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RYN.N - Q1 2021 Rayonier Inc Earnings Call

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OVERVIEW:

Co. reported 1Q21 sales of $191m, net income attributable to RYN of $11m and EPS attributable to RYN of $0.08.

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Welcome, and thank you for joining Rayonier's First Quarter 2021 Teleconference Call. (Operator Instructions) Today's conference is being recorded. (Operator Instructions)

I will turn the meeting over to Mr. Mark McHugh, Senior Vice President and Chief Financial Officer.

Mark D. McHugh - *Rayonier Inc. - Senior VP & CFO*

Thank you, and good morning. Welcome to Rayonier's investor teleconference covering first quarter earnings. Our earnings statements and financial supplement were released yesterday afternoon and are available on our website at rayonier.com.

I'd like to remind you that in these presentations, we include forward-looking statements made pursuant to the safe harbor provisions of federal securities laws. Our earnings release and Form 10-K filed with the SEC list some of the factors that may cause actual results to differ materially from the forward-looking statements we may make. They are also referenced on Page 2 of our financial supplement.

Throughout these presentations, we will also discuss non-GAAP financial measures, which are defined and reconciled to the nearest GAAP measure in our earnings release and supplemental materials.

With that, let's start our teleconference with opening comments from Dave Nunes, President and CEO. Dave?

David L. Nunes - *Rayonier Inc. - President, CEO & Director*

Thanks, Mark, and good morning, everyone. First, I'll make some high-level comments before turning it back over to Mark to review our consolidated financial results. Then I'll ask Doug Long, our Senior Vice President of Forest Resources, to comment on our U.S. and New Zealand timber results. And following the review of our timber results, Mark will discuss our real estate results as well as our outlook for the balance of 2021.

We started 2021 with encouraging momentum across all our businesses, a testament to the strength and diversity of our timber markets and the positioning of our real estate portfolio. In the first quarter, we generated adjusted EBITDA of $70 million and pro forma EPS of $0.08 per share. Adjusted EBITDA exceeded the prior year quarter by 47% as favorable results in the New Zealand Timber, Pacific Northwest Timber and Real Estate segments more than offset a modest decline in adjusted EBITDA from our Southern Timber segment. As we reflect on the first quarter, we're pleased with how our team worked collaboratively to capitalize on strong domestic markets, improving real estate market trends and growing demand for logs from China.

Drilling down to our different operating segments. Our Southern Timber segment generated adjusted EBITDA of $32 million for the quarter, which was 5% below the prior year first quarter. A 7% increase in net stumpage prices and stronger nontimber sales were more than offset by 18% lower harvest volumes due to the front-loaded timing of 2020 harvest activity as well as weather-related disruptions we experienced earlier this year.

In our Pacific Northwest Timber segment, we achieved adjusted EBITDA of $18 million, an improvement of 81% versus the prior year quarter. This strong result is attributable to a sharp increase in log pricing given strong domestic demand and robust lumber markets as well as higher volumes from the acquisition of Pope Resources.

In our New Zealand Timber segment, first quarter adjusted EBITDA more than doubled to $21 million. This year-over-year increase in adjusted EBITDA was due to significantly higher harvest volumes and sawtimber pricing as the first quarter of 2020 was severely impacted by COVID-19-related headwinds.

Lastly, in our Real Estate segment, we generated adjusted EBITDA of $5 million. This year-over-year improvement was driven by an increase in acres sold, excluding the large disposition in 2020 amid growing buyer demand as well as a 9% increase in weighted average prices. While improved versus the prior year quarter we anticipated coming into the year, Q1 Real Estate activity was relatively light in the context of our full year expectations due to the timing of closings.

With that, let me turn it back over to Mark for more details on our first quarter financial results.

Mark D. McHugh - *Rayonier Inc. - Senior VP & CFO*

Thanks, Dave. Let's start on Page 5 with our financial highlights.

Sales for the quarter totaled $191 million, while pro forma sales totaled $180 million. Operating income was $29 million and net income attributable to Rayonier was $11 million, or $0.08 per share. Adjusting for the operating income attributable to the noncontrolling interest in our Timber Funds segment, pro forma operating income was $27 million. First quarter adjusted EBITDA of $70 million was above the prior year quarter as higher results in our New Zealand Timber, Pacific Northwest Timber, and Real Estate segments more than offset a modestly lower contribution from our Southern Timber segment.

On the bottom of Page 5, we provide an overview of our capital resources and liquidity at quarter end as well as a comparison to year-end. Our cash available for distribution, or CAD, for the quarter was $47 million compared to $27 million in the prior year quarter, primarily due to higher adjusted EBITDA and lower capital expenditures, partially offset by higher cash taxes and interest. A reconciliation of CAD to cash provided by operating activities and other GAAP measures is provided on Page 7 of the financial supplement.

Consistent with our nimble approach to capital allocation, we raised $37 million through our at-the-market, or ATM, equity offering program during the first quarter at an average price of $33.31 per share. As previously discussed, we view the ATM program as a cost-effective tool to opportunistically raise capital, strengthen our balance sheet and match fund bolt-on acquisitions.

In sum, we closed the quarter with $78 million of cash and $1.3 billion of debt, both of which exclude cash and debt attributable to the Timber Funds segment, which is nonrecourse to Rayonier. Our net debt of $1.2 billion represented 21% of our enterprise value based on our closing stock price at the end of the first quarter.

I'll now turn the call over to Doug to provide a more detailed review of our first quarter timber results.

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

Thank you, Mark. Good morning. Let's start on Page 8 with our Southern Timber segment. Adjusted EBITDA in the first quarter of $32 million was $2 million below the prior year quarter. The decline relative to the prior year quarter was largely driven by an 18% decrease in harvest volumes due to the front-loaded timing of 2020 activity as well as weather-related disruptions incurred earlier this year. Specifically, winter snowstorms in the Gulf region and wet ground conditions in Georgia resulted in lost production days compared to the first quarter of 2020.

The decline in volumes during the first quarter was partially offset by higher net stumpage prices and nontimber income. Specifically, average sawlog stumpage pricing was roughly $28 per ton, a 3% increase compared to the prior year quarter. Sawlog pricing is gradually improving as we are successfully leveraging continued lumber market strength into higher sawlog prices in certain U.S. South markets.

Furthermore, increased pricing tension due to the growing demand for export-grade logs are becoming more visible in our coastal markets. However, pricing trends continue to vary considerably by region, underscoring the importance of local timber market dynamics. Pulpwood pricing climbed 7% from the prior year quarter, reflecting the weather conditions that constricted supply during the first quarter as well as a favorable mix shift towards our coastal Atlantic markets.

Overall, weighted average pine stumpage prices were up 8% versus the prior year quarter based on higher sawtimber and pulpwood prices as well as a more favorable mix of sawtimber. First quarter nontimber sales of $8 million were $2 million above the prior year quarter. A large pipeline easement sale drove the increase as compared to prior year quarter.

Moving to our Pacific Northwest Timber segment on Page 9. Adjusted EBITDA of $18 million was $8 million above the prior year quarter. The year-over-year improvement was largely attributable to robust domestic lumber markets, driving significantly improved pricing.

First quarter harvest volume was 13% above the prior year quarter. The year-over-year increase was largely driven by the incremental volume from last year's acquisition of Pope Resources. At $91 per ton, our average delivered sawlog price during the first quarter was up 21% from the prior year quarter. Strong pricing was sustained throughout the quarter even as domestic mills in the region maintained ample log inventories.

Meanwhile, pulpwood pricing fell 23% in the first quarter relative to the prior year quarter as sawmill residuals remain plentiful amid increased lumber production. Notably, the Pacific Northwest is seeing some improved demand from the export market. Transportation constraints restricting the flow of European spruce salvage logs coupled with the ban on Australian log imports into China are translating into improved demand for exports from the Pacific Northwest. With domestic log demand already at very healthy levels due to the strength in domestic lumber markets, we believe stronger export market demand will create additional pricing support, particularly for whitewood species.

I'd also like to offer a few brief comments on the impact of last year's wildfires in Pacific Northwest. As a reminder, none of our fee timber properties were directly impacted by the fires, although roughly 10,000 acres of Timber Fund properties sustained some fire damage. Consistent with the update we provided in February, our operations in the region have not been materially impacted from the salvage efforts conducted by others. There have been some localized hauling cost increases in the areas directly impacted by the fires. However, the location of our timberland, the solid demand for green logs from many of our customers and the steady business we have been able to provide to our logging crews in the region has resulted in minimal impact to our operations.

Overall, we remain well positioned to capitalize on solid domestic demand trends, improving export market conditions and favorable pricing environment we currently see in Pacific Northwest, especially following last year's potential integration of Pope Resources.

Page 10 shows results and key operating metrics for our New Zealand Timber segment. Adjusted EBITDA in the first quarter of $21 million was more than double the $10 million that we reported in the prior year quarter. The increase in adjusted EBITDA was driven by much stronger pricing and a more normalized level of harvest activity versus a prior year period constrained by COVID-19 disruptions.

Increased volumes and pricing were partially offset by reduced carbon credit sales. We opted to defer carbon credit sales during the quarter as we expect that the value of these credits is poised for further price appreciation due to recent changes to New Zealand's climate change goals and proposed changes to the country's emissions trading scheme.

Turning to pricing. Average delivered prices for export sawtimber climbed 28% from the prior year quarter to [$122] (corrected by company after the call) per ton, reflecting improved trade demand as well as escalating trade tensions between China and Australia. New Zealand log export pricing continues to benefit from the ban on Australian log imports in China. As we have previously noted, prior to the ban, Australia was applying approximately 10% of the total volume imported by China. Furthermore, while the abundant supply of European spruce continues to compete for market share in China, availability has at least temporarily been constrained by higher shipping costs and the lack of container availability.

In turn, we have seen tremendous pricing upside in New Zealand on the export front, albeit partially offset by materially higher shipping costs. We expect these costs to remain elevated given the global economic recovery and shipping demand for a wide range of commodities.

Shifting to the New Zealand domestic market. Average delivered sawlog prices increased 16% from the prior year period to $81 per ton. The increase in U.S. pricing was driven primarily by foreign exchange rates as New Zealand domestic pricing improved by a more modest 4% in the first quarter versus the prior year quarter. Average domestic pulpwood pricing climbed 19% as compared to the prior year quarter.

In sum, despite the recent increase in shipping costs, we believe our New Zealand operations are well positioned to capitalize on further strengthening of the Chinese economy and any prolonged reduction in log imports from Australia as well as continued healthy domestic demand.

I'll now briefly discuss the results from our Timber Funds segment. Highlighted on Page 11, the Timber Funds generated consolidated EBITDA of $7 million in the first quarter on harvest volume of 145,000 tons. Adjusted EBITDA, which reflects the look-through contribution from the Timber Funds was $1 million.

Lastly, in our Trading segment, we reported $200,000 of adjusted EBITDA in the first quarter. As a reminder, our trading activities typically generate low margins and are primarily designed to provide additional economies of scale to our fee timber export business.

I'll now turn it back over to Mark to cover our real estate results.

Mark D. McHugh - *Rayonier Inc. - Senior VP & CFO*

Thanks, Doug. As detailed on Page 12, real estate closings were relatively light during the first quarter, which was consistent with our expectations and guidance we provided earlier this year. Specifically, sales totaled just over $10 million on roughly 2,400 acres sold at an average price of nearly $4,200 per acre. Real estate adjusted EBITDA was $5 million in the first quarter.

The bulk of first quarter sales were in the rural category. Rural sales totaled roughly $2,400 -- 2,400 acres at an average price of nearly $4,100 per acre. Overall, we have seen a meaningful uptick in demand for rural land as the space, privacy and recreational opportunities offered by these properties are attracting buyers. We expect this positive momentum to continue, and we remain focused on achieving price realizations well above timberland values.

Sales in the improved development category totaled roughly $250,000 and consisted of 3 residential lots in our Wildlight development project north of Jacksonville, Florida, for an average price of $84,000 per lot, or $406,000 per acre. While development closings were limited in the quarter, we are very encouraged by the pipeline that we built for the balance of 2021.

Overall, the team is capitalizing on growing demand for rural land as well as residential lots and commercial parcels within our development projects. We remain optimistic that a combination of demographic trends, historically low mortgage rates and an increased need for space will benefit our various real estate sales categories.

Relative to the first quarter, we expect a significant increase in the EBITDA contribution from our Real Estate segment over the next few quarters. Specifically, on the development front, there is currently healthy demand from homebuilders for lots and entitled infrastructure served land.

In February, we are excited to announce that, Publix, a popular supermarket chain based in Florida, is set to anchor a new shopping center in Wildlight. We believe that as this community continues to get more established, interest from builders will continue to grow.

We're also encouraged by the pipeline of opportunities for our properties in Richmond Hill, Georgia and the West Puget Sound area of Washington.

Now moving on to our outlook for the year. Based on our solid start to 2021 and our expectation that there will be a significant pickup in real estate closings as the year progresses, we believe we are on track to achieve full year adjusted EBITDA towards the upper end of our prior guidance range of $285 million to $315 million.

In our Southern Timber segment, we expect to achieve our full year volume guidance of 6.2 million to 6.4 million tons as we anticipate the demand from lumber mills will remain strong and that select U.S. South markets will continue to benefit from improving export demand. Further, we continue to expect a modest improvement in weighted average pricing relative to the prior year, with quarterly fluctuations largely driven by geographic mix.

In our Pacific Northwest Timber segment, we expect to achieve our full year volume guidance of 1.7 million to 1.8 million tons. However, given we pulled forward some volume into the first quarter to capture favorable demand and pricing, we anticipate lower quarterly harvest volumes for the balance of the year. We further expect that strong domestic lumber markets and a pickup in export demand will hold pricing at or above first quarter average prices through the rest of the year.

In our New Zealand Timber segment, we expect to achieve our full year volume guidance of 2.6 million to 2.8 million tons with increased quarterly harvest volumes for the balance of the year. We expect continued strong export and domestic demand, and we further expect that the restriction on Australian log imports into China will constrain competing log supplies. We anticipate this positive operating momentum will translate into log prices remaining near or above levels realized in the first quarter, which will be partially offset by elevated shipping costs.

In our Real Estate segment, we expect a significant pickup in closings over the balance of the year based on our current pipeline of opportunities. Our pipeline has grown substantially as we have progressed through 2021, driving our increasingly optimistic sales outlook for residential and commercial properties within our real estate development projects. While first quarter closings were relatively light as expected, we remain confident that we will achieve or exceed our prior full year adjusted EBITDA guidance.

I'll now turn the call back to Dave for closing comments.

David L. Nunes - *Rayonier Inc. - President, CEO & Director*

Thanks, Mark. As we approach the 1-year anniversary of the Pope Resources acquisition, which closed last May, we remain very pleased with the integration process and the benefits realized from this transaction. The addition of these high-quality assets and the integration of Pope's personnel into the Rayonier family has meaningfully increased our operational flexibility and market reach within the Pacific Northwest. We've leveraged these improvements to our team and our portfolio as market conditions continue to improve over the past year.

Alongside the Pope integration, we've also continued to focus on other opportunities to grow and improve our portfolio. To this end, we closed on $30 million of negotiated bolt-on timber acquisitions across the U.S. South to start 2021. We also published our inaugural carbon report in March. This report detailed the 5.7 million metric tons of net carbon sequestered by our forest operations in 2019 and demonstrates the important role that working forests play in fighting climate change.

Rayonier's business model provides a natural climate change solution. Our trees remove carbon from the atmosphere during their growth cycle. And after harvesting, a significant portion of this carbon remains stored for an extended period of time within downstream wood products. Building on our inaugural carbon report, we plan to release a comprehensive sustainability report this summer. We believe our mission of providing industry-leading returns, financial returns to our shareholders while serving as a responsible steward of our lands is well aligned with the holistic approach embodied by greater adherence to ESG principles. And we're proud of the progress we've made to date on enhancing our ESG disclosures. We look forward to further engagement on these important topics with our shareholders and other stakeholders going forward.

In summary, we are benefiting from strengthening end markets and continuing to make progress on several important strategic priorities. I'm very proud of the accomplishments of our people and their unwavering commitment to building long-term value for our shareholders. Despite the unprecedented challenges encountered over the past year, our team is working hard to better position the company for long-term success.

And this concludes our prepared remarks. I'll now turn the call back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from Mark Wilde from BMO Capital Markets.

Jesse Barone - *BMO Capital Markets Equity Research - Associate*

This is Jesse Barone on for Mark. To start, can you kind of just dive a little deeper into what you're seeing in China, both kind of on the demand side and what inventories kind of look like there? And if you guys have any outlook for how long this log ban on the Australian imports could last?

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

Sure. This is Doug. I'll take that question. Yes. So currently, we are seeing softwood inventories around 4.5 million cubic meters at the end of last week, and that's down significantly. And they were over $6 million back in Q1, so after the Chinese Lunar New Year. So we're seeing good demand there. As we talked about before, we track an inventory to demand ratio, and we're seeing that at about 1.7 months. So that's in a very healthy zone for us. So we're seeing favorable opportunities there.

And the weekly consumption's running about 665,000 cubic meters, which is also very healthy. It was a little bit higher than that early in the year, kind of in March and April, but still very strong right now. So we're still seeing good demand there.

So another thing that's been pleasing to see is that the amount of spruce has really dropped off. There's 6% less spruce now in inventory than there was at the Chinese Lunar New Year. So we're seeing a real restriction ability of that spruce to make it over: high shipping costs, low container availability, different things like that. So increased demand for our New Zealand operations, our Southern Yellow Pine operations.

David L. Nunes - *Rayonier Inc. - President, CEO & Director*

In terms of the part of the question around duration of the Australian dispute, our sense is that, that's likely to last a few years anyway. We don't see that as going away anytime soon. And so, we're making plans really to -- based on that. And I think it also is sort of a testament to the diversity that we have between the various markets, certainly, between India, Korea and China, being the primary ones.

Jesse Barone - *BMO Capital Markets Equity Research - Associate*

Great. And then just a quick follow-up. Can you kind of dive a little deeper into the U.S. South exports, kind of just the magnitude of the increase you guys are seeing there, and just kind of the overall demand picture from that?

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

Sure. This is Doug, again. I'd be happy to answer that. Yes. Given that significant slowdown I mentioned in European spruce -- and then we're also seeing South American logs have slowed down significantly, again, due to that shipping cost and just port congestion, things like that. We're really seeing significant growth in demand for Southern Yellow Pine logs. Volume shipped in the second half of last year and the first quarter of this year are more than double what they were pre-COVID volumes. So we're seeing a lot of growth there.

And based on demand from our customers, it appears that actual demand would be at least double that again. But shipping logistics are constraining amount of volume that we can actually get exported. So I guess the good news on that side is that with constraints and supply, we're seeing prices increase to record levels, but that's also constrained that ability to get that volume moved right now.

Given its position as one of the largest container ports in the U.S., the Port of Savannah accounts for about 2/3 of the Southern Yellow Pine exports. Our land base is very well positioned for Savannah. And so, we're leveraging our New Zealand expertise, directly export out of Savannah and giving us a significant market share in that area. So really seeing a large increase.

In Q1 of 2020, obviously COVID was impacting China. So it was -- volumes were down significantly, but we've seen a sixfold increase going into Q1 of 2021. And China is the lion's share of demand out of -- for Southern Yellow Pine right now. And India was growing, but COVID really impacted India, and we've seen that kind of taper back off some as they go through the tragedy they're experiencing right now.

But we were getting many inbound requests from India for logs part of the pandemic. So we're looking forward to that turning back around. And the Indian customers took advantage of that Australia-China trade war arbitrage opportunity, and so they were seeking logs and getting those logs that were supposed to go to China that then went to India.

But as I mentioned, demand in China is not being met due to logistics. And we think India is going to grow back here when they get over their COVID situation.

And then one last thing that gets less talked about. But in addition, the Russian government's proposed log ban starting in 2022 is starting to cause our export customers to seek alternative supply now. They don't want to wait until 2022. And Russia exported about 15 million cubic meters of log last year, so the ban will have a significant impact on the global trade of logs if it gets implemented.

So we believe the outlook for Southern Yellow Pine exports is really strong with lots of room to grow, and it's really about logistics getting normalized and then we can get that flow back. So that's the biggest constraint right now. It's not on the demand side. Demand and pricing is strong. But then across the globe, as you've heard right about, I'm sure, we're just seeing that constraint right now. So luckily, Savannah is that largest container port there on the East Coast, and so we do have access to that. But it's a constraint in shipping right now.

Operator

Next question from Anthony Pettinari from Citi Research.

Randy Devin Toth - *Citigroup Inc., Research Division - Associate*

This is actually Randy Toth sitting in for Anthony. I just had a quick question on inventory. So the chain, log decks at the mills and lumber at the dealers, can you provide any color maybe on how conversations with your customers are going, considering the historic lumber prices we're seeing? Just any color there would be helpful.

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

Sure. Understanding that I have is the lumber supply through the supply chain is very low, very limited. And people are out -- extended orders are out pretty far out in the months beyond what they're normally used to, both in kind of lumber and panel-type things. So it's a limited chain.

Log decks, it's very variable depending on where you're at. Northwest, they manage to maintain reasonable log decks as we mentioned, but the demand's so strong that just keeps moving. So that's the good news there, and we're seeing the export on top of that really start to pick up in the Northwest.

In the South, wet weather has impacted different markets differently. And so we have some mills that are hand to mouth and others that have adequate supply. But everyone is looking for additional logs, all of our customers right now is, they just -- the demand on the other side is outstripping the need right now. So we're seeing a lot of demand for logs.

Randy Devin Toth - *Citigroup Inc., Research Division - Associate*

Got you. Understood. And then maybe staying on Pac Northwest for a second. How are realizations trending versus 1Q out of Pac Northwest, and maybe New Zealand, too, while we're here?

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

Sure. I think right now in the Pacific Northwest, we're seeing strong realizations, and we're excited about the demand for exports. They've really ramped up over the last few months, really going into the beginning of this year due to the issues we talked about before. And so we've seen demand more than double for whitewood exports out the Northwest and pricing has been up over 30%. So we're seeing strength there.

And so we actually chose to harvest more whitewoods and sell more whitewood, pick up our stumpage program in Q1. And so that had a little bit of impact on our overall total composite pricing, but it was the right thing to do, they moved to higher percentage of whitewood into the market. So we see strength in there. So we see utilizations looking good for the remainder of the year right now, at least going into next quarter.

Operator

Next question from Buck Horne, Raymond James.

Buck Horne - *Raymond James & Associates, Inc., Research Division - SVP of Equity Research*

I was wondering if you could put a little more color on the $30 million of bolt-on acquisitions you guys completed in the quarter. Just any more detail. What's the plan? Maybe are we seeing more opportunities now for new acreage and M&A transactions? And how would you plan on using the ATM going forward to maybe capitalize on that?

David L. Nunes - *Rayonier Inc. - President, CEO & Director*

Sure. I'll take that, Buck. Yes, we closed on 3 bolt-on acquisitions in the first quarter totaling 28,000 acres. These are located in the coastal corridor area of Florida and Georgia. We were happy with how these went.

I'd say, generally, we're always in the market for good bolt-on transactions. We have found that we had a reasonable success going after negotiated deals and feel like ultimately, we'd get a better return on those. So we're always in the market for those.

Broadly speaking, the market hasn't been as strong as it has been in typical years. I think we're seeing gradually, as travel restrictions ease, I think, we're seeing more properties come to the market. But I'd also say that we haven't seen as many higher-quality properties come to the market. And so we tend to be fairly discerning as to the things that we will go after. So we're always pretty active in all 3 of our timber markets, but we're pretty picky on kind of what we choose to go after.

And as it relates to the ATM, we felt that this was a good use of proceeds. We look at the return and the cash flow metrics that we can get off these properties. And so, it was nice to be able to tack these bolt-ons on without stressing the balance sheet unnecessarily following the Pope transaction.

Buck Horne - *Raymond James & Associates, Inc., Research Division - SVP of Equity Research*

Great. Appreciate that. And looking at just kind of domestic logistics hurdles here, given the shortage of truckers that seem to be growing by the day, how are you thinking about trucking and hauling costs domestically for the rest of the year? And how does that play into your thoughts around margins or the EBITDA outlook?

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

Yes. You're correct that we're definitely seeing pressure in -- all industries seeing pressure in trucking and particularly in transportation and those things. And so, it's something we're closely watching. A lot of our contracts we have in place do carry out for extended periods of time, but it's something we have to care about.

Luckily to date right now, as we've seen, pricing on the products is also going up as we go forward with it. And so, we've been able to work with it. And with this cost, our end-product customers are also seeing that increase, and so they're working to pass that on to their end products. So it's a supply chain issue that we're all working through to figure out the best way to handle.

Buck Horne - *Raymond James & Associates, Inc., Research Division - SVP of Equity Research*

Yes. And so just on those -- that mention of how you guys contract for your trucks, how far do those contracts typically go out to kind of lock in some of that pricing?

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

It's really variable across the board, but then nothing longer than a year. So it's somewhere -- anywhere from individual sales to a year type of thing.

Operator

(Operator Instructions) Next question is from John Babcock, Bank of America.

John Plimpton Babcock - *BofA Securities, Research Division - Associate*

I did actually just want to follow up on that Russia log ban. Would you be able to provide a little bit more color on that? How comprehensive that is?

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

Yes. So what's been announced and proposed hasn't been implemented, obviously, is that they would reduce all their exports of roundwood. So it's a complete ban, trying to increase the amount of processing that's done internally. There are some questions around kind of the European side and wood being used for pulpwood.

But with respect to logs primarily used in China right now, the apparent threat is that there would be no roundwood logs coming across the border from Russia into China if it goes into effect in 2022. And so, that has customers looking at what to do. As I mentioned, it was about 15 million cubic meters of logs last year, so it's a significant impact. Not sure what else (inaudible)

David L. Nunes - *Rayonier Inc. - President, CEO & Director*

John, keep in mind that this started back in 2007 when the Russian government put in place an export tariff. And that was really designed to encourage more domestic processing. And since that time, we've seen a gradual increase in domestic processing and, therefore, more lumber or partially saw on [cants] flowing into China from Russia.

And over time, that tariff was increased. And so, this is really just the final stage of that where they're shutting it off. And so, net-net, we think, both from a New Zealand standpoint as well as a U.S. standpoint, we're going to benefit from that.

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

Yes. Thanks, Dave.

John Plimpton Babcock - *BofA Securities, Research Division - Associate*

So is that 15 million cubic meters then effectively the difference between when they shut it off and where demand was, say, last year -- or the volumes were last year for Russia?

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

Yes. I mean that 15 million cubic meters is what they exported last year in 2020. So it would be a complete reduction of that. It used to be significant. I don't know the exact numbers, but it used to be much more significant. But as Dave mentioned, they've gone to more sawn products over time over the last 4 or 5 years.

John Plimpton Babcock - *BofA Securities, Research Division - Associate*

Okay. And when does the spigot finally turn off then?

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

It's supposed to begin in January of 2022. So it's a short way away, that's why we're seeing a lot of increased interest and demand from our Pacific Northwest operations, in particular those whitewoods. They're good substitutes for a lot of that wood as well as Southern Yellow Pine. So we're seeing just a lot of demand. It appears our customers -- if it doesn't go fully in effect, they do believe there's going to be some part of it that goes into effect, and they're scrambling, trying to find additional supply now.

John Plimpton Babcock - *BofA Securities, Research Division - Associate*

Got you. How large is the China log market, just out of curiosity?

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

I don't have that number handy on me right now, and I would hate to give you a number off the top of my head. So I think it would better if we get back to you on that. I have one, but I'm not confident in it. Safe to say it's the biggest market out there.

John Plimpton Babcock - *BofA Securities, Research Division - Associate*

Yes. I was just trying to gauge like where that 15 million stands also to the whole. Like whether it's 1% or 5% or somewhere even larger than that.

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

No, it's more in the teens percent of that, I would say. So but then we can get you that number.

John Plimpton Babcock - *BofA Securities, Research Division - Associate*

Yes. That'd be great. And then next question, you were talking a little bit about timberland properties here. Could you just talk a little bit more about kind of the interest you're seeing in demand for timber properties in the U.S. South? And also, what valuations are looking like now?

David L. Nunes - *Rayonier Inc. - President, CEO & Director*

I mean I think we're still seeing pretty robust demand for properties. And keep in mind, capital tends to flow into timber for different reasons. And certainly, one of the key investment themes over the last few decades has been as an inflation hedge. And so, I think, you're seeing capital flowing in, net capital flowing into the space based on that view of future inflation. And then also, we tend to see capital flow into timber in the context of flight to quality. And so, what that has done is, it's kept timberland markets pretty competitive. And hence, the need to be pretty disciplined and targeted around what you look at.

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

Yes. Sorry, I just -- I'm sorry, I was going to add a comment. I just found that the 15 million cubic meters in my notes is approximately 12% of globally traded roundwood, so it will be less than that in China. We'll have to get that number for you. But it's about 12% of the globally traded roundwood in 2020.

John Plimpton Babcock - *BofA Securities, Research Division - Associate*

Okay. That's helpful. And then earlier, you were talking about Southern exports. Just recognizing like supply constraints and Port of Savannah has been quite backed up from what I've heard. Do you have any sense as to where those -- what level those exports might be at if it weren't for those supply constraints?

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

I only have anecdotal kind of things that people have told me. But right now, anecdotally, what I heard folks saying is that they think the port is running at 60% to 70%. So we still have a lot of room to go until we get fully operational. And again, that's just from contractors and people who are working at the port saying that it's better than half, but still a long ways to go.

David L. Nunes - *Rayonier Inc. - President, CEO & Director*

So John, the other thing I'd add is that during the last couple of years, we have leveraged our New Zealand-based sales force to gradually expand the reach of Southern Yellow Pine. And just like in the U.S., where you've got a good market for treated products, we've grown a treated market in China. And so, we are improving the demand pull for -- specifically, for Southern Yellow Pine out of this market.

And so, we're very encouraged by that in the context of clearing up some of the shipping bottlenecks. We feel pretty optimistic about the long-term market demand for Southern Yellow Pine in China.

John Plimpton Babcock - *BofA Securities, Research Division - Associate*

Okay. And then just last question from me at least. Could you just talk about -- talk a little bit more about the European salvage volumes and where those kind of stand? I know you talked a little bit about some kind of bottlenecks limiting where that can go. But if you could just kind of provide a bit more color on how that's doing that, that'd be great.

David L. Nunes - *Rayonier Inc. - President, CEO & Director*

I mean, in general, the understanding we have is this represents the peak year of flow out of Europe. And so, while it has grown considerably over the last few years, it's going to be a very big number. And so, essentially, you're seeing that wood flowing throughout global markets. And you're seeing it flow in lumber form as well as log form.

We expect that to provide some disruption for at least the next few years as that wood continues to find itself -- find its way to the market. But keep in mind that unlike the mountain pine beetle situation in Western Canada, the shelf life of this European spruce is much shorter. And so, there's a lot more urgency to get it to market quickly. And we really -- from a planning standpoint, we try to look through that and feel that we're very well positioned for once that volume is done for basically being able to grow our market share in various global markets.

And so, it's something that we're living with and dealing with right now. And certainly, the shipping bottlenecks have made that more difficult to get that product to market. But I think longer term, we think, it'll be a net opportunity for us.

Operator

We are showing no further questions, and I'll turn it back over to Mark.

Mark D. McHugh - *Rayonier Inc. - Senior VP & CFO*

Sure. Thanks, everybody, for joining. And please contact us with any follow-up questions. Thank you.

Operator

Thank you. And that does conclude today's conference. We do appreciate you attending. You may disconnect at this time.