

Russian Invasion of Ukraine – What are the implications for forest products?

The global sanctions being placed on Russia following its invasion of Ukraine will have many impacts on the long-established international trade flows of forest products.

Background

- Russia is the largest global exporter of lumber. Canada is the second largest.
- Europe is the second largest importer of Russian lumber, after China. The majority of Russian lumber is transported to Europe by truck. Europe is closing its borders to Russian trucks and the U.K. is closing its ports to Russian vessels.
- Effective January 1, 2022, Russia introduced restrictions on the export of unprocessed logs to encourage further investment in lumber and pulp/paper production development. Finland is the largest importer of Russian pulp logs.

Russia is NOT the Dominant Global Producer of Wood Products

Table 1 illustrates the Russian lumber industry in a global basis. Russia has less than 12% of global lumber production, despite having one of the largest forest reserves. Russia would like to be the largest lumber producer, hence the recent Government Decree No. 2068 passed on November 27, 2021 expanding restrictions on the export of timber (logs). However, with the majority of sawmill and wood product equipment manufacturers being German, Finnish, Canadian and American, it is doubtful Mr. Putin's decree will have little impact with the global sanctions on Russia. **As a result, many sawmill expansions in Russia will be delayed indefinitely.**

Table 1 – Global Softwood Lumber Production/Consumption - 2021
(‘000 cubic metres)

	Region/Country	Production		Region/Country	Consumption
1	Europe	108,986	1	U.S.	93,934
2	U.S.	64,947	2	Europe	90,637
3	Asia	53,101	3	Asia	88,285
4	Canada	41,733	4	Canada	14,297
5	Russia	40,088	5	South America	13,742
6	South America	18,651	6	Russia	10,145
7	Oceania	8,820	7	Africa	9,706
8	CIS	3,519	8	Oceania	7,504
9	Africa	2,519	9	CIS	6,842
	TOTAL	342,364		TOTAL	335,092

Sources: FAO UNECE, ILIM Timber, WWPA

Russia Needs the Revenue from Forest Products Exports

Similar to oil and gas, Russia cannot afford to lose forest product exports to Europe and cannot rely solely on trade with China (Table 2). Approximately 25% of Russian lumber exports are to countries that Russia has recently identified as “hostile countries”.

Russian dependence on China will increase, however, there are major challenges facing that prospect. Only 9% of roundwood (log) production is in Far East Russia (i.e. the closest wood basket to China) and the forest base there has been grossly over harvested. In addition, over 34% of Russian roundwood productive capacity is located in distant Siberia. The Siberian forests consist mainly of low quality larch, are very poorly accessed, and are prone to massive wildfires. Who is going to fight the wildfires this summer in Siberia with most of Putin’s army in the Ukraine?

Table 2 – Russian Softwood Lumber Exports – 2021
(‘000 cubic metres)

Finland	570.5	2.0%
France	262.2	0.9%
Germany	762.8	2.7%
Netherlands	389.1	1.4%
U.K.	495.8	1.8%
Other Europe	2,722.1	9.9%
Europe Total	5,202.5	18.7%
Egypt	883.5	3.2%
China	14,600.2	52.4%
South Korea	528.8	1.9%
Japan	971.7	3.5%
U.S.	71.7	0.3%
TOTAL	27,845.0	

Sources: Random Lengths, Global Trade Atlas

The Exodus from Russia by the Forest Sector has Begun

- On March 2, **Stora Enso Oyj**, a major global forest company based in Finland, announced that “they will stop all production and sales in Russia until further notice”. Stora has three corrugated packaging plants and two sawmills in Russia, employing 1,100 people.
- On March 3, **Metsa Group**, another Finnish company, announced that it was suspending operations at its Svir, Russia sawmill and that Russian wood procurement and imports to Metsa’s Finnish and Swedish mills has been discontinued.
- On March 3, **UPM Kymmene**, another major Nordic based forest company, announced it would cease all deliveries to Russia. UPM also imports approximately 10% of its roundwood from Russia to supply its mills in Finland.
- On March 3, **IKEA**, the major retail giant and a large consumer of wood products, announced that it will “pause all IKEA retail operations in Russia” which will have a direct impact on 15,000 co-workers in Russia.
- On March 7, **Raute**, a major wood product equipment manufacturer based in Finland, announced that it will no longer make any new agreements with Russian operators.

The Real Winners will be the North American and Swedish Lumber Companies

In 2021, U.S. offshore lumber imports reached a 15-year high, with Europe representing a 9.9% market share. U.S. imports from Russia were almost non-existent. With Russian export lumber shipments to Europe expected to almost collapse, European buyers will increase their dependence on domestic suppliers. The largest European exporters, Germany and Sweden, will pull a significant portion of their lumber shipments out of the U.S. market. Higher ocean freight costs, as a result of higher fuel costs and ongoing shipping bottlenecks, will also be a headwind. **This in turn will give Canadian and U.S. lumber producers an even bigger piece of the U.S. market.**

Table 3 – U.S. Imports of Softwood Lumber - 2021
(millions of board feet)

Germany	809.5	5.1%
Sweden	265.0	1.7%
Total Europe	1,564.7	9.9%
Canada	13,642.3	86.1%
South America	409.8	2.6%
New Zealand	87.7	0.6%
Russia	44.6	0.3%
Total – Non Canada	2,199.3	13.9%
WORLD	15,844.8	100.0%

Sources: Random Lengths, Commerce Department

Which North American-based Forest Companies will Benefit the Most?

The Corton Gobar Timber Fund does not own any forest/timber companies with operations in Russia or companies selling products into Russia. The publicly-owned companies in the Fund will all benefit from afore-mentioned changes in international trade flows of forest products. However, the companies we believe will benefit the most from the Russian sanctions include:

Canfor Corporation

Canfor, apart from being the second largest lumber producer in North America, has 12 sawmills in Sweden and with established end markets in the U.K., the Netherlands, and Egypt, is well positioned to take market share from Russian sawmills.

West Fraser Timber Company Ltd.

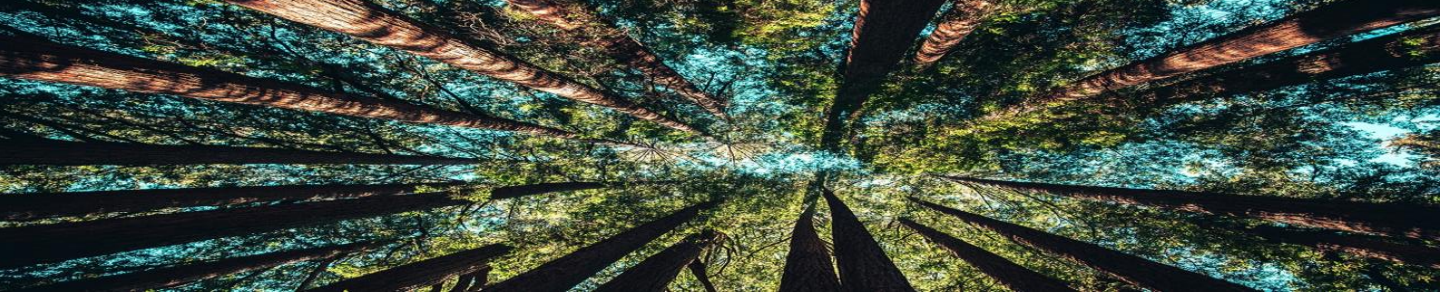
West Fraser, the largest lumber producer in North America, is also the largest OSB producer in Europe. West Fraser is expected to take market share from Russian panelboard companies.

Interfor Corporation

Interfor, the fourth largest lumber producer in North America, owns and operates nine sawmills on the East coast of the U.S. as well as seven recently acquired sawmills in Eastern Canada. Interfor will benefit from lower lumber shipments from Europe entering the U.S. Eastern seaboard.

Rayonier Inc.

Rayonier, the second largest timber REIT in the U.S., also owns and manages 418,000 acres of Radiata Pine plantations in New Zealand. New Zealand is the largest supplier of softwood sawlogs to China and will benefit from Russia’s new log export restrictions.



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