Sanctions on the Russian Federation and CP Rail Strike

Sanctions on the Russian Federation

- Schedule 4 of the Special Economic Measures (Russia) focuses on goods prohibited for imports into Canada under the recent sanctions imposed on the Russian Federation. The list is mainly comprised of components used to produce devices for oil exploration production.

- If a contract for a good or service was entered before the day a person or entity was added to the sanctions, the sanction follows the non-application clause (SOR/2014-316, s. 3). In this case, the sanctions would not apply to the imported good or service.

- Canada's total imports from Ukraine and Russia during 2021 were 0.03% and 0.3%, respectively. Energy imports from Russia (including oil) were 0.93% in 2021.

- The most significant product ban which can impact the construction industry is crude oil and its energy derivatives. Although Canada's oil imports are relatively minor, Russia is the third-largest oil exporter globally. Russia's role in the conflict can cause a global impact on energy prices.

- The conflict and the sanctions imposed on Russia have already caused global crude and energy prices to increase, which will have a push effect on the prices of construction materials, adding to an already higher than average inflation of construction materials.

- Increased energy prices will mainly affect the prices of European goods imported to Canada for construction. These products include European-made concrete, copper pipes and tubes and pre-fabricated steel.

- Any energy-intensive goods, such as concrete and manufactured steel, will be the most affected by the increase in global oil prices.

- We can expect an increase in the building construction price index similar to the one caused by the quick rise of oil prices during the pandemic (increases in metal prices of approximately 3.5%; concrete 3%; asphalt 3.5%).

- In 2021, higher construction material prices caused a 12% increase in the cost of non-residential buildings.

- High steel prices caused an increase of almost 16% in the cost of industrial building, caused by higher steel prices, such as hot rolled iron and steel products, which saw a price increase of 114.09% throughout 2021.

CP Rail Strike

- Canada, the second-largest country by area after Russia, depends heavily on rail to move commodities and manufactured goods to port.

- CP Rail shut down operations on Sunday, March 20th, just after midnight, following failed rounds of talks between the Teamsters union and CP Rail. Three thousand workers went on strike.

- CP Rail and Teamsters agreed on final arbitration, and the CP Rail workers resumed operations on Tuesday, March 22nd.

- Agricultural products, fuels and chemicals and intermodal commodities rely heavily on rail transport.

- From an average total carload, agricultural products make up for 10%, chemicals and fuels 17%, intermodal 21% and raw metals 3%.

- In case of a strike, farming groups and oil producers would be the most affected due to their heavy dependency on rail transport. An increase in the prices of oil and agricultural products would be expected.

- Higher energy prices would cause an increase in the prices of construction materials, specifically energy-intensive materials, such as concrete and steel used extensively in heavy construction.

- All other construction materials could see price increases caused by higher transportation costs; one mode of transport would have to be substituted with another, driving higher competition of alternative modes of transportation.

- The strike's impact on prices highly depends on its duration. During the eight-day strike in 2019, the building construction price index rose 0.5%. A similar price increase in the index can be expected under an equal strike period.

- Any higher increases in the prices for construction materials caused by the strike would stem from other energy supply shocks, particularly those caused by the Russia-Ukraine conflict, the current low stock and the high price of oil.