



# Checkoff Double-Check

BY JIM GAUNTT

In 2011, RTA alerted members that the United States Department of Agriculture (USDA) was developing rules for a Checkoff Program for the hardwood industry. Checkoff programs have been used by other industries in the past and produced such notable promotional catch phrases as “Got Milk?,” “The Incredible-Edible Egg,” and “Beef, It’s What’s for Dinner.”

Recently, it was announced that USDA had formalized the Hardwood Checkoff Order for public comment. This comment period will end on January 13, 2014. After that, the USDA will take the input received and either revise the order or not, and then put it out for a vote by hardwood producers.

RTA has been compiling comments from our members on this to formalize a response to USDA. This response will be developed in tandem with another major association representing the industrial hardwood sawmill and product producers—the National Wooden Pallet and Container Association (NWPCA)—and other industry interests.

In the few short weeks since the public comment period began, RTA has heard from producers and users of hardwood ties. The response, to date, has been overwhelming

opposition to a mandatory system for collecting revenues from industrial producers to fund research and promotion for what is expected to be used primarily to benefit to hardwood grade lumber products and plywood.

The following excerpted commentary in italics, and the headline for this article, was developed by an RTA member (who asked to remain anonymous) for discussion with their sawmill suppliers and states the case well.

I have always thought that it is better to hear it from someone in the trenches rather than from a committee, so I ask you to consider these thoughts carefully as you make up your mind how to vote on the Hardwood Checkoff Program. Bracketed information indicates clarifications added to this excerpt.

*The Railway Tie Association [for 95 years] has done exactly what the new Hardwood Checkoff proposes to start doing in 2014—rally its producers to fund the educational, legislative, and research*

*necessary to promote its products. One of the stated goals, located on page four of the Agricultural Marketing Report states: “The purpose of the program would be to strengthen the position of hardwood lumber and hardwood plywood in the marketplace and maintain and expand markets for hardwood lumber and hardwood plywood.” One important difference, however, is that the RTA’s Penny Per Tie program [in effect now for nearly 30 years] relies on voluntary contributions from the sale of specific products and the Checkoff, if passed, will require “mandatory” deductions on all hardwood items manufactured and sold.*

### Who Is Affected?

Any hardwood sawmill with annual sales of at least \$2 million will be assessed a “fee” of \$1 per \$1,000 in sales of hardwood lumber or hardwood lumber products. In order to meet the \$2 million threshold, it’s estimated that a true “tie mill” with roughly 50 percent of its total output in ties would need only to produce approximately four trailer loads of crossties per week, and the resulting fee would be in the two-cents-per-tie range (in addition to the one-cent-per-tie paid to the RTA). And, this same rate of payment would also apply to all of their other sawn products. Obviously, mills that [produce] fewer ties and more lumber and cants will pay at the same rate for the products they produce as long as they meet the \$2 million sales threshold which, with



**TABLE 1**

**Percentage by product of total Eastern Hardwood production by year:**

	1999	2011	2013
Pallet	34.9%	45.1%	45.0%
Exports	9.3%	17.2%	18.0%
Crossties	5.5%	13.7%	13.0%
Flooring	10.8%	7.2%	8.0%
Cabinets	9.3%	5.6%	5.0%
Millwork	10.1%	5.6%	4.0%
Furniture	20.1%	4.6%	5.0%
<b>Total BF Eastern Hardwood</b>	<b>12.9 BBF</b>	<b>7.1 BB</b>	<b>7.97 BB (est.)</b>

*To further illustrate the growing importance of the center of the log, Table 2 shows the mix of grade lumber and industrial timbers in 2005 vs. what it is in 2013.*



the rising price of all hardwood products, is fast becoming easier to reach.

**Where Would The Money Come From?**

Revenue to fund the Checkoff will come from the manufacture and sale of all hardwood products: grade lumber, flooring, furniture parts, crossties, pallets, crane mats, etc.

The numbers in Table 1 based on Hardwood Market Report studies, show the changing product mix for North American hardwoods. The reason for concern is apparent in the shrinking percentages of furniture, millwork and cabinets in the total mix. Flooring is back on the rise, but the most noticeable gains are in crossties, pallet and exports. It would appear that industrial products are being asked to carry a disproportionate share of the hardwood industry into the future just as stable markets for these relatively low grade products have carried countless mills for the past [several] years.

**Can We Get There From Here?**

It makes perfect sense for any group to band together to protect its common interests. That's what the RTA did in [1919 and

<b>TABLE 2 Hardwood Market Report</b>			
	11.55 BBF	Total BF	7.97 BBF est.
<b>Hardwood Distribution:</b>	<b>2005</b>		<b>2013</b>
<b>Grade Lumber</b>	<b>60%</b>		<b>40%</b>
<b>Pallet/Cants/Ties/Timbers</b>	<b>40%</b>		<b>60%</b>

then again in] 1986 with the 2 Cents Per Tie Program, and it has worked very well. Through these voluntary deductions of one cent per tie we have been able to educate, legislate, and provide necessary research data sufficient to insure that the wood tie has remained the industry standard for nearly 30 years. One provision of the proposed Checkoff is that lumber purchased for resale or to have "value-added" is exempt from the normal assessment. That makes sense because the mill selling the lumber in the first place is liable for the assessed amount if they fall into that category or are exempt from payment if they fall below the \$2 million threshold. So, the payment on that original lumber volume is accounted for either way. Only the "value-added" portion

will be the responsibility of the "buying" mill in this case.

In the same way, [the voluntary] contributions made through tie deductions to the RTA should also be exempted for much the same reason. After all, the stated objective of the Checkoff is to "strengthen the position of hardwood in the marketplace", and contributions to the RTA certainly qualify.

The RTA began a journey in 1919 and since 1986 its 2,800 members have together laid ties and rode the rails into the 21<sup>st</sup> century with a ticket paid for one penny at a time. This nation's hardwood lumber and plywood industries have an equally good story to tell and superior products to sell. But, it seems logical that the vehicle >

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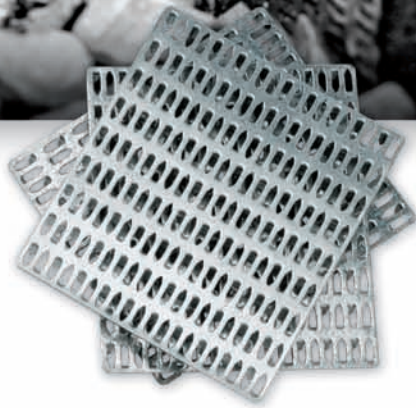
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*used to spread their message should be fueled by the products they produce, market and [promote to] ultimately convince others to buy: grade lumber.*

The one thing these excerpted thoughts don't specifically point out is that because this is a U.S. government-sanctioned program there are penalties that may be assessed for non-compliance. The way non-compliance may be determined is through the audit powers of the USDA program itself.

RTA cannot predict the outcome from USDA's receipt of comments, nor any ensuing vote. Yet, we can encourage you to learn the facts and be engaged. It only seems prudent that anyone who is going to be affected by this one way or the other should become informed, make a decision based on sound business principles and then exercise their right to vote on the program at the appropriate time.

Comments now appearing on the USDA website are also heavily trending in the direction of those being received in our offices. You may view the full order itself and current public comments at: <https://www.federalregister.gov/articles/2013/11/13/2013-27107/hardwood-lumber-and-hardwood-plywood-promotion-research-and-information-order-referendum-procedures>.

Additional information can be found on the Hardwood Checkoff website at <http://www.hardwoodcheckoff.com/>.

Regardless of the outcome of the Checkoff Program, RTA wants you to know that we will still be here fighting for your issues and those of the railroads. For 95 consecutive years RTA has done this, and with your continued support we will actively strive to maintain the dominant use that wood ties now enjoy. With a 94 percent share of the new tie market, RTA seems to be producing the research and program results necessary to get the message across.

Yet, we can only learn from you how we can do things better. Please be in touch and stay active in your association. And if you are a sawmill, please know that all of our members along with those we serve, our railroad customers, thank you for your penny-per-tie contribution to RTA's efforts. ■