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Global markets adjusting to Russia's sudden isolation Russia's isolation

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THE REPORT ON GLOBAL WOOD PRODUCTS MARKETS

Global markets adjusting to Russia's sudden isolation Russia's isolation from dozens of softwood lumber markets worldwide has prompted many traders to line up contingency plans while assessing longer term impacts on the global supply-demand balance. NATO members and other countries cut off trade with Russia and imposed an extensive list of other economic sanctions in response to its invasion of Ukraine. The war, and the global sanctions on Russia that followed, will alter the international flow of softwood lumber in many ways.

Russia is the world's largest exporter of softwood lumber. Global shipments have declined in recent years, falling to 27.8 million cubic meters last year, down 6% from 2020 and lagging the 2019 total by 9%, according to Global Trade Atlas statistics. U.S. imports of Russian lumber hit a 15-year high in 2021, rising to 105,325 cubic meters (44.7 million board feet), up 25% from 2020. However, Russia remained a relatively small player in the U.S. market, accounting for 2% of total U.S. imports from offshore suppliers. "Other Spruce" represents the vast majority of U.S. imports from Russia.

A few U.S. importers have noted that they are likely to have to cut off trade with other European Spruce suppliers with ties to Belarus, which is sanctioned for aiding and abetting Russia's invasion of Ukraine. Nordic countries, and perhaps Canada, are the most likely suppliers U.S. importers will lean on for alternative coverage. U.S. lumber prices continue to hover at historically high levels and provide strong returns for offshore importers. However, many traders expect a significant pullback in European softwood lumber supplies coming to the U.S., as the war in Ukraine tightens overall supplies on the Continent, and generates increased demand on European mills to supply their home markets.

Europe has also been a rising market for Russian lumber in recent years. Russian exports to Europe reached 5.2 million cubic meters last year, up 16% from 2020 and 38% higher than 2019. Roughly 25% of Russian lumber exports last year were shipped to countries that have recently cut off trade in response to the Ukraine war. With most of Europe's borders now closed to Russian lumber, China is widely expected to be a primary target as Russian mills look for alternative markets. But efforts on Russia's part to increase exports to China will face strong headwinds. Global Trade Atlas statistics show Russian exports to China declined to 14.6 million cubic meters last year, down 15% from 2020 and lagging the 2019 total of 19.2 million cubic meters by 24%.

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The Chinese economy appears precarious. An ailing property/construction market in China and recent aggressive lockdown measures in response to a spike in omicron cases have raised concern that growth in the Chinese economy could fall sharply in the months ahead. Further, the Chinese market is highly competitive, with numerous log and lumber exporting nations battling for market share. Russian softwood lumber production reached 40.1 million cubic meters last year, representing less than 12% of the worldwide total, according to FAO UNECE.

In January, Russia imposed severe restrictions on softwood log exports, a move designed to increase the country's lumber production. However, a report released March 8 by Corton Global Timber Fund noted that the global sanctions will likely delay sawmill expansion in Russia. The report notes that most of the world's sawmill and wood product equipment is manufactured in Germany, Finland, and North America. Those countries have cut off trade with Russia. About 9% of log production in Russia is located in the farthest eastern portion of the country, closest to the Chinese border. That forest base has been heavily over harvested, the report noted.

Forests in Siberia represent a much larger and more available wood basket for Russian mills. But those forests consist primarily of lower quality Larch. Access for harvesting is extremely limited throughout the region and prone to massive wildfires.

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