1 June 2023

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A timely and interesting article from my friend and colleague Lloyd Irland.

WHAT DOES THE WAR IN UKRAINE MEAN FOR THE US LUMBER MARKET?

BY LLOYD C. IRLAND

THE NORTHERN LOGGER **JUNE 2023**

On the morning of Feb 24, 2022, worries of war became tragic realities. The world was jolted by TV images of the brutal Russian invasion. The war immediately disrupted the global wheat trade- Ukraine being a huge exporter as well as having the ports that handled much of Russia's grain exports. The devastation of ports and the naval warfare on the Black Sea amounted to a de facto wheat blockade. But lumber is very different. Ukraine has about 25 million acres of forest, or about as much as the US state of Georgia. Its role in forest products trade is minor.

Ukraine's neighbor to the north, however, is the world's largest lumber exporter. Within its internationally recognized pre-2014 borders it contained 2 billion acres of forest -one acre in five of the global total. Russia is a huge lumber exporter, 24 percent of the world's total. Very little comes directly to the US market -less than from Austria. In fact, less than the annual production of one large sawmill. Russia's total production is on par with Canada's and less than the US, but its exports exceed Canada's (Table 1 in Attached PDF). The most recent comparable data are for 2019. Ukraine and the US are in about the same position for export volumes - basically nobodies on a global scale. But US values per unit of volume are the highest, while Russia's are the lowest.

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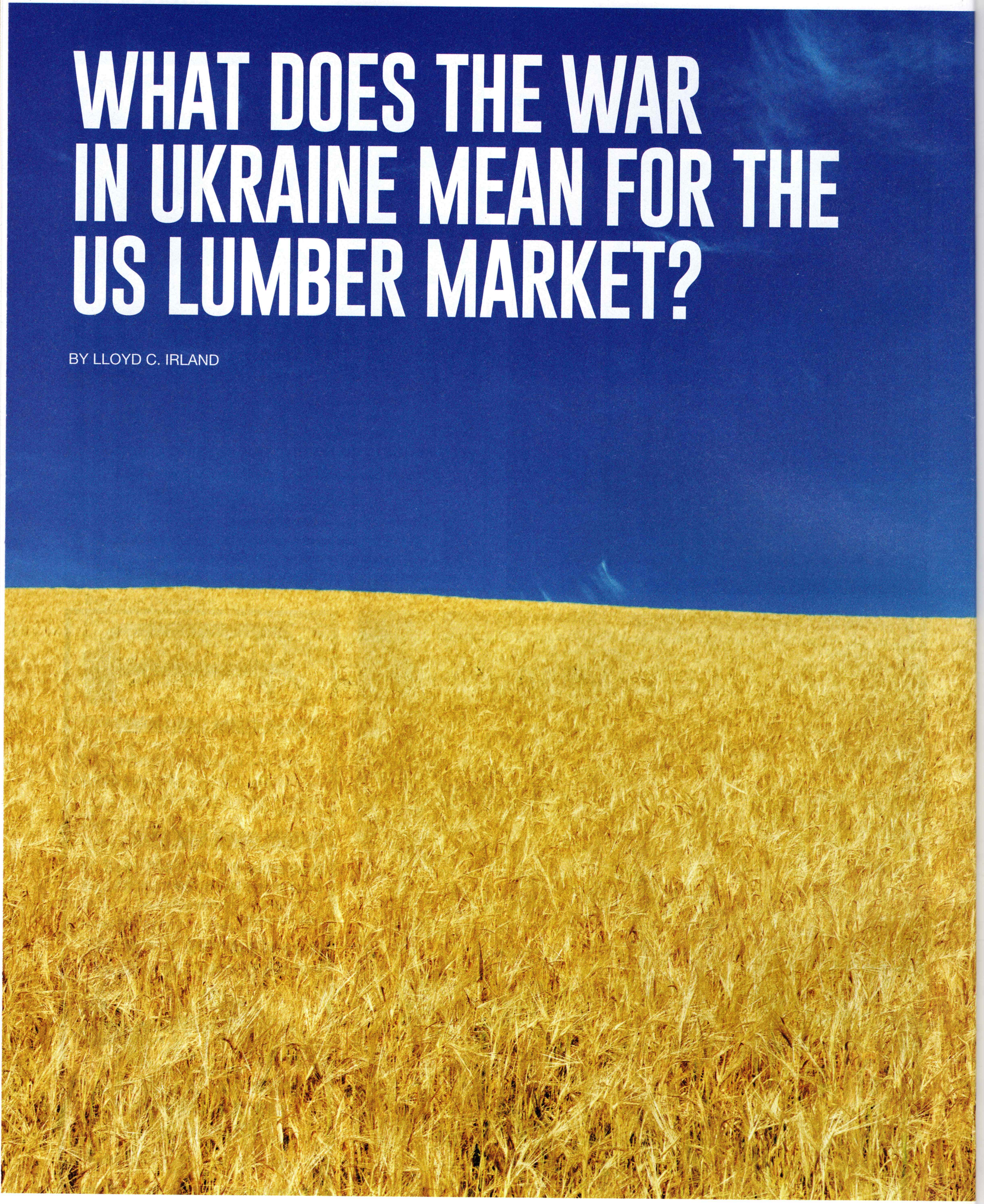

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According to the Food and Agriculture Organization (FAO), surely based on Russian data, its exports have risen in lockstep each year from 2015-2019, presumably marching to a five-year plan. Skepticism about such numbers is warranted but the general picture is accepted. (These numbers are in cubic meters, the way most of the world measures lumber. One m3 = 434 bd ft is one widely used conversion factor.)

One estimate has it that Russia exports an astounding 77 percent of its production – a higher percentage than Canada. Much of its lumber is sawn at locations a far distance from population centers but close to ocean transport. Its standard construction methods rely on masonry and average dwelling unit sizes are far smaller than in the US – except for the Oligarchs.

Russian lumber is important to the UK and Western European markets. Ice-out dates on the Baltic and the polar seas were closely watched as they could determine the year's prices in Europe, as much of the lumber came by sea through these waters. For years, customers had watched Russian leaders as they dithered over measures to halt exports of logs and require domestic processing. Every time, little happened and the initial worries dissipated. Once the war broke out, a UK organization, UK Timber Development noted:

> *This will, of course, cause huge disruption to timber supplies into Europe and to the UK market. While direct imports into the UK are relatively small, Russia and Belarus account for about 10 percent of the softwood market in Europe. Removing this will make the available supply even tighter, causing potential shortages in some product areas.*

International revulsion over the invasion caused immediate boycotts of Russian lumber. These took effect over the spring and summer of 2022. Uncertainty about the effects probably affected prices, as one or another of the trade embargoes took

TABLE 1: Global Softwood Sawnwood Exports

	% of world	2019/2015	value $/m3
World	100%	116%	$201
USA	2%	85%	$400
Canada	21%	93%	$219
Russia	24%	136%	$134
Ukraine	1%	89%	$214

Source: Food and Agriculture Organization (FAO) Yearbook of Forest Products Statistics

Exports of Sawn Softwoods, Select Countries – 2015-2019

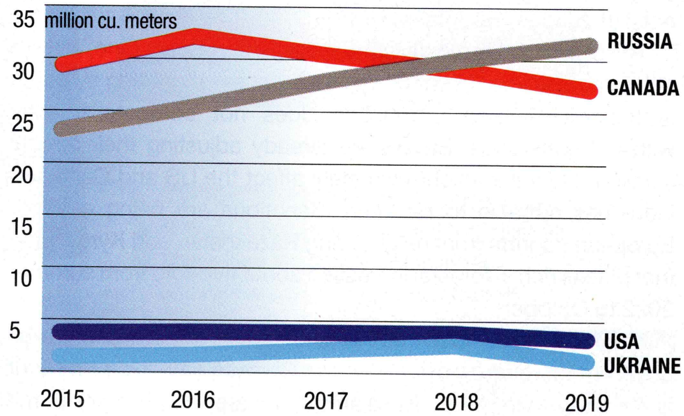

TABLE 2: Exports from US, Canada, and Russia Relative to Total Production

	Production	Exports (cubic meters)	Exports (%)
Russia	38,918	29,833	77%
Canada	40,285	26,663	66%
USA	63,160	2,562	4%

Source: UN Economic Commission for Europe (UNECE) / FAO TIMBER database, 2022

effect. Russia's accomplice in this invasion, Belarus, has also been a source of softwood for central and Western Europe, but on a far smaller scale. Many countries are sanctioning their wood as well.

Several certification bodies canceled certifications on Russian and Belorussian timber, though this would affect only a few firms in the supply chain. One consulting group predicted that Russian shipments into Europe could cease completely. Sawmills are closing in Siberia.

Russia's big customers have been Japan and China. Both buy logs in large quantities as well as lumber. The impact on the US markets will be indirect. It will be determined by how embargoes and other factors cutting Russia's exports affect global prices through their effect on major customers. In turn, this depends on how major wood users adapt and how Russian production itself adapts. Further, we don't know whether existing sanctions will be tightened, or evasions restrained, and how long these measures will last. One factor involved is that Russian mills saw to grades and sizes that are not standard in the US. So quickly expanding their sales to countries already importing from US or Canada and to those few countries without embargoes would be difficult for them.

Many current barriers to Russian lumber and logs are invisible ones – cargoes on their ships are uninsurable on Western insurance markets; many ports are closed to them. The SWIFT system for payment flows is closed to them. Many governments have imposed embargoes on Russian lumber and wood products. At this writing, the US has not, although members of Congress have introduced a bill called the "No Wood from Tyrants Act." (If curious, Google H.R.7437)

Russian wood is mostly spruce, larch, and Scots pine, all with different uses in different markets. Because of grading systems and sizes, Russian production does not compete directly with US softwoods. Buyers are already adjusting their supply sources. How this might ultimately affect the US and Canadian industries remains to be seen. Sanctions are being evaded. European imports from neighboring Kazakhstan and Kyrgyzstan (not places rich in forests) increased about five-fold from summer 2022 to October.

The Siberian timber trade is a cesspool of corruption, misgovernment, and cronyism. As the Chinese say, "The Emperor is far away." On paper, Russian forests are the property of the state. It is a strange picture: in a nation tightly ruled by a dictator with KGB experience, the government is unable to control theft from its own forests. Plainly, it really doesn't want to. Chinese buyers now have huge leverage. Russian shipments of logs to China have declined in the last decade, replaced to a considerable extent by logs from New Zealand and even Europe. Lumber shipments, on the other hand, have increased, making China Russia's largest lumber buyer. China has many reasons to maintain a posture of support towards Russia, but an assured supply of wood is surely somewhere on the list. The policies of China and Japan, and several other unaligned Asian nations will play a big role in how Russian production adapts to loss of markets.


LLOYD C. IRLAND

Medieval knights, forest area in Ukrainian Carpathians.

Some Western companies are leaving Russia. International Paper is weighing ways to exit its 50 percent position in a pulp operation. Stora Enso, a large Swedish firm, is selling sawmills. IKEA is exiting its processing operations in Belarus. These are only a few examples. Given the other issues noted, these exits may not have much effect on world markets.

How US lumber markets will be affected by this war really operates through Russia's exports, not Ukraine's. This will be very fuzzy as it depends on the stiffness and duration of sanctions on Russia's exports, how Russia will evade them, how its major customers will shift to other suppliers, and how all this feeds into world prices. Will the Chinese buy more from the US? We will just have to wait and see.

Longer term, between larger domestic needs for wood and continuing war damage, the Ukrainian forests will suffer. The war is inflicting widespread damage on the forests and farmlands, prominently through fires ignited by munitions ranging from tracer bullets to rockets and artillery shells. See a video at https://vimeo.com/816298889, a presentation by two well-qualified Ukrainian experts, Sergiy Zibtsev and Brian Milakovsky. They have not only firsthand observations but outstanding satellite imagery.

Author's note: The unfolding human tragedy in Ukraine is beyond words. If it affects you as it does me, please send a contribution to Doctors Without Borders, marked for Ukraine, or the Ukrainian Red Cross. That's where my fee for this article will go.