wood energy

60. Canada and the United States produced 3.8 million tonnes and 8.4 million tonnes of wood pellets, an overall comparable level to 2020. Both countries were the biggest exporters by far of wood pellets worldwide in 2021. Together they exported 10.6 million tonnes of wood pellets exported, namely to the biggest importer in the world, the United Kingdom. With 7.8 million tonnes of wood pellets imported and consumed in 2021, the Drax powerplant in the United Kingdom is by far the biggest single consumer of wood pellets in the world. Plans for bioenergy with carbon capture and storage units could capture 8 million tonnes of CO<sub>2</sub> annually in the future.

61. Countries in the European Union consumed about 23.1 million tonnes of wood pellets in 2021. Wood pellet consumption in the European Union is expected to exceed 24 million tonnes in 2022 due to high fossil fuel prices and increased demand by individual households.

62. The Russian Federation and Belarus together exported almost 3 million tonnes of wood pellets in 2021. 2.4 million tonnes came from the Russian Federation, an increase by 28% over 2020 and 598,000 tonnes from Belarus, an increase by 13% compared to 2020. Member States in the European subregion imported 1.9 million tonnes of wood pellets from the Russian Federation in 2021 and banned their import in April 2022. This could trigger increased wood pellet imports from North America. Wood pellet production in the United States is reported to have jumped by almost 14% by end of first quarter of 2022, compared with same period in 2021.

63. In the Western Balkans, decline in production, growth in exports and production costs, and household purchase of fuelwood in the face of uncertain prices for natural gas and electricity triggered this sharp price increase. Fuelwood prices in domestic markets increased

by approximately 30% year-over-year in May 2022 and accelerated further to reach an annual increase of 50% by September 2022.

64. Rising prices for oil, gas and electricity are very likely to further boost consumption of wood energy by individual households throughout the ECE region in 2022 and beyond.

#### **IV. Points for consideration**

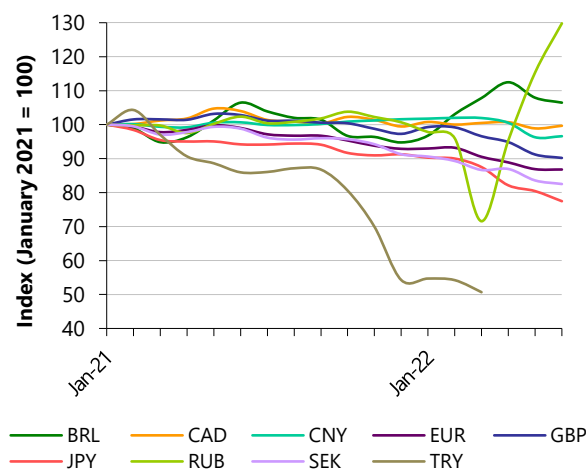
65. Member States are invited to make statements on the main issues and developments in their forest products markets and to attend the drafting group of the Market Statement. The secretariat invites delegates to contribute to the discussion by specifically addressing the following issues in their country market statement:

- (a) Raw material supply security;
- (b) Wood in construction;
- (c) Biotic and abiotic disturbances of forests, their impacts on forest products markets and trade, and current and planned policy measures taken by countries to mitigate economic and ecologic impacts;
- (d) Forests and the forest-based industries in a circular bioeconomy;
- (e) Renewable energy policies and their impacts on forest products markets.

66. The Committee is invited to review the information contained in this document and propose possible revisions to be incorporated into the final Market Statement, which will be annexed to the meeting report.

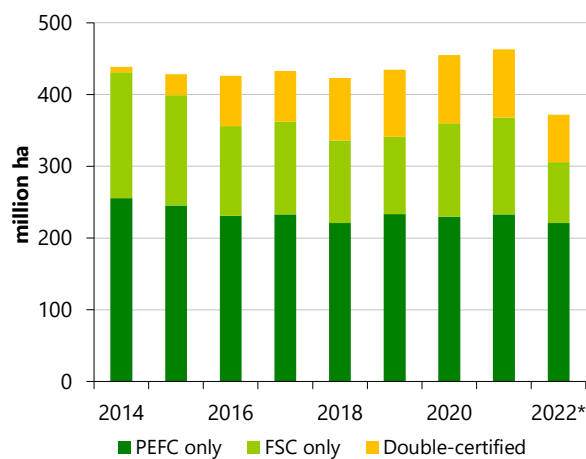
## ANNEX

Graph 1  
Major currencies used to trade forest products indexed against the US dollar, January 2021–June 2022



Source: <http://data.imf.org/?sk=af1819f1-9b6c-43ec-bee4-b1b55fa54cf7&sId=1390030341854>.  
Notes: BRL: Brazilian Real, CAD: Canadian Dollar; CNY: Yuan Renminbi; EUR: Euro; GBP: Pound Sterling; JPY: Yen; RUB: Russian Ruble; SEK: Swedish Krona; TRY: Turkish Lira; A diminishing index value indicates a weakening of the currency value against the US dollar; an increasing index value indicates a strengthening of the currency value against the US dollar. Data for Turkey only available until March 2022.

Graph 2  
Certified forest area available for wood supply, 2014–2022



Source: UNECE/FAO Forest Products Annual Market Review 2021–2022.  
Notes: Double-certified area as of mid-2021; area certified by certification scheme as of December 2021. \* Estimate by the UNECE/FAO Forestry and Timber Section. The total actual area of certified forest is the sum of the area certified solely by the Forest Stewardship Council (FSC), the area certified solely by the Programme for the Endorsement of Forest Certification (PEFC), and the area of double-certified forest