



# ERA Forest Products Research

January 15, 2025

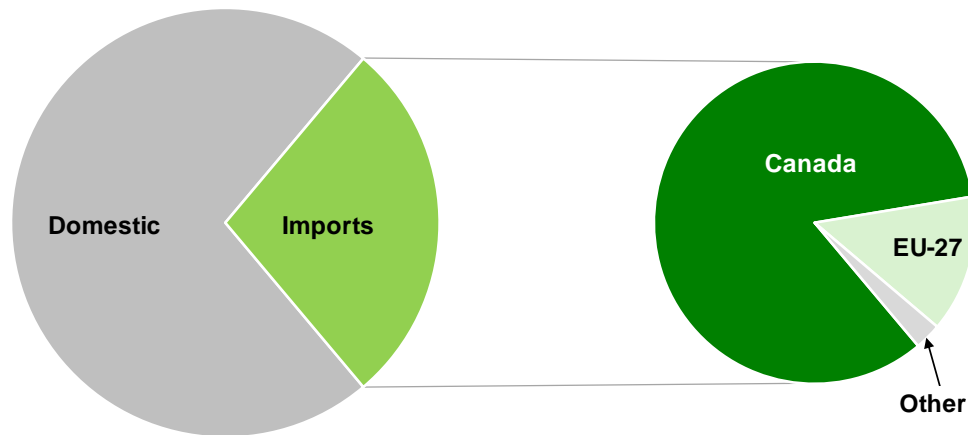
## Tariffs and U.S. Forest Products Imports

*Some markets are very reliant on imports for supply; costs to consumers will rise*

**As we approach the inauguration of the incoming Trump administration, the bluster around tariffs is quickly being seen as less of a negotiating ploy, and more as an actual policy plan. Whether Canada is hit with 25% tariffs out of the gate, or if tariffs on Canada (and other countries/regions) are phased in, the trade impacts for the forest products sector will be wide ranging. This short report points to areas of potential risk (or opportunity) regarding tariffs. As an evolving topic, we will provide regular updates.**

- **Lumber** is the most talked about commodity with respect to tariffs on Canadian goods, largely due to the size of the market but also the fact that tariffs would be *in addition* to duties which are already being paid and are set to rise (double?) come August. The U.S. can't supply its own lumber demand (nor can Canada replace U.S. demand in offshore markets) and will have to continue to import Canadian lumber. Prices will rise, with major producers already telling U.S. customers to expect to pay the tariffs. Canadian lumber producers **WFG, CFP and IFP** all have significant sawmill capacity in the U.S. and would see puts and takes from tariffs. U.S.-based lumber producers **WY and PCH** are clear beneficiaries of tariffs.
- Although lumber is the main solid-wood commodity in focus, the U.S. is even more reliant on **OSB** from Canada. Both WFG and LPX have 30–40% of their OSB capacity in Canada.
- The majority of U.S. market **pulp** demand is satisfied by imports. In softwood, ~70% of demand is met by imports and in hardwood the proportion is even higher, at 89%. **Canada is the largest softwood pulp supplier to the U.S., representing 74% of imports;** a 25% tariff on Canadian goods would inevitably result in higher costs for U.S. customers that produce paper, packaging and tissue. There are no easy near-term substitution options. In hardwood, 93% of imports come from South America, primarily Brazil. With no domestic alternatives at scale, any tariff would be fully passed on to buyers. There are conflicting puts & takes from tariffs for **MERC, IP and Domtar**.
- Imports supply the bulk of **newsprint** and other **mechanical paper** grades (SC, high-brights, coated, etc.) for the U.S. market. There is no alternate for Canadian supply, so prices will have to rise, punishing U.S. newspapers (*New York Times, Washington Post*, etc.), which may fit with Trump's agenda. It could further accelerate the shift to digital.
- **U.S. woodfree paper markets** are much less reliant on Canadian supply than mechanical grades (although Domtar's massive Windsor mill is a key UWF supplier to the U.S.). Coated woodfrees are sourced heavily from Europe and Asia, with uncoated woodfrees supplied by a variety of other countries. With more sources of supply available, options abound. **SLVM's** domestic supply will be advantaged, but impact on offshore mills will be mixed.
- **U.S. containerboard producers** are net exporters; however, the U.S. does rely quite heavily on **imports for white-top linerboard**, with several Canadian mills supplying the grade. Some offshore options (Europe, LatAm) are available.
- **Boxboard** markets face sizeable imports of primarily FBB from Europe (and some from Canada). U.S. domestic supply will soon increase with Sappi's machine conversion.

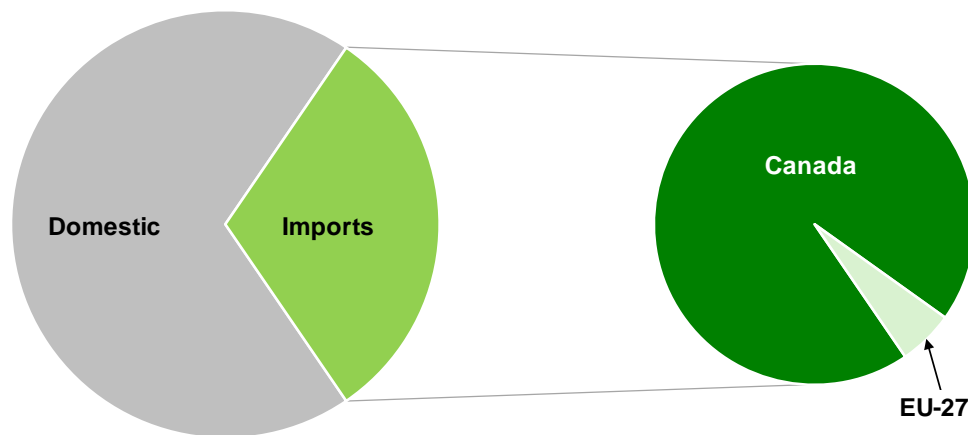
## U.S. Softwood Lumber Market 2023 Supply



Data Sources: GATS, ERA

- Imports account for 25–30% of U.S. lumber supply, and U.S. domestic production cannot replace ~15Bbf of imports in the near- to medium-term.
- Canadian producers have limited opportunities to ship lost U.S. volumes to offshore markets (~55–60% of lumber produced in Canada is shipped to the U.S.).
- Despite sluggish demand, lumber prices should move higher either because buyers agree to eat a share of the tariffs or Canadian mill closures massively reduce supply.

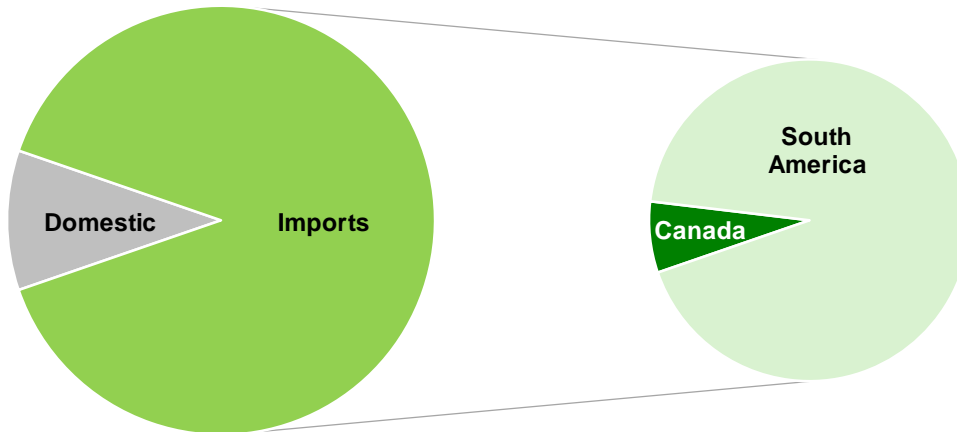
## U.S. OSB Market 2023 Supply



Data Sources: GATS, ERA

- The U.S. is even more reliant on OSB imports (at ~30–35% of total supply) and, like lumber, boosting domestic U.S. supply would take several years.
- Given current OSB pricing and cost dynamics, Canadian OSB mills would be better positioned than their lumber counterparts to absorb/survive tariffs, however, any capacity reduction would leave already-tensioned markets undersupplied and drive prices higher.

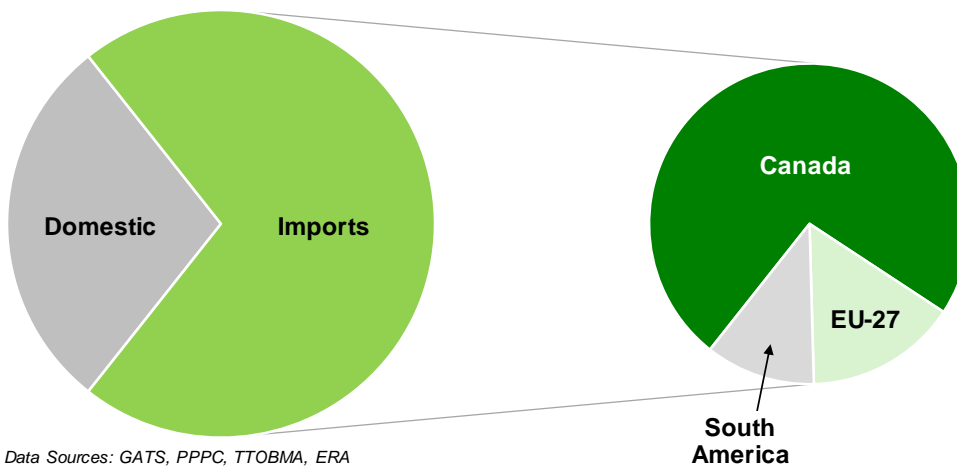
## U.S. Hardwood Pulp Market 2023 Supply



*Data Sources: GATS, PPPC, TTOBMA, ERA*

- Imports supply the vast majority of U.S. hardwood pulp demand, with supply from South America dominating. There are no domestic alternatives given the volume and quality of the imports. Tariff costs will be passed on to customers.
- Suzano, the leading global producer of hardwood pulp, had suggested that its large consumer goods customers would have some ability to argue against import tariffs. This is about to be tested.

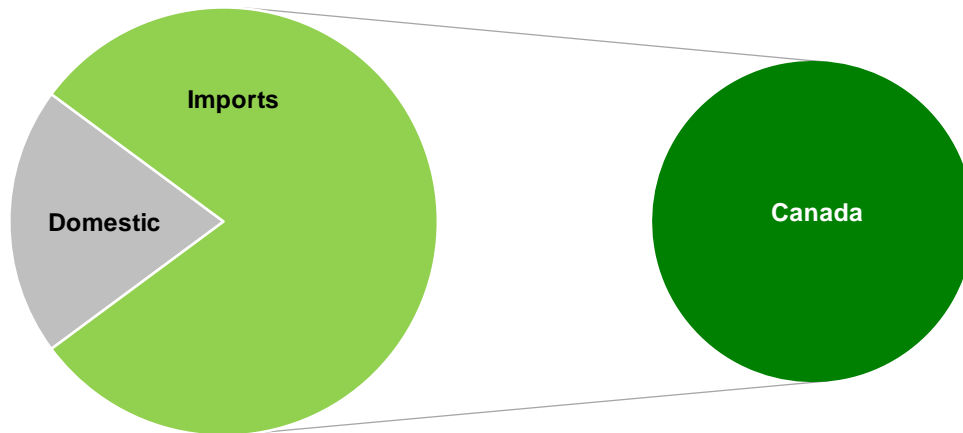
## U.S. Softwood Pulp Market 2023 Supply



*Data Sources: GATS, PPPC, TTOBMA, ERA*

- Imports also satisfy the majority of U.S. softwood pulp demand, with no domestic alternatives at scale. The investment and time required to build new pulp capacity will prohibit domestic substitution in the near, medium and long-term.
- Suppliers—chiefly Canadian—should therefore be able to pass on 100% of tariffs to customers, raising costs for tissue, paper and packaging producers and end consumers.

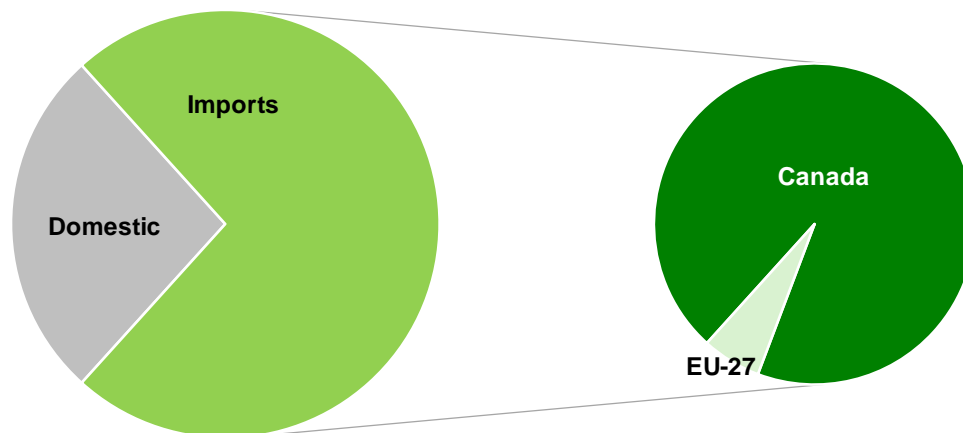
## U.S. Newsprint Market 2023 Supply



Data Sources: GATS, PPPC, ERA

- There are only three mills in the U.S. that supply newsprint (Grenada, MS; Inland Empire; NORPAC) and there is no way that that newsprint buyers can find sufficient replacement to the dominant Canadian supply.
- Newsprint prices will have to rise to offset any tariffs.
- The main impact will be on U.S. newspapers such as *New York Times*, *Washington Post*, etc. that will be forced to pay higher prices. The shift to digital options will expand.

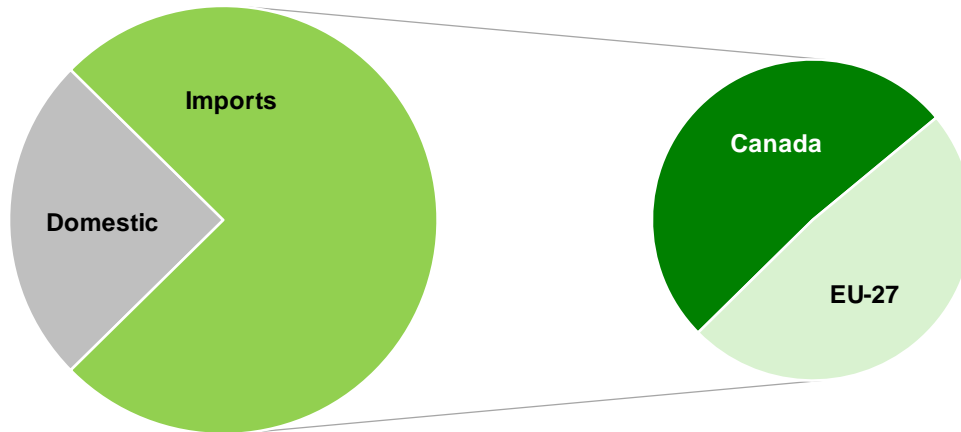
## U.S. Uncoated Mechanical Market 2023 Supply



Data Sources: GATS, PPPC, ERA

- All of the North American production for SC grades is based in Canada, with some offshore imports coming from Europe.
- Prices for SC and other uncoated mechanicals (high brights, super brights, bulky book, etc.) will rise to offset any tariffs.
- Buyers may pivot to European supply where possible, but options are limited.

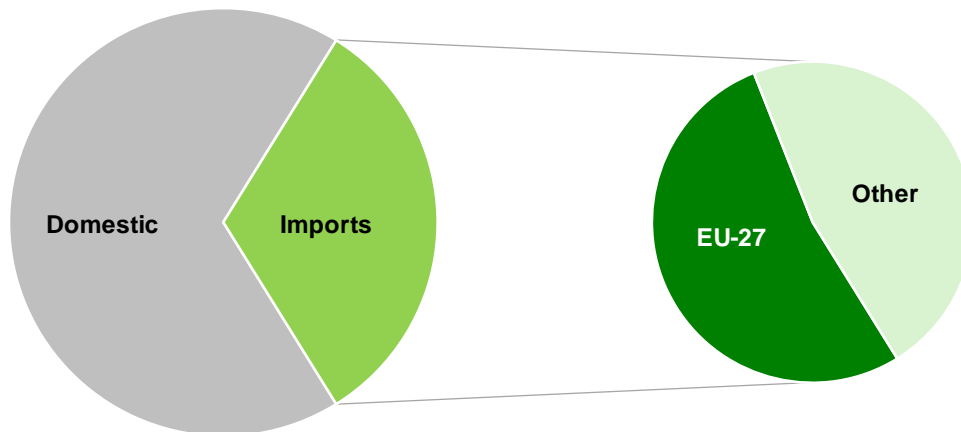
## U.S. Coated Mechanical Market 2023 Supply



Data Sources: GATS, PPPC, ERA

- As with most every mechanical-based paper grade, the U.S. can't supply its needs. Imports from Canada are from Domtar (formerly Catalyst) and Kruger. For imports from Europe, there are several suppliers.
- Some coated mechanical production in the U.S. market has been converted or idled (Billerud/Verso; Nine Dragons), but we don't expect any restarts.
- Prices will rise with tariffs, negatively impacting demand.

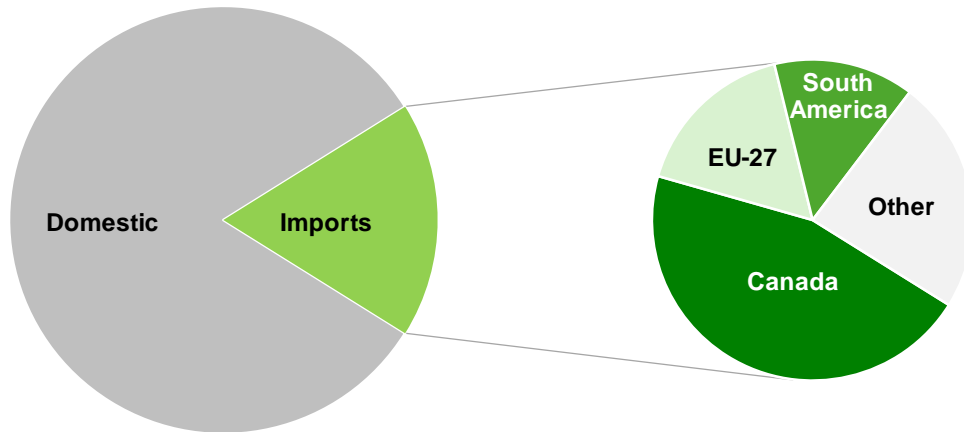
## U.S. Coated Woodfree Market 2023 Supply



Data Sources: GATS, PPPC, ERA

- The U.S. imports a meaningful amount of coated woodfree, but domestic production from Billerud, Nine Dragons and Sappi has been low, with operating rates hovering in the 70s (downtime has been the name of the game to keep prices stable).
- Producers could push operating rates higher, but with Sappi converting a coated woodfree machine to SBS/FBB in Q2/2025, the market was set to tighten regardless.
- Imports will still be necessary, but less so than in mechanical paper grades.

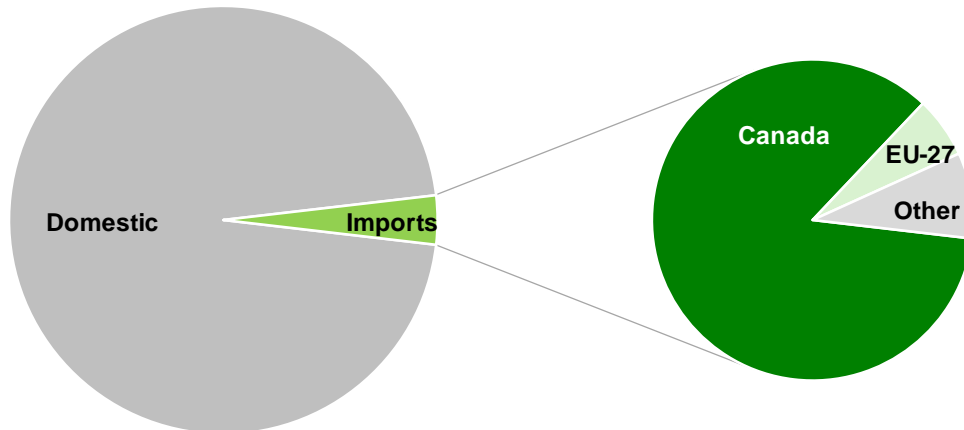
## U.S. Uncoated Woodfree Market 2023 Supply



Data Sources: GATS, PPPC, ERA

- The U.S. market can be fairly well supplied domestically, however, several mills/machines were closed last year and the market is much tighter.
- Domtar's large Windsor is the major Canadian mill supplying the U.S. market, but some small volumes come from others.
- Price hikes were slated for January for the grade, but some hikes are being delayed. Tariffs would support prices for a time, but the impact would fade as demand shrinks.

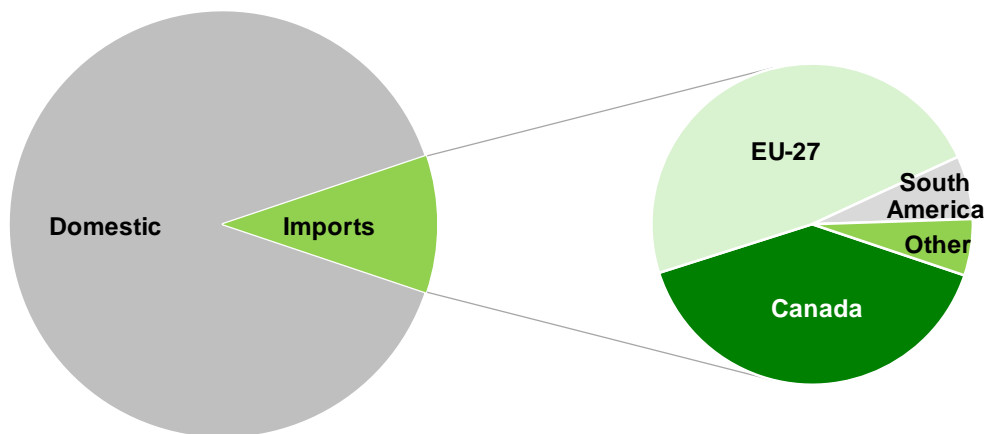
## U.S. Containerboard Market 2023 Supply



Data Sources: GATS, AF&PA, ERA

- The U.S. containerboard producers are net exporters, predominantly focussed on kraft linerboard exports. However, there is a small amount of imports, primarily from Canada.
- **Although imports from Canada are small overall, they represent a sizeable portion of white-top grades**, with Canadian production coming from Cascades, Kruger and Smurfit Westrock.

## U.S. Boxboard Market 2023 Supply



Data Sources: GATS, Numera, ERA

- The U.S. boxboard market is broadly self-sufficient, but **Europeans supply some folding boxboard (FBB) and Canadians contribute to the grade as well.**
- Sappi will soon to start-up a new machine at Somerset (focussed on FBB) and Billerud is edging into the grade at its U.S. mills; RYAM's Temiscaming mill is disadvantaged.
- As for CRB, GPK's new Waco, TX mill could largely supplant any lost Canadian supply after it starts up around the end of this year.

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