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COVID-19 impacts on the forest sector in Eastern Europe, Caucasus and Central Asia

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Abstract

This report summarizes the impacts that the COVID-19 pandemic had during 2020 in the forest sector of the countries in Eastern Europe, the Caucuses and Central Asia (EECCA) (Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan), focusing on production, export, import, consumption, prices and employment of the main wood products: roundwood, sawnwood, wood-based panels, wooden furniture, paper and paperboards. It also covers the recovery measures implemented by EECCA governments. Data from various sources, such as official statistics, international data bases, as well as interviews with forest products companies were used for their views on the impact of COVID-19.

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CONTENTS

List of Tables

List of Graphs

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List of abbreviations

COVID-19	coronavirus disease of 2019
Q1	first quarter
Q2	second quarter
Q3	third quarter
Q4	fourth quarter
EECCA	Europe, Eastern Europe, Caucasus and Central Asia
m3	cubic metre
m2	square metre
YoY	year over the previous year
MDF	medium-density fibreboard
HDF	high-density fibreboard
OSB	oriented strand board
GDP	gross domestic product
IMF	International Monetary Fund
UNDP	United Nations Development Programme
n.a.	not available
km	kilometre
SMEs	small and medium sized enterprises

1. INTRODUCTION AND OVERVIEW

The COVID-19 pandemic impacted all industries and services around the world. However, according to tentative 2020 performance results, the timber sector will not likely be classified as a severely affected sector of Eastern Europe, the Caucuses and Central Asia (EECCA) national economies. Production and trade chains were disrupted, but most bigger companies were able to maintain operations and employment. Most of the governmental support measures were aimed at small and medium-sized enterprises (in all industries), without any special programs or support measures specifically aimed at the timber sector.

The imposed quarantines led to significant reductions to personal income in the whole of 2020, however income levels were rebounding in Q3 – Q4 of 2020.

The economic shock to the global economy in 2020, resulting from the spread of COVID-19 is different from previous recessions. The key driver for reduced economic activity in 2020 was the imposition of restrictive measures in most countries of Eastern Europe, the Caucasus and Central Asia (EECCA). These measures were aimed at slowing the spread of the COVID-19 infection and metering the load on the healthcare system at a sustainable level. However, harsh lockdowns were not imposed in all countries, such as Belarus or Turkmenistan.

Restrictive measures adopted to prevent the spread of the COVID-19 epidemic had the effect of an initial shock, which led to a temporary gap in production, trade supply chains and slower activity in EECCA economies. The effect that these measures have had on production and consumption generally correlated with the severity of the restrictions.

In the Russian Federation, restrictive measures associated with Covid-19 had an extremely negative impact on demand for many timber products during the pandemic's first wave (April – May 2020), due primarily to inter-regional lockdowns imposed.

The Russian timber industry, being export oriented and strongly integrated in the global market, also faced the imbalance between demand and supply and felt the disruption of global product supply chains. Timber product exports were temporarily halted in many locations, due to closure or suspension of operations at border-crossing stations.

The biggest urban centres in the Russian domestic market – the Saint Petersburg and Moscow metropolitan areas – were effectively closed for deliveries. Forest products were stockpiled at production sites and traders' warehouses. Numerous wood-processing companies moved their employees to remote work.

Nevertheless, the timber sector is not one of the most affected industries in EECCA countries. Challenges with selling finished products, however, were primarily experienced by plywood, other wood-based panels and furniture producers. During the April – May 2020 lockdowns, furniture and wood-based panels production in the Russian Federation dropped by 40-50% YoY (year over the previous year). Several wood-based panel plants were shut down completely. Many enterprises utilized the downtime for preventive maintenance, which made the best of a bad situation and helped avoid employee layoffs. The net result is that forest products production in 2020 rebounded strongly, almost making up for the declines caused in Q2 and Q3 of the year.

At the end of Q3 – beginning of Q4 2020, a strong shortage of particleboard/laminated particleboard, MDF/HDF and flooring materials occurred in the Russian market. According to WhatWood estimates, the volume of particleboard shortage was 30,000 – 40,000 m^3 per month. The shutdown of several producers for reasons unrelated to COVID-19 also contributed to this and resulted in a shortage that caused prices to roughly double in August 2020 (WhatWood, 2020a).

The Russian sawmill sector continued purchasing raw materials throughout 2020, with sawnwood (softwood and hardwood) production growing by 2.2%. However, sawnwood exports dropped by 4.6% in 2020.

Russian pulp and paper mills did not suspend operations, as most were deemed necessary because they also produce power. Paper and paperboard production were up by 4.9% YoY in

2020, as was wood pulp production, (up by 6.9% YoY).

In general, the timber sector of EECCA countries performed well, in comparison to the general economic downturn. This was to the result of timely support measures by governments and a prompt response of timber industry companies, as well as specific features of the timber business. Demand for rural real estate and construction of country homes (predominantly wooden) remained much higher than in previous years. This spurred the demand for timber products.

This study is an ad hoc assessment of the effects of COVID-19 on the forest sector in the EECCA and had to rely on the information available as of early 2021.

2. ECONOMIC IMPACTS IN THE EECCA

2.1 General economic impact

According to preliminary IMF estimates for 2020, the economies of most EECCA countries demonstrated negative performance in 2020, however, GDP trend in Tajikistan (+4.5%), Turkmenistan (+0.8%) and Uzbekistan (+1.6%) were positive (table 1) (IMF, 2021).

Turkmenistan. In 2020, GDP in Turkmenistan increased by 5.8%. Retail sales grew by 18%. These trends were supported by several government measures. Investments in various sectors were made, specifically in the chemical and polymer industries. Turkmenistan is actively developing trade with foreign countries, increasing its export of electrical energy, in various industries of the national economy, including 1.3 billion ($113 million) somoni of direct foreign investment. In 2020, the country built and commissioned 300 new industrial enterprises, creating 6,500 jobs: 157 regular schools, 108 healthcare institutions and more than 1.2 million square meters of residential space (Finmarket, 2021a).

Uzbekistan. As of the end of 2020, Uzbekistan's economy avoided a recession and grew by 0.6%. The output of agricultural, timber and fishing industries grew by 3%. The first surge in the number of people infected with COVID-19 occurred in this country in July 2020. The country's authorities began to relax COVID-19 quarantine measures step by step starting from August 15. The consumer price index in December 2020 was up 11.1% compared to December 2019. Foreign trade turnover dropped by 13.1%, down to $36.3 billion. Exports were $15.1 billion – down by 13.4%. Imports also dropped, by 12.8%, down to $21.2 billion. Restrictive measures addressing the COVID-19 situation largely avoided complete shutdowns (Review.uz, 2021).

Over the first months of the lockdown, production and service from 196,000 enterprises dropped significantly, while about 95,000 individual businesses suspended their activities. The service sector was hit particularly hard: 13,000 public catering facilities, 45,000 retail and trade facilities, 19,000 service businesses and 7,000 transport enterprises were forced to curtail operations or lost a great deal of income (UNDP, 2020).

Ukraine. According to the Ministry of Economy, Ukraine's GDP dropped by an estimated 4.7% in 2020. The production index dropped by 5.2%.