

A Penny A Tie: How It Keeps Wood

Crossties On Top



Commentary By Jim Gauntt

More than a quarter century ago, Railway Tie Association (RTA) leaders set a plan into motion. That plan was designed to help railroads attain maximum achievable benefit from using as many wood ties as possible in track applications.

As it has turned out, RTA and its member companies have reached that goal time after time. Three decades after concrete ties made their first big splash in railroad applications, wood still maintains a 94 percent share of the market for new tie demand.

In the past 30 years, there are many reasons for how this has come to be. Dozens of specific programs and activities, plus individual contributions too numerous to count, have been responsible for creating such a healthy environment for RTA and its wood tie producers and users. But there is one main factor that stands out above the rest for why this has occurred.

That was the inclusion of 2,500+ sawmills in how RTA is funded and led with their own special category of membership. That's right, the simple 1-cent-per-tie that so many of our sawmills since the mid 1980s have voluntarily allowed their procurers to deduct from their invoices and/or send directly to RTA, has had the stunning effect of remaking RTA and the wood tie industry.

One might say that in 1987 a penny per tie was not enough to amount to a hill of beans. And, now, with the effects of inflation eroding that 1 cent to about half its original buying power, one could ask how a penny a tie could really make an impact.

That penny a tie did some remarkable things in the early days. It allowed the association to invest in research and promotion of the wood tie on a scale that had never been seen before. As concrete ties were being touted as the coming savior for railroads, there RTA was with E.T.,

the "Extra Tonnage" stuffed toy elephant.

For several years, association presidents and staff crisscrossed the United States making wood tie presentations with E.T. Those talks touted new software that had been developed with this new funding and explained how this software proved wood was still clearly the material of choice for the heavier "extra-tonnage" cars railroads were beginning to use.

Crossties magazine was revamped. Brochures were printed, and field trips, seminars and conferences were developed with a renewed sense of purpose.

RTA and members took to Washington to support rail initiatives. Railroad engineers and others were surveyed to determine what they needed from the industry. As a result, dozens and dozens of new research projects were initiated and completed throughout the years. Now, the industry has witnessed how doing this has opened several new doorways and options for railroad applications using wood ties.

Today, that 1 cent supports many of those same programs and more. Now, RTA also boasts one of the best websites in the wood business. There's a new digital edition of *Crossties*, and the RTA Membership Directory brings suppliers and users of wood ties and timbers ever closer together. Plus, on March 28th, RTA participated in the first ever *Progressive Railroading* Maintenance of Way Virtual Trade show as an exhibitor and presenter! If it were not for that humble penny per tie from RTA's loyal sawmill members, none of this would be possible.

So, just like in 1990 when the late Jim Seaman, then RTA president, declared RTA's unwavering commitment to sawmills by calling it "The Year of the Sawmill," the entire RTA Executive Com-

mittee rededicates 2012 as "The Year of the Sawmill."

We kick it off with this issue of *Crossties*. Inside, the content is truly dedicated to sawmill interests. But it won't stop there. Every subsequent issue of the magazine will contain a focus on an RTA member sawmill and more articles that will showcase sawmill industry issues. Plus, the annual conference will feature a two-hour session of content specifically on sawmill- and forestry-related topics.

But we also need your help. We need our sawmillers and procurement folks to take pictures and provide a member to shine the light on for each remaining issue of *Crossties* in 2012. If you have video of an interesting sawmill set-up that we can put in the digital edition of the magazine, we want it.

We also ask for input on what you like and don't like about what you are seeing in the magazine. And if you read or develop content you think would benefit a sawmill, please send it to us.

Finally, please accept the thanks of your association leadership and staff for your continued support. Your penny per tie makes it all work. We will always be good stewards of your hard-earned money and will continue to do the main thing you want from your trade association—continue to improve and promote the wood tie—so that wood ties remain the first and best choice for America's railroad track applications. ■

Note: Jim Gauntt, executive director of RTA, can be reached at jgauntt@rta.org.

U.S. Timberland Investment Forecast Variables & Their Impact On Net Present Value

Editor's Note: *The following was a presentation delivered by Teddy Reynolds, president of Reynolds Forestry Consulting & Real Estate PLLC, at the 2012 Timberland Investment World Summit in New York.*

As a forester, appraiser and timberland investment manager providing services to more than 1 million timberland acres in the southeastern United States (Texas to the Carolinas), my primary skill set is to identify, process and manage variables influencing timberland investment return rates.

There are two categories of variables, internal and external.

Internal variables involve silvicultural practices of forestry-influencing supply. Silviculture is to forestry as agronomy is to row-crop and includes soil type, genetic selection, tillage, competition control, fertilization, growth/yield models, cash flow, access and others.

External variables involve timber marketing and demand factors and include new housing starts, vacant housing supply, imports, exports, debt, deficit, GDP, tariffs, mill capacity, timber prices, land values, discount rates, net present values and others.

This presentation covers primary external variables influencing timberland investments returns and discounts on intensively managed pine plantations in the southeastern United States of America.

Primary Domestic Variables

The primary domestic variables influencing U.S. timberland investment returns include new housing starts, vacant house supply and renovations.

When U.S. new housing starts (single and multifamily) are a sustainable 1.5 million units per year, sawlog prices are approximately \$40 per ton. Due to the current surplus of vacant homes on the market, new housing starts are approximately 600,000 annually and timber prices subsequently have dropped to \$25 per ton.

Due to renovations, the bottom of the pine sawlog market is at approximately \$20 per ton. As a rule of thumb, every 100,000 new housing starts up or down influences the price of stumpage sawlogs by approximately \$2 per ton, with a six-month to one-year lag time.

In a healthy U.S. market, the supply of vacant homes is typically below 1 million. Due to overbuilding in the years preceding 2007, there are approximately 3.5 million vacant homes on the market, which has

caused the drop in new housing starts to their current low.

Over the next five years, if vacant home sales average 600,000 per year, the number of vacant homes will drop below the 1 million mark at which time new housing starts should simultaneously reach 1.5 million.

Primary International Variables

The primary international variables influencing U.S. timberland investment returns are Canadian lumber imports into the United States, Asian exports and the mountain pine beetle.

When annual U.S. new housing starts are above 1 million, the U.S. domestic demand is increasingly dependent on Canada for one-third of its lumber supply. Historically, the United States has been Canada's largest lumber customer, consuming more than 90 percent of its supply. Since new home building in the United States collapsed in 2007, Canada began developing its Asian markets, primarily China. Since 2007, Canadian exports to China have increased from 1 percent to 15 percent.

The growing Asian export levels are primarily long term in nature due to capital investments in transportation infrastructure, shipping and export agreements. Canada will not turn away from this ►



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important new destination once U.S. housing starts recover in the United States, as Canada has learned an important lesson of nurturing a diversified customer base from the U.S. housing collapse.

When the U.S. housing market returns in five years, more than 60 percent of British Columbia's Lodgepole pine trees will have been consumed by the mountain pine beetle infestation and consequently will have been prematurely harvested or decayed, reducing Canada's future timber supply for decades.

And when new housing starts in the United States rise back to normal sustained levels, this will result in the inability of the United States' historical reliance on Canada for one-third of its lumber needs.

Estimates of Consumption of U.S. Hardwoods

Age (years)	Pre-2007	Post-2007
1-5	12%	10%
6-10	10%	9%
11-15	9%	8%
16-20	8%	7%
21-25	7%	6%
26-30	6%	5%

Five-Year Forecast For U.S. Timberland Investment Returns

Over the next five years, the combined influence of vacancies, new starts, mountain pine beetle and Asian exports will create greater reliance on U.S. lumber production, primarily in the U.S. Southern 13 pine belt states from Texas to the Carolinas, as the U.S. Pacific Northwest will also be responding to Asian markets and continued regulation. The United States will also look to South America and Europe for alternative lumber sources.

Consequently, real rates of return after costs and before taxes for intensively managed pine plantations will remain at 8 to 9 percent in the short term, and rise back above 10 percent within five years.

Truax vs. Lorax & The 'True' Story Of The Forest

The Dr. Seuss book "The Lorax" has been made into a new animated movie that opened recently in theaters nationwide. The story line follows the decline of the forest because of the activities of man.

Appalachian Hardwood Manufacturers Inc. (AHMI) member Terri Birkett of Ten Oaks Flooring wrote a book in the 1990s called "Truax" to counter the message of the Lorax and tell the "true" story of what happens in the forest instead of environmental "folklore."

The story centers on an encounter between Guardbark, protector of trees, and Truax, the logger. "In a fast-paced, fun, rhythm-and-rhyme style, the book addresses issues such as harvesting trees, regeneration, old growth, biodiversity, endangered species and other

forestry issues," said Tom Inman, AHMI president.

"Its simplistic and humorous fashion reaches the imaginations of children and enables them to understand the logic in forest management."

An electronic version of the book and a complete lesson for elementary teachers are available online at www.tenoaksflooring.com/publications/. The lesson plan is designed to help students think about the importance of renewable resources and the management of the resources. ■

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