

Appalachian Hardwood *Sustainable & Legal*

Monthly newsletter of
Appalachian Hardwood Manufacturers, Inc.

February 2018



1928 - 2018

AHMI Introduces Certified Appalachian

Appalachian Hardwood Manufacturers, Inc. began a year-long celebration of its 90th Anniversary with the introduction of its Certified Appalachian Hardwood.

The program is the next phase of the successful Appalachian Hardwood Verified Sustainable and Legal campaigns that began in 2007. These verify member companies are adhering to voluntary standards adopted by the AHMI Board.

The Certified Appalachian program is audited by an independent group that will attest that participating companies have met newly adopted standards.

AHMI members will be able to certify the legality and sustainability of their logs, lumber or products.

"We have learned that environmental claims are still sought by consumers and they want evidence that you are doing what you say," said Tom Inman, AHMI president. "The AHMI Board is excited about helping member companies sell more products with this program."

The certification program will recognize the tremendous value the Appalachian brand has around the world. The program requires that logs and lumber:

- 1) originate in the AHMI region (344 counties in 12 states)
- 2) are sustainably managed and harvested based on USFS Forest Inventory Analysis
- 3) are legally purchased with new procurement forms for landowners/loggers/suppliers

AHMI member companies will be Certified Appalachian for Sustainability and Legality and audited every two years.



"The Board of Trustees believes the time is right to certify the companies that provide a sustainable and legal resource from the region," said Inman. "This program does that and we have a third-party making certain the requirements are met."

AHMI has contracted with an independent audit firm, Auditech & Associates. The company has reviewed the new standards and will begin certifying members in February.

Details and enrollment forms will be mailed to AHMI members in the next two weeks.

Annual Meeting Reports Inside

- High Earners Seek Better Quality
- AHMI Proceeds With Log Grading Rules
- ExIm Bank Has New Programs For Exports
- AHMI Elects New Officers, Trustees

The way I see it...

By Tom Inman, AHMI President

...90 years and counting!!

AHMI recently kicked off its year-long celebration of our 90th Anniversary at the JW Marriott in Marco Island, FL. The 2018 Annual Meeting was well-attended and members and guests heard exceptional business presentations and looked back at the past 90 years of AHMI and its leaders. (Most of the reports are included in this newsletter.)

On a historical note, the association was founded in October of 1928 by hardwood lumber producers in West Virginia and Ohio. They recognized the need for promotion of the unique qualities of the logs, lumber and products from the region.

I gave a report on the leaders who have made this happen for nine decades. These men and one woman have lead the promotion programs for Oak, Poplar, character marks, sustainability and legality that helped member companies sell products.

Appalachian became known for the highest quality lumber with "wider width and longer lengths," one advertisement read. "It always pays to demand Appalachian," another one states.

Today we are committed to the same mission: promoting the logs, lumber and products from the region. We introduced our Certified Appalachian at the meeting so buyers around the world can be assured the product they receive comes from the Appalachian region and an audit confirms it.

It is always interesting to do a review. You take time to consider the individuals and companies that have made a difference in the hardwood industry through their efforts in AHMI.

Take time to consider the thousands of meetings, conversations and ideas that have been completed to get where we are today. AND it doesn't stop here.

The AHMI Board has a list of projects and promotions for 2018 and beyond. I look forward to the future and the exciting things that we will accomplish together for the benefit of the forest and the people who own and manage it.

Wood Pro Expo Set For SE Manufacturers

The Woodworking Network plans the Wood Pro Expo in Charlotte, NC on Feb. 14-16. AHMI will exhibit in booth 129.

Registration is now open for the event, which will be held at the Charlotte Convention Center. WPE will feature industry education, an exhibit hall with operating machinery and leading wood products and supplies and focused networking opportunities.

Wood Pro Expo will attract buyers looking for business partners in the industry to a professional, productive supplier/manufacturer event. Launched in 2014 in Baltimore, the show moved in October 2017 to Lancaster, PA, and now moves to Charlotte. It returns to Lancaster in October 2018. Search Wood Pro Expo 2018 for details.

Exports To China Continue Up

The global export value of US hardwood to Southeast Asia and China has risen for the 11th straight month (YearoverYear) and also exceeded the value achieved in 2016 by 16.4%, according to the American Hardwood Export Council.

For the past 11 months, the global exports value of American hardwood rose 12% (YoY) and reached \$3.68 billion in which 61.2% was in Southeast Asia and China markets. These two gained 23.3% (YoY) and reached \$2.25 billion.

Exports to Greater China grew 25.3% (YoY) to \$1.95 billion in which Mainland China market was up 25.7% to \$1.92 billion. Exports to Southeast Asia rose 12.1% (YoY) to \$305 million in which Vietnam market grew at 16.4% to \$219 million.

The exports value of hardwood lumber, logs and veneer to Mainland China totaled \$1.39 billion (up 22% YoY), \$513 million (up 37% YoY) and \$7.86 million (declined 14% YoY) respectively.

Furniture Designer Says HENRYs Want Quality

Keynote speaker at the 2018 AHMI Annual Meeting was American Society of Furniture Designers President Catina Roscoe of Greensboro, NC, who spoke about the return to solid wood furniture in the past two years. Her company, Catina Unlimited Design, works with domestic manufacturers of dining room and bedrooms.

Roscoe said a recent survey of HENRYs (High Earner Not Rich Yet) young and middle-aged adults indicated that they want solid wood furniture that will last. The survey found these people delay purchases until they have saved money to buy better quality furniture.

The ASFD President has clients which include Amish manufacturers in Ohio and Indiana. She assists them by designing furniture for a wider audience. One dining group was a finalist in the prestigious Pinnacle Furniture Design awards in 2017.

Roscoe said medium and larger manufacturers are responding to the marketplace and designing more furniture with solid wood parts. She expects



Furniture Designer Catina Roscoe

the trend to continue.

"I see a tremendous opportunity for solid wood in our industry," she said. "If we can tell the story, the whole story, the story of solid wood, where it comes from, the sustainability of it, the natural, the organic nature of it, the authenticity, the integrity that it brings to product."

She said more manufacturers are recognizing that the U.S. consumers want solid wood. "They are getting back to something real, something tangible," Roscoe said.

"You are talking about sustainability and environmental concerns and all of those crazy stories that we hear from toxins and whatever from overseas," she said. "People are just looking for something more solid, more real, more authentic."

Roscoe said it is a tremendous opportunity with this younger consumer who is not looking for the luxury lifestyle of their parents.

"They have their own expression, they may live in smaller spaces, but they live big," Roscoe said. "They are all about the experience."

The AHMI Board of Trustees approved the 2018 Fall Meeting in conjunction with the High Point Furniture Market on Oct. 15-16. More details to be announced.



Roscoe's Aero group for Borkholder Furniture was an ASFD Pinnacle Award finalist.

AHMI Board Approves Log Grading Rules Plan

Appalachian Hardwood Manufacturers Inc. and the Appalachian Hardwood Research Center at West Virginia University have agreed to develop a log grading system to help sellers and buyers better understand the resource.

HRC's Curt Hassler spoke at the 2018 AHMI Annual Meeting and explained the initiative. It brings new standards for log grades that can be implemented by loggers, brokers and sawmills.

The AHMI Trustees approved a plan to partner with HRC to enlist a Rules Committee to develop the specifics and educate the hardwood industry. The Log Grading Rules should be in place by late summer.

Hassler said the industry uses an ad hoc log grading system that is based on scaling diameter, clear faces, and species. There are nuances that include admitting or excluding certain log lengths, end conditions, and position in tree.

"This has necessarily led to a cornucopia of log grading approaches at hardwood mills and makes it difficult to compare when looking at grades and prices among competing mills, buyers and sellers," he said.

The proposed log grading program would be designed to consistently identify logs at the yard or mill and then determine which grades are the most profitable. Hassler said it will allow sawmills to achieve the best mix of log grades for meeting customers needs.



Proposal would bring consistency to log grading throughout the industry

The system would be based on current industry practices and:

- use species, diameter, and clear faces
- assume the sawmill objective is to maximize the proportion of higher grade (select & better lumber) which is a significant departure from the USFS log grading system which focuses on Common and Better yields.

AHMI will establish a log grading rules committee to develop, maintain, and revise the rules. A program of workshops/training sessions would educate log graders. There are also plans to develop a core of national log inspectors for dispute resolution and training.

Scaling Diameter	Clear Sides				
	4	3	2	1	0
>=17"	Prime	Select	No. 1	No. 2	No. 2
16"	Select	No. 1	No. 1	No. 2	No. 3
15"	Select	No. 1	No. 2	No. 2	No. 3
14"	Select	No. 1	No. 2	No. 2	No. 3
13"	No. 1	No. 2	No. 2	No. 3	No. 3
12"	No. 2	No. 2	No. 3	No. 3	No. 3
11"	No. 2	No. 2	No. 3	No. 3	No. 3
10"	No. 3	No. 3	No. 3	No. 3	No. 3
<10"	No. 3	No. 3	No. 3	No. 3	No. 3

The new system would use nine diameter classes to represent the range of observed diameters...(>=17", 16", 15", 14", 13", 12", 11", 10", and <10").

The grade designations for the new system are: Prime; Select; No. 1; No. 2; and No. 3.

AHMI Trade Show / Meeting Activities

Appalachian Hardwood Manufacturers, Inc. will attend / display at the following meetings and other events to promote solid hardwood and AHMI member companies:

Feb. 6-8: **IHLA Convention**, Indianapolis, IN

Feb. 12-13: **Hardwood Federation**, Washington, DC

Feb. 14-16: **Wood Pro Expo**, Charlotte, NC

Feb. 28-March 1: **Ohio Forestry Association**, Dublin, OH

March 7-9: **NWPCA Annual Conference**, Fort Lauderdale, FL

March 13: **Appalachian Lumbermen's Club**, Greensboro, NC

March 21-23: **HMA National Conference**, Greenville, SC

April 11-14: **NWFA Flooring Expo**, Tampa, FL

April 14-18: **High Point Furniture Market**, High Point, NC

May 3-6: **Appalachian Lumbermen's Club**, Myrtle Beach, SC

May 18-19: **Expo Richmond**, Richmond, VA

June 21-22: **AHEC Asia Convention**, Xi'An Shaanxi, China

July 29-31: **AHMI Summer Conference**, The Homestead, Hot Springs, VA

Aug. 22-25: **International Woodworking Fair**, Atlanta, GA

Sept. 24: **Penn York Club Meeting**, State College, PA

Sept. 25: **Pennsylvania Forest Products Association Meeting**, State College, PA

Oct. 2-4: **NHLA Convention**, Toronto, Canada

Oct. 13-17: **High Point Furniture Market**, High Point, NC

Oct. 15-16: **AHMI Fall Meeting at the Furniture Market**, High Point, NC

Oct. 15: **ASFD Pinnacle Awards**, High Point, NC

Oct. 18-19: **Wood Pro Expo**, Lancaster, PA

Nov. 13: **ALC Meeting**, Johnson City, TN



Retiring Board Members

John Crites II (left) and Steve Hamer (right) receive thank you plaques from **Lowery Anderson** for their service to the **AHMI Board of Trustees**.

Mike Hincer and Mike Turman are not pictured.

AHMI Elects Officers

The members of Appalachian Hardwood Manufacturers, Inc. in attendance at the 2018 Annual Meeting elected new officers and trustees for 2018-19. They are:

Chairman: Lowery Anderson, Roy Anderson Hardwoods, KY

Immediate Past Chairman: Mike Hoover, Neff Lumber Mills, VA

Vice Chairman Elect: Jay Reese, Penn-Sylvan Inc., PA

Vice Chairman Finance Tony Honeycutt, Mullican Flooring, TN

Trustees:

Mel Yoder, Yoder Lumber Co., OH

Larry Thompson, T&S Hardwoods, NC

Tom Sheets, Blue Ridge Lumber, VA

John Foley, BPM Lumber Co., KY

Bryan Vernon, Inter-State Hardwoods, WV

Nick Ince, Walker Lumber Co., PA

Tim Parton, Gilkey Lumber Co., NC

Roy Zangari, Meadow River Lumber, WV

Brian Conklin, Gutchess Lumber Co., NY

Scott Cummings, Cummings Lumber, PA

The Associate Divisions will be represented by:

Distributor - Bill Joyce, Middle Tennessee Lumber

Forestry - Steve Harp, Pardee Resources

Consumer - Gat Caperton, Gat Creek Furniture

ExIm Bank Offers Capital, Insurance Programs

ExIm Bank's Regional Director Sharyn Koenig discussed new programs for 2018 from the export credit insurance provider at the 2018 Annual Meeting of AHMI.

ExIm helps US companies with the confidence necessary to enter new foreign markets and gain new customers, she said. It is the official export credit agency of the United States and is a self-sustaining department of the Executive Branch.

"We authorized more than \$2.6 billion in financing and insurance for the direct support of small business exporters last year," Koenig said. "Over 90 percent of our transactions directly supported U.S. small businesses and no company, no deal is too small."

She emphasized the Working Capital program that assists small and mid-size companies in obtaining financing to produce or purchase U.S. goods and services for export. It may be set up as "Transaction-Specific" or a "Revolving" Line of Credit with no minimum or maximum amounts, Koenig said.

The loan supports advances made against export-related inventory (including WIP) and foreign receivables.

ExIm Bank is known for its export credit insurance. It offers risk protection against non-payment by foreign buyers due to commercial and political circumstances. The tool allows exporters to offer



competitive credit terms to foreign buyers.

Koenig said exporters must be in business at least three years (unless otherwise noted), have financial statements or tax returns, have a DUNS number. For Working Capital and Short-Term insurance, exported products and services must be 50-plus% U.S. content, including labor, excluding mark-up (cost basis). For Medium-Term Insurance and Guarantees, exported products and services must be 85-plus% U.S. content, including labor, excluding mark-up (cost basis) for full support of the transaction.

When private sector lenders are unable or unwilling to provide financing, EXIM fills in the gap for American businesses by equipping them with the financing tools necessary to compete for global sales. In doing so, the Bank levels the playing field for U.S. goods and services going up against foreign competition in overseas markets, so that American companies can create more jobs.

AHMI Annual Sporting Winners

The winners of the AHMI Annual Meeting golf tournaments were:

Friday: Low gross-Webb Heintzelman; Low net-Lowery Anderson; Closest to the pin-Mike D'Angelo; Long drive-Mike D'Angelo

Saturday: low gross-John Crites; low net-Bill Reese

The winners of the AHMI Annual Meeting fishing tournament were:

Largest Fish – Cary Moon

Smallest fish – Steve Houseknecht

Most Fish – Tony Honeycutt

AHMI Dues & Guide Deadlines

HIGH POINT - Appalachian Hardwood Manufacturers, Inc. 2018 Membership Dues and Appalachian Hardwood Resource Guide are due NOW!

The dues are paid annually for members of the Distributor, Export, Consumer, Forestry and Supplier Divisions. The Producers pay monthly based on lumber production. (*Export membership is for Producers and Distributors in addition to dues.*)

The Resource Guide is distributed to thousands of lumber buyers and lists all AHMI members, facilities, equipment, and species. Please return your materials today. If you have questions, please contact the AHMI office at (336) 885-8315 or email to info@appalachianwood.org.

HF Reports On Tax Reform Impact On Industry

By Dana Lee Cole

Hardwood Federation Executive Director

Legislation comprehensively revising the Internal Revenue Code, something that has not been achieved since 1986, passed Congress and was signed by the President in the waning days of 2017.

At many points in the process, the legislative effort seemed like a long shot given the narrow margin of control that Republicans enjoy in the Senate and the fact that the measure lacked support from even a single Democrat. But Republican leadership in the Senate was able to assuage concerns of a handful of GOP Senators who had been on the fence and the Tax Cuts and Jobs Act passed with 51 votes.

While the 600-page bill addresses a wide range of disparate issues, the Hardwood Federation efforts were focused on the following areas. A word of caution though—while we have attempted to describe the relevant provisions and their potential effect on our sector, each company will be impacted in different ways based on your unique circumstances.

*We strongly urge you to consult with your tax planners and accountants as this new law moves into the implementation phase. *

S Corporations and Pass Throughs: The Tax Cuts and Jobs Act creates a 20 percent deduction for the non-wage portion of pass-through income. Senators Daines and Johnson had negotiated a 23 percent deduction during Senate negotiations, but this was ratcheted back to 20 percent, coupled with a lowering of the top individual rate to 37 percent. This blended approach creates an effective tax rate for these entities of 29.6 percent.

While this rate is higher than what was promised when leadership and the Administration offered their tax reform blue print back in September, it is certainly an improvement over the current treatment of these tax structures. One caveat—service industries are not eligible for the deduction, but that restriction should not affect our hardwood manufacturing facilities.

The 20 percent deduction is limited to the greater of 50% of a business's W-2 wages or 25% of a business's W-2 wages plus 2.5% of the unadjusted basis, immediately after acquisition, of all qualified property held in the qualified business for taxpayers with income over \$315,000 (married) or \$157,500 (individuals). The limitation is phased in over the next \$100,000 (married) of taxable income and \$50,000 (individuals).

§ Estate Tax: The final bill maintains the estate, gift, and generation-skipping transfer taxes (currently at a 40-percent tax rate). For estates of decedents dying and gifts made after 2017, the new law doubles the exemption for all three taxes from \$5,600,000 to \$11,200,000 per person. The gift and estate tax exemptions would remain unified, so any use of the gift tax exemption during one's lifetime would decrease the estate tax exemption available at death.

§ Net Operating Losses (NOLs): Current law generally permits a taxpayer to carry back a NOL two years and carry forward a NOL 20 years to offset taxable income. Effective for losses generated in tax years following 2017, the new law limits a taxpayer's ability to utilize its NOL deduction to 80 percent of taxable income (determined without regard to the deduction). Additionally, carrybacks of all NOLs arising in tax years after 2017 are eliminated and instead would permit all NOLs in this category to be carried forward indefinitely.

§ Expensing/cost recovery: The new law allows for 100 percent (up from 50 percent in existing law) expensing for investments in new and used property made after Sept. 27, 2017 and before January 1, 2023. A five-year phase down of full expensing begins in 2023.

§ Sec. 179 Expensing Limits: This benefit was made more robust by increasing the limit to
(See Tax Reform on page 8)

Tax Reform *from page 7*

\$1 million, with a phase-out beginning at \$20 million in total qualified property placed in service. The provision is expanded to include property used to furnish lodging and improvements to nonresidential real property including roofs, heating, ventilation and air-conditioning property, fire protection and alarm systems, and security systems.

§ **Business Interest Expense:** This new provision targets interest payments, which companies have been able to deduct from taxation. Under the new law, the amount of interest expense companies can deduct from their taxes is limited to 30 percent of EBITDA or earnings before interest, taxes, depreciation and amortization. This runs through 2021 after which the basis will be EBIT, or earnings before interest and taxes. EBIT is a more restrictive test and will likely increase taxes for companies with considerable depreciation or amortization.

§ **State and Local Property Tax Deductions:** The new law allows individual taxpayers to deduct for tax years beginning after 2017 up to \$10,000 for any combination of state and local income taxes, property taxes, and sales taxes.

§ **Corporate tax rate:** The final agreement settled on a 21 percent tax rate for C Corporations, a notch higher than the 20 percent rate in both the House and Senate-passed versions. The corporate alternative minimum tax or AMT is also repealed. Inclusion of AMT at a 20 percent rate in the Senate version threatened to undermine any benefits of a newly lowered 20 percent rate for C Corporations.

Also notable is that existing tax incentives for standing timber and reimbursement for refore-

tation costs were left alone by tax writers. Forest landowners were concerned that these incentives would be targeted to pay for comprehensive tax reform. This was an area that we covered during our fly-in and we are pleased with the fact that Congress recognized the benefits of these incentives to maintain the viability of our nation's working forests.

Finally, all of the renewable energy tax credits that made it into the House tax reform bill were stripped out in conference. Leadership has vowed to pursue a follow-up package of so-called "tax extenders" to address these credits. One of the proposals in the mix is the Biomass Thermal Utilization or BTU Act, which would provide an investment tax credit for installing residential and commercial biomass heating units that run on chips or pellets. The Hardwood Federation has been advocating for this proposal as a means of addressing our residuals issues.

In terms of follow-up legislative action to address the inevitable anomalies that will arise given the speed with which this bill was fashioned, we were originally thinking that a so-called "technical corrections" bill or bills would be pursued this year. However, in talking with House and Senate staff it appears that partisanship may preclude any technical corrections measures from proceeding through Congress.

This leaves the IRS in an interesting spot where it will have to be creative in interpreting many of the new law's provisions without more specific direction from Congress. Again, it will be important to discuss tax bill implications as they impact your company specifically with accounting professionals. As always we will on hand and will be providing updates as the nitty gritty of implementing the Tax Cuts and Jobs Act begins.

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Please follow us today and share our accounts with others in the hardwood industry to get our Solid Appalachian Hardwood message out.