

# TIMBER BRIEFING: U.S. LUMBER PRICES COULD BE AFFECTED BY SANCTIONS ON RUSSIA

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## U.S. Policy and Regulatory Alert

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The U.S. lumber market has seen unprecedented price rises in recent years. Prices could climb even higher as the world responds to the conflict between Russia and Ukraine. Russia is a major exporter of wood in the global market, particularly in China and the European Union. If these countries restrict wood products imports from Russia, or if Russia refuses to export to them, the strain on global supply could drive domestic prices to new heights as Russia-dependent markets look for new sources of wood.

There is already significant upward pressure on domestic lumber prices. We are in an inflationary environment, demand for building materials is high, increased regulation and catastrophic wildfire have combined to depress supply, there are skilled labor shortages and wage demands for mill and forestry jobs, and carbon reserves and credits are increasingly taking trees out of regular harvest rotation.

In this context, the impact of Russian market disruption could have an outsized impact. Russia is a significant player in the world wood products market. In 2020, Russia exported over US\$8 billion in wood products, making it the world's fourth largest exporter.<sup>1</sup> In 2021, that number rose to US\$12 billion.<sup>2</sup>

Asia and Europe are Russia's primary export markets. Roughly 40% of Russia's exports go to China—over US\$3 billion in 2020, with Finland (US\$539 million), Uzbekistan (US\$429 million), Egypt (US\$386 million), and Japan (US\$369 million) also being major importers of Russian wood.<sup>3</sup> Other significant importers include EU countries like Germany, Italy, Poland, and Estonia, as well as the United States, Kazakhstan, India, Azerbaijan, Korea, Ukraine, and Belarus.

Sanctions from these countries could limit or halt trade with Russia. Many countries have already restricted Russian trade, and others could follow suit. Russia has also deemed many countries “unfriendly” and will cease trade with them.<sup>4</sup> The following table shows the status of sanctions in Russia's primary wood export markets:

Country	Sanctions Overview as of 23 May 2022	Sanctions Specific to Wood Products	Further Sanctions Outlook
China	<p>As of 1 April 2022, China rejects Russian sanctions:</p> <p><a href="#">China rejects sanctions as Ukraine war tops summit agenda   AP News</a></p> <p><a href="#">China says not deliberately circumventing sanctions on Russia  </a></p>	<p>While China has remained supportive/neutral regarding Russia, they may be indirectly affected by the Russian</p>	<p>Chinese tech companies may halt business operations in Russia:</p> <p><a href="#">Chinese tech firms may follow DJI to cut</a></p>

Country	Sanctions Overview as of 23 May 2022	Sanctions Specific to Wood Products	Further Sanctions Outlook
	<p><a href="#">Reuters</a></p> <p><a href="#">China cuts shipments to Russia of smartphones, laptops and other tech - The Washington Post</a></p> <p><a href="#">Chinese firms 'told to stop work on Russian Arctic LNG 2 project' due to EU sanctions (yahoo.com)</a></p>	<p>export ban on Western countries:</p> <p><a href="#">Russia risks damaging alliances in China as wood sanctions cripple international trade (packaginginsights.com)</a></p> <p>China also impacted by Russia's ban on exporting certain types of wood:</p> <p><a href="#">Forest wood: The appetite of the Chinese alarms the French oak industry (lafranceagricole.fr)</a></p> <p><a href="#">Russia stopping log exports to China and the situation in the EU and France (europa.eu)</a></p>	<p><a href="#">Russia and Ukraine exposure to minimise political, sanctions risk, experts say   South China Morning Post (scmp.com)</a></p>
Japan	<p>Broad range of economic and trade sanctions, including restrictions on financing and banking transactions, investments in Russia, imports and exports of various goods, and energy reliance. Summary list available here:</p> <p><a href="#">Japan Stands With Ukraine – Government of Japan</a></p> <p>5 May: In a show of commitment to its Western allies, Japan announced new sanctions on Russia, including ban on exporting Quantum computers and other high-tech products:</p>	<p>Prohibitions on imports of “some wood.”</p> <p>Japan is subject to Russian export ban: Members of the European Union are subject to the Russian export ban, including wood products:</p> <p>Russia's Export Ban: Nigeria escapes “unfriendly list” – Voice of Nigeria (von.gov.ng)</p>	<p>Japan stepping up sanctions against Russia following removal of “most favored nation” designation:</p> <p><a href="#">Japan formally revokes Russia's 'most favored nation' status – ABC News (go.com)</a></p> <p>Japan looking to implement coal and energy sanctions:</p>

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	<p><a href="#">Kishida announces new sanctions on Russia   NHK WORLD-JAPAN News</a></p> <p>11 May: New financial sanctions against Russia, including freezing assets of Russian banks and prohibiting Japanese investments in Russia:</p> <p><a href="#">Japan freezes assets of Russia's Sberbank, Alfa Bank over Ukraine (kyodonews.net)</a></p>		<p><a href="#">Where Russian Sanctions Stand   Paige Lambermont (independent.org)</a></p> <p>Japan looking to slowly phase out Russian oil:</p> <p><a href="#">Japan to slowly phase out Russian oil, keep interests in projects (kyodonews.net)</a></p>
Finland	<p>Decrease in Russian imports. Companies and industries making voluntary decisions to withdraw from Russia:</p> <p><a href="#">Sanctions Hit Trade Harder Than Soviet Collapse, Finnish Customs Says   Investing News   US News</a></p> <p>Finland appears to be supporting the EU sanctions; however, trade has not halted completely due to grace periods/loopholes:</p> <p><a href="#">Finnish 'loopholes' allow imports of Russian coal and oil to continue   Euronews</a></p> <p><a href="#">Russia cuts off natural gas exports to Finland in a symbolic move : NPR</a></p>	<p>Finnish forestry groups UPM and Stora Enso have stopped buying Russian wood as international certifiers labelled it “conflict timber”:</p> <p><a href="#">Sanctions Hit Trade Harder Than Soviet Collapse, Finnish Customs Says   Investing News   US News</a></p> <p>Members of the European Union are subject to the Russian export ban, including wood products:</p> <p>Russia's Export Ban: Nigeria escapes “unfriendly list” – Voice of Nigeria (von.gov.ng)</p> <p><a href="#">Import of Russian timber</a></p>	<p>Prime minister supports tougher sanctions on Russia—“including those covering energy”:</p> <p><a href="#">PM: Finland supports tougher sanctions on Russia   News   Yle Uutiset</a></p> <p>Prime minister also supports sanctions across the finance and transport sectors:</p> <p><a href="#">Finnish PM says joining NATO will strengthen security – ABC News (go.com)</a></p> <p>Finnish energy companies refusing to supply electricity to Russian search engine, Yandex:</p>

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		<a href="#">to be discontinued – Where to find an alternative source of wood raw material? (metsateollisuus.fi)</a>	<a href="#">Finnish energy companies refuse to supply 'Russia's Google' – EURACTIV.com</a>
Germany	<p>Refused to accept sanctions against Russian oil and gas, under pressure by the European Union to accept stronger sanctions against Russia and provide more support to Ukraine:</p> <p><a href="#">Germany Faces Pressure to Bolster Response to Russian Aggression in Ukraine – WSJ</a></p>	<p>Members of the European Union are subject to the Russian export ban, including wood products:</p> <p><a href="#">Russia's Export Ban: Nigeria escapes "unfriendly list" – Voice of Nigeria (von.gov.ng)</a></p>	<p>Germany is no longer in opposition to a ban on oil and gas:</p> <p><a href="#">Germany Drops Opposition to Russian Oil Ban, Ministers Say   World News   US News</a></p> <p><a href="#">Germany Drops Opposition to Embargo on Russian Oil – WSJ</a></p> <p>8 May: Germany agrees to additional sanctions against Russia:</p> <p><a href="#">US, France, Germany, Italy, UK agree on additional sanctions against Russia (ukrinform.net)</a></p>
European Union	Broad range of economic sanctions, including prohibitions on trade and export/import of numerous goods, financial transactions and services, access to ports, and investments in various sectors, as well as restrictions on media. A more complete list as of 8	<p>"[P]rohibition on imports of cement, rubber products, wood, spirits, liquor, high-end seafood":</p> <p><a href="#">Sanctions adopted</a></p>	<p>European proposing Russian oil ban:</p> <p><a href="#">EU proposes ban on Russian oil imports, removes Sberbank from Swift – CNN</a></p>

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	<p>April may be found here:</p> <p><a href="#">Sanctions adopted following Russia's military aggression against Ukraine   European Commission (europa.eu)</a></p> <p><a href="#">EU blocks sixth package of sanctions against Russia that included oil embargo (republicworld.com)</a></p>	<p><a href="#">following Russia's military aggression against Ukraine   European Commission (europa.eu)</a></p>	<p>9 May: Sixth sanctions package is “close”:</p> <p><a href="#">Sixth EU Sanctions Package Vs Russia Is Close, Germany Says   Investing News   US News</a></p>
Uzbekistan	<p>Uzbekistan supports Ukraine; however, it plans to maintain relationship with Russia for now:</p> <p><a href="#">UZBEKISTAN – RUSSIA Attack on Ukraine: Tashkent distances itself from Moscow (asianews.it)</a></p> <p><a href="#">Uzbekistan will be indirectly affected by sanctions against Russia: Russia's War in Ukraine Spells Disaster for Central Asia   Time</a></p>	<p>No sanctions against Russian wood trade.</p>	<p>Nuclear deal:</p> <p><a href="#">Uzbekistan: Nuclear deal with Russia still on the table despite sanctions   Eurasianet</a></p> <p>Uzbekistan distancing itself from Russia:</p> <p><a href="#">Ukraine war: Is Central Asia loosening ties with Russia?   Russia-Ukraine war News   Al Jazeera</a></p> <p>While Uzbekistan has not joined Western sanctions, they will comply with them:</p> <p><a href="#">Russia's southern neighbors take a stand   The Hill</a></p>
Egypt	<p>Egypt has rejected sanctions against Russia:</p> <p><a href="#">Russia's War on Ukraine: Egypt's Limited Room for Maneuver (arabcenterdc.org)</a></p>	<p>Egypt impacted by price hikes of raw materials due to sanctions and the Russia-Ukraine conflict:</p> <p><a href="#">Russian-Ukrainian war</a></p>	<p>Egypt looking to maintain relationship with Russia, although deals have slowed down:</p>

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	<a href="#">Egypt seeks middle ground between US, Russia as Ukraine fighting rages – Al-Monitor: The Pulse of the Middle East</a>	<a href="#">to take a toll on Egypt's real estate sector: Stakeholders – Daily News Egypt</a>	<a href="#">Amid fears sanctions will impact Egyptian-Russian cooperation, Sisi, Putin vow to find 'solution'   MadaMasr</a> <a href="#">After UN Ukraine war vote, Egypt strives to protect vital interests with Russia (thenationalnews.com)</a>
India	<p>India looking to continue trade despite Western sanctions against Russia:</p> <p><a href="#">Russia and India will find ways to trade despite sanctions, says Lavrov   India   The Guardian</a></p> <p>Import/Export of goods between India and Russia:</p> <p><a href="#">India plans \$2 bn more of exports to sanctions-hit Russia: Report   Business Standard News (business-standard.com)</a></p> <p><a href="#">U.S. Tells India There Will Be 'Consequences' for Dodging Russia Sanctions (newsweek.com)</a></p>	<p>India may be indirectly affected by trade sanctions:</p> <p><a href="#">Russia risks damaging alliances in China as wood sanctions cripple international trade (packaginginsights.com)</a></p>	<p>India looking to maintain trade relationship with Russia despite sanctions:</p> <p><a href="#">Russia and India will find ways to trade despite sanctions, says Lavrov   India   The Guardian</a></p>

Even where countries do not take official action, individual companies may stop buying Russian wood to mitigate reputational risk. The removal of Russian banks from the SWIFT international payment transaction system will also complicate payments for exported Russian products, as well as for Russian timber harvesters, sawmills, plywood mills, and pulp mills, as they attempt to import machinery and supplies.

Other actions short of sanctions may have an impact as well. For example, in the United Kingdom, guidance published by the UK government last year to clarify the Timber and Timber Products (Placing on the Market) Regulations 2013 stated that due diligence by purchasers must include “consideration of the prevalence of armed



conflict.” In early March, the Timber Trade Federation, a UK timber association, urged its members (who represent 85% of the £10 billion UK timber industry) to enforce their own trade ban on Russian timber.

Countries that restrict wood trade with Russia will be forced to look elsewhere for timber. Although they might not look first to the U.S. market, the market reverberations will eventually reach our shores and drive up demand. The market will seek out and find wood wherever it is available until eventually supply, demand, and prices adjust to meet the new geopolitical norm. If Russian wood supply exits the global marketplace, there will be a supply deficit that is likely to be filled either by increased production or price hikes.

Given this, U.S.-based timber companies would be well advised to monitor sanctions on Russian wood products as they seek to forecast market prices in the medium term. China, in particular, is worth monitoring closely. China is the world's largest importer of wood products, and Russia is China's most important supplier.<sup>5</sup>

In addition, companies that export timber products may wish to identify export targets that might be of particular interest as the marketplace responds to Russian military action.

For those looking to forecast specific market segments, the most common production species in Russia are pine, spruce, fir, larch, Siberian pine, oak, beech, birch, aspen, ash, elm, and linden.<sup>6</sup>

K&L Gates has offices throughout the world and is equipped to advise on sanctions and timber issues in the global marketplace. The touchstone of our practice is to offer industry-focused and client-led solutions to the challenges our clients face.

## FOOTNOTES

<sup>1</sup> Observatory of Econ. Complexity, Russian Wood Products, <https://oec.world/en/profile/bilateral-product/wood-products/reporter/rus?redirect=true>.

<sup>2</sup> Wood Res. Int'l LLC, *Russia's invasion of Ukraine will likely reduce forest products export*, CANADIAN FOREST INDUS. (Feb. 28, 2022), <https://www.woodbusiness.ca/russias-invasion-of-ukraine-will-likely-halt-planned-forest-industry-investments/>.

<sup>3</sup> *Supra* note 1.

<sup>4</sup> Nicholas Gordon, *Russia banned the export of over 200 goods. But is Putin retaliating against sanctions, or stockpiling supplies?*, FORTUNE (Mar. 11, 2022), <https://fortune.com/2022/03/11/russia-export-ban-timber-cars-sanctions-ukraine-invasion-putin/>.

<sup>5</sup> Timber Trade Portal, Russia, <https://www.timbertradeportal.com/en/russia/103/timber-sector#:~:text=According%20to%20FEDSTAT%20data%2C%20the,world%27s%20largest%20exporters%20of%20softwood>.

<sup>6</sup> *Id.*

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