



HARDWOOD LEADERS FORUM

Mid-Project Progress Report:

Hardwood Industry Vision, Goals, Barriers and Challenges

a project of

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HARDWOOD LEADERS FORUM Mid-Project Progress Report

Hardwood Industry Vision, Goals, Barriers and Challenges

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Executive Summary

On August 10-11, 2010, 77 hardwood industry leaders met in Charlotte, North Carolina, to identify a common vision for the future of the industry and identify the most pressing barriers and challenges to achieving that vision. The Hardwood Leaders Forum was sponsored by Hardwood Publishing Co., Inc. and jointly funded by a grant from the USDA Forest Service’s Wood Education and Resource Center and the S. H. Conger Foundation for Hardwood Marketing.

Participants represented 25 different hardwood industry segments—from nonindustrial private forestland owners to export brokers—and 24 different states. Their charge was to set aside past and current differences and focus instead on common challenges which, if addressed, would strengthen all or most hardwood industry segments.

Through pre-forum surveys and on-site deliberations, participants unanimously ratified a vision for the U.S. hardwood industry in 2020 and identified the 21 highest priority barriers to achieving that vision. The five highest priority barriers achieved 82% of the priority “votes,” indicating widespread support for these five as the industry’s most important.

Vision:

By 2020, American hardwoods will be known, valued, desired and selected by the global customer for their full breadth of environmental and consumer benefits.

The global public will have a positive perception of the American hardwood industry and American hardwood forest management.

American hardwood industries will be unified, profitable, sustainable and growing.

Highest Priority Industry Barriers:

1. “American Hardwoods” lack brand identity in the marketplace. All segments of the forest products industry—including architects, designers, secondary manufacturers, and dealers—have not worked together to promote a unified message about hardwoods.

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2. The public believes cutting trees is bad and does not understand the many benefits derived from well-managed forestlands. As a result, consumers purchase competing products believing they are doing the smart, eco-friendly thing. They fail to recognize the true costs of competing materials in terms of energy, waste, transportation, renewability, etc.
3. There is an absence of cooperation and collaboration between hardwood industry members to address major challenges, provide a unified voice, raise funds, and provide effective leadership.
4. The high costs of doing business (health insurance, wages, taxes, etc.) make U.S. hardwoods uncompetitive with other products, including imported wood, imported products, and non-wood substitutes.
5. The industry lacks resources to get its message out consistently and to campaign against anti-industry environmental messages in a timely manner. The industry's limited scale and financial resources constrain capacity to wage major promotional campaigns.

The Hardwood Leaders Forum accomplished its dual objective of 1) developing a common vision for the future, and 2) identifying and prioritizing cross-sector barriers and challenges to achieving that vision. Participants identified additional successes as well, including a better understanding of the issues and concerns of other hardwood industry sectors; a broadened sense of “hardwood industry;” and renewed unity and energy towards moving the industry forward.

A second forum will be held on December 7, 2010, to begin to identify next steps, actions and collaborative partnerships to address these and other high priority barriers to a stronger U.S. hardwood industry. Trade association, state/federal agency and university representatives will be invited to join industry members for this important second forum. Interested participants may contact Dan Meyer, Hardwood Publishing, (704) 944-2148 or dan@hardwoodreview.com for additional information.

Background

In February, 2010, Hardwood Publishing Co., Inc. (Hardwood Publishing) submitted a challenge grant proposal to the Wood Education and Resource Center (WERC), a program of the State and Private Forestry Division of the USDA Forest Service, for the conduct of two workshops to 1) identify cross-sector problems and unite the hardwood industry behind a common vision for the future, and 2) develop implementation strategies and next steps to return the hardwood industry to health and sustainability. On May 21, 2010, WERC awarded Hardwood Publishing Co., Inc. an \$80,000 grant to complete the project, the full amount requested. The first Hardwood Leaders Forum was held August 10-11, 2010, in Charlotte, NC. The second forum is scheduled for December 7, 2010. This report details the purpose and methodology of the project, the results of the first forum, and the strategies to be employed at the second forum and beyond.

Funding/Budget

In addition to the USDA Forest Service challenge grant, the S.H. Conger Foundation for Hardwood Marketing pledged \$39,954 in direct support, and forum participants are anticipated to contribute \$77,650 dollars of in-kind support to the project.

With a budgeted final cost of \$197,604, the hardwood industry is matching the federal grant funds at a ratio of 1.47:1, well above the 1:1 required industry match.

Statement of Need

The U.S. hardwood industry has been in steady decline since lumber production peaked in 1999. As much as half of all hardwood producing capacity has been dismantled or mothballed in a decade. Tens of thousands of jobs have been lost, families have been displaced, and rural economies crippled. Unlike previous boom-and-bust cycles in the primary and secondary hardwood sectors, the current downturn will not be followed by a naturally occurring rebound. The world has changed—from the globalization of trade to the greening of markets—and, the industry must find ways to change with it.

Since its inception, the American hardwood industry has remained a loosely organized, highly fragmented network of mostly small businesses disbursed along a complex supply chain from forest landowners to end-use manufacturers and exporters. Individually, members of the hardwood industry have little or no power to affect consumer demand, distribution channel efficiencies, market pricing, legislation, technology development, or public opinion. While trade associations have attempted to pool resources and energy, in the end, it remains a near-invisible industry, unable to position its products in the marketplace, unable to answer attacks levied by anti-industry interests, unable to sustain any sort of national marketing campaign, and unable even to compete for the environmental high-ground with inferior building products like bamboo, plastic, aluminum and steel.

Without cooperative, creative, strategic efforts by the industry, the U.S. hardwood sector is in danger of further marginalization—at a time when the environmental and economic value propositions offered by the industry and its products should have it leading all other building product sectors. The industry must develop a shared vision for the future, amass collective marketing power, leverage the momentum of the environmental movement, build a sustained legislative presence, and learn to speak with a unified voice.

Methodology

Pre-Forum Methodology

On March 1, 2010, Hardwood Publishing staff began inviting participants to the first Hardwood Leaders Forum. One hundred seventy potential participants were selected based on multiple criteria:

- Primary business type
- Geographic location
- Company size
- Staff knowledge of industry leaders

Because of the anticipated difficulties of facilitating consensus with a large, diverse group, attendance was capped at 75. Each potential participant was categorized by business type and geography, and invitations were made strategically to avoid excessive overrepresentation by any one group or groups. Hardwood Publishing staff called each candidate to explain the project and extend the invitation. When an invitation was declined, a “replacement” candidate was selected and invited. In total, it took five months to seat the final roster of 77 participants (Appendix A).

Of the 170 identified candidates, 130 were ultimately invited. Seventy-seven of these invitees committed to attend, 38 declined the invitation, 3 committed but later cancelled, and 12 did not respond to the invitation. Seventeen other contacted candidates did not return multiple phone calls and emails, and were thus not invited. Twenty-three potential candidates were not contacted at all because other candidates of similar geography and business types had already accepted invitations to participate.

Each invited participant was emailed an official letter of invitation, a one-page summary of the project, and a commitment form, outlining the expectations of each participant (Appendix B). In plain language, participants signed their commitment to 1) think big, think out side the box, and think beyond past industry limitations of manpower, creativity and funding; 2) work towards solutions and opportunities that will benefit all or most sectors of the hardwood industry; and 3) look at all ideas openly and critically, without undue deference to existing programs and projects with which they were familiar or vested.

On May 10, confirmed participants were emailed “State of the U.S. Hardwood Industry, 2010,” an 8-page “industry backgrounder” white paper written by Hardwood Publishing staff to familiarize participants with the general market conditions in 22 of the hardwood industry segments that would be represented at the Hardwood Leaders Forum (Appendix C). Participants secured after the initial mail date of this paper were also asked to read this paper prior to completing the pre-forum issues survey.

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One week later, on May 17, 2010, confirmed participants were asked to complete a five-question survey about their vision for the hardwood industry in 2020, the barriers and challenges they saw to achieving that vision, and specific opportunities they saw for expanding their businesses and the hardwood industry as a whole (Appendix D). Participants were given 30 days to complete the survey. In total, 60 participants completed and returned all or part of the survey. Some of those that did not return the survey said they didn't have time. Others were not confirmed as participants before the survey return deadline.

The May 7, 2010, feature article in Hardwood Publishing's *Weekly Hardwood Review* also invited industry members at-large to identify and submit pressing problems facing the industry.

Participants submitted over 600 individual comments about industry barriers and challenges. Hardwood Publishing staff categorized each comment, eliminated direct duplicates and paraphrased similar comments and thoughts. In the end, 282 unique barriers and challenges were identified by the participants, which Hardwood publishing grouped into 27 subject areas (plus one group of miscellaneous barriers) under 7 major themes.

From the participants' vision and goals feedback on the pre-forum survey, Hardwood Publishing staff wrote a draft vision for the industry, along with five supporting general goals and 24 specific goals.

On July 27, 2010, two weeks prior to the start of the Hardwood Leaders Forum in Charlotte, Hardwood Publishing emailed the participants the draft vision and goals (Appendix E) and the categorized list of 282 identified barriers and challenges (Appendix F), with instructions to review the materials in advance of the forum. Each barrier and challenge was identified with a number from 1 through 282, and those identifying numbers were retained throughout the deliberation and prioritization process as an easy way to reference particular barriers.

Prior to the start of the forum, Hardwood Publishing staff reviewed the pre-forum survey responses of each participant and identified which of the seven major themes each participant commented about, and which, if any, appeared to be of central concern to each participant. Each of the major themes was addressed by a separate breakout session, with four breakouts occurring concurrently in the morning of the first day of the forum, and three during the afternoon. Each participant was assigned to two breakout sessions. For the 60 participants that returned surveys, every attempt was made to place participants in the thematic areas of most importance. The remaining participants were assigned to breakout sessions in such a way as to maintain a broad diversity of business types within each breakout session discussion. Breakout session rosters are shown in Appendix G.

On-Site Forum Methodology

Hardwood Publishing contracted with Innovative Natural Resource Solutions LLC (INRS) to design the pre-forum survey and facilitate the on-site forum. INRS President Charles Levesque and VP Eric Kingsley subcontracted two additional facilitators: Dr. Rubin Shmulsky, head of the

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Department of Forest Products, Mississippi State University; and Dr. Joseph McNeel, director of the Division of Forestry and Natural Resources at West Virginia University.

On the first morning of the Hardwood Leaders Forum, Levesque facilitated several hours of discussion and editing of the draft vision statement and supporting goals. Consensus was sought for each proposed change, and an 80% threshold was utilized to support changes that were not unanimously endorsed. In the end, the final vision statement was unanimously agreed to be a vision statement “everybody could live with.”

An identical process was conducted to edit and ratify five goals that support the vision and will give guidance to any projects or programs seeking to advance the industry’s vision. The participants agreed to table any in-depth discussions and any decisions about the 24 sub-goals, but include them in an appendix of the final report (Appendix E). There was consensus that discussions about those 24 goals could last for many hours, and also the sense that the goals were in many cases re-statements of the barriers and challenges that would be discussed at length in the breakout sessions.

At the conclusion of the plenary session to set the vision and goals, participants broke out into the first four breakout sessions. Each breakout session was facilitated by Charles Levesque, Eric Kingsley, or one of their subcontracted facilitators. Hardwood Publishing staff served as recorders.

Participants worked for two hours in each breakout session to refine, amend, delete and add to the preliminary list of barriers that came out of the pre-forum survey (Appendix F).

Once the list of barriers and challenges in each breakout session was determined by the participants to be complete, each participant was issued three voting stickers and instructed to “vote” for the most important barriers and challenges on the list. Participants were allowed to vote multiple times for the same issue, or to spread their votes across multiple issues. Following the preference voting, the group further discussed the outcomes to reach consensus on the priorities for the group. The full results of each breakout session’s voting are found in Appendices H and I. Appendix H shows the priority ranking of all barriers and challenges within each thematic area that received at least one vote. Appendix I shows the barriers and challenges that were suggested in the pre-forum survey or on-site, but received no votes.

On the second day, the full group reconvened to determine the highest priority barriers and challenges overall. The identifying numbers of all barriers and challenges that received at least one vote in the breakout sessions were listed on flip chart paper and posted at the front of the conference room. In total, 105 barriers and challenges made it through to these second-day deliberations (as listed in Appendix H). Participants were again free to add new challenges, or revisit additional challenges from the breakout sessions that did not receive any votes on the first day, but no additions were made to the list of 105.

A period of open discussion was facilitated and participants were invited to share their single most important barrier and explain why. Anticipating a second vote, there were several

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movements to combine similar barriers and challenges so as not to “spread the vote” and allow secondarily important challenges to rise to the top. After much debate, however, there was insufficient support (again using the 80% approval threshold) for combining any of the items and they were each voted on individually. More will be said about linkages between the priority barriers and challenges in the analysis of the results.

After the final round of voting, additional discussion was had about whether the group felt the voting results accurately represented the priority barriers and challenges. After some discussion about the rank order of the top priorities, all participants agreed they could “live with” the results.

Results

Hardwood Industry Vision

Day one of the Hardwood Leaders Forum began with a full-group discussion of a draft vision and goals statement written by Hardwood Publishing staff, which attempted to capture all of the vision ideas submitted by the participants in a pre-forum survey. The final vision (right) was agreed upon by all participants:

| Draft Vision | Final Vision |
|---|--|
| <p>By 2020,</p> <ul style="list-style-type: none">• American hardwoods will be the preferred building material above all competing substitutes. American hardwoods will be known, valued and desired by the global consumer for their full breadth of environmental and consumer benefits.• The global public will have a positively transformed perception of the American hardwood industry and American hardwood forestry.• Primary and secondary American hardwood industries will be revitalized, profitable, sustainable and growing. | <p>By 2020,</p> <ul style="list-style-type: none">• American hardwoods will be known, valued, desired and selected by the global customer for their full breadth of environmental and consumer benefits.• The global public will have a positive perception of the American hardwood industry and American hardwood forest management.• American hardwood industries will be unified, profitable, sustainable and growing. |

After several hours of deliberation, every word in the ratified vision statement is intentional and packed with meaning. The first bullet speaks to enhanced consumer perceptions of hardwood products. The second, to improved public perceptions of the hardwood industry and its stewardship of the forest. The third, to the health and performance of the industry itself.

“American,” as utilized in the vision and defined by the group, means “U.S.” The participants decided to retain the word “American” because “American Hardwoods” already has some brand awareness around the globe. The group strongly agreed that this effort needed to be about

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benefiting the U.S. hardwood industry, which means anyone buying or selling hardwoods of U.S. origin, or selling products and services to the diverse U.S. hardwood supply chain. That includes lenders, equipment manufacturers, importers, consultants, etc.

That American hardwoods will be “known, valued, desired and selected” recognizes the multiple steps between communicating an effective message and affecting consumer behavior. The public must *know* the benefits of American hardwoods; *value* those benefits over the benefits offered by competing products; *desire* those benefits in the products they buy; and then make the choice to *select* (buy) American hardwood products because of their benefits.

In bullet two, industry leaders address the dual need to educate the public about the industry and about the sustainable management of the American hardwood resource. In fact, by day two, reversing the negative public images of our industry and forest management emerged as one of the major challenges facing the industry.

Finally, the third bullet envisions an industry with less fragmentation and more cooperation towards common objectives. By 2020, participants see an industry that has returned to profitability and that can sustain that profitability despite the internal and external forces working against it. And, largely through successes in the first two bullets, they see American hardwoods growing in global market share and overall utilization.

Supporting Goals

Participants also adopted five supporting goals that will serve as guidelines towards achieving the vision. Projects and programs that arise out of or generate support from the Hardwood Leaders Forum should address one or more of these goals:

1. Improve consumer perceptions of American hardwoods.
2. Improve public perceptions of American hardwood forest management.
3. Improve public perceptions of American hardwood industry.
4. Improve domestic and global business environment for American hardwood firms and landowners.
5. Increase cooperation and collaboration within the American hardwood industry and hardwood users (within the bounds of anti-trust laws).

Priority Barriers and Challenges

Of the 105 barriers and challenges voted out of the first day’s breakout session for deliberation on the second day, 21 received votes at the conclusion of the second day’s deliberations. They are shown here in rank order with the number and percentage of votes (of 221 total votes). The number in parentheses adjacent the rank number is the original identification number of the problem. Additional details about breakout session voting on these 21 barriers are found in Appendix J:

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- 1 (106) “American Hardwoods” lack brand identity in the marketplace. There is little distinction in the consumer’s mind between U.S. hardwoods and other hardwoods. Industry lacks a brand that can be attached to its product and used in promoting hardwoods to the consumer; a brand consumers will recognize on hearing or seeing in print. All segments of the forest products industry—including architects, designers, secondary manufacturers, and dealers—have not worked together to promote a unified message about hardwoods (62 votes, 28.1%).
- 2 (151) The public believes cutting trees is bad. There is a lack of understanding in the general public about the many benefits derived from well-managed forestlands. The widespread public perception—fueled in part by environmental NGOs and the media—is that American timber and forest management practices are unsustainable and that forests are disappearing. As a result, consumers purchase competing products believing they are doing the smart, eco-friendly thing. They fail to recognize the true costs of competing materials in terms of energy, waste, transportation, renewability, etc. (55 votes, 24.9%).
- 3 (402) There is an absence of cooperation and collaboration between hardwood industry members (from landowners through secondary manufacturers) to address major challenges, provide a unified voice, raise funds, and provide effective leadership (33 votes, 14.9%).
- 4 (93) The high costs of doing business (health insurance, wages, taxes, etc.) make U.S. hardwoods uncompetitive with other products, including imported wood, imported products, and non-wood substitutes (17 votes, 7.7%).
- 5 (156) The industry lacks resources to get its message out consistently and to campaign against anti-industry environmental messages in a timely manner. The industry’s limited scale and financial resources constrain capacity to wage major promotional campaigns (14 votes, 6.3%).
- 6 (130) Despite having the historic data to do it, the USDA Forest Service has failed to certify as sustainable all U.S. hardwood forests and timberlands (public and private) (8 votes, 3.6%).
- 7 (401) Trade associations and industry are not providing enough funding for promotions (6 votes, 2.7%).
- 8 (5) The American consumer lacks financial health and economic confidence (5 votes, 2.3%).
- 9 (231) There is a lack of certified loggers. Logging provides low paying jobs, attracting mostly unskilled and untrained workers (4 votes, 1.8%).

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- 10 (186) Institutional memory; i.e. failure to employ new strategies to break reliance on historic business models (2 votes, 0.9%).
- 11 (265) We are a financially weakened industry facing insufficient availability of credit and lack of working capital (2 votes, 0.9%).
- 12 (134) LEED and most international green building standards fail to recognize all the positive attributes of wood and ignore life cycle analyses of all the competing materials to wood (2 votes, 0.9%).
- 13 (78) Burdensome regulations: OSHA, state BMPs, immigration, health care, trucking, emissions, wood dust, workers comp, employee benefit mandates, fuel taxes (2 votes, 0.9%).
- 14 (909) Tax policies force landowners to cut timber or convert land in order to pay taxes (1 vote, 0.5%).
- 15 (400) Trade associations and industry members are not providing enough funding to effectively monitor/influence federal and state legislative/regulatory issues (1 vote, 0.5%).
- 16 (305) Availability of commercial working capital (1 vote, 0.5%).
- 17* (108) Consumers have lost an appreciation for solid wood products. Fewer people understand the difference between real wood and its many faux substitutes. We haven't told them why they should value solid wood, and North American hardwoods in particular, thus our cast-off society prefers quick and cheap over long-lasting quality, and we lose market share to less expensive and less sustainable alternatives worldwide (1 vote, 0.5%).
- 17* (601) Lack of voluntary funding makes marketing difficult (1 vote, 0.5%).
- 19 (41) Government regulations/mandates make U.S. primary and secondary wood processors non-competitive in the global market. We need to draw manufacturers home and allow them to compete on an equal keel (1 vote, 0.5%).
- 20* (77) Inheritance tax policies must be stabilized and improved so that timberlands aren't lost in generational ownership transfers (1 vote, 0.5%).
- 20* (263) Banks won't lend to our industry. We're painted with the same red brush as housing-related industries (1 vote, 0.5%).

**Ranking is determined first by the number of second-day votes, and where tied, by the number of votes received during the first-day breakout sessions. Those marked with an asterisk were tied in both votes.*

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At the highest level, these priority barriers address the needs for better hardwood promotion; better public education about hardwoods and hardwood forestry; a healthier business environment; and funding to do all three. “Better” in the context of hardwood promotion and public education embodies the many enhancements participants desired in these important areas, including unified, coordinated, credible messages delivered to multiple, international audiences with creative and effective methods.

Notice that the five highest priority barriers are in close alignment with the three-part vision for the industry’s future. Barriers #1 and #5 beg for better promotion of hardwoods and hardwood products. Barrier #2 speaks to public perception problems about hardwood forestry and the environmental value of hardwood products over competing substitutes. Barriers #3-#5 address the health, competitiveness and profitability of the industry. If the industry and its allies can successfully address these and associated barriers over the next ten years, the vision will be met.

There was significant discussion about whether to combine certain items because they describe similar problems. Some participants argued that Barriers #2 and #5, for example, were one in the same. Others argued that #2 speaks to an image problem while #5 speaks to a funding problem; related but distinctly different problems. In the end, there was insufficient support to combine any of the problem statements and they were voted on independently. However, the end-user of these results can clearly see that both are of high priority whether or not they are related.

Considerable discussion also surrounded the issue of funding for programs to address high-priority barriers. Funding is specifically addressed in Barriers #3, #5 and several others, but the issue of funding was discussed in every breakout and large group session. For many participants, developing significant new funding sources is paramount to any success in advancing the hardwood industry. That is, without significant funding infusions, very few of the problems identified by forum participants can be adequately addressed. This reality will be a key focus of the second forum.

Additional Successes

The unanimous endorsement of the vision, goals, and the priority ranking of barriers and challenges indicates the Hardwood Leaders Forum accomplished its dual objective of 1) uniting the industry around a common vision for the future, and 2) identifying and prioritizing cross-sector barriers and challenges to achieving that vision. However, feedback from participants and Hardwood Publishing staff observations suggest additional success were achieved for the industry.

Understanding

One of the recurring themes heard at the conference was frustration over the industry’s lack of cooperation and collaboration. Whether the root cause is the fragmented nature of the industry, the stubborn independence of hardwood entrepreneurs, or turf battles between trade associations—a few of many causes offered by participants—the problem was discussed in most

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breakout sessions. It is also embedded in the third bullet of the vision statement, and is central to Barrier #3. The Hardwood Leaders Forum was a good first step towards increased cooperation. Nonindustrial private forestland owners had a forum to share their concerns with sawmills. Secondary manufacturers told us it was the first time they had a chance to express their concerns with primary producers and lumber suppliers. For those in attendance—all leaders in their respective industry segments—great strides were made towards understanding one another’s businesses and issues.

Broadened Concept of “Industry”

For many of the participants, the concept of the “American hardwood industry” was broadened. Nonindustrial private landowners, loggers, lenders, service providers, equipment manufacturers, and importers sat down with primary producers, wholesalers, exporters, and secondary manufacturers to seek solutions for the common good. A service supplier said this was the first time he’d ever been asked to be a part of a visioning process for the “hardwood industry,” even though he has long been an integral part of it. Such collaboration promotes recognition that none of the segments of the hardwood supply chain can succeed for very long unless the other segments do also.

New Sense of Unity

While there were many points on which participants had to agree to disagree, there was an overwhelming sense of “we’re all in this together.” As one participant noted, “This meeting wouldn’t have worked three years ago, but these difficult times have changed us.” Talks didn’t break down over disagreements. Nobody walked out of the process in protest. Everybody had a chance to voice their opinions and even participants in industry sectors that were somewhat underrepresented said they valued the process and felt they were able to make their voices heard.

Towards Solutions

A final success we will claim for the Hardwood Leaders Forum is in the amount of energy participants generated towards finding solutions to the high-priority problems. During each of the seven breakout sessions, participants were given time to brainstorm solutions (Appendix K). Even as the formal business of the forum concluded early on the second day, participants elected to stay and share initiatives that are already in existence or in development that may address some of the high priority barriers.

The “solutions” forum is currently scheduled for December 7 at the USDA Forest Service’s Wood Education and Resource Center in Princeton, WV. However, because of the high rate of interest expressed by participants in the first forum in attending the second, and the quickly growing list of invitees, it is likely that we will need to select a larger venue in a city more easily accessible by air travelers, most likely Charlotte, NC. Details of the structure and agenda for this second forum are still in development, but its four-fold purpose will be to

- Bring together industry members and practitioners who can help the industry achieve its vision (including academia, trade associations, legislators, bankers, NGOs, and federal and state agency representatives);

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- Identify short and long-term goals to achieve the vision (beyond the broad goals ratified at the first forum);
- Identify strategies and actions (programs, funding mechanisms, coalitions, etc.) for goal attainment;
- Establish task groups and identify leadership to follow through on next steps.

For information and an invitation to participate in the December forum, please contact

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Special Thanks

Hardwood Publishing extends its special thanks to the participants of the Hardwood Leaders Forum. Its success is the direct result of their enthusiastic participation. They invested a great deal of time before and during the forum for the benefit of the industry, and paid their own expenses to attend. Based on their commitment, energy and drive to forge solutions, the U.S. hardwood industry can look forward with renewed confidence in a brighter future for the American hardwood industry.

Hardwood Publishing would also like to thank the primary direct funders of this project: the USDA Forest Service's Wood Education and Resource Center and the S.H. Conger Foundation for Hardwood Marketing.

And a final thanks to facilitators Charles Levesque, Eric Kingsley, Dr. Rubin Shmulsky and Dr. Joe McNeel, who did a masterful job of facilitating a meeting that was, by design, a difficult meeting to facilitate.



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Appendices

a project of

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APPENDIX A: Participants

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APPENDIX B: Invitation Packet



Post Office Box 471307 • Charlotte, North Carolina 28247-1307
Tel: 800.638.7206/704.543.4408 • Fax: 800.444.2230/704.543.4411

March 1, 2010

Hardwood Leader,

Please accept my personal invitation to participate in an important workshop of hardwood industry leaders this August. We are bringing together innovative, entrepreneurial, representative leaders from across the hardwood distribution chain to develop a unified vision for a healthier hardwood industry, and a better understanding of the barriers to achieving that vision. Please plan to join the dialog in Charlotte on August 10 and 11.

I have attached a summary of the purpose and objectives of this day-and-a-half workshop, as well as our expectations for industry participants both before and during the workshop. In a nutshell, I am asking you, for two days, to set aside allegiances to your particular industry sector and work toward ideas that will elevate all sectors. My deep concern for this industry and my many good friends in it, is that, if we don't begin to work together towards common goals, our industry will continue to falter, even after the general economy recovers. Our best chance for sustained long-term success is to collectively take back some control of our destiny... and no company or sector can achieve that alone.

The results of our August deliberations will be carried in December to a second workshop of trade association executives, academicians, state and federal agency representatives, legislators, etc.—the “practitioners” who can create, deliver and fund the programs to overcome the barriers and achieve the collective hardwood industry vision.

Please review the attached summary and return the commitment form by April 30. Attendance is limited to 75 industry leaders, and is by invitation only. If you know you are unable to attend, please respond as quickly as possible to give me ample time to find an alternate to fill your seat.

Sincerely,

A handwritten signature in black ink that reads 'George B. Barrett'. The signature is fluid and cursive, with a long horizontal stroke at the end.

George B. Barrett,
Owner & Publisher

APPENDIX B: Invitation Packet

HARDWOOD LEADERS: GROWING A GREATER HARDWOOD INDUSTRY

A workshop to prioritize industry threats and opportunities, and unite the hardwood industry around a common vision for a stronger future.

August 10-11, 2010

**Renaissance Charlotte SouthPark Hotel
Charlotte, North Carolina**

Hosted By: Hardwood Publishing Company, Inc.

Sponsored By: ♦ A grant from the Wood Education and Resource Center, Northeastern Area State and Private Forestry, Forest Service, U.S. Department of Agriculture (pending)

♦ S H Conger Foundation for Hardwood Marketing

The Project: Notwithstanding recent supply driven price increases, the U.S. hardwood industry remains in an extended period of decline. U.S. hardwood forests are grossly underutilized and as much as half of the nation's peak hardwood lumber manufacturing capacity has been idled. This is not just the deepest recession the hardwood industry has ever faced, it is also unprecedented in nature. The hardwood business cycles of old are gone and there is no automatic recovery on the horizon this time. We will neither bounce back nor be able to sustain a healthy hardwood industry without a concerted industry-wide effort. It is time for the hardwood industry to mount a collective strategic response to the challenges it faces.

This project involves two workshops to 1) identify cross-sector threats/opportunities and unite the hardwood industry behind a common vision for the future, and 2) develop implementation strategies and next steps to return the hardwood industry to health and sustainability. You are being invited to the first workshop.

The first workshop will be professionally facilitated and the resulting vision and priority report will serve as the foundational basis on which strategies and programs are developed at the second workshop.

Your Role: Participation in this workshop is by invitation only. Invited participants are well-respect industry leaders representing every hardwood region and the entire span of the hardwood supply chain—from nonindustrial timberland owners to end-use manufacturers and exporters. For this two-day workshop, however, all participants must commit to seeking common ground, a common vision and a deeper understanding of critical issues facing the U.S. hardwood industry.

APPENDIX B: Invitation Packet

COMMITMENT FORM

HARDWOOD LEADERS: GROWING A GREATER HARDWOOD INDUSTRY

Participation in the Hardwood Leaders workshop is limited to 75 individuals and each has been selected to be representative of one or more industry sectors and regions. We are asking for a significant investment of your time and resources, and need to secure your commitment to making these investments in advance. Please review the following expectations carefully, sign, and return this form no later than July 2, 2010. If you are unable to make this commitment, please return this form as quickly as possible so that we may seek an alternate to fill your seat.

Time Commitment

- Complete a written survey regarding industry issues and concerns in advance of the workshop.
- Be available to speak by telephone to a professional facilitator prior to the workshop regarding industry issues and concerns, if deemed necessary (not all will be called).
- Attend full-day workshop August 10 and half-day workshop August 11, 2010, in Charlotte, NC. Please do not commit unless you can participate both days.

Financial Commitment

- Travel and lodging expenses. We have secured a room rate of \$109 plus tax. Participants will make their own reservations (details will follow). One-way taxi from airport is approximately \$20.
- Evening meals and incidentals not provided by the conference. Continental breakfast, lunch and breaks will be provided both days.

Personal Commitment

- I commit to thinking big, thinking outside the box, and thinking beyond past industry limitations of manpower, creativity and funding.
- I commit to working towards solutions and opportunities that will benefit all or most sectors of the hardwood industry.
- I commit to looking at all ideas openly and critically, without undue deference to existing programs and projects with which I am familiar or vested.

- Yes, count me in! Send me details about how to make my hotel reservation.
- No, I cannot commit to participate in this meeting. Please select an alternate to fill my seat.

Name: _____

Company: _____

FAX TO: 866-251-4045

The *Hardwood Leaders: Growing a Greater Hardwood Industry* workshop is partially funded by a grant from the Wood Education and Resource Center, Northeastern Area State and Private Forestry, Forest Service, U.S. Department of Agriculture, and the S H Conger Foundation for Hardwood Marketing.

State of the U.S. Hardwood Industry, 2010

**A Background Paper
Prepared for Participants
Of the
Hardwood Leaders Forum**



APPENDIX C: Industry Backgrounder: State of the U.S. Hardwood Industry, 2010

State of the U.S. Hardwood Industry, 2010

A Background Paper Prepared for Participants in the Hardwood Leaders Forum

Preface

Thank you for agreeing to participate in a strategic forum of hardwood leaders on August 10-11. Titled, “Hardwood Leaders: Growing a Greater Hardwood Industry,” this forum will seek three primary outcomes:

- A concrete vision for a stronger hardwood industry;
- A detailed understanding and prioritization of the barriers/challenges that must be overcome to achieve the vision;
- A brainstormed list of possible solutions/actions/strategies to address the barriers and challenges identified.

To maximize the potential for achieving these outcomes, we are asking all participants to read this background briefing paper on the state of the hardwood industry in order to assure that all participants have the same general grounding in the status of the various industry sectors. It is important that you read this background paper *before* you complete the issues survey that will be emailed to you next week. Please note that it is not critical that you agree with everything you read in this paper. It is simply our best attempt to outline the current state of the hardwood industry and the issues facing its various sectors.

You will note that we have principally described the current state and recent history of the various markets, without too much attention to the causes; that will be the work of the on-site forum.

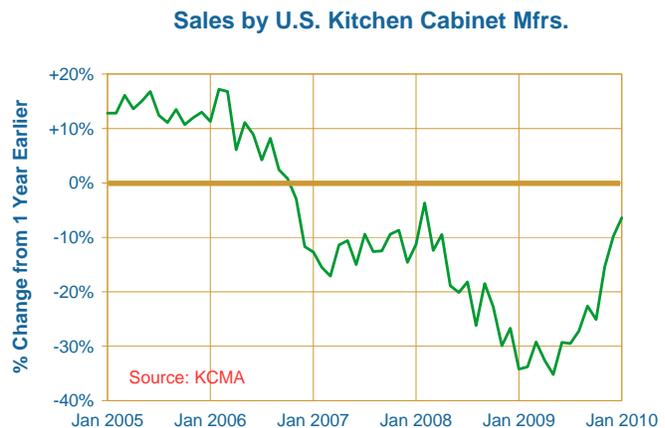
State of the Industry, By Sector

Banking Industry

The poor financial performance of the wood products sector over the last several years has made lenders increasingly hesitant to extend credit, even to companies with strong track records. Some lenders have quit the industry altogether after being burned by defaults. Others have raised underwriting standards and expanded due diligence processes. They are asking for more documentation of returns on investments and future profit potential, and are requiring credit lines to be secured by receivables and inventory rather than machinery and other physical assets that may prove difficult to sell.

Cabinet Industry

Two thousand and nine marked the third consecutive year of declining kitchen cabinet sales. According to the Kitchen Cabinet Manufacturers Association, sales



APPENDIX C: Industry Backgrounder: State of the U.S. Hardwood Industry, 2010

were down about 50% from the 2006 peak, although major manufacturers surveyed by Hardwood Publishing noted declines of up to 70%. Cabinet demand has stabilized, and most manufacturers expect total 2010 sales to be even with or slightly ahead of last year.

Concentration Yards

Many concentration yards went from having too much kiln-dried lumber in the late summer of 2009 to having not nearly enough in the spring of 2010. Although exports to the Far East had started to climb, initial shortages were primarily driven by ultra-low production. Some domestic buyers have since come off the sidelines to restock and prevent outages amid tightening supplies. Concentration yards have had to pay significantly higher prices for green lumber since Q3 2009, but, to date, kiln-dried prices have increased at about the same rate.

Distribution Yards

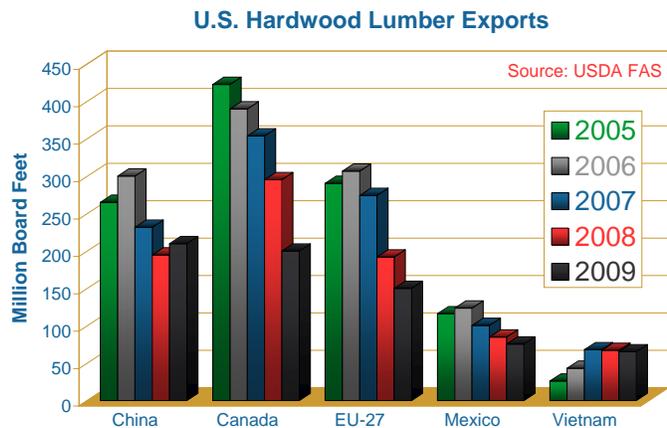
The downturn in housing and remodeling activity severely impacted distribution yards in 2008 and 2009, particularly in areas registering the sharpest declines in home sales and sale prices, such as Southern California, Florida, Arizona and Nevada. Many multi-branch distribution companies closed locations. Distributors noted smaller order sizes, slower customer payments and heavier competition from reload centers. Improvement has been slow to come to the distribution sector in 2010 due to its reliance on faltering commercial construction markets.

Equipment & Service Suppliers

As markets for lumber and value-added wood products weakened, hardwood producers and end-users postponed or cancelled expansion plans, lengthened maintenance intervals, and purchased fewer goods and services. Suppliers of kilns, machinery, rolling stock, trucks, tally devices, banding, chemicals, insurance, transportation, and a host of other goods and services saw business declines and downsized accordingly. Some of these vendors had diversified into foreign markets prior to the decline, which helped them weather the storm. With hardwood industry profits showing modest improvement of late, some companies are going ahead with much-needed maintenance/replacement of dry kilns, forklifts and trucks. Large machinery purchases remain rare, however, and lack of working capital is still problematic.

Lumber Exports

U.S. hardwood lumber exports fell to a 22-year low of 801 million board feet (MMBF) in 2009, 40% below the 2006 peak. However, shipments increased during four of the last five months of 2009, and momentum carried into 2010. Exports were nearly 50% higher in Jan/Feb 2010 than in Jan/Feb 2009, including year-over-year gains of 144% to China and 162% to Vietnam. China’s expanding domestic consumption accounted for most of its growth. Unfavorable exchange rates, higher lumber prices, the Greek fiscal crisis and surging container costs have hurt European



APPENDIX C: Industry Backgrounder: State of the U.S. Hardwood Industry, 2010

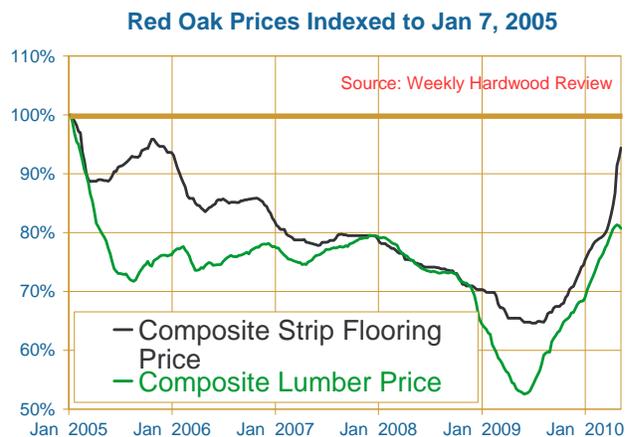
purchasing. U.S. hardwood log exports to Canada were down 25% through February, but shipments to other destinations were up 22%. Container shipping costs from the U.S. to overseas destinations have climbed sharply since last fall.

Family Forest Owners

As timber prices fell during the recession of the last two years, timber sales by family forest owners fell sharply. Increased sawmill demand in the last six months—as production has ramped up amid short supplies—has pushed timber prices up and brought more family forest owners back into the market. Higher demand and prices for energy-related wood, usually a by-product of log sales, has provided additional income to this sector of timberland owners.

Flooring Industry

Recent trends in residential hardwood flooring markets seem to be tracking with hardwood lumber. That is, sales have increased for some flooring manufacturers largely because others have closed or scaled back production. Tighter supplies have also fueled price increases, both for flooring and for 4/4 common-grade Red Oak and White Oak. Lumber availability is currently holding flooring production below producers’ desired levels. Domestic flooring manufacturers may be vulnerable to imports, which have been climbing over the last several months, particularly from China.



Forestry Consultants

Declining timber values curtailed the volume of timber put up for sale over the last two years, significantly impacting business for consulting foresters. Many advised landowners not to sell until values rebounded; some tried to generate sales regardless. Values have started to climb in many areas over the last six months, due in part to log shortages at sawmills and other wood products manufacturing plants. This has led to modest increases in timber sales for consulting foresters.

Fuel/Fiber Producers

Expanded production of wood pellets and other biofuels have turned sawdust and other residuals from unwanted stepchildren into prized possessions in recent years. Sharp reductions in lumber and value-added wood products output further tightened residual supplies. The Biomass Crop Assistance Program temporarily provided matching payments to sawmills and other residue producers before protests by a variety of groups and a federal rulemaking process put the program on hold until later this year when final rules are issued. Regardless, biomass production seems to be gaining momentum because policies in the U.S. and several other countries require more and more energy production to be derived from renewable resources.

APPENDIX C: Industry Backgrounder: State of the U.S. Hardwood Industry, 2010

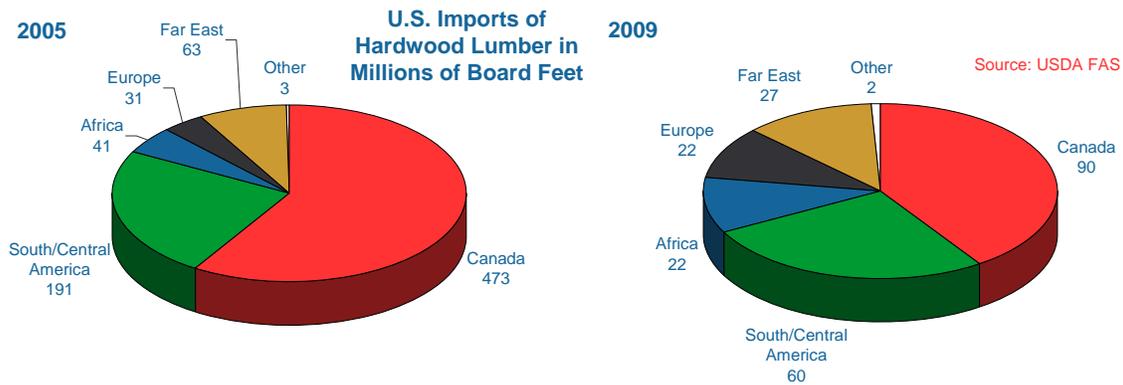
Furniture Industry

With unemployment high and credit squeezed, purchasing furniture has not been a high priority for U.S. consumers over the last couple of years. Shipments of wood household furniture from U.S. factories totaled \$5.06 billion in 2009, according to the American Home Furnishings Alliance, 22% below 2008 and more than 60% below the 1999 peak. U.S. imports of wood furniture fell at about the same rate as domestic shipments last year. The relatively small variance in domestic vs. imported shipment declines suggests that domestic market share may be close to bottoming out. Residential furniture factory closures have been less prevalent, as manufacturers have already purged most excess capacity. However, faltering commercial construction has curbed production of hotel and office furniture.



Lumber Imports

The U.S. imported 38% less hardwood lumber in 2009 than in 2008. Imports of expensive tropicals like Ipé, African Mahogany, Sapele, Spanish Cedar and Teak fell by 52 to 69%, as importers cut back orders and worked down inventories. With African and South American production low and global demand starting to rebound, supplies have tightened, lead times have increased and prices have firmed on tropical hardwoods in 2010 even though U.S. markets haven't improved. The volume of hardwood lumber imported from Canada slid 34% in 2009 to a level 82% below the 2000 peak. Because of broad shortages in the U.S., however, Canadian producers shipped 10% more lumber into the U.S. in Jan/Feb 2010 than during the same months in 2009, despite the disadvantage of a stronger Canadian dollar.



Logging Industry

Loggers have been leaving the industry in droves over the last few years, many lured away by more lucrative opportunities in other industries like mining and oil. Of equal concern is that the average age of loggers continues to rise as fewer young workers enter the field. Declining log demand, rising insurance costs, difficulty securing financing and higher fuel costs have all

APPENDIX C: Industry Backgrounder: State of the U.S. Hardwood Industry, 2010

contributed to industry downsizing. Even so, enough loggers are still working—or ready to get back to work—that lack of “logging infrastructure” isn’t a serious problem at today’s hardwood demand levels.

Moulding/Millwork Industry

Declines in new homebuilding, remodeling and commercial construction along with increased substitutions of cheaper MDF and softwood products have put a dent in hardwood moulding/millwork sales during the last few years. Offshore competition seems to have eased, with hardwood moulding import volumes falling almost 60% between 2007 and 2009. Residential moulding/millwork demand has crept up a bit in 2010, although it is hardly robust.

Office Wholesalers

Reduced hardwood production and demand has driven many wholesalers out of business over the last few years, and changed the role of those that remain. The decline of the furniture industry—once the dominant customer base—has forced wholesalers to broaden their domestic markets. The proliferation of width and color sorting has made sourcing more complicated since office wholesalers don’t have their own facilities. Finally, many have entered the export arena since exports comprise a larger percentage of total U.S. hardwood sales.

Pallet Industry

Prior to the recent recession, growth in pallet recycling had kept demand for new pallets flat for several years. Once the recession hit, manufacturers of new pallets saw sales declines ranging from 10 to 50% depending on product mix and customer base. Even so, low lumber production and the threat of shortages have forced pallet manufacturers to pay higher and higher prices for cants and cut-stock since the fall of 2009. Increased industrial activity has stimulated pallet sales in recent months, putting additional pressure on cant and cut-stock supplies, and on prices.

Plywood/Panel/Veneer Industries

Import competition has hit the hardwood plywood and veneer industries particularly hard since the mid-2000s. Foreign producers have captured significant market share, particularly at middle and low-end price points. Declining homebuilding, remodeling and commercial construction—and subsequent reductions in demand from builders and value-added wood products manufacturers—has further impacted hardwood plywood and veneer sales. While import quality issues have occasionally benefited domestic producers, imports remain a significant threat.

Railroad Tie Industry

The railroad tie market has been topsy-turvy over the last 18 months. Severe overproduction and softening demand caused crosstie prices to plummet from historic highs in early 2009 to relative lows by year-end. At the start of 2010, most tie yards had adequate to large inventories. Increased demand from other industrial markets and from flooring plants have since curbed crosstie production and fueled concerns about potential shortages. Consequently, tie yards have ramped up purchase volumes and offering prices.

APPENDIX C: Industry Backgrounder: State of the U.S. Hardwood Industry, 2010

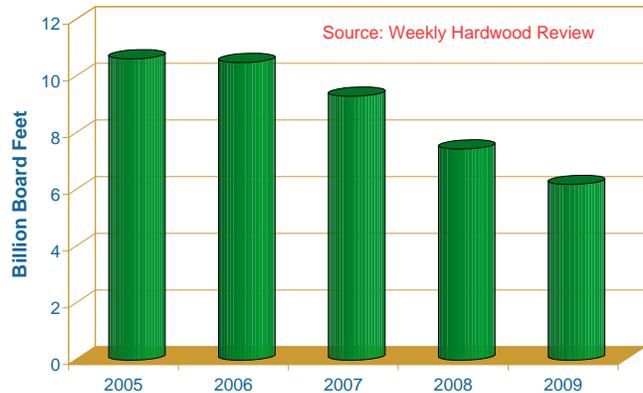
REITs/TIMOs

Real Estate Investment Trusts (REITs) and Timber Investment Management Organizations (TIMOs) now own and/or manage millions of acres of land across the United States, including large tracts formerly held by forest products companies. While TIMOs and REITs in the U.S. are here to stay for the foreseeable future, the days of double-digit profit percentages on sales of timberland are likely over. Much of the profit in this sector was taken in the first two or three buy/sell cycles.

Retail Yards

Retail yards cater mostly to construction contractors, small end-users and do-it-yourselfers who want to purchase very small quantities. Greater emphasis on inventory control has pushed more buyers into this category. As such, retail yards have been receiving more and more business that used to go to distribution yards, most of which still require their customers to order bundles rather than boards.

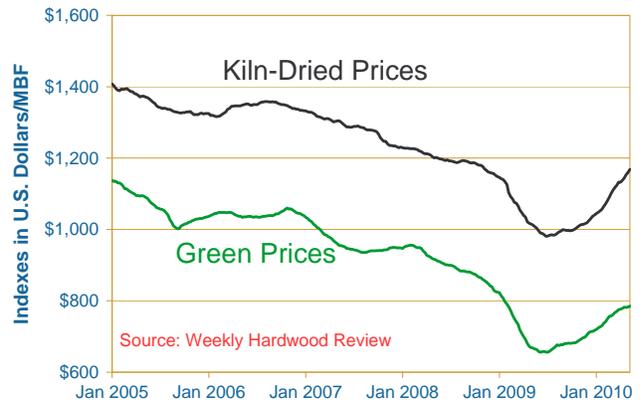
U.S. Hardwood Lumber Production



Sawmills

The hardwood sawmill industry endured heavy losses from 2006 to 2009, during which about 50% of productive capacity was temporarily or permanently idled. Lumber prices bottomed out at extremely low levels in mid-2009, and then started to climb, as supply finally fell below demand. With price increases gaining pace and Far Eastern markets coming to life, sawmills have been trying to expand production for the last six months. However, unfavorable weather, lack of affordable timber and tight credit slowed expansions until recently. Logging weather has since improved, higher lumber prices have encouraged mills to pay more for timber and production is rising. In fact, many mills are now concerned about potential overproduction this summer or fall.

Domestic Price Indexes



Wood Component Industry

Wood component manufacturers have endured a series of difficult setbacks during the last few years. First, sharp declines in home building and remodeling curbed component demand from secondary wood products manufacturers, many of which stopped outsourcing and increased in-house component production to avoid idling their own factories. Then, commercial construction slipped badly, reducing component demand from commercial millwork, office

APPENDIX C: Industry Backgrounder: State of the U.S. Hardwood Industry, 2010

furniture and contract furniture manufacturers. Exports have provided some new opportunities, but not nearly enough to offset lost business elsewhere.

APPENDIX D: Pre-Forum Participant Issues Survey



Hardwood Leaders Forum Participant Issues Survey

Thank you for agreeing to participate in a strategic forum of hardwood leaders on August 10-11. Titled, “Hardwood Leaders: Growing a Greater Hardwood Industry,” this forum will seek three primary outcomes:

- A concrete vision for a stronger hardwood industry;
- A detailed understanding and prioritization of the barriers/challenges that must be overcome to achieve the vision;
- A brainstormed list of possible solutions/actions/strategies to address the barriers and challenges identified.

To maximize our potential for achieving these outcomes at the August forum, we are asking all participants to do three things prior to the event. First, we have asked you to read a background briefing paper on the state of the hardwood industry in order to assure that all participants have the same general grounding in the status of the industry. This background paper was emailed to you **one week ago**; if you did not receive it, please contact our office. It is important that you *read this background paper before* you proceed. Please note that it is not critical that you agree with everything you read in this paper. It is simply our best attempt to outline the current state of the hardwood industry and the issues facing its various sectors.

Secondly, we are asking you to complete this pre-forum questionnaire. The task of developing a shared vision and set of industry-wide priorities in a day-and-a-half workshop will be huge, especially if we start from a blank sheet of paper. There will be many great ideas and many diverse opinions; the size of the group will make it difficult to flesh out all ideas fully; and we believe the depth of the questions at hand begs careful, independent consideration prior to the forum. You have until **June 15th** to complete and return this survey; please take the time needed to discuss these questions within your firm and provide detailed responses.

Finally, we will ask you to read a summary report of the responses to this questionnaire prior to your arrival in Charlotte. We will launch our on-site discussions from this report.

To complete and return this questionnaire **by June 15**, please

1. Print out, type or write in your responses, and fax the survey to 866-251-4045.

OR

2. Type your answers into the Word file and email the file to dan@hardwoodreview.com.

APPENDIX D: Pre-Forum Participant Issues Survey

1. A vision is a desired future condition to strive for. A vision for the hardwood industry will need to include general ideas and specific, measurable items so that industry leaders will know if progress towards the vision is being made. Please give both general and specific ideas for a vision for the hardwood industry for the year 2020. (An example is shown for the U.S. auto industry.) Use additional pages as needed.

Example for the US auto industry –

General: By 2020, US-made passenger cars and light trucks will be considered the highest-quality vehicles available to the US car-buying public.

*Specific: 1. Over 60% of US car and light truck consumers will consider US-made vehicles to be the highest quality vehicles available at any cost.
2. Over half the cars and light trucks sold to US consumers will be US-made vehicles.*

2. Reaching the target vision first requires identifying in detail the barriers or challenges to reaching that vision. Please list the barriers and challenges that are preventing the hardwood industry from reaching the vision you have in mind. List as many as you can think of with as much detail as you can provide. Place a star (★) next to the 3 or 5 challenges you believe are most critical for the industry to overcome. (An example from the auto industry is provided.) Use additional pages as needed.

Examples of barriers and challenges to US auto industry: Auto consumers perceive foreign autos are better; recent government bailouts indicate a troubled industry not worth trusting for the long-term; younger car-buying generation values US-made products less than previous generation; cost is king and a number of non-US auto manufacturers are pricing their vehicles below industry averages for like vehicles.

3. Please list the most difficult barriers or challenges you are facing in your business that are keeping you from reaching your company goals. Use additional pages as needed.

4. What are the most important opportunities you see for expanding or otherwise strengthening your business in the next 10 years? Use additional pages as needed.

5. What are the most important opportunities you see to expand the hardwood industry as a whole in the next 10 years? Use additional pages as needed.

APPENDIX E: Draft Vision and Goals

DRAFT INDUSTRY VISION

The American hardwood industry has developed a comprehensive vision for a brighter future:

By 2020,

- **American hardwoods will be the preferred building material above all competing substitutes. American hardwoods will be known, valued and desired by the global consumer for their full breadth of environmental and consumer benefits.**
- **The global public will have a positively transformed perception of the American hardwood industry and American hardwood forestry.**
- **Primary and secondary American hardwood industries will be revitalized, profitable, sustainable and growing.**

APPENDIX E: Draft Vision and Goals

**VISION ADDENDUM
GOALS & SUB-GOALS**

Five goals have been established that, collectively, will achieve the three-part industry vision:

Goal 1 – Change Consumer Perceptions of American Hardwoods.

Consumers will consciously choose hardwoods and hardwood products because they are

- Proven to be sustainable, legally harvested and legally traded.
- Renewable, reusable, recyclable and contributors to healthy forests.
- Carbon negative, climate friendly and environmentally superior to other building products.
- Beautiful, fashionable, prestigious and available in a wide array of species and appearances.
- Value-enhancing investments in residential and commercial buildings.
- Competitively priced, of high quality, and high in value relative to price.
- Promoted and endorsed by architects, designers, specifiers and green building systems.

Goal 2 – Change Public Perceptions of American Hardwood Industry.

The industry will be recognized as

- A trustworthy, ethical and responsible steward of public and private forest resources.
- A stable industry that provides well-paying jobs and supports rural economies.
- The “greenest” of all domestic and foreign manufacturing industries.
- A solution to environmental concerns, rather than a contributor.

Goal 3 – Improve Domestic and Global Business Climates for American Hardwood Firms.

Business climate will promote rather than restrain U.S. hardwood industry growth.

- Tax policies will encourage long-term sustainable timber management and multi-generational family business retention.
- Federal, state, local and world governments will recognize American hardwoods as legally and sustainably harvested.
- Less burdensome regulation will allow American manufacturers to compete globally.
- U.S. and federal trade regulations will foster a level global trading field.

APPENDIX E: Draft Vision and Goals

Goal 4 – Expand U.S. Primary and Secondary Hardwood Manufacturing Sectors.

Size, productivity, profitability and market share will improve.

- Offshored secondary manufacturers will repatriate.
- Primary producers will have stable access to affordable timber supply.
- Technological advances will increase productivity and yields.
- Bright, talented workforce will gravitate to industry.
- Banks and capital investors will view industry as solid investment.
- Solid hardwood sectors will effectively compete with other industrial users of the resource, including pulp, paper and biofuels.

Goal 5 – Increase U.S. Hardwood Industry Cooperation and Collaboration.

Industry members will work together towards mutual success.

- Industry members/leaders will speak with one voice to promote and advance the industry.
- Industry members will cooperate across traditional supply chain sector boundaries to control costs, improve efficiency, and build competitive advantages.
- Associations will consolidate efforts, narrow their focus to the highest priorities, and work cooperatively to improve effectiveness.

APPENDIX F: Barriers & Challenges Identified through Pre-Forum Surveys

Economy and Trade

General Economic

| | |
|---|--|
| 1 | We are shifting to a service-based economy |
| 2 | In today's world economy, we are at the mercy of domestic and global economic conditions beyond our control. |
| 3 | The bubble of consumer activity we enjoyed during the boom years means many buyers simply will not be willing or able to make purchases in the near future. |
| 4 | Housing market is not likely to recover over the next few years. |
| 5 | It is not so much the economy, but the lack of confidence in the economy. |
| 6 | World economy is in a period of decline and instability. |
| 7 | Even in the best of times, the hardwood industry only had a limited customer base. |
| 8 | The cyclical nature of the hardwood industry is a barrier; the industry is unable to help itself in a down cycle, and too busy making money in an up cycle to do what is needed. |
| 9 | The financial health of the American consumer is our biggest challenge to future growth. |

Offshore Manufacturing/Import Competition

| | |
|----|--|
| 10 | The manufacture of high-end, labor intensive products and components/parts are being offshored, eliminating a significant domestic customer base. Need to re-establish this manufacturing base domestically. |
| 11 | U.S. hardwood companies struggle to compete with subsidized offshore manufacturing. |
| 12 | Pressure on domestic manufacturers from low-value imports is increasing. |
| 13 | U.S. secondary wood products manufacturers struggle to compete with subsidized offshore manufacturing. |
| 14 | Cheap labor, government subsidies, corrupt business practices and lack of environmental controls allow overseas manufacturers--particularly those in China--to offer unfair pricing, making it difficult for U.S. firms to compete and destroying American industry. |
| 15 | Quality of imported furniture has hurt the quality perception for all furniture. |
| 16 | Before offshored manufacturers and finishers could return to the U.S., they would need a guaranteed supply of raw materials. But, U.S. mills are not going to cut, dry and store lumber in a bad economy without confidence in how much they will be able to sell. It's a chicken-and-egg problem. |
| 17 | Manufacturers in China, Vietnam and elsewhere--including former U.S. manufacturers that have shifted towards outsourced manufacturing--are not loyal to American hardwoods and more likely to pursue substitutes, including hardwoods from other parts of the world as well as more veneer and non-wood items. |
| 18 | We have shrinking markets due to the low cost of offshore substitutes and the perception that they are greener than North American hardwoods. |
| 19 | Despite the lower quality of Chinese products and the questionable legal sourcing of their raw materials concerns some North American customers, much is overlooked when the price is so low. |
| 20 | Customers fail to understand the hidden costs of imports (quality, inventory, domestic backup). Are they really less expensive? |
| 21 | Traditional U.S. manufacturing utilized many grades of hardwood lumber. Overseas manufacturing has shifted domestic demand towards industrial uses, leaving a loss of balance in the market across the lumber grade spectrum. |
| 22 | Loss of domestic markets for lumber has forced us to increase our export sales |

APPENDIX F: Barriers & Challenges Identified through Pre-Forum Surveys

Economy and Trade (cont.)

Lack of Markets

| | |
|----|---|
| 23 | Limited pricing potential for exports due to ready supply of raw materials from countries like Russia |
| 24 | The hardwood sector's dependence on domestic markets, especially new housing and remodeling, makes it very sensitive to external factors. |
| 25 | Our traditional customer base and volume is greatly reduced. So, we are forced to look at other markets and try things (i.e. vertical integration). Some have worked moderately well, others not at all, and only a few very well. |
| 26 | Global product demand is down. |
| 27 | We've lost many of our domestic customers. |
| 28 | We have too few customers left to service in our region to maintain our past sales levels and to operate at an efficient level...there is still way too much competition in the distribution yard trade for the business available in our region. |

Uneven Playing Field/Fair Trade/Competitiveness

| | |
|----|--|
| 29 | U.S. hardwoods, parts and finished products subject to political discrimination or exclusion from some international markets. |
| 30 | Trade disputes and protectionism continue, both in the U.S. and abroad. |
| 31 | Policies do not promote economic growth in some international markets. |
| 32 | When the consumer is motivated by price, it is difficult to compete with manufacturers in other countries that don't have the barriers of government regulations and OSHA. Raw materials can be shipped overseas, manufactured into products of reasonable quality, and shipped back to the U.S. and sold more cheaply than they can be produced here. |
| 33 | Unfair trade practices: dumping, tariffs and subsidies imposed by international markets |
| 34 | Small producer has difficult access to global markets. |
| 35 | Quebec foreign trade industry is partially subsidized by government. |
| 36 | U.S. citizens need to prepare to compete on a global plane regarding skills, labor, expertise and product delivery...which includes being willing to accept lower compensation. |
| 37 | Lack of tax incentives for businesses in America. |
| 38 | Cost of labor high in U.S. relative to other countries. |
| 39 | Doesn't make economic sense to manufacture/convert raw materials in U.S. |
| 40 | Comparative advantages offer Asian secondary processors a cost edge vs. U.S. secondary processors, creating a geographic separation between U.S. lumber producers and their customers, and there is usually no internal coordination between the two. |
| 41 | Government regulations/mandates make U.S. primary and secondary wood processors non-competitive in the global market. We need to be to draw manufacturers home and allow them to compete on an equal keel. |
| 42 | Our "free market economy" is being abused and manipulated from overseas. |
| 43 | U.S. hardwoods have difficulty competing on equal footing with foreign timber given illegal harvesting. |

APPENDIX F: Barriers & Challenges Identified through Pre-Forum Surveys

Industry Dynamics and Relationships

Lack of Industry Cooperation

| | |
|----|---|
| 44 | Manufacturers don't understand that their raw material suppliers are their friends. |
| 45 | Lack of inter-industry communication about supply levels, demand rates, and current trends causes poor choices or lack of action. |
| 46 | There is an absence of collaboration/cooperation between timberland owners, sawmill operators and secondary manufacturers. Players ultimately focus on their own short-term gains satisfaction than that of the supply chain's end consumers. |
| 47 | Industry fragmentation prevents coordinated planning to address major challenges, reach consensus on a unified vision and achieve common goals. |
| 48 | Lumber manufacturers are out of step and indifferent to the needs of secondary manufacturers. |
| 49 | Lumber sellers need to recognize that each manufacturing sector has different raw material needs; they should market and price lumber accordingly. |
| 50 | Lack of communication by a large segment of the industry that does not belong to or support trade associations. More involvement can prevent such drastic price changes by sharing knowledge of the markets and production levels. |
| 51 | There is a general lack of understanding of how each hardwood segment operates and what information is needed to reduce costs. |

Associations

| | |
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| 52 | One of the biggest barriers is the turf/kingdoms that people and associations hold onto. Independent industry members and associations fight to claim their own turf, afraid they will lose their place. |
| 53 | Industry associations have a history of conflict and competition. Elected leaders and staff need to put down old biases, work together and try to make a difference. We have more strength in numbers. |
| 54 | There are too many trade associations with too little focus and too much overlap. Individually they diminish the impact that combined efforts could have. Duplicated management wastes industry funds that could be used to maximize industry benefits. |
| 55 | Trade associations are weak. |
| 56 | Trade associations not providing enough leadership in Washington, with state governments, with promotions and with monitoring forests. |
| 57 | Trade association dues are out of line considering what they deliver. |
| 58 | Trade associations bogged down by regional differences and petty vested interests. |

Industry Fragmentation

| | |
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| 59 | The industry for too long has not had cohesive leadership or plan for the future. We blame our inability to work together on fragmentation. We need one spokesperson/agency who can speak for all. |
| 60 | Lumber and manufacturing sectors are fragmented, with no one group of manufacturers, importers, retailers or suppliers large enough to mount a meaningfully funded campaign to improve operating environment or change consumer behavior/perception. |
| 61 | Industry fragmentation contributes to extremely low profit margins in the hardwood sector. |

APPENDIX F: Barriers & Challenges Identified through Pre-Forum Surveys

Industry Dynamics and Relationships (cont.)

Miscellaneous

| | |
|----|--|
| 62 | Narrow choice selection of products using hardwoods. |
| 63 | Complicated export trail/documents, payment procedures, insurance, etc. |
| 64 | Lack of networking opportunities. |
| 65 | Consumers lack skill and tools to do home woodworking projects. |
| 66 | It's hard to get good wood makers/installers/contractors for projects. |
| 67 | No labeling requirement on furniture/cabinetry, etc. |
| 68 | Most of us have been forced to compromise our standards in order to survive the last few years...credit...profit margins...size of shipments to customers, etc. Long-term this will undermine our efforts for a bright future. |
| 69 | It has been very challenging over the last 24 months to forecast clearly, which has changed my risk profile. |

APPENDIX F: Barriers & Challenges Identified through Pre-Forum Surveys

Government and Regulatory

Government

| | |
|----|--|
| 70 | Uneven enforcement of government regulations from state-to-state creates large disparities in operating costs. |
| 71 | Costs (taxes, fees) associated with state, federal and local government regulations are rising faster than the industry's ability to absorb them, increasing operating costs and difficulty of doing business. |
| 72 | Size of government stifles industry productivity. |
| 73 | Inconsistent trucking regulations increasing costs, reduce profitability. |
| 74 | Compliance with increasing demands from the EPA, the IRS and health care will drive many companies out of business. Paperwork requirements are overwhelming for small businesses. |
| 75 | Property taxes make forestland ownership costly, reduce profitability, discourage investment in land, and encourage conversion to alternate uses. |
| 76 | Taxation policy should be improved to incentivize landowners to sell timber as part of good forestry. |
| 77 | Inheritance tax policies must be stabilized and improved so that timberlands aren't lost in generational ownership transfers. |
| 78 | Burdensome regulations: OSHA, state BMPs, immigration, health care, trucking, emissions, wood dust, workers comp, employee benefit mandates, fuel taxes. |
| 79 | Uncertainty about future environmental and regulatory regulations, such as "cap and trade," may impact log availability and reduce the availability of affordable hardwoods. |
| 80 | Government regulations contribute to the perception that our industry is detrimental to the environment and less green than alternative building products. |
| 81 | Worker's comp board is hostile to business. |
| 82 | Government spending has put fear into the public. No one knows where the spending spree will leave us as a nation and consumers are therefore reticent to invest in housing or anything else. |
| 83 | Audits, regulations etc. demonstrate that the government views the industry as an enemy and only add to the complexity and cost of what we do. Overseas governments don't treat their industries this way. |
| 84 | Government not actively supporting U.S. manufacturing or helping make it competitive with Asian countries. |
| 85 | Small mills fall under state and federal regulators' radar screens and don't comply with all OSHA and EPA requirements. They therefore have lower operating costs and drive timber prices higher than compliant mills can pay. |
| 86 | Our industry suffers from a lack of political support at every level, especially compared to countries like Canada, which strongly supports its wood industries. |
| 87 | Tort reform needed to control malicious lawsuits. |

Federal Timber Policy

| | |
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| 88 | Conditions on government-owned timber sales (up-front payments, bonds, road construction, reclamation, etc.) make them extremely costly. |
| 89 | Closing forests to logging minimizes the value of the raw material and it therefore goes to waste due to forest fires, disease, infestation or just decay. |
| 90 | Bureaucratic limitations limit access to affordable raw material from public lands. |
| 91 | A significant portion of Appalachian hardwood forest inventory is on public land, and the low level of harvest on these lands artificially restricts the supply of hardwood logs. |

APPENDIX F: Barriers & Challenges Identified through Pre-Forum Surveys

Government and Regulatory (cont.)

High Costs

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| 92 | Fluctuating and high transportation costs (inland and export containers) make American hardwoods less competitive in international markets. |
| 93 | High costs of doing business (health insurance, wages, taxes, etc.) make U.S. hardwoods uncompetitive with other products, including imported wood, imported products and non-wood substitutes. |
| 94 | Constant increases in non-operating costs (insurance, benefits, regulations, fuels, utilities, and soon-to-be interest rates). |
| 95 | Fuel pricing and availability. |
| 96 | Energy costs. |
| 97 | Risk management costs (workman's comp, insurance, etc.) |
| 98 | Unstable shipping costs (land and sea) do not allow the industry to price its product for any length of time. |
| 99 | Federal and state fiscal policies create more overhead, provide little stability to move ahead. |
| 100 | Rising costs and declining revenue. |

Ecological Threats/Forest Health

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| 101 | Impacts of invasive diseases/pests on mortality, species variety, forest health and productivity (EAB, Thousand Cankers Disease). |
| 102 | Climate change impacts, such as on Hard Maple in the northern forest. |
| 103 | Long-term, healthy forestry practices are not rewarded over short-term deforestation practices, such as urbanization. |
| 104 | Current forest management's goal of sustaining the top three species (Red Oak, White Oak and Poplar) is not healthy, limits forest diversity, and limits opportunities to diversify lumber sales. |
| 105 | Tree diseases and invasive species increase risk of forestland ownership for industry and private woodland owners. |

APPENDIX F: Barriers & Challenges Identified through Pre-Forum Surveys

Product Marketing

Product Promotion

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| 106 | "American Hardwoods" do not have an identity in the marketplace. We need to promote American hardwoods, not just hardwoods. Little distinction in the consumer's mind between U.S. hardwoods and other hardwoods. |
| 107 | We lack a "brand" to attach to our product that can be used in promoting hardwood to the consumer; a brand they will recognize on hearing or seeing in print. |
| 108 | Consumers have lost an appreciation for solid wood products. Fewer people understand the difference between real wood and its many faux substitutes. We haven't told them why they should value solid wood, and North American hardwoods in particular, thus our cast-off society prefers quick and cheap over long-lasting quality, and we lose market share to less expensive and less sustainable alternatives worldwide. |
| 109 | Consumers often cannot differentiate between wood species, even if they know they should value Oak and Cherry over Pine, Poplar or Rubberwood. |
| 110 | We lack scientific life cycle analyses to demonstrate cradle-to-grave advantages of hardwoods over substitute building materials and other mechanisms to verify species and grade-specific sustainability. |
| 111 | Need to get all segments of the forest products industry working together to promote a unified message about hardwoods. |
| 112 | We lack marketing expertise and the understanding of its potential to increase industry profits. |
| 113 | Consumers perceive U.S. wood products as expensive/overpriced because they fail to look at quality/workmanship. Retail distribution channels sell imported products on price instead of features, advantages and benefits of the product and materials used in construction. We need to change the mindset that cheaper is better. |
| 114 | The industry lacks willingness to embrace new marketing techniques, particularly through the Internet. |
| 115 | Formerly high-end products (that had great margins) have become commodities--specialty hardwoods selling with softwood margins--this is not sustainable. |
| 116 | Differentiating our products is difficult, if not impossible, when sourcing from factories that supply a number U.S. developers/distributors. |
| 117 | U.S. has an excellent supply of sustainable, temperate hardwoods that can fill the void left in global markets by stepped-up enforcement of illegal logging regulations; but we've got to market it. |

Product Substitution

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| 118 | Competing products (bamboo, exotics, imports, etc.) are better promoted than American hardwoods. |
| 119 | High prices for North American hardwoods encourage substitution, i.e. pine's growing share of the pallet market. |
| 120 | Alternative non-wood look alike products provide a low-cost alternative to solid hardwood products. |
| 121 | Substitute products, such as MDF mouldings, are sometimes a better product than hardwoods for a given application. |
| 122 | Hardwoods are losing market share in applications traditionally served by solid hardwoods because architects, designers and specifiers are not educated about the features, functions and benefits of solid hardwoods. |
| 123 | Substitute materials benefit from strong lobbying by associations and companies that erroneously pitch these products as sustainable, or more sustainable than hardwoods. |

APPENDIX F: Barriers & Challenges Identified through Pre-Forum Surveys

Public Education/Green Issues

Environmental Group Pressure

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| 124 | We face continued pressure from both domestic and international environmental groups working against the harvest of hardwood timberlands and the use of wood. |
| 125 | Extremist groups on the left prevent responsible harvesting of timber and fail to recognize locally produced hardwood as a green product vs. steel and concrete. |
| 126 | Extremist groups on the right promote exploitive practices, bad forest policy, and politics that impact our ability to sell on the world market. |
| 127 | Teachers teach anti-wood propaganda. |
| 128 | American environmental lobby and media is hostile and poorly informed. |
| 129 | Lawsuits and the costs that litigation (money, time, energy, stress on key employees) bring to our company/industry. |

Certification/Green Building

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| 130 | Despite having the historic data to do it, the USDA Forest Service has failed to certify as sustainable all U.S. hardwood forests and timberlands (public and private). |
| 131 | State forestry agencies will be competing with third-party certifiers. |
| 132 | We must secure certification for all U.S. hardwood forests. |
| 133 | Industry needs to believe there are options to FSC, SFI and PEFC. |
| 134 | LEED does not apply life cycle analysis or require certification of all building products. |
| 135 | LEED only gives one point for wood, and only for FSC wood, discouraging the use of American hardwoods in LEED projects. |
| 136 | LEED favors/offers more points for rapidly renewable and recycled materials than hardwoods. |
| 137 | Perceived experts in green building are promoting the replacement of wood with plastics, metals, concrete, steel and glass as a more responsible way to build. |
| 138 | Green building codifiers may view industry participation in changing the green building rules akin to letting the fox in the henhouse. |
| 139 | Architects are specifying certified wood, which blocks access to a large percentage of American hardwoods, raises costs to consumers, and makes substitute raw materials more attractive. |
| 140 | Certification organizations have carved an economic niche and will fight any message from the industry seeking more forest access. They will challenge any claims industry makes about forest health and the value of managing forests. |
| 141 | European consumers are confused when it comes to the certification of American hardwoods. |
| 142 | FSC dominates the certification game due to its independent financial support from outside the industry, and will continue to add red tape and financial burden to distributors, making it difficult to remain price competitive and still turn a profit. |
| 143 | High cost of FSC enrollment relative to the added value of selling FSC lumber. |
| 144 | Lack of FSC sawmills to process timber and logs. |
| 145 | We need better promotion of what FSC means to consumers in order to create demand. |
| 146 | Promote the advantages of domestic FSC products and tighten the definitions/requirements to block backdoor product entry. |
| 147 | Criteria for sustainable forests differ between third-party certifying organizations. |
| 148 | Efforts of third-party certification systems are duplicated. |
| 149 | American hardwoods are not recognized as inherently sustainable by most international green certification schemes. |
| 150 | Green certification schemes are blocking access to markets and unnecessarily raising the costs of hardwood as a raw material. |

APPENDIX F: Barriers & Challenges Identified through Pre-Forum Surveys

Public Education/Green Issues (cont.)

Image Promotion/Public Education

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| 151 | Public has been brainwashed into believing that cutting a tree down is murder, while filling a home with petroleum-based products (vinyl siding, plastic laminated moulding, asphalt shingles, carpeting) is the smart, eco-friendly thing to do. They fail to recognize true costs of competing materials in terms of energy, waste, transportation, etc. |
| 152 | U.S. children are conditioned to have a negative view of forest products by teachers who disseminate their political opinions as knowledge. What little education there is about forestry in K-12 schools is lacking or misleading. |
| 153 | Industry is not marketing, selling, training, leading or directing consumers to the facts that "wood is good" and "trees are the answer." |
| 154 | Recycling of nonrenewables (concrete, glass, metals and plastic) is being promoted as "more green" than the use of sustainable wood products. |
| 155 | The widespread public perception--fueled in part by environmental NGOs and the media--is that American timber and forest management practices are unsustainable and that forests are disappearing. |
| 156 | There is a lack of resources to get our message out consistently and to campaign against anti-industry environmental propaganda in a timely manner. Industry's limited scale and financial resources constrains capacity to wage major promotional campaign. |
| 157 | We lack education programs about why utilizing more wood from the U.S. is a good thing for the global environment. |
| 158 | There is a lack of understanding in the general public about the many benefits derived from well-managed forestlands. |
| 159 | Fragmentation and independence makes it difficult to reach consensus on a unified industry vision. |
| 160 | Fragmented nature of the industry encourages "free riders" with respect to coordinated marketing efforts. |
| 161 | We have an ineffective forest products lobby/press. |

APPENDIX F: Barriers & Challenges Identified through Pre-Forum Surveys

Adapting Mature Industry to New World

Customer Demands are Changing

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| 162 | Customer demands for value-added services are increasing. Demands for special specifications--sorting for length, width, color, grain and grade--are also changing/growing, and don't always reflect what the logs produce. |
| 163 | Meeting customer expectations for color, width and length sorts will require equipment investments. |
| 164 | Secondary manufacturers' requirements are inflexible (e.g. cabinet moulding requirement of 96") |
| 165 | Consumer expectations are changing. |
| 166 | Consumers have a general lack of understanding regarding wood characteristics and properties; expect wood to look, feel and act like plastic or metal with no imperfections. |
| 167 | Consumers' appearance demands (wide-width flooring, for example) can negatively impact product performance. |
| 168 | Shift in home construction practices from suspended to slab foundations impacts market share for solid wood flooring. |

Grading Rules

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| 169 | Lack of understanding of U.S. grading rules in overseas markets makes it difficult to demonstrate the value of American hardwoods. |
| 170 | NHLA rules are somewhat irrelevant and not designed to allow end-users to maximize value throughout the supply chain. Grading rules should be specific to end consumers (e.g. cabinets, flooring) and driven all the way back to the bucking of the logs in the woods. |
| 171 | Foreign grading rules are a threat. |
| 172 | There are no global standards for hardwood products. |
| 173 | U.S. standards are different from other countries' specifications, thus limiting where products can be sold globally. |
| 174 | Lumber grading procedures inconsistent between wood manufacturers. We get compared to companies which grade their incoming lumber less frequently. We are perceived as "picky" when simply all we expect is the material to be on grade. |

Market Prices/Volatility

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| 175 | Wildly fluctuating lumber prices cause instability in the industry. |
| 176 | Fluctuating log and lumber markets reduce predictability and profitability of land ownership. |
| 177 | Manufacturers face extreme lumber price fluctuations, have no opportunity to hedge and find it impossible to pass along rapidly rising lumber costs. |
| 178 | Lack of a futures market for hardwood lumber subjects producers and consumers to high price volatility, with no mechanism to manage costs over a longer time frame. |
| 179 | Lumber, logs and transportation prices are erratic. |
| 180 | Amount of variation in U.S. industry prices frustrates overseas buyers and forces them to look to non-U.S. woods as a solution. |
| 181 | Sharp increases in lumber pricing raises our inventory values and causes dilemmas in managing cash flow. |
| 182 | There has been a compression of manufactured goods' price points. The collapse of the high end has reduced the spread between good/better/best and increased competition at each level. |
| 183 | The cycles in the hardwood lumber pricing are becoming more compressed and there is little or no relation between the pricing of finished goods and the cost of raw materials, making procurement planning akin to fortune telling. |
| 184 | Everybody loses in price wars, yet they happen constantly. |
| 185 | Difficult to buy a tract of timber today when there is no certainty where lumber demand/prices will be in three years when the lumber from that tract hits the market. |

APPENDIX F: Barriers & Challenges Identified through Pre-Forum Surveys

Adapting Mature Industry to New World (cont.)

Changing Industry/New Technology/Old Thinking

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| 186 | Institutional memory; i.e. failure to employ new strategies to break reliance on historic business models. |
| 187 | Lack of forward thinking when it comes to sawmill design and operation. Failure to employ technologies already mature in other industries or other sectors of the forest products industry. |
| 188 | Industry's production of commodity lumber (e.g. NHLA grades) in lieu of special sizes that may enable downstream efficiency. |
| 189 | "Make it and they will come" attitude doesn't work. Supply and demand is not viewed as a function of economic analysis but of turning logs into lumber. Industry still turns logs into lumber without regard to market conditions. |
| 190 | New or innovative uses, applications, and processing techniques need to be developed whereby hardwood products can be introduced and more appreciated. |
| 191 | Industry is relatively unwilling to embrace new technologies for sales and marketing (especially the Internet). |
| 192 | U.S. production standards are different from other countries' buyer specifications, thus limiting where products can be sold globally. |
| 193 | Yield. Lumber is produced in random widths. Flooring is sold in stock widths. We produce the width of flooring that is in demand, resulting in yield loss from random-width lumber. |
| 194 | Too much resource is left in the woods; too much of the log is chipped rather than put into sawn products; too much sawdust is made. Recovery (yield) needs to be improved from tree to finished product. We still use something like only 10% of the tree. |
| 195 | The secret to U.S. industry success and survival has been having the best equipped factories in the world. Every year there are fewer machinery suppliers making the large, innovative machines we need to continue to lower our costs. It is getting harder and harder to find anyone creating innovative equipment that is also scaled for our large factories and large cuttings. |
| 196 | The number of middlemen (wholesalers, exporters, distribution yards, etc.) has grown dramatically while production and sawmills have declined. Will be tough for these players to be very profitable or even survive. There are too many intermediaries between production and final customer. |
| 197 | We have lost much of the benefits of our value added process. We continue to do more for less...add more value, take more risk, encumber more capital investment as our profit margins continue to decline. |
| 198 | Need advancements in machine and scanning technology. |
| 199 | Lack of diversification has been the most difficult barrier for equipment manufacturers. We have increased our product offerings, but the equipment has little application beyond the lumber and wood products industry. Should we continue to invest in product development for the lumber industry or spend the same money to develop products to serve a non-lumber industry? If buyers in the lumber industry are only interested/able to afford used equipment and old technology with poor efficiency, what is the benefit for us in developing more desirable/efficient equipment? |
| 200 | Our industry is so small as a whole now, that I am afraid there will be little future technology development for the logging and manufacturing sectors. |
| 201 | Low profit margins reduce ability to make capital investments. |
| 202 | Fragmented, overly suspicious, under-financed sawmill industry, often too conservative to take advantage of opportunities. |
| 203 | Productivity in remaining facilities has to be increased, with costs decreased (takes money). |

APPENDIX F: Barriers & Challenges Identified through Pre-Forum Surveys

Adapting Mature Industry to New World (cont.)

Overproduction/Overcapacity

| | |
|-----|--|
| 204 | We are "eating our young;" overproducing into improving markets, thereby driving down prices and profits. |
| 205 | Barriers to entry are too low, leading to relatively easy increases in capacity. |
| 206 | More sawmill capacity needs to be taken out of the system at current demand levels. If capacity is not reduced further, raw material prices will increase, selling prices will fall and margins will be challenged again. Mills need margin to justify the large capital requirements of our business. |
| 207 | Many building products industries have 40 to 50% overcapacity; many companies added capacity in the market boom just prior to the collapse. Much of this capacity was never fully used. |
| 208 | Small, inexperienced cabinet companies entered the commercial sector when residential construction began to dive, and they've gained market share with below-cost bidding. They will eventually thin out, but it has severely hurt qualified and experienced companies. |
| 209 | Pricing in the industry reflects oversupply and lack of demand. |
| 210 | The vast majority of our larger customers can produce what we produce (components) and have chosen to do so. With so much excess capacity, it is unlikely that these customers will begin outsourcing in earnest for quite some time. |
| 211 | Challenge is to balance inventory with true demand. |
| 212 | Our industry would operate more efficiently with "real time data." Market report data today is 2-5 weeks behind actual market conditions. Everyone from the landowner to the end-user needs to respond quicker. |
| 213 | Difficult to compete with companies whose financial situations have grown so desperate that they use "desperation pricing" to maintain cash flow without concern for profits. |

APPENDIX F: Barriers & Challenges Identified through Pre-Forum Surveys

Sustaining Industry Base and Profitability

Log/Timber Availability and Costs

| | |
|-----|---|
| 214 | High cost of owning forestland due to competing forces such as subsidized cropland and urban sprawl causing forestland to be divided into smaller units and converted to other uses. |
| 215 | Lack of innovation in logging raises costs of providing raw materials to sawmills. |
| 216 | Lack of low-grade markets reduces harvesting operability and profitability, while encouraging poor forestry practices. |
| 217 | Municipal ordinances limit access to stumpage from private lands. |
| 218 | Uncertainty of long-term availability of quality timber supply from willing sellers. |
| 219 | Timberland owners put a low priority on timber management. Increasing preservation and parcelization of private forests--often by urban owners with a negative view of timber harvesting or conservancies who would only harvest because of some major disaster--is making stumpage acquisition more difficult and expensive. |
| 220 | Fragmentation reduces timber availability. |
| 221 | Despite government data indicating a large and growing hardwood resource, most mills are struggling to maintain adequate log inventories. |
| 222 | Industry lacks cohesive strategy for dealing with the increased pressure biofuel and biomass markets are putting on the hardwood resource. How will the use of wood and whole trees impact the availability of timber for sawmills? What impact will subsidies have on timber prices? Will these markets encourage clearcutting and monoculture plantations to the detriment of the environment and wildlife? |
| 223 | U.S. forests are poorly managed and underutilized. We're not harvesting growth. |
| 224 | TIMOs hold much of what once was an industrial timber base. They have a shorter investment view and are more likely to sell property in the short term, further adding to the problem of fragmentation. |
| 225 | Lumber industry facing increasing resource competition from other hardwood industry segments such as pallet mfrs, grade lumber companies, coal mine timber, and pulpwood producers, as well as dragline mat suppliers |
| 226 | Landowners are not cutting timber due to the lack of low-grade log markets. |
| 227 | Lower log prices during the last few years have caused many forest land owners to postpone timber harvests, resulting in a very short supply of available standing timber. |
| 228 | The market for timberland often includes consideration of higher-and-best uses other than timber production. Addressing these higher-and-best uses often results in deviations away from investing in the tract from a timber perspective and in managing for optimal timber production. |
| 229 | Sound natural hardwood silviculture generally does not target and select for specific species/products, which, coupled with the volatility in the lumber sector, makes it difficult to plan forestry operations to achieve targeted returns and meet landowner/investor expectations. |

Lack of Loggers

| | |
|-----|--|
| 230 | Increased costs (workers comp, BMP compliance, equipment purchase/maintenance, timber costs) make it difficult to be profitable. |
| 231 | There is a lack of independent loggers. Logging provides low paying jobs, attracting mostly unskilled and untrained workers. |
| 232 | Logging infrastructure is outdated and inefficient. |
| 233 | High school students are unaware of careers in logging and are, thus, not gravitating towards the profession. |
| 234 | Loggers and logging company ownership are aging, and with an uncertain future, it is difficult to attract investors and few company owners have plans for transfer of ownership. |
| 235 | Banks are unwilling to loan to loggers for start-up and operations, which will extend the recovery of logging capacity. |

APPENDIX F: Barriers & Challenges Identified through Pre-Forum Surveys

Sustaining Industry Base and Profitability (cont.)

Declining Sawmills/Supply Problems

| | |
|-----|---|
| 236 | So many hardwood sawmills have gone out of business that the lumber supply presents a huge long-term dilemma. It will hold back industry growth when lumber demand improves. |
| 237 | Supply infrastructure has been so diminished that we've had to bring more of the supply functions in-house. |
| 238 | Difficult to predict production and pricing from sawmills. |
| 239 | Availability of green lumber has been reduced as primary producers increasing build their own dry kilns. |
| 240 | Financial stability of hardwood lumber producers is precarious |
| 241 | Lean lumber infrastructure creates market volatility. |
| 242 | Ageing sawmill ownership presents additional supply concerns. Few have transfer of ownership plans and difficulties in attracting investors mean there may not be adequate numbers to replace them. |
| 243 | Consolidation of production creates localized supply imbalances. |
| 244 | Hard to get sawmills to cut to specific needs, including lower volume species. |
| 245 | Sawmills shy away from lesser-known species such as Beech, Sycamore, Cottonwood and Hackberry that not fully utilized for higher-valued finished goods. |
| 246 | Difficult for manufacturers to develop strategic supply relationships given the reduction in lumber producers and the shifting of manufacturing to other continents. |
| 247 | Tough for sawmills to qualify for start-up and operating loans. |
| 248 | Lumber production has been so greatly reduced, it is difficult to maintain a balanced & complete inventory ahead for our customers while maintaining our high quality standards. |

Human Resources

| | |
|-----|--|
| 249 | There is a lack of innovative people coming into the industry. |
| 250 | Pressure on available labor pool makes it more difficult to attract and retain quality people |
| 251 | Immigration is a growing workforce issue. |
| 252 | Sales personnel are not trained in domestic and export marketing, and often are not professional or knowledgeable. |
| 253 | Public perception that the forest products industry is a low-tech, non-attractive career choice, coupled with the belief that the industry is dying. |
| 254 | Maintaining workforce motivation. |
| 255 | Difficulty in attracting and training workforce for logging, forestry and the processing industry. |
| 256 | Finding workforce with basic education and proper training and skills in math, reading, computers, communication. |
| 257 | We are a labor intensive industry, thus labor costs greatly impact manufacturing costs. |
| 258 | Reduced production/sales requires balancing of labor assets and keeping them mobile. |
| 259 | Changing work ethic and lack of hardworking employees. |
| 260 | Providing living wage and health care benefits to attract/retain people, especially lower-end workers, is challenging. |
| 261 | Hard to find new employees who can recognize opportunity and have a desire to grow with the company. |
| 262 | I am concerned that we'll lose key employees/managers who will pursue a "different set of problems" due to burnout and a less than optimistic outlook for the building products industry, etc. |

APPENDIX F: Barriers & Challenges Identified through Pre-Forum Surveys

Sustaining Industry Base and Profitability (cont.)

Banks/Lending/Financial

| | |
|-----|---|
| 263 | Banks won't lend to our industry. We're painted with the same red brush as housing-related industries. |
| 264 | Loggers, lumber suppliers and other industry companies need increased lending from both commercial banks and federal charter institutions, such as the land banks. |
| 265 | We are a financially weakened industry facing insufficient availability of credit and lack of working capital. |
| 266 | Banks' lack of risk tolerance for our industry has already and will continue to make it difficult to secure capital to support a production ramp up when demand justifies it. |
| 267 | We need upgraded equipment to be more productive but it is difficult to obtain financing for capital projects. |
| 268 | New government banking regulations will produce additional financial challenges. |
| 269 | Industry needs more options for financing than banks, especially since banking industry's image of hardwood industry is negative. |
| 270 | There are reduced investment funds available for land purchases. |
| 271 | Investors are generally ignorant about hardwood forest and thus reluctant to invest in this type of asset. |
| 272 | We have more debt than we would like, but efforts to get stronger on the balance sheet limits our ability to grow through acquisition or R&D. |
| 273 | A lot of mills have closed because they can't get enough credit to cover severe customer credit risks. |
| 274 | Banks won't loan you any money for any reason, but they will charge you outrageous fees to keep your line of credit open. |
| 275 | Our business is so capital intensive; it takes a lot of money to make small amount of money. |
| 276 | Our credit line once gave us the stability to weather the 3-year storms that periodically come. |
| 277 | We've been forced to change banks even though we are extremely financially sound and owed our former bank less than 4% on our line of credit. |
| 278 | Delayed payments causing cash flow problems. |
| 279 | The volatility of cash flow from operations has been exacerbated by the use of financial leverage. |

Raw Material Exporting

| | |
|-----|--|
| 280 | Willingness to export logs and lumber rather than making them into semi-finished or finished products domestically creates increased foreign pressure on the raw materials needed by domestic manufacturers...from the very countries/companies that are then turning around and competing against U.S. manufacturers for domestic market share. |
| 281 | Domestic companies facing pressure from Canadian log markets. |
| 282 | We don't want to stop exporting hardwood products and raw materials, but we need to be able to compete in a market that is fair, in order justify strategies and investments to maintain our competitiveness. |

APPENDIX G: Breakout Session Rosters

Breakout Session 1-A

Room: Queen's Court Ballroom

Product Marketing

| | |
|----------------------|---------------------------------|
| George Barrett | Hardwood Publishing Co., Inc. |
| Romel Bezerra | Elof Hansson USA |
| Chris Bingaman | Bingaman & Son Lumber, Inc. |
| Terry Brennan | Baillie Lumber Co. |
| Dave Forst | Woodcraft Industries, Inc. |
| Chris Ghiloni | American Woodmark Corp. |
| Tony Honeycutt | Mullican Flooring |
| Jim Howard | Atlanta Hardwood Corp. |
| Pem Jenkins | Turn Bull Lumber Company |
| George Nickell | Nickell Moulding Company |
| Art Raymond | Hooker Furniture Corp. |
| Dave Redmond | Highland Hardwood Sales, Inc. |
| Bradley Stovall | Stanley Furniture Company, Inc. |
| Emmet & Linda Vaughn | Emmet Vaughn Lumber |
| Galen Weaber | Weaber Inc. |
| Jeff Wirkkala | Hardwood Industries, Inc. |
| Chris Zinkhan | The Forestland Group |

APPENDIX G: Breakout Session Rosters

Breakout Session 1-B

Room: Cotillion C

Public Education/Green Issues

| | |
|-----------------|-----------------------------------|
| Chuck Alexander | Forecon |
| Nancy Arend | Weyerhaeuser/Northwest Hardwoods |
| Teresa Bell | Kentucky Millwork |
| Dave Bramlage | Cole Hardwood |
| John Brown | Pike Lumber Company, Inc. |
| Bill Buchanan | Buchanan Hardwoods |
| John Crites | Allegheny Wood Products |
| Roy Cummings | Cummings Lumber |
| Jameson French | Northland Forest Products, Inc. |
| Mark Haddix | Farm Credit of the Virginias, ACA |
| Charlie James | WoodMart Shutters |
| Mike Johnston | Babcock Lumber Co. |
| Doug Martin | Pollmeier Inc. |
| Dan Mathews | SII Dry Kilns |
| Jeff Meyer | Baillie Lumber Co., Inc. |
| Gary Middleton | USNR |
| Norm Murray | U•C Coatings |
| Chris Watson | Conestoga Wood Specialties Corp. |

APPENDIX G: Breakout Session Rosters

Breakout Session 1-C

Room: Cotillion B

Sustaining the Industry

| | |
|------------------------|---------------------------------------|
| Dean Alanko | Allegheny Wood Products International |
| Witt Hill | John Hancock-Bond and Corp. Finance |
| Paul Barringer | Coastal Forest Resources |
| Rick Burnett | Cross Creek Sales, Inc. |
| Dave Daut | Fountains Forestry, Inc. |
| Jeff Durst | Hull Forest Products, Inc. |
| Bob Dyson | Georgia Hardwoods |
| Jeff Edwards | Edwards Wood Products Inc. |
| Robin Etienne | Phil Etienne's Timber Harvest, Inc. |
| Peter Hairston | Private Landowner |
| Jack Hatfield | Jim C. Hamer Co. |
| Steve Houseknecht | Wagner Lumber, Inc. |
| John & Sally Ouellette | Private Landowner |
| Mike Poor | Thompson Industries, Inc. |
| Jim Sitts | Columbia Forest Products |
| Tom Talbot | Glen Oak Lumber & Milling |
| Thad Taylor | AgChoice Farm Credit |
| Bob Vogel | Hardwoods of Michigan |
| Jeff Wikle | TerraSource Valuation, LLC |
| Gene Willcutt | Stella-Jones Corp. |

APPENDIX G: Breakout Session Rosters

Breakout Session 1-D

Room: Cotillion A

Economy/Trade

| | |
|---------------------|-----------------------------------|
| Doug Bassett | Vaughn-Bassett Furniture Co. |
| Blaine Burroughs | Armstrong Floor Products |
| Bob Conger | Coastal Lumber Co. |
| Grafton Cook | Missouri-Pacific Lumber Co., Inc. |
| Jim Dills | Baillie Lumber Co., Inc. |
| Don Finkell | Anderson Hardwood Floors |
| Skip Holmes | Thomas & Proetz Lumber Company |
| Rick Lang | Highland Hardwoods |
| Greg Lottes | Danzer Veneer Americas |
| Claude McNiel | Hunter Douglas |
| Charlie Netterville | Fred Netterville Lumber |
| Mike Parton | Gilkey Lumber Co., Inc. |
| Ted Rossi | Rossi Lumber |
| Mark Vollinger | W.M. Cramer Lumber Co. |
| Howe Wallace | PalletOne, Inc. |
| Gary Williams | Koppers |
| Larry Wright | Hassell & Hughes Lumber Co. |
| Melvin Yoder | Yoder Lumber Company, Inc. |

APPENDIX G: Breakout Session Rosters

Breakout Session 2-E

Cotillion C

Mature Industry/New World

| | |
|---------------------|-------------------------------------|
| Teresa Bell | Kentucky Millwork |
| John Brown | Pike Lumber Company, Inc. |
| Bob Conger | Coastal Lumber Co. |
| Jim Dills | Baillie Lumber Co., Inc. |
| Bob Dyson | Georgia Hardwoods |
| Robin Etienne | Phil Etienne's Timber Harvest, Inc. |
| Dave Forst | Woodcraft Industries, Inc. |
| Mark Haddix | Farm Credit of the Virginias, ACA |
| Peter Hairston | Private Landowner |
| Jack Hatfield | Jim C. Hamer Co. |
| Tony Honeycutt | Mullican Flooring |
| Steve Houseknecht | Wagner Lumber, Inc. |
| Rick Lang | Highland Hardwoods |
| Dan Mathews | SII Dry Kilns |
| Claude McNiel | Hunter Douglas |
| Gary Middleton | USNR |
| Norm Murray | U•C Coatings |
| Charlie Netterville | Fred Netterville Lumber |
| Art Raymond | Hooker Furniture Corp. |
| Tom Talbot | Glen Oak Lumber & Milling |
| Howe Wallace | PalletOne, Inc. |
| Chris Watson | Conestoga Wood Specialties Corp. |
| Jeff Wikle | TerraSource Valuation, LLC |
| Gene Willcutt | Stella-Jones Corp. |
| Gary Williams | Koppers |
| Larry Wright | Hassell & Hughes Lumber Co. |

APPENDIX G: Breakout Session Rosters

Breakout Session 2-F

Room: Cotillion B

Government/Regulatory

| | |
|-----------------|-----------------------------------|
| Chuck Alexander | Forecon |
| Terry Brennan | Baillie Lumber Co. |
| Bill Buchanan | Buchanan Hardwoods |
| Grafton Cook | Missouri-Pacific Lumber Co., Inc. |
| John Crites | Allegheny Wood Products, Inc. |
| Roy Cummings | Cummings Lumber |
| Dave Daut | Fountains Forestry, Inc. |
| Jeff Durst | Hull Forest Products, Inc. |
| Jeff Edwards | Edwards Wood Products Inc. |
| Chris Ghiloni | American Woodmark Corp. |
| Skip Holmes | Thomas & Proetz Lumber Company |
| Jim Howard | Atlanta Hardwood Corp. |
| Charlie James | WoodMart Shutters |
| Mike Johnston | Babcock Lumber Co. |
| Greg Lottes | Danzer Veneer Americas |
| Doug Martin | Pollmeier Inc. |
| Mike Poor | Thompson Industries, Inc. |
| Jim Sitts | Columbia Forest Products |
| Thad Taylor | AgChoice Farm Credit |
| Mark Vollinger | W.M. Cramer Lumber Co. |
| Galen Weaber | Weaber Inc. |

APPENDIX G: Breakout Session Rosters

Breakout Session 2-G

Room: Cotillion A

Industry Dynamics

| | |
|------------------------|---------------------------------------|
| Dean Alanko | Allegheny Wood Products International |
| Nancy Arend | Weyerhaeuser/Northwest Hardwoods |
| Witt Hill | John Hancock-Bond and Corp. Finance |
| George Barrett | Hardwood Publishing Co., Inc. |
| Paul Barringer | Coastal Forest Resources |
| Doug Bassett | Vaughn-Bassett Furniture Co. |
| Romel Bezerra | Elof Hansson USA |
| Chris Bingaman | Bingaman & Son Lumber, Inc. |
| Dave Bramlage | Cole Hardwood |
| Rick Burnett | Cross Creek Sales, Inc. |
| Blaine Burroughs | Armstrong Floor Products |
| Don Finkell | Anderson Hardwood Floors |
| Jameson French | Northland Forest Products, Inc. |
| Pem Jenkins | Turn Bull Lumber Company |
| Jeff Meyer | Baillie Lumber Co., Inc. |
| George Nickell | Nickell Moulding Company |
| John & Sally Ouellette | Private Landowner |
| Mike Parton | Gilkey Lumber Co., Inc. |
| Dave Redmond | Highland Hardwood Sales, Inc. |
| Ted Rossi | Rossi Lumber |
| Bradley Stovall | Stanley Furniture Company, Inc. |
| Emmet & Linda Vaughn | Emmet Vaughn Lumber |
| Bob Vogel | Hardwoods of Michigan |
| Jeff Wirkkala | Hardwood Industries, Inc. |
| Melvin Yoder | Yoder Lumber Company, Inc. |
| Chris Zinkhan | The Forestland Group |

APPENDIX H: Priority Barriers Determined by Breakout Sessions, By Thematic Areas

| Economy and Trade | | Votes |
|-------------------|--|-------|
| 5 | The American consumer lacks financial health and economic confidence. | 12 |
| 305 | Availability of commercial working capital. | 9 |
| 41 | Government regulations/mandates make U.S. primary and secondary wood processors non-competitive in the global market. We need to draw manufacturers home and allow them to compete on an equal keel. | 4 |
| 4 | Housing market is not likely to recover over the next few years. | 3 |
| 19 | Despite the lower quality of Foreign products and the questionable legal sourcing of their raw materials concerns some North American customers, much is overlooked when the price is so low. | 3 |
| 18 | We have shrinking markets due to the low cost of offshore substitutes and the perception that they are greener than North American hardwoods. | 2 |
| 300 | Reduced Consumer purchase power | 2 |
| 20 | Some manufacturers fail to understand the hidden costs of imports (quality, inventory, domestic backup). Are they really less expensive? | 1 |
| 25 | Our traditional customer base and volume is greatly reduced. So, we are forced to look at other markets and try things (i.e. vertical integration). Some have worked moderately well, others not at all, and only a few very well. | 1 |
| 30 | Trade disputes and protectionism continue, both in the U.S. and abroad. Unfair trade practices: dumping, tariffs and subsidies imposed by international markets | 1 |
| 32 | The consumer is motivated by price, | 1 |
| 38 | Cost of labor high in U.S. relative to other countries. | 1 |
| 43 | U.S. hardwoods have difficulty competing on equal footing with foreign timber given illegal harvesting. | 1 |
| 304 | Availability of Consumer Credit | 1 |

*Barrier numbers 300 and above were added during the breakout session.

APPENDIX H: Priority Barriers Determined by Breakout Sessions, By Thematic Areas

| Industry Dynamics and Relationships | | Votes |
|-------------------------------------|---|-------|
| 402 | Absence of cooperation/collaboration between hardwood sector members (from landowners through secondary manufacturers) to address major challenges, provide unified voice, raise funds, and provide effective leadership. | 19 |
| 400 | Trade associations and industry members are not providing enough funding to effectively monitor/influence federal and state legislative/regulatory issues. | 12 |
| 401 | Trade associations and industry are not providing enough funding for promotions. | 12 |
| 52 | Independent industry members and associations hold onto turf, creating conflict and competition. Elected leaders and staff need to work together. | 8 |
| 54 | There are too many trade associations with too little focus and too much overlap. Individually they diminish the impact that combined efforts could have. Duplicated management wastes industry funds that could be used to maximize industry benefits. | 7 |
| 47 | Industry fragmentation prevents coordinated planning to address major challenges, reach consensus on a unified vision and achieve common goals. | 3 |
| 50 | Large segments of the industry that do not belong to or support trade associations. | 3 |
| 60 | Lumber and manufacturing sectors are fragmented, with no one group of manufacturers, importers, retailers or suppliers large enough to mount a meaningfully funded campaign to improve operating environment or change consumer behavior/perception. | 3 |
| 46 | There is an absence of collaboration/cooperation between timberland owners, sawmill operators and secondary manufacturers. Players ultimately focus on their own short-term gains satisfaction than that of the supply chain's end consumers. | 1 |
| 55 | Most trade associations are weak. | 1 |
| 56 | Trade associations not providing enough leadership in Washington, with state governments, with promotions and with monitoring forests. | 1 |
| 59 | The industry for too long has not had cohesive leadership or plan for the future. We blame our inability to work together on fragmentation. We need one spokesperson/agency who can speak for all. | 1 |

*Barrier numbers 400 and above were added during the breakout session.

APPENDIX H: Priority Barriers Determined by Breakout Sessions, By Thematic Areas

| Government and Regulatory | | Votes |
|---------------------------|---|-------|
| 93 | High costs of doing business (health insurance, wages, taxes, etc.) make U.S. hardwoods uncompetitive with other products, including imported wood, imported products and non-wood substitutes. | 12 |
| 86 | Our industry suffers from a lack of political support at every level, especially compared to countries like Canada, which strongly supports its wood industries. | 10 |
| 78 | Burdensome regulations: OSHA, state BMPs, immigration, health care, trucking, emissions, wood dust, workers comp, employee benefit mandates, fuel taxes. | 7 |
| 505 | Government regulations and policies are incrementally eroding private property rights. | 7 |
| 501 | Environmental groups use legal handcuffs to restrict harvesting of public lands. | 5 |
| 75 | Taxes make forestland ownership costly, reduce profitability, discourage investment in land, and encourage conversion to alternate uses. | 3 |
| 91 | A significant portion of hardwood forest inventory is on public land, and the low level of harvest on these lands artificially restricts the supply of hardwood logs. | 3 |
| 503 | U.S. tax policies are anti-business (present, and future uncertain) | 3 |
| 506 | Government subsidies (BCAP, ethanol, black liquor) picking winners and losers. | 3 |
| 500 | Government encourages/endorse/mandates uses of LEED | 2 |
| 502 | U.S. Forest Service data indicates forest sustainability, but USFS refuses to verify sustainability of American hardwood forests. | 2 |
| 76 | Taxation policy should be improved to incentivize landowners to sell timber as part of good forestry. | 1 |
| 77 | Inheritance tax policies must be stabilized and improved so that timberlands aren't lost in generational ownership transfers. | 1 |
| 80 | Government regulations contribute to the perception that our industry is detrimental to the environment and less green than alternative building products. | 1 |
| 82 | Government spending has put fear into the public. No one knows where the spending spree will leave us as a nation and consumers are therefore reticent to invest in housing or anything else. | 1 |
| 84 | Government not actively supporting U.S. manufacturing or helping make it competitive with Asian countries. | 1 |
| 89 | Closing forests to logging minimizes the value of the raw material and it therefore goes to waste due to forest fires, disease, infestation or just decay. | 1 |
| 504 | U.S. tax policy discourages long-term forest management (REIT/TIMO) | 1 |

*Barrier numbers 500 and above were added during the breakout session.

APPENDIX H: Priority Barriers Determined by Breakout Sessions, By Thematic Areas

| Product Marketing | | Votes |
|-------------------|--|-------|
| 106 | "American Hardwoods" lack brand identity in the marketplace. There is little distinction in the consumer's mind between U.S. hardwoods and other hardwoods. Industry lacks a brand that can be attached to its product and used in promoting hardwoods to the consumer; a brand consumers will recognize on hearing or seeing in print. All segments of the forest products industry—including architects, designers, secondary manufacturers, and dealers—have not worked together to promote a unified message about hardwoods | 26 |
| 112 | We lack marketing expertise and the understanding of its potential to increase industry profits. | 8 |
| 108 | Consumers have lost an appreciation for solid wood products. Fewer people understand the difference between real wood and its many faux substitutes. We haven't told them why they should value solid wood, and North American hardwoods in particular, thus our cast-off society prefers quick and cheap over long-lasting quality, and we lose market share to less expensive and less sustainable alternatives worldwide. | 5 |
| 601 | Lack of voluntary funding makes marketing difficult | 5 |
| 604 | Diversification and fragmentation of industry makes marketing difficult | 4 |
| 608 | Where do we direct our marketing? | 3 |
| 118 | Competing products (bamboo, exotics, imports, etc.) are better promoted than American hardwoods. | 2 |
| 122 | Hardwoods are losing market share in applications traditionally served by solid hardwoods because architects, designers and specifiers are not educated about the features, functions and benefits of solid hardwoods. | 2 |
| 607 | We don't know how to sell the value proposition of American hardwoods | 2 |
| 114 | The industry lacks willingness to embrace new marketing techniques, particularly through the Internet. | 1 |
| 116 | Differentiating our products is difficult, if not impossible, when sourcing from factories that supply a number U.S. developers/distributors. | 1 |
| 120 | Alternative non-wood look alike products provide a low-cost alternative to solid hardwood products. | 1 |
| 123 | Substitute materials benefit from strong lobbying by associations and companies that erroneously pitch these products as sustainable, or more sustainable than hardwoods. | 1 |
| 600 | Changes in pricing make value based marketing difficult | 1 |
| 602 | "Wood as fashion" biased against traditional American hardwoods | 1 |
| 603 | Lack of product innovation and marketing | 1 |

*Barrier numbers 600 and above were added during the breakout session.

APPENDIX H: Priority Barriers Determined by Breakout Sessions, By Thematic Areas

| Public Education/Green Issues | | Votes |
|-------------------------------|--|-------|
| 151 | Public believes that cutting trees is bad. They fill their homes with competing products, believing it is the smart, eco-friendly thing to do. They fail to recognize true costs of competing materials in terms of energy, waste, transportation, etc. The widespread public perception--fueled in part by environmental NGOs and the media--is that American timber and forest management practices are unsustainable and that forests are disappearing. There is a lack of understanding in the general public about the many benefits derived from well managed forestlands. | 13 |
| 156 | There is a lack of resources to get our message out consistently and to campaign against anti-industry environmental propaganda in a timely manner. Industry's limited scale and financial resources constrains capacity to wage major promotional campaign. | 13 |
| 130 | Despite having the historic data to do it, the USDA Forest Service has failed to certify as sustainable all U.S. hardwood forests and timberlands (public and private). | 12 |
| 134 | LEED and most international green building standards fail to recognize all the positive attributes of wood and ignore life cycle analyses of all the competing materials to wood. | 8 |
| 159 | Fragmentation and independence makes it difficult to reach consensus on a unified industry vision. | 4 |
| 153 | Industry is not marketing, selling, training, leading or directing consumers to the facts that "wood is good" and "trees are the answer." | 2 |
| 140 | Certification organizations have carved an economic niche and will often fight any message from the industry seeking more forest access. They will often challenge any claims industry makes about forest health and the value of managing forests. | 1 |
| 152 | U.S. children are conditioned to have a negative view of forest products by some teachers and the teaching materials often are inaccurate or misleading. | 1 |
| 706 | Lack of information about hardwoods and ignorance about positive environmental aspects of American hardwoods in design/architect educational system. | 1 |
| 707 | No differentiation in perception of forest management between softwood & hardwoods. | 1 |

*Barrier numbers 700 and above were added during the breakout session.

APPENDIX H: Priority Barriers Determined by Breakout Sessions, By Thematic Areas

| Adapting Mature Industry to New World | | Votes |
|---------------------------------------|--|-------|
| 186 | Institutional memory; i.e. failure to employ new strategies to break reliance on historic business models. | 11 |
| 212 | Our industry would operate more efficiently with "real time data." Market report data today is 2-5 weeks behind actual market conditions. Everyone from the landowner to the end-user needs to respond quicker. | 11 |
| 197 | We have lost much of the benefits of our value added process. We continue to do more for less...add more value, take more risk, encumber more capital investment as our profit margins continue to decline. | 8 |
| 162 | Customer demands for value-added services are increasing. Demands for special specifications--sorting for length, width, color, grain and grade--are also changing/growing, and don't always reflect what the logs produce, may require equipment investments | 7 |
| 185 | Difficult to buy a tract of timber today when there is no certainty where lumber demand/prices will be in three years when the lumber from that tract hits the market. | 6 |
| 802 | Need better forecasts - from customers | 6 |
| 166 | Consumers have a general lack of understanding regarding wood characteristics and properties; expect wood to look, feel and act like plastic or metal with no imperfections. | 4 |
| 801 | Customer/Supplier relationships | 3 |
| 177 | Manufacturers face extreme lumber price fluctuations, have no opportunity to hedge and find it impossible to pass along rapidly rising lumber costs. | 2 |
| 179 | Lumber, logs and transportation prices are erratic. | 2 |
| 182 | There has been a compression of manufactured goods' price points. The collapse of the high end has reduced the spread between good/better/best and increased competition at each level. | 2 |
| 183 | The cycles in the hardwood lumber pricing are becoming more compressed and there is little or no relation between the pricing of finished goods and the cost of raw materials, making procurement planning akin to fortune telling. | 2 |
| 201 | Low profit margins reduce ability to make capital investments. | 2 |
| 211 | Challenge is to balance inventory with true demand. | 2 |
| 803 | Lack of information to loggers and consulting foresters | 2 |
| 187 | Lack of forward thinking when it comes to sawmill design and operation. Failure to employ technologies already mature in other industries or other sectors of the forest products industry. | 1 |
| 190 | New or innovative uses, applications, and processing techniques need to be developed whereby hardwood products can be introduced and more appreciated. | 1 |
| 195 | The secret to U.S. industry success and survival has been having the best equipped factories in the world. Every year there are fewer machinery suppliers making the large, innovative machines we need to continue to lower our costs. It is getting harder and harder to find anyone creating innovative equipment that is also scaled for our large factories and large cuttings. | 1 |

*Barrier numbers 800 and above were added during the breakout session.

APPENDIX H: Priority Barriers Determined by Breakout Sessions, By Thematic Areas

| Sustaining Industry Base and Profitability | | Votes |
|--|--|-------|
| 231 | There is a lack of certified loggers. Logging provides low paying jobs, attracting mostly unskilled and untrained workers. | 12 |
| 265 | We are a financially weakened industry facing insufficient availability of credit and lack of working capital. | 9 |
| 214 | High cost of owning forestland due to competing forces such as subsidized cropland and urban sprawl causing forestland to be divided into smaller units and converted to other uses. | 8 |
| 253 | Public perception that the forest products industry is a low-tech, non-attractive career choice, coupled with the belief that the industry is dying. | 8 |
| 900 | Public land restrictions on harvesting. | 7 |
| 218 | Uncertainty of long-term availability of quality timber supply from willing sellers. | 4 |
| 909 | Tax policies force landowners to cut timber or convert land in order to pay taxes. | 3 |
| 902 | High cost of capitalization | 2 |
| 904 | The high cost of workers compensation. | 2 |
| 219 | Timberland owners put a low priority on timber management. Increasing preservation and parcelization of private forests--often by urban owners with a negative view of timber harvesting or conservancies who would only harvests because of some major disaster--is making stumpage acquisition more difficult and expensive. | 1 |
| 221 | Despite government data indicating a large and growing hardwood resource, most mills are struggling to maintain adequate log inventories. | 1 |
| 223 | U.S. forests are poorly managed and underutilized. We're not harvesting growth. | 1 |
| 228 | The market for timberland often includes consideration of higher-and-best uses other than timber production. Addressing these higher-and-best uses often results in deviations away from investing in the tract from a timber perspective and in managing for optimal timber production. | 1 |
| 234 | Loggers and logging company ownership are aging, and with an uncertain future, it is difficult to attract investors and few company owners have plans for transfer of ownership. | 1 |
| 246 | Difficult for manufacturers to develop strategic supply relationships given the reduction in lumber producers. | 1 |
| 262 | I am concerned that we'll lose key employees/managers who will pursue a "different set of problems" due to burnout and a less than optimistic outlook for the building products industry, etc. | 1 |
| 263 | Banks won't lend to our industry. We're painted with the same red brush as housing-related industries. | 1 |

*Barrier numbers 900 and above were added during the breakout session.

APPENDIX I: Barriers by Thematic Area that were Stricken or Received No Votes

Economy and Trade - No Votes

| | |
|----|--|
| 1 | We are shifting to a service-based economy |
| 2 | In today's world economy, we are at the mercy of domestic and global economic conditions beyond our control. |
| 3 | The bubble of consumer activity we enjoyed during the boom years means many buyers simply will not be willing or able to make purchases in the near future. |
| 6 | World economy is critically important |
| 7 | Even in the best of times, the hardwood industry only had a limited customer base. |
| 8 | The cyclical nature of the hardwood industry is a barrier; the industry is unable to help itself in a down cycle, and too busy making money in an up cycle to do what is needed. |
| 10 | The manufacture of labor intensive products and components/parts are being offshored, eliminating a significant domestic customer base. Need to re-establish this manufacturing base domestically. Pressure on domestic manufacturers from low-value imports is increasing. |
| 11 | U.S. hardwood companies struggle to compete with subsidized offshore manufacturing. |
| 13 | U.S. secondary wood products manufacturers struggle to compete with subsidized offshore manufacturing. |
| 14 | Cheap labor, government subsidies, corrupt business practices and lack of environmental controls allow overseas manufacturers--particularly those in China--to offer unfair pricing, making it difficult for U.S. firms to compete and destroying American industry. |
| 15 | Quality of imported furniture has hurt the quality perception for all furniture. |
| 16 | Before offshored manufacturers and finishers could return to the U.S., they would need a guaranteed supply of raw materials. But, U.S. mills are not going to cut, dry and store lumber in a bad economy without confidence in how much they will be able to sell. It's a chicken-and-egg problem. |
| 17 | Manufacturers in China, Vietnam and elsewhere--including former U.S. manufacturers that have shifted towards outsourced manufacturing--are not loyal to American hardwoods and more likely to pursue substitutes, including hardwoods from other parts of the world as well as more veneer and non-wood items. |
| 21 | Traditional U.S. manufacturing utilized many grades of hardwood lumber. Overseas manufacturing has shifted domestic demand towards industrial uses, leaving a loss of balance in the market across the lumber grade spectrum. |
| 22 | Loss of domestic markets for lumber has forced us to increase our export sales |
| 23 | Limited pricing potential for exports due to ready supply of raw materials from countries like Russia |
| 24 | The hardwood sector's dependence on domestic markets, especially new housing and remodeling, makes it very sensitive to external factors. |
| 26 | Global product demand is down. |
| 27 | We've lost many of our domestic customers. |
| 28 | We have too few customers left to service in our region to maintain our past sales levels and to operate at an efficient level...there is still way too much competition in the distribution yard trade for the business available in our region. |
| 29 | U.S. hardwoods, parts and finished products subject to political discrimination or exclusion from some international markets. |
| 31 | Policies do not promote economic growth in some international markets. |
| 34 | Small producer has difficult access to global markets. |
| 35 | Quebec foreign trade industry is partially subsidized by government. |
| 36 | U.S. citizens need to prepare to compete on a global plane regarding skills, labor, expertise and product delivery...which includes being willing to accept lower compensation. |
| 37 | Lack of tax incentives for businesses in America. |
| 39 | Doesn't make economic sense to manufacture/convert raw materials in U.S. |

APPENDIX I: Barriers by Thematic Area that were Stricken or Received No Votes

Economy and Trade - No Votes (cont.)

| | |
|-----|---|
| 40 | Comparative advantages offer Asian secondary processors a cost edge vs. U.S. secondary processors, creating a geographic separation between U.S. lumber producers and their customers, and there is usually no internal coordination between the two. |
| 42 | Our "free market economy" is being abused and manipulated from overseas. |
| 301 | Reduced Product Lifespan Expectations |
| 302 | Unfavorable Tax Structure |
| 303 | Lack of international free markets |
| 306 | Cost of Health and Insurance Benefits |

*Barrier numbers 300 and above were added during the breakout session.

APPENDIX I: Barriers by Thematic Area that were Stricken or Received No Votes

Industry Dynamics and Relationships - No Votes

| | |
|----|--|
| 44 | Some manufacturers don't understand that their raw material suppliers are their friends. |
| 45 | Lack of inter-industry communication about supply levels, demand rates, and current trends causes poor choices or lack of action.** |
| 48 | Some lumber manufacturers are out of step and indifferent to the needs of secondary manufacturers. |
| 49 | Lumber sellers need to recognize that each manufacturing sector has different raw material needs; they should market and price lumber accordingly. |
| 51 | There is a general lack of understanding of how each hardwood segment operates and what information is needed to reduce costs. |
| 57 | Trade association dues are out of line considering what they deliver. |
| 58 | Trade associations bogged down by regional differences and petty vested interests. |
| 61 | Industry fragmentation contributes to extremely low profit margins in the hardwood sector.** |
| 62 | Narrow choice selection of products using hardwoods. |
| 63 | Complicated export trail/documents, payment procedures, insurance, etc. |
| 64 | Lack of networking opportunities. |
| 65 | Consumers lack skill and tools to do home woodworking projects. |
| 66 | It's hard to get good wood makers/installers/contractors for projects. |
| 67 | No labeling requirement on furniture/cabinetry, etc. |
| 68 | Most of us have been forced to compromise our standards in order to survive the last few years...credit...profit margins...size of shipments to customers, etc. Long-term this will undermine our efforts for a bright future. |
| 69 | It has been very challenging over the last 24 months to forecast clearly, which has changed my risk profile. |

*Barrier numbers 400 and above were added during the breakout session.

**Not discussed due to anti-trust concerns.

APPENDIX I: Barriers by Thematic Area that were Stricken or Received No Votes

Government and Regulatory - No Votes

| | |
|-----|--|
| 70 | Uneven enforcement of government regulations from state-to-state creates large disparities in operating costs. |
| 71 | Costs (taxes, fees) associated with state, federal and local government regulations are rising faster than the industry's ability to absorb them, increasing operating costs and difficulty of doing business. |
| 72 | Size of government stifles industry productivity. |
| 73 | Inconsistent trucking regulations increasing costs, reduce profitability. |
| 74 | Compliance with increasing demands from the EPA, the IRS and health care will drive many companies out of business. Paperwork requirements are overwhelming for small businesses. |
| 79 | Uncertainty about future environmental and regulatory regulations, such as "cap and trade," may impact log availability and reduce the availability of affordable hardwoods. |
| 81 | Worker's comp board is hostile to business. |
| 83 | Audits, regulations etc. demonstrate that the government views the industry as an enemy and only add to the complexity and cost of what we do. Overseas governments don't treat their industries this way. |
| 85 | Small mills fall under state and federal regulators' radar screens and don't comply with all OSHA and EPA requirements. They therefore have lower operating costs and drive timber prices higher than compliant mills can pay. |
| 87 | Tort reform needed to control malicious lawsuits. |
| 88 | Conditions on government-owned timber sales (up-front payments, bonds, road construction, reclamation, etc.) make them extremely costly. |
| 90 | Bureaucratic limitations limit access to affordable raw material from public lands. |
| 92 | Fluctuating and high transportation costs (inland and export containers) make American hardwoods less competitive in international markets. |
| 94 | Constant increases in non-operating costs (insurance, benefits, regulations, fuels, utilities, and soon-to-be interest rates). |
| 95 | Fuel pricing and availability. |
| 96 | Energy costs. |
| 97 | Risk management costs (workman's comp, insurance, etc.) |
| 98 | Unstable shipping costs (land and sea) do not allow the industry to price its product for any length of time. |
| 99 | Federal and state fiscal policies create more overhead, provide little stability to move ahead. |
| 100 | Rising costs and declining revenue. |
| 101 | Impacts of invasive diseases/pests on mortality, species variety, forest health and productivity (EAB, Thousand Cankers Disease). |
| 102 | Climate change impacts, such as on Hard Maple in the northern forest. |
| 103 | Long-term, healthy forestry practices are not rewarded over short-term deforestation practices, such as urbanization. |
| 104 | Current forest management's goal of sustaining the top three species (Red Oak, White Oak and Poplar) is not healthy, limits forest diversity, and limits opportunities to diversify lumber sales. |
| 105 | Tree diseases and invasive species increase risk of forestland ownership for industry and private woodland owners. |

*Barrier numbers 500 and above were added during the breakout session.

APPENDIX I: Barriers by Thematic Area that were Stricken or Received No Votes

Product Marketing - No Votes

| | |
|-----|--|
| 109 | Consumers often cannot differentiate between wood species, even if they know they should value Oak and Cherry over Pine, Poplar or Rubberwood. |
| 110 | We lack scientific life cycle analyses to demonstrate cradle-to-grave advantages of hardwoods over substitute building materials and other mechanisms to verify species and grade-specific sustainability. |
| 113 | Consumers perceive U.S. wood products as expensive/overpriced because they fail to look at quality/workmanship. Retail distribution channels sell imported products on price instead of features, advantages and benefits of the product and materials used in construction. We need to change the mindset that cheaper is better. |
| 115 | Formerly high-end products (that had great margins) have become commodities--specialty hardwoods selling with softwood margins--this is not sustainable. |
| 117 | U.S. has an excellent supply of sustainable, temperate hardwoods that can fill the void left in global markets by stepped-up enforcement of illegal logging regulations; but we've got to market it. |
| 119 | High prices for North American hardwoods encourage substitution, i.e. pine's growing share of the pallet market. |
| 121 | Substitute products, such as MDF mouldings, are sometimes a better product than hardwoods for a given application. |
| 605 | No industry-wide programs to train sales people |
| 606 | We lack marketing expertise, funding, and unified message which undermines potential to increase industry profits |

*Barrier numbers 600 and above were added during the breakout session.

APPENDIX I: Barriers by Thematic Area that were Stricken or Received No Votes

Public Education/Green Issues - No Votes

| | |
|-----|---|
| 124 | We face continued pressure from both domestic and international environmental groups working against the harvest of hardwood timberlands and the use of wood. |
| 125 | Extremists on both sides can negatively impact the hardwood industry. |
| 127 | Teachers teach anti-wood propaganda. |
| 128 | American environmental lobby and media is hostile and poorly informed. |
| 129 | Lawsuits and the costs that litigation (money, time, energy, stress on key employees) bring to our company/industry. |
| 131 | State forestry agencies will be competing with third-party certifiers. |
| 132 | We must secure certification for all U.S. hardwood forests. |
| 133 | Industry needs to believe there are options to FSC, SFI and PEFC. |
| 137 | Perceived experts in green building are promoting the replacement of wood with plastics, metals, concrete, steel and glass as a more responsible way to build. |
| 138 | Green building codifiers may view industry participation in changing the green building rules akin to letting the fox in the henhouse. |
| 139 | Architects are specifying certified wood, which blocks access to a large percentage of American hardwoods, raises costs to consumers, and makes substitute raw materials more attractive. |
| 141 | European consumers are confused when it comes to the certification of American hardwoods. |
| 142 | FSC dominates the certification game due to its independent financial support from outside the industry, and will continue to add red tape and financial burden to distributors, making it difficult to remain price competitive and still turn a profit. |
| 143 | High cost of FSC enrollment relative to the added value of selling FSC lumber. |
| 144 | Lack of FSC sawmills to process timber and logs. |
| 145 | We need better promotion of what FSC means to consumers in order to create demand. |
| 146 | Promote the advantages of domestic FSC products and tighten the definitions/requirements to block backdoor product entry. |
| 147 | Criteria for sustainable forests differ between third-party certifying organizations. |
| 148 | Efforts of third-party certification systems are duplicated. |
| 149 | American hardwoods are not recognized as inherently sustainable by most international green certification schemes. |
| 150 | Green certification schemes are blocking access to markets and unnecessarily raising the costs of hardwood as a raw material. |
| 154 | Recycling of non-renewables (concrete, glass, metals and plastic) is being promoted as "more green" than the use of sustainable wood products. |
| 155 | The widespread public perception--fueled in part by environmental NGOs and the media--is that American timber and forest management practices are unsustainable and that forests are disappearing. |
| 157 | We lack education programs about why utilizing more wood from the U.S. is a good thing for the global environment. |
| 158 | There is a lack of understanding in the general public about the many benefits derived from well-managed forestlands. |
| 160 | Fragmentation of industry encourages "free riders" in coordinated marketing efforts. |
| 161 | We have an ineffective forest products lobby/press. |
| 700 | Most landowners do not receive financial incentives to become certified. |
| 701 | Differences among state forest policies and regulations prevent blanket certification. |
| 702 | Lack of 3rd party certification diminishes global market (market access) for U.S. hardwoods. |
| 703 | Anti-wood bias exists with environmental non-governmental organizations. |
| 704 | Industry's defensiveness about green credentials including certification. |
| 705 | Differentiating American hardwoods from the world's bad actors is difficult. |

*Barrier numbers 700 and above were added during the breakout session.

APPENDIX I: Barriers by Thematic Area that were Stricken or Received No Votes

Adapting Mature Industry to New World - No Votes

| | |
|-----|--|
| 164 | Secondary manufacturers' requirements are inflexible (e.g. cabinet moulding requirement of 96") |
| 165 | Consumer expectations are changing. |
| 167 | Consumers' appearance demands (wide-width flooring, for example) can negatively impact product performance. |
| 168 | Shift in home construction practices from suspended to slab foundations impacts market share for solid wood flooring. |
| 169 | Lack of understanding of U.S. grading rules in overseas markets makes it difficult to demonstrate the value of American hardwoods. |
| 170 | NHLA rules are somewhat irrelevant and not designed to allow end-users to maximize value throughout the supply chain. Grading rules should be specific to end consumers (e.g. cabinets, flooring) and driven all the way back to the bucking of the logs in the woods. |
| 171 | Foreign grading rules are a threat. |
| 172 | There are no global standards for hardwood products. |
| 173 | U.S. standards are different from other countries' specifications, thus limiting where products can be sold globally. |
| 174 | Lumber grading procedures inconsistent between wood manufacturers. We get compared to companies which grade their incoming lumber less frequently. We are perceived as "picky" when simply all we expect is the material to be on grade. |
| 175 | Wildly fluctuating lumber prices cause instability in the industry. |
| 176 | Fluctuating log and lumber markets reduce predictability and profitability of land ownership. |
| 177 | Lack of a futures market for hardwood lumber subjects producers and consumers to high price volatility, with no mechanism to manage costs over a longer time frame. |
| 180 | Amount of variation in U.S. industry prices frustrates overseas buyers and forces them to look to non-U.S. woods as a solution. |
| 181 | Sharp increases in lumber pricing raises our inventory values and causes dilemmas in managing cash flow. |
| 184 | Everybody loses in price wars, yet they happen constantly. |
| 188 | Industry's production of commodity lumber (e.g. NHLA grades) in lieu of special sizes that may enable downstream efficiency. |
| 189 | "Make it and they will come" attitude doesn't work. |
| 191 | Industry is relatively unwilling to embrace new technologies for sales and marketing |
| 192 | U.S. production standards are different from other countries' buyer specifications, thus limiting where products can be sold globally. |
| 193 | Yield. Lumber is produced in random widths. Flooring is sold in stock widths. We produce the width of flooring that is in demand, resulting in yield loss from random-width lumber. |
| 194 | Too much resource is left in the woods; too much of the log is chipped rather than put into sawn products; too much sawdust is made. Recovery (yield) needs to be improved from tree to finished product. We still use something like only 10% of the tree. |
| 196 | The number of middlemen (wholesalers, exporters, distribution yards, etc.) has grown dramatically while production and sawmills have declined. Will be tough for these players to be very profitable or even survive. There are too many intermediaries between production and final customer. |
| 198 | Need advancements in machine and scanning technology. |

*Barrier numbers 800 and above were added during the breakout session.

APPENDIX I: Barriers by Thematic Area that were Stricken or Received No Votes

Adapting Mature Industry to New World - No Votes (cont.)

| | |
|-----|---|
| 199 | Lack of diversification has been the most difficult barrier for equipment manufacturers. We have increased our product offerings, but the equipment has little application beyond the lumber and wood products industry. Should we continue to invest in product development for the lumber industry or spend the same money to develop products to serve a non-lumber industry? If buyers in the lumber industry are only interested/able to afford used equipment and old technology with poor efficiency, what is the benefit for us in developing more desirable/efficient equipment? |
| 200 | Our industry is so small as a whole now, that I am afraid there will be little future technology development for the logging and manufacturing sectors. |
| 202 | Fragmented, overly suspicious, under-financed sawmill industry, often too conservative to take advantage of opportunities. |
| 203 | Productivity in remaining facilities has to be increased, with costs decreased (takes money). |
| 204 | We are "eating our young;" overproducing into improving markets, thereby driving down prices and profits. |
| 205 | Barriers to entry are too low, leading to relatively easy increases in capacity. |
| 206 | More sawmill capacity needs to be taken out of the system at current demand levels. If capacity is not reduced further, raw material prices will increase, selling prices will fall and margins will be challenged again. Mills need margin to justify the large capital requirements of our business. |
| 207 | Many building products industries have 40 to 50% overcapacity; many companies added capacity in the market boom just prior to the collapse. Much of this capacity was never fully used. |
| 208 | Small, inexperienced cabinet companies entered the commercial sector when residential construction began to dive, and they've gained market share with below-cost bidding. They will eventually thin out, but it has severely hurt qualified and experienced companies. |
| 209 | Pricing in the industry reflects oversupply and lack of demand. |
| 210 | The vast majority of our larger customers can produce what we produce (components) and have chosen to do so. With so much excess capacity, it is unlikely that these customers will begin outsourcing in earnest for quite some time. |
| 213 | Difficult to compete with companies whose financial situations have grown so desperate that they use "desperation pricing" to maintain cash flow without concern for profits. |

*Barrier numbers 800 and above were added during the breakout session.

APPENDIX I: Barriers by Thematic Area that were Stricken or Received No Votes

Sustaining Industry Base and Profitability - No Votes

| | |
|-----|---|
| 215 | Lack of innovation in logging raises costs of providing raw materials to sawmills. |
| 216 | Lack of low-grade markets reduces harvesting operability and profitability, while encouraging poor forestry practices. |
| 217 | Government ordinances limit access to stumpage from private lands. |
| 220 | Fragmentation reduces timber availability. |
| 222 | Industry lacks cohesive strategy for dealing with the increased pressure that industry based biofuel and biomass markets are putting on the hardwood resource. How will the use of wood and whole trees impact the availability of timber for sawmills? What impact will subsidies have on timber prices? Will these markets encourage clearcutting and monoculture plantations to the detriment of the environment and wildlife? |
| 224 | TIMOs hold much of what once was an industrial timber base. They have a shorter investment view and are more likely to sell property in the short term, further adding to the problem of fragmentation. |
| 225 | Lumber industry facing increasing resource competition from other hardwood industry segments such as pallet mfrs, grade lumber companies, coal mine timber, and pulpwood producers, as well as dragline mat suppliers |
| 226 | Landowners are not cutting timber due to the lack of low-grade log markets. |
| 227 | Lower log prices during the last few years have caused many forest land owners to postpone timber harvests, resulting in a very short supply of available standing timber. |
| 229 | Sound natural hardwood silviculture generally does not target and select for specific species/products, which, coupled with the volatility in the lumber sector, makes it difficult to plan forestry operations to achieve targeted returns and meet landowner/investor expectations. |
| 230 | Increased costs (workers comp, BMP compliance, equipment purchase/maintenance, timber costs) make it difficult to be profitable. |
| 232 | Logging infrastructure is outdated and inefficient. |
| 233 | Young people are unaware of careers in logging and are, thus, not gravitating towards the profession. |
| 235 | Banks are unwilling to loan to loggers for start-up and operations, which will extend the recovery of logging capacity. |
| 236 | So many hardwood sawmills have gone out of business that the lumber supply presents a huge long-term dilemma. It will hold back industry growth when lumber demand improves. |
| 237 | Supply chain has been so diminished that we've had to bring more of the supply functions in-house. |
| 238 | Difficult to predict production and pricing from/for sawmills. |
| 239 | Availability of green lumber has been reduced as primary producers increasing build their own dry kilns. |
| 240 | Financial stability of hardwood lumber producers is precarious |
| 241 | Lean lumber infrastructure creates market volatility. |
| 242 | Ageing sawmill ownership presents additional supply concerns. Few have transfer of ownership plans and difficulties in attracting investors mean there may not be adequate numbers to replace them. |
| 243 | Consolidation of production creates localized supply imbalances. |
| 244 | Hard to get sawmills to cut to specific needs, including lower volume species. |
| 245 | Sawmills shy away from lesser-known species such as Beech, Sycamore, Cottonwood and Hackberry that not fully utilized for higher-valued finished goods. |

*Barrier numbers 900 and above were added during the breakout session.

APPENDIX I: Barriers by Thematic Area that were Stricken or Received No Votes

Sustaining Industry Base and Prof. - No Votes (cont).

| | |
|-----|--|
| 247 | Tough for sawmills to qualify for start-up and operating loans. |
| 248 | Lumber production has been so greatly reduced, it is difficult to maintain a balanced & complete inventory ahead for our customers while maintaining our high quality standards. |
| 249 | There is a lack of innovative people coming into the industry. |
| 250 | Pressure on available labor pool makes it more difficult to attract and retain quality people |
| 251 | Immigration is a growing workforce issue. |
| 252 | Sales personnel are not trained in domestic and export marketing, and often are not professional or knowledgeable. |
| 254 | Maintaining workforce motivation. |
| 255 | Difficulty in attracting and training workforce for logging, forestry and the processing industry. |
| 256 | Finding workforce with basic education and proper training and skills in math, reading, computers, communication. |
| 257 | We are a labor intensive industry, thus labor costs greatly impact manufacturing costs. |
| 258 | Reduced production/sales requires balancing of labor assets and keeping them mobile. |
| 259 | Changing work ethic and lack of hardworking employees. |
| 260 | Providing living wage and health care benefits to attract/retain people, especially lower-end workers, is challenging. |
| 261 | Hard to find new employees who can recognize opportunity and have a desire to grow with the company. |
| 264 | Loggers, lumber suppliers and other industry companies need increased lending from both commercial banks and federal charter institutions, such as the land banks. |
| 266 | Banks' lack of risk tolerance for our industry has already and will continue to make it difficult to secure capital to support a production ramp up when demand justifies it. |
| 267 | We need upgraded equipment to be more productive but it is difficult to obtain financing for capital projects. |
| 268 | New government banking regulations will produce additional financial challenges. |
| 269 | Industry needs more options for financing than banks, especially since banking industry's image of hardwood industry is negative. |
| 270 | There are reduced investment funds available for land purchases. |
| 271 | Investors are generally ignorant about hardwood forest and thus reluctant to invest in this type of asset. |
| 272 | We have more debt than we would like, but efforts to get stronger on the balance sheet limits our ability to grow through acquisition or R&D. |
| 273 | A lot of mills have closed because they can't get enough credit to cover severe customer credit risks. |
| 274 | Banks won't loan you any money for any reason, but they will charge you outrageous fees to keep your line of credit open. |
| 275 | Our business is so capital intensive; it takes a lot of money to make small amount of money. |
| 276 | Our credit line once gave us the stability to weather the 3-year storms that periodically come. |
| 277 | We've been forced to change banks even though we are extremely financially sound and owed our former bank less than 4% on our line of credit. |
| 278 | Delayed payments causing cash flow problems. |

*Barrier numbers 900 and above were added during the breakout session.

APPENDIX I: Barriers by Thematic Area that were Stricken or Received No Votes

Sustaining Industry Base and Prof. - No Votes (cont).

| | |
|-----|--|
| 279 | The volatility of cash flow from operations has been exacerbated by the use of financial leverage. |
| 280 | Willingness to export logs and lumber rather than making them into semi-finished or finished products domestically creates increased foreign pressure on the raw materials needed by domestic manufacturers...from the very countries/companies that are then turning around and competing against U.S. manufacturers for domestic market share. |
| 281 | Domestic companies facing pressure from Canadian log markets. |
| 282 | We don't want to stop exporting hardwood products and raw materials, but we need to be able to compete in a market that is fair, in order justify strategies and investments to maintain our competitiveness. |
| 901 | A lack of cooperation between TIMO's, REIT's and the industry relative to land management. |
| 903 | Lack of bi-lingual management staff creating a language barrier. |
| 905 | Financing for exports can be a barrier to growth. |
| 906 | Volatility of shipping costs pertaining to exports. |
| 907 | Some logs are worth more as export logs than sawmill logs. |
| 908 | English vs. Metric measuring system relative to exports. |
| 910 | Threats from diseases and insects. |

*Barrier numbers 900 and above were added during the breakout session.

APPENDIX J: Highest Overall Priority Barriers and Challenges

| Barrier # | Day 2 - Overall Priority Voting | | | Barrier | Day 1 - Breakout Session Voting | | |
|-----------|---------------------------------|-------|-------|--|---------------------------------|-------|---------------------|
| | Rank | Votes | % | | Rank in Breakout Session | Votes | % of Breakout Votes |
| 106 | 1 | 62 | 28.1% | “American Hardwoods” lack brand identity in the marketplace. There is little distinction in the consumer’s mind between U.S. hardwoods and other hardwoods. Industry lacks a brand that can be attached to its product and used in promoting hardwoods to the consumer; a brand consumers will recognize on hearing or seeing in print. All segments of the forest products industry—including architects, designers, secondary manufacturers, and dealers—have not worked together to promote a unified message about hardwoods. | 1 | 26 | 40.6% |
| 151 | 2 | 55 | 24.9% | Public believes that cutting trees is bad. They fill their homes with competing products, believing it is the smart, eco-friendly thing to do. They fail to recognize true costs of competing materials in terms of energy, waste, transportation, etc. The widespread public perception--fueled in part by environmental NGOs and the media--is that American timber and forest management practices are unsustainable and that forests are disappearing. There is a lack of understanding in the general public about the many benefits derived from well managed forestlands. | 1* | 13 | 23.2% |
| 402 | 3 | 33 | 14.9% | Absence of cooperation/collaboration between hardwood sector members (from landowners through secondary manufacturers) to address major challenges, provide unified voice, raise funds, and provide effective leadership. | 1 | 19 | 26.8% |
| 93 | 4 | 17 | 7.7% | High costs of doing business (health insurance, wages, taxes, etc.) make U.S. hardwoods uncompetitive with other products, including imported wood, imported products and non-wood substitutes. | 1 | 12 | 18.8% |
| 156 | 5 | 14 | 6.3% | There is a lack of resources to get our message out consistently and to campaign against anti-industry environmental propaganda in a timely manner. Industry’s limited scale and financial resources constrains capacity to wage major promotional campaign. | 1* | 13 | 23.2% |
| 130 | 6 | 8 | 3.6% | Despite having the historic data to do it, the USDA Forest Service has failed to certify as sustainable all U.S. hardwood forests and timberlands (public and private). | 3 | 12 | 21.4% |
| 401 | 7 | 6 | 2.7% | Trade associations and industry are not providing enough funding for promotions. | 3 | 12 | 16.9% |
| 5 | 8 | 5 | 2.3% | The American consumer lacks financial health and economic confidence. | 1 | 12 | 28.6% |
| 231 | 9 | 4 | 1.8% | There is a lack of certified loggers. Logging provides low paying jobs, attracting mostly unskilled and untrained workers. | 1 | 12 | 19.0% |
| 186 | 10 | 2 | 0.9% | Institutional memory; i.e. failure to employ new strategies to break reliance on historic business models. | 1 | 11 | 15.1% |
| 265 | 11 | 2 | 0.9% | We are a financially weakened industry facing insufficient availability of credit and lack of working capital. | 2 | 9 | 14.3% |

* tied in rank

HARDWOOD LEADERS FORUM – MID-PROJECT PROGRESS REPORT

APPENDIX J: Highest Overall Priority Barriers and Challenges

| Barrier # | Day 2 - Overall Priority Voting | | | Barrier | Day 1 - Breakout Session Voting | | |
|-----------|---------------------------------|-------|------|--|---------------------------------|-------|---------------------|
| | Rank | Votes | % | | Rank in Breakout Session | Votes | % of Breakout Votes |
| 134 | 12 | 2 | 0.9% | LEED and most international green building standards fail to recognize all the positive attributes of wood and ignore life cycle analyses of all the competing materials to wood. | 4 | 8 | 14.3% |
| 78 | 13 | 2 | 0.9% | Burdensome regulations: OSHA, state BMPs, immigration, health care, trucking, emissions, wood dust, workers comp, employee benefit mandates, fuel taxes. | 3 | 7 | 10.9% |
| 909 | 14 | 2 | 0.9% | Tax policies force landowners to cut timber or convert land in order to pay taxes. | 7 | 3 | 4.8% |
| 400 | 15 | 1 | 0.5% | Trade associations and industry members are not providing enough funding to effectively monitor/influence federal and state legislative/regulatory issues. | 2 | 12 | 16.9% |
| 305 | 16 | 1 | 0.5% | Availability of commercial working capital. | 2 | 9 | 21.4% |
| 108 | 17* | 1 | 0.5% | Consumers have lost an appreciation for solid wood products. Fewer people understand the difference between real wood and its many faux substitutes. We haven't told them why they should value solid wood, and North American hardwoods in particular, thus our cast-off society prefers quick and cheap over long-lasting quality, and we lose market share to less expensive and less sustainable alternatives worldwide. | 3 | 5 | 7.8% |
| 601 | 17* | 1 | 0.5% | Lack of voluntary funding makes marketing difficult. | 4 | 5 | 7.8% |
| 41 | 19 | 1 | 0.5% | Government regulations/mandates make U.S. primary and secondary wood processors non-competitive in the global market. We need to draw manufacturers home and allow them to compete on an equal keel. | 3 | 4 | 9.5% |
| 77 | 20* | 1 | 0.5% | Inheritance tax policies must be stabilized and improved so that timberlands aren't lost in generational ownership transfers. | 13 | 1 | 1.6% |
| 263 | 20* | 1 | 0.5% | Banks won't lend to our industry. We're painted with the same red brush as housing-related industries. | 10* | 1 | 1.6% |

* tied in rank

APPENDIX K: Potential Solutions Offered by Forum Participants

Economy and Trade - Solution Ideas

| Address Barrier(s) # | Solutions |
|---------------------------------|---|
| 304/305 | Rework credit reporting system |
| 30/37/41 | Legislative lobbying to address regulations /taxes/credit |
| 10/15/18/19/20 | Educate about true costs of overseas manufacturing rather than focus on initial price |
| | Reeducate consumers that trees are good |
| 7 | Co-op advertising programs |
| 7/30/37/41 | Organize/single voice for the whole industry on issues |
| 30/37/41 | Financial support for lobbying |
| 14/19 | International Safety and environmental standards |
| 7 | National Advertising campaign |
| 7/18/34 | check-off program |
| 7/18/34 | Increase use of social media/Internet communication |
| 7/18/34 | Volunteer to talk at schools |

Industry Dynamics and Relationships - Solution Ideas

| Address Barrier(s) # | Solutions |
|---------------------------------|--|
| 400/401 | Host meeting of hardwood and affiliated association leaders to identify like/common projects on which to work together. |
| 400/401 | Increase industry and association funding of and participation in the Hardwood Federation. |
| 400/401 | Increase industry and association awareness and support for the Unified Hardwood Promotion program |
| 400/401 | Cultivate/nurture associations from other industry sectors to support Hardwood Federation and Unified Hardwood Promotion. |
| 401 | Need a new initiative of associations cooperating on promotion. |
| 401 | Hardwood check-off |
| 401 | Combine hardwood check-off with softwood industry check-off |
| 52-54 | Industry leaders should consider associations mergers/consolidations as appropriate. |
| 50 | Increase association membership |
| 401/402 | Industry education about messages and how to communicate them. |
| 402 | Include distributors in collaborative industry efforts. |
| 401 | Take advantage of existing opportunities to promote hardwoods (AHEC). Encourage industry members to join AHEC and communicate success of AHEC efforts. |
| 59 | Establish an umbrella entity for the full hardwood sector. |

APPENDIX K: Potential Solutions Offered by Forum Participants

Government and Regulatory - Solution Ideas

| Address Barrier(s) # | Solutions |
|---------------------------------|--|
| 93 | Level the playing field - impose tariffs/standardize regulations to match those imposed on international competitors by their home countries |
| 93 | Show government the money/jobs (tax revenue/employment from timber production off public lands) |
| 93 | Search for non-hardwood industry partners with common issues of concern |
| 86 | More lobbying at state and federal levels |
| 86 | Elect politicians that support our industry |
| 86 | Influence political appointments in USDA and USDA Forest Service |
| 86 | Improve public perception of the American hardwood industry so that they elect leaders favorable to industry interests. |
| 86 | Identify key legislators (friend or foe) to influence or educate in favor of hardwood-based issues or business in general. |

Product Marketing - Solution Ideas

| Addresses Barrier(s) # | Solutions |
|-----------------------------------|--|
| 106 | Meeting between all hardwood associations to get word out about marketing, branding, e.g., logo, market, etc |
| 601 | Checkoff (with a new name) |
| 601 | Seek government and foundation grants |
| 106 | Develop marketing plan |
| 601 | Assess duty on imports |
| 106 | Hire professional marketing group |
| 106 | Certify U.S. timberlands |
| 106 | Establish a brand that includes certification |
| 106 | U.S.F.S. function as 3rd party certifier |
| 601 | Checkoff not the solution |
| 112 | Research to validate marketing claims |
| 112 | Work with secondary manufacturers' marketing departments |
| 114 | Consider new advertising avenues (e.g., twitter, blogs, etc.) |
| 106 | internal governance to maintain unified message |
| 106 | create hardwood umbrella organization |
| 112 | Manage expectations about marketing program (not a cure all) |
| 106 | involve allied product manufacturers in this fight |
| 112 | Develop relationships between industry and universities to present sales / marketing training |
| 106 | Incorporate life cycle analysis into branding |
| 106 | Promote local / home grown |
| 106 | Incorporate lower carbon footprint benefit in marketing |
| 106 | Create promotional and educational materials for all audiences |
| 114 | Internet is the answer for education, marketing, etc. (stay ahead of technology curve) |
| 114 | Guerilla marketing to reach younger audiences (e.g. YouTube) |
| 106 | Industry spokesman |

APPENDIX K: Potential Solutions Offered by Forum Participants

Public Education/Green Issues - Solution Ideas

| Address Barrier(s) # | Solutions |
|---------------------------------|--|
| 130 | Federal blanket certification of U.S. hardwoods as sustainable. |
| 130 | Ask USDA Forest Service to map high conservation value forests. |
| 134/135/136 | Develop a unified well-funded wood industry campaign to change green building attitudes towards wood. |
| 134/135/136 | Encourage more pro-wood programs for CEUs for architects/designers. |
| 156 | Institute a check-off to fund trade promotion/research for American hardwoods. |
| 151/156 | Agree to more volunteerism to promote and educate that wood is green. |
| 151/158 | Implement a marketing survey of the American public on use of hardwoods and then, with the results, launch a mass media campaign in support of hardwood use. |
| 155 | Consistent industry communication of sustainability message – make an announcement that the American hardwood industry is sustainable. |
| 155 | Take advantage of AWI wood facts in marketing efforts. |
| 155 | Consolidate education efforts/resources for better consistent message and effectiveness at all levels. |
| 155 | Corporate responsibility to espoused principles of conservation. |
| 155 | Educate industry leaders and constituents; and how to communicate it consistently and credibly. |

Adapting Mature Industry to New World - Solution Ideas

| Address Barrier(s) # | Solutions |
|---------------------------------|--|
| 186 | Look for customer driven opportunities |
| 162/164 | Improve communications between customers and suppliers |
| | Help customers manage inventory |
| | Develop a consolidated source of information |

APPENDIX K: Potential Solutions Offered by Forum Participants

Sustaining Industry Base and Profitability - Solution Ideas

| Addresses | |
|---------------------|--|
| Barrier(s) # | Solutions |
| 231 | Pay loggers more. |
| 231 | Train loggers for profitability. |
| 231 | Encourage/train loggers for highest and best use (silviculturally). |
| 231 | Treat loggers fairly. |
| 231 | Offer loggers steady work. |
| 231 | Training in the logging arts (finance, H.R., operations, mechanics, accounting, negotiation skills). |
| 265 | Make ourselves credit worthy |
| 265 | Research your bank. |
| 265 | Educate bankers to our industry. |
| 265 | Explore non-traditional loan guarantees (Federal). |
| 265 | Develop working relationships with large timberland owners to reduce working capital costs. |
| 265 | Offer training in business plan development. |
| 265 | Provide more details of business metrics. |
| 265 | Get the bank out of your business model. |

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