

Appalachian Sustainable

Speakers Detail Cabinet, Taxes, Trucking Issues 2015 Annual Meeting Program Provides Key Information



A terrific crowd participated in the 2015 Annual Meeting of Appalachian Hardwood Manufacturers, Inc. recently at the Hyatt Regency Coconut Point Hotel in Bonita Springs, FL.

Five speakers presented timely information to hardwood lumber producers, distributors and secondary manufacturers from around the region. Please see reports on each throughout this newsletter.

“Our attendees reported that they came away with a tremendous amount of information and were very pleased with the meetings,” said Tom Inman, AHMI president.

AHMI Chairman Steve Houseknecht of Wagner Lumber Co. reported on the state of the association at the Annual Meeting. He said membership was stable in 2015, revenue for 2014 was improved and promotions were successful.

Two companies were recognized for 25 years of membership: Tanner Lumber Co. in Elkins, WV, and Inter-State Hardwoods Co. in Bartow, WV.

The meeting included three well-attended receptions and an “early-bird” reception at the Naples, FL, home of long-time AHMI members Mitch and Iris Carr of Shenandoah Forests.

MDF Use Grows In Cabinets

Chris Watson, president of Conestoga Wood Specialities of East Earl, PA, discussed the future of cabinet production in the U.S. at the AHMI Annual Meeting. Conestoga employs more than 1,200 people in five facilities in Pennsylvania, North Carolina, and Washington.

The company supplies more than 3,000 cabinet manufacturers throughout the U.S. and Canada. Markets served include the high volume OEM industry and small to medium sized custom and semi-custom kitchen cabinet manufacturers.

The company produces more than 20,000 cabinet doors and finished parts per day, all manufactured to order in lead-times that range from three to seven days. Watson said that design trends for 2015 are flat panel, wide frame doors that are simple in style and have a painted finish.



**Chris
Watson**

Watson said that multi-density fiberboard with a film finish is gaining market share. New technology makes it cheaper and easier to construct from these alternate materials.

He cited one large box retailer who will not provide customers with information on the species of wood used in the construction.

(See Cabinets on page 3)



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AHMI welcomes the following new member:

Supplier

Salem Equipment
Paul Potter
PO Box 1030
Sherwood, OR 97140

New members are the lifeblood of the association and there are many benefits to companies in each of our divisions. If you know of hardwood sawmills, concentration yards, secondary manufacturer or consulting foresters and suppliers who should join, please share this information with Tom or Brenda at AHMI at (336) 885-8315.

Also we encourage members to discuss AHMI membership with their customers and suppliers. We can provide you with a packet of materials to give to prospective members and will follow from the office.

Future Meetings

The following is the list of future meetings of Appalachian Hardwood Manufacturers, Inc. that have been contracted. More information will be mailed to members and guests. Please mark your calendar today and make plans to attend.

2015 Summer Conference - July 24-28
Colonial Williamsburg, Williamsburg, VA

2015 Fall Meeting & Tours - Oct. 20-22
in conjunction with the National Wooden Pallet & Container Association

2016 Annual Meeting - Feb. 25-Feb. 28
Naples Beach Club, Naples, FL

2016 Summer Conference - July 24-28
The Greenbrier, White Sulphur Springs, WV

The way I see it...

By Tom Inman, AHMI President

...the business sessions at the 2015 Annual Meeting were some of the best ever, according to AHMI members. Each topic was detailed by our speakers and the Q&A was positive.

That is our goal each time and some years are better than others. This year was a huge success and I do have copies of the presentations available if you missed it.

One of the sessions was the "Truth About Trees" program by the Hardwood Forest Foundation and Crystal Oldham, the executive director. She and Kim Vollinger of Cramer Lumber Co., made a visit on our behalf to Estates Elementary School in Naples on Friday during the meeting.

Dozens of school children learned about the thousands of products that come from the forest and the benefits of forest management. They also learned that it is OK to harvest a tree.

The program is an updated version of the AHMI Community Involvement Program from the mid-

1990s. Several members asked about CIP at the meeting and I do still have presentations, letters to the editor and more available for your use. Please contact me for the CIP materials.

Please contact the Hardwood Forest Foundation to order kits for teachers and schools in your area. They have a terrific video and detailed activities for children. These may be ordered from www.hardwoodforest.org. AND make a donation while you are there.

...AHMI sponsored two golf tournaments at the resort's championship Raptor Bay Course and a fishing tournament in Estero Bay and the Gulf.

Golf winners were: Friday: 1st Low Gross – Webb Heintzelman; 1st Low Net – Steve Arnold; Closest to the Pin – Roy Cummings; Long Drive – John Foley Saturday: 1st place low gross – Steve Arnold; 2nd place low gross – Lowery Anderson

Fishing winners were: Most Fish – Team SII including Dan Mathews, Mike Turlington, David Kay, Joe Pryor and Mark Vollinger; Largest Fish – Dan Mathews; Smallest Fish – Bryan Watkins.

Cabinets from page 1

"I know this is not good news for this audience but oak cabinets are just about non-existent and paint grade hardwoods are increasing," he said.

The species mix in solid wood cabinets for 2014 was:

Hard Maple paint grade: 43%

Hard Maple stain grade: 22%

Cherry: 16%

Paint grade mixed: 10%

Soft Maple: 4%

Red Oak: 3%

Alder: 2%

Watson displayed five door samples that were produced from a medium density fiberboard with a printed finish. The low cost door is replacing many solid wood parts.

He said paint has replaced stain as the dominant finish and the trend is having a huge impact to materials used for cabinet and door production. White is the color of choice, but grays continue to gain in popularity and most every company now including gray paints and stains in their offering. Contractors are asking for lower cost materials to save money in construction. First-time homeowners do not know the difference and are not demanding the better products, Watson said.

"The most powerful driver had been the sharp rise in hard maple prices. Companies scrambled to find alternatives and began using birch, soft maple, poplar, and eventually MDF," he said.

Customers who demand solid wood are usually buying for a second time and seeking semi-custom with specialty cabinets for storage and islands to fit their needs. Large drawers are in demand more than cabinet doors as people design very unique spaces. These custom homes and renovations have boosted the cabinet industry over the past five years.

"Many elaborate systems being sold for cutlery, pots and pans, plates, even glassware but unfortunately, more and more of the drawer box systems are coming from Europe and are made from non-wood materials," Watson said. "Many wood systems are coming from China."

For the complete presentation, please contact the AHMI office.

Driver Shortage Hurts Trucking Industry

Fred Burns, CEO of Burns Trucking in Marlinton, WV, said a driver shortage is severely limiting the domestic freight industry. He spoke at the 2015 AHMI Annual Meeting about what lumber companies can expect in freight forwarding. Burns Motor Freight was founded in 1949 with one truck serving the lumber industry and today has 90 tractors averaging 27,600 loads annually.

Burns said the critical need in the trucking industry today is experienced drivers. He said many carriers are hesitant to increase capacity because they do not have the drivers to move the freight.

The applicant pool for drivers is also low as younger adults are not attracted to the industry. There is a new generation coming into the workforce that has different expectations. Burns said millennials, those born after 1980, do not have the work ethic of previous generations.

The trucking industry must partner with shippers to develop younger driver programs, resolve the tarping issue for hardwood lumber that injures drivers, treat drivers with respect and help lure women into the driving workforce. Trucking companies expects to increase driver wages by up to 10 percent in 2015 to lure new employees and retain existing drivers. Burns said that will translate into higher costs.

He said the pressure is on drivers, however, who are expected to always be on time and deliver goods that are not damaged.

Burns said tarping is a key issue for hardwood freight and causing injuries to drivers. The two industries must work out a solution.

Fred Burns (left) with AHMI Chairman Steve Houseknecht



IC-DISC Program Saves On Taxes For Exporters

Appalachian hardwood companies that export lumber should set up a little-used tool in the tax code to save on taxes.

Stewart Feldman of The Feldman Law Firm in Houston, TX, explained at the 2015 Annual Meeting of AHMI the substantial tax savings for export companies by setting up an Interest Charge – Domestic International Sales Corporation. The structure reduces tax liabilities by converting a portion of export income into dividends.

Feldman & Associates and its subsidiary Capstone provide turnkey services for companies seeking to take advantage of the program. Feldman said it is part of the Revenue Act of 1971 and Revised by the Deficit Reduction Act of 1984 to create incentives for U.S. companies to export. In 2008, the IRS reported only 1,600 IC-DISC in the U.S.

“This means there are thousands of companies who are exporting and missing out on substantially lower rates for federal income taxes,” he said.

WITH IC-DISC “DIRECT SALES”

Total Revenue	\$30,000,000
Non -IC-DISC Sales	\$10,000,000
Pre-Tax Income	\$ 2,000,000 (20% margins)
FIT @ min. 39.6%	\$ 792,000
IC-DISC Sales	\$ 20,000,000
Pre-Tax Income	\$ 4,000,000 (20% margins)
FIT @ 23.8%	\$ 952,000

FEDERAL TAX WITHOUT IC-DISC \$1,744,000

Companies or products that qualify for the IC-DISC are: Direct Export, Indirect Export (sold to party that then exports the property), Part of a Whole that is export directly or indirectly, Leasing of Equipment, and Engineering or Architectural Services – performed in the US or abroad.

For more information on IC-DISC or the Capstone program, please contact the AHMI office.

AHEP Helps Answer Environmental Questions

Mike Snow, executive director of the American Hardwood Export Council, explained the American Hardwood Environmental Profile (AHEP) to attendees at the 2015 Annual Meeting. The program combines output from the AHEC’s Life Cycle Assessment with other data to provide easy information to customers.

Snow said the AHEP consolidates data from US Forest Inventory, the Seneca Creek Risk Assessment Study, the Forest Stewardship Council’s Risk Register and the AHEC LCA study. These sources are all data independent and critically reviewed and were structured in conformance to European Union Timber Regulations.

The main benefit of the AHEP is allowing users to adapt for specific consignments, exporters and customers. The profiles can be adjusted by species, thickness and transport scenario and then shipped directly to buyers.

The AHEP certificates are available on the AHEC website. Members should contact the AHEC office for specific log in information.

American Hardwood Environmental Profile			
<p>Data is provided on the environmental impact to deliver a defined consignment of lumber of a specified U.S. hardwood species to an overseas customer (1). Data is derived from the PE LCA study of U.S. hardwoods (2), the U.S. Forest Service Forest Inventory and Analysis (FIA) program (3), the Seneca Creek Risk Assessment of Legality and Sustainability in U.S. Hardwood Exports (4), and the FSC Risk Register (5). The issuing organisation should identify the consignment and species and enter the quantity and thickness (es) of lumber. Standard statements on the legality and sustainability of the U.S. species have been prepared by AHEC using the above sources. The issuing organisation should identify the consignment and species, enter the quantity and thickness of lumber, and choose the transport scenario most relevant for delivery to the customer. The issuing organisation may also add information on their own hardwood operations in the box provided.</p>			
Id. number(s) (6)	AHEP0012	Cross-refs (7)	Inv1234.NHLAK00099.APHISP1234.SCS_COC_02456
Issued by (8)	My Company Name Inc	Issued to (9)	My Customers Company Name GmbH, Germany
Description of product (10)	Sawn wood of ash HS 4407.95.00.00	Common name(s) (11)	American ash (sometimes termed as Northern ash and Southern ash by growing region)
Scientific name (12)	Fraxinus spp., inc Fraxinus nigra (black), pennsylvanica (green), americana (white).	Country of harvest (13)	USA
Sub-national region of harvest (14)	Eastern U.S. particularly Indiana, Kentucky, Maine, Mississippi, Minnesota, New York, Ohio, Pennsylvania, Tennessee & Wisconsin	Concession of harvest (15)	20% company lands, 80% multiple private forest owners
<p>List up to three thicknesses & specify the quantity per thickness making up the consignment in the section below.</p>			
	Thickness (inches)	Quantity (#)	Unit
Lumber 1	1	10	cubic meters
Lumber 2	2	8	cubic meters

Snow reminded the hardwood lumber producers and distributors that the most recent data from the U.S. Forest Service shows that the growth to removal for hardwoods is 2.4 to 1. Unfortunately, the data shows a great deal of tree mortality because of lack of harvesting.

“We could capture more than 100 million cubic meters of hardwoods by increasing harvesting to capture those trees that are dying,” Snow said.

State Temporarily Takes Control Of LUA

BOCA RATON, FL - Lumbermen's Underwriting Alliance (LUA) recently announced that the Company has entered into a Voluntary Order of Administrative Supervision with the Missouri Department of Insurance, which is the regulatory authority in the Company's state of domicile, as of February 27, 2015.

The Missouri Department of Insurance has appointed an Administrative Supervisor to oversee LUA's operations for the next 60 days, during which time a plan will be established for the Company. LUA has notified its subscribers, brokers and policyholders that the Company will continue to honor and manage all policyholder claims during this period.

"Throughout LUA's more than 110-year history, we have worked hard to build a reputation of integrity, trust and reliability," stated Jan Carlsson, President & Chief Executive Officer. "I want to assure the market that we are committed to remaining accessible and responsive to our policyholders during this voluntary supervision period and beyond."

LUA entered the supervision period because of a sudden and unanticipated Chapter 11 Bankruptcy filing by T.S. Employment Services, Inc., a Tri-State affiliated company with whom LUA has had a customer relationship for more than eight years. LUA provided workers compensation coverage for Tri-State, which offers payroll processing and revenue billing services as a Professional Employer Organization (PEO).

T.S. Employment Services went into bankruptcy when it was unveiled that the company had "material, unpaid federal payroll tax liability." Carlsson said that as a result of T.S. Employment's filing, "Tri-State's ability to continue to meet its financial obligations to LUA has been placed in question."

Lumbermen's Underwriting Alliance, founded in 1905, is a specialty commercial insurance company providing property and casualty coverage to the forest products industry, food processing sector, assisted living facilities and the Professional Employer Organizations.

The Insurance Marketplace in 2015

By Robin Little, BB&T Insurance National Forest Products Practice

The heavy forest products manufacturing insurance marketplace has shifted, but there's good news. You do have options.

Historically, a small group of insurance carriers specialized in writing policies for the forest products industry. The accounts stayed put or moved within this group of specialty carriers.

It has been clearly communicated that many of the specialty markets were hit hard with very large losses, mostly property losses resulting from fire. As a result, insurance carrier profitability went down, re-insurance costs skyrocketed, and carriers re-evaluated the conditions for participation in the forest products manufacturing niche.

These factors are driving the recent pricing correction in insurance for many sawmills and other heavy manufacturers. Some carriers have invoked strict limitations or left the forest products manufacturers marketplace. The property loss issues impacting insurance costs for the heavy forest products manufacturing segment is unique and differs from conditions within the general insurance market population, which remains a bit soft. Many operators are being blindsided by huge renewals, reductions in coverage, and in some cases non-renewals.

Several new programs in the standard as well as excess and surplus marketplace have recently been announced. There are new carriers planning to enter the forest products niche, which should provide needed options and competition for the heavy manufacturing space.

If you are considering a move away from the standard insurance marketplace, you may find some variation in the terms and conditions when compared to what you received in the past. These changes may significantly increase the amount of assets a manufacturer has at risk. Evaluate your risk threshold.

Ask your agent or broker to explain the pros and cons of terms being offered by any insurance program, before accepting the proposed offer of coverage.

HARDWOOD FEDERATION

by Dana Lee Cole, HF Executive Director

The Hardwood Federation Board of Directors welcomed new Appalachian Hardwood Manufacturers Association board representative Michael Hoover at their meeting in February. Steve Houseknect of Wagner Lumber stepped down after two years of outstanding service. While we will miss Steve's insight and guidance, we sincerely hope he will stay engaged in our efforts and continue to participate in Hardwood Federation meetings and events. We look forward to working with Mike!

As always, the Hardwood Federation Board of Directors meeting had a very full agenda, including not only sessions covering the general business and policy direction of the Federation, but also a series of meetings on Capitol Hill, this year focused on meeting with new members of the Senate as well as new Senate Committee Chairs. We were able to squeeze 21 meetings into just a few hours on the afternoon of Feb. 10, making important contacts with Senate offices and sharing personal stories about the hardwood industry from those that spend every day working in the industry.

Highlights of the Board meeting included a strong financial report from the Federation staff, an energetic discussion of plans to re-invigorate the Hardwood Federation Political Action Committee, and a review of the top policy issues as identified by a survey of hardwood business executives from across the country.

In January, Hardwood Federation staff sent out a survey asking hardwood industry leaders to rank federal policy issues according to how they impacted their bottom line. The survey clearly indicated that there are many issues of deep concern, but the top 3 issues are clear:

1. The potential listing of the Northern Long Eared Bat as endangered;
2. The management of federal forest lands and the lack of adequate timber harvest programs;
3. Regulatory issues including potential

AHMI Activities

Appalachian Hardwood Manufacturers, Inc. will attend / display at the following meetings and other events to promote members:

March 10-12: **Indiana Hardwood Lumber Association**, Indianapolis, IN

March 17: **Appalachian Lumbermen's Club**, Greensboro, NC

March 25-27: **Kentucky Forest Industries Association Annual Meeting**, Lexington, KY

March 29-April 1: **Interzum Guangzhou**, China

April 18-23: **High Point Furniture Market**, High Point, NC

April 20-21: **Furniture Market Wood Species Design Survey**, High Point, NC

April 28-May 1: **National Wood Flooring Association Convention**, St. Louis, MO

June 25-26: **AHEC Southeast Asia Convention**, Nanning, Guangxi, China

July 26-28: **AHMI Summer Conference**, The Williamsburg Lodge, Williamsburg, VA

Oct. 7-9: **NHLA Convention**, Nashville, TN

Oct. 17-22: **High Point Furniture Market**, High Point, NC

Oct. 19: **American Society of Furniture Designers**, High Point, NC

For more information, contact the AHMI office.

changes to the Clean Water Act and regulations regarding biomass.

Surveying the industry is a valuable tool as it helps us focus limited time and resources. However, we do not stop at three. The Hardwood Federation will continue to work on other federal policy matters, including exports, renewable energy, green building, defending the Lacey Act and tax reform; all issues that directly impact the health and sustainability of the hardwood industry.

If you would like to participate in future surveys or receive monthly updates from the Federation about the issues we are working on, please e-mail your request to Cary Moon at cary.moon@hardwoodfederation.com and we will add you to our list. As always, we thank each and every member of the AHMI for their support!