

## Bracing for a Softwood Lumber Supply Shock

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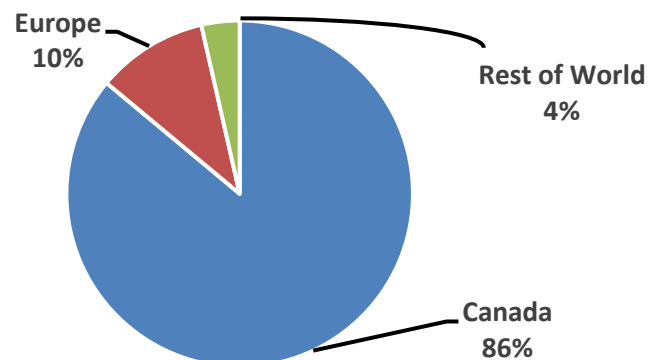
*This Executive Briefing on Trade examines the possible impacts of Russia's invasion of Ukraine on the global supply of softwood lumber (SWL), particularly in Europe, which has implications for the U.S. market. Softwood lumber is critical to the U.S. economy, as it is key to new home construction. In the wake of pandemic-related economic and transportation disruptions and environmental issues, U.S. homebuilders were projecting that supply chain shortages and material price volatility would begin to ease. Unfortunately, these projections did not anticipate Russia invading Ukraine in February 2022, subsequent Western sanctions against Russia, and Russia banning wood product exports in retaliation. Although the U.S. market is not directly reliant on Russian SWL, U.S. home builders are now bracing for more cost increases and delays.*

**Trade suspensions:** Beginning in February 2022, many nations (including the United States and European countries) levied sanctions on Russian exports after its invasion of Ukraine. In March, Russia banned exports of certain goods, such as some forestry products, to retaliate against the sanctions. Although the year-to-date trade volumes do not yet reflect the sanctions, traders are anticipating that U.S. and European SWL imports from Russia will show a steep decrease in the coming months.<sup>1</sup>

**Global softwood product exports:** Although Russia exports large amounts of SWL products, few of them are destined for the United States.<sup>2</sup> Because most of Russia's exports go to China (52 percent) and to Europe (36 percent), it might not seem that a Russian ban on exports of wood products would impact the U.S. market. However, the global supply deficit created by the Russian export ban to Western countries will likely lead to increased world prices and/or production as global trade flows are disrupted, which will in turn affect U.S. supplies and prices. These impacts are occurring just as SWL supplies are beginning to recover from the price volatility of the global pandemic and persistent natural issues (such as bark beetle infestations), as covered in two earlier Executive Briefings on Trade.<sup>3</sup>

**Softwood demand:** The U.S. is the largest market for SWL (32 percent global imports, by value), and its demand is mostly supplied by domestic and Canadian producers (figure 1).<sup>4</sup> Much of SWL demand comes from home

**Figure 1** U.S. imports of SWL, quantity (37.4 million, m<sup>3</sup>), by source, 2021



Source: HTS subheadings 4407.11, 4407.12, 4407.13, 4407.14, and 4407.19, USITC DataWeb/Census,

<sup>1</sup> Currently, there is no U.S. import ban on SWL from Russia; however, to safeguard reputational risks, individual companies may end purchases of Russian wood. In addition, Russian banks were removed from the SWIFT international payment transaction system, complicating payments for Russian products. Reported volumes for March and April include shipments that were either at ports or enroute and some European SWL imports have not been reported since May 2022.

<sup>2</sup> In 2021, Russia was the third-largest global exporter of SWL (27.8 million m<sup>3</sup>). SWL refers to certain products covered under HS 6-digit subheadings 4407.11, 4407.12, 4407.13, 4407.14, and 4407.19. The Commission concluded that the U.S. industry is materially injured by reason of SWL imports from Canada. For more information, refer to [Softwood Lumber Products from Canada, USITC Publication 5010](#).

<sup>3</sup> See Scott and Ireland, [The Tremendous Wooden Rollercoaster: Softwood Lumber Price Volatility, 2020-21](#), USITC, November 2021 and Van Veen, [European spruce bark beetle infestation affecting U.S. and EU softwood exports](#), USITC, February 2020.

<sup>4</sup> U.S. imports from Russia accounted for only 0.3 percent of U.S. imports (included in "Rest of World," in figure 1). *The views expressed solely represent the opinions and professional research of the author. The content of the EBOT is not meant to represent the views of the U.S. International Trade Commission, any of its individual Commissioners, or the United States government.*

construction and remodeling, which accounts for a substantial and growing share of the U.S. GDP. SWL is the backbone of home construction and its prices have been volatile since the early days of the global pandemic, increasing costs and threatening housing affordability.

**Supplies likely tighten:** As markets dependent on Russia (e.g., Europe) look for new sources, the U.S. will have increased competition for SWL supplies. U.S. buyers, who are already contending with tight inventories, are concerned about the loss of the 10 percent of U.S. imports that come from Europe, which are projected to increase prices until production increases to fill the deficit (figure 1).

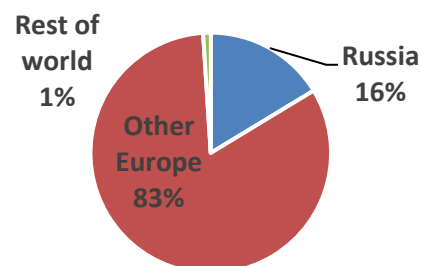
Europe meets most of its own demand through intra-European trade and, to a lesser extent, from Russia (figure 2).<sup>5</sup> North American traders speculate that the supply loss from Russia will redirect European exports to meet domestic demand and the industry expects the European supply chain to be disrupted for the rest of 2022 and beyond. Another concern is that Canada will divert shipments to Europe, possibly lured by resultant higher prices. Canadian producers are reporting increased demand from Europe, which is increasing competition with U.S. buyers. Tighter supplies imply that there will be higher U.S. prices in the months ahead.

**Russia's relief valve:** More than half of Russia's SWL exports go to China. Further, Russia and China have recently deepened their economic ties; this 'no-limits' partnership is an economic life preserver for Russia as China continues to purchase Russian goods amid the recent trade sanctions. Industry reports indicate that Russia's SWL exports to China have recently increased, a move that suggests that the Russian government may have anticipated Western sanctions.

**Increased harvests:** In anticipation of SWL trade diversions from Russia, some countries are reducing environmental protections to increase harvests. Estonia has relaxed logging restrictions of state-owned forests and Finland is expected to increase its harvests. In addition, Ukraine's regulation to protect certain forests from logging has been lifted to increase its exports to raise funds. These developments may loosen some supply in Europe or globally at the cost, most likely of increasing deforestation and exacerbating climate change.

**Outlook:** Before Russia's invasion of Ukraine, global supply chain disruptions already reflected environmental issues, pandemic-related skilled labor shortages and upward wage pressures at sawmills, which were further exacerbated by high demand and increasing inflation. With the advent of the war, the Russian wood product markets disruption could have a compounding impact on global trade, at least in the short-term, as trade flows of forest products adjust.

**Figure 2** European imports of SWL, quantity (60.5 million, m3), by source, 2021



Source: HS subheadings 4407.11, 4407.12, 4407.13, 4407.14, and 4407.19. S&P Global/GTA, accessed July 5, 2022.

Sources: Adams, "[Russia Bans Export of Wood and Forest Products to the West](#)," March 11, 2022; Krishna, "[North America Lumber Supply Strain To Flare up on Russia Timber Ban](#)," May 24, 2022; Random Lengths International, "[Russian Sanctions' Impact On Global Trade Still Minimal](#)," June 15, 2022; Random Lengths International, "[Ukraine War Prompts Revisions](#)," September 7, 2022; Speed, "[Ukraine War Hits Global Timber Trade](#)," Financial Times, June 19, 2022; Sutter, "[China's Economic and Trade Ties with Russia](#)," May 24, 2022; NAHB, "[Housing's Share of GDP](#)," April 29, 2022; NAHB, "[Framing Lumber Prices](#)," accessed September 20, 2022; USDA/APHIS, [Lacey Act](#), December 21, 2021; White House, "[FACT SHEET: The United States and G7 to Take Further Action](#)," June 27, 2022.

<sup>5</sup> European countries (not including Russia), collectively, account for 40 percent of global SWL imports. Much of this trade is between Austria, Finland, Germany, and Sweden. Russia is a net exporter; its imports are negligible. *The views expressed solely represent the opinions and professional research of the author. The content of the EBOT is not meant to represent the views of the U.S. International Trade Commission, any of its individual Commissioners, or the United States government.*