

E. Thomas Plaugher

Written Testimony

U.S. House of Representatives Ways and Means Committee Hearing

Mr. Chairman, distinguished committee members and guests, allow me to welcome you all to Allegheny Wood Products and welcome to West Virginia! Thank you for giving us the opportunity to host this hearing at our company headquarters here in Petersburg.

My name is Tom Plaugher and I serve as Vice President of Operations for Allegheny Wood Products. AWP is one of the largest producers of eastern U.S. hardwoods. We operate sawmills and dry kiln facilities throughout the state of West Virginia. We don't make 2x4's or 2x6's for framing, we manufacture hardwood lumber – species like red oak, white oak, cherry, Hard and Soft Maple, and walnut. The lumber that goes into fine furniture, cabinetry, mouldings, millwork, and flooring. We also manufacture hardwood pellet fuel from the by-products of the sawmilling process. Our intent is to utilize every portion of the trees that we harvest.

AWP is a family-owned company founded by John and Patricia Crites in 1973. We will celebrate a milestone of 50 years in business this year. The company started with a small sawmill and 13 employees selling products within a 300-mile radius. Today we have over 800 employees and we sell our lumber all over the world.

The founder of our company has always told us, "It all starts with the trees." We have a unique, renewable resource here in the Appalachian region that has provided generations of West Virginian's the means to make a living and to provide for their families. The forest industry contributes \$3.2 billion dollars in economic impact to the state of West Virginia on an annual basis. There are over 30,000 people in the state that work in the forest products industry, and it is not just for companies like AWP. We employ over 75 independent logging contractors and 100 independent trucking contractors to support our operations on a regular basis.

With that much economic impact, we are often asked "are we running out of trees?" Fortunately, the answer is a resounding NO! Recent U.S. Forest Service studies have shown that we are reliably growing 2.5 times the volume that is being removed annually in the Appalachian Region. A well-managed renewable resource like this can provide forest products, opportunities for recreation, and a long-term tool for carbon capture for generations to come. That is all in addition to the jobs and economic impact these forests provide.

The past few years have been very challenging for our industry. In 2017, we were caught in a trade war between the U.S. and China. American hardwood producers suffered because of retaliatory tariffs imposed on our products. AWP was forced to close two of our mills and lay off employees that had been with us for decades because business was so bad. The hardwood industry banded together and lobbied tirelessly. Trade agreements were worked out, but then COVID hit. We were deemed an essential business and were not forced to shut down. But as the different forms of government assistance came out we realized two things:

One: AWP would not be eligible for PPP funds. The hardwood industry is a highly fragmented industry with many small producers. There are no Fortune 500 companies in the hardwood lumber industry. Even the largest producer probably makes up only 5% of the total market share. The vast majority of our competitors and contractors were eligible for those funds, but we were not.

Two: As the crisis developed and different forms of assistance began to come out, keeping enough employees became a problem for the entire industry.

The supply chain crisis hit us hard from two directions. It became difficult to obtain the parts and equipment that we needed to run. Lead times went from a few days to several weeks or even months. Lead times on saws that we commonly use in our mills doubled, then tripled as a shortage of steel left manufacturers without the raw materials they needed to produce the saws. All of this served to increase manufacturing costs across the board at our facilities.

Much of the secondary manufacturing in the hardwood industry left the U.S. in the early 2000's meaning that for industries like ours, we must have the ability to export our goods. We must have access to trade. The supply chain crisis caused access to containers and vessel space to export our cargo timely to become scarce. Shipping rates from Asia soared and steamship lines opted to send containers back empty rather than load cargo here in the U.S. They took full advantage of the exorbitant rates being paid to move products from Asia and American exporters in all industries suffered as a result.

In late 2021, demand for our products returned. We improved and restarted one of the mills that we had closed in 2019. We have a plan in motion for improvements to be completed and the second mill to be re-started in mid-2023. AWP and our entire industry attempted to ramp up production, but most companies were unable to do so due to a lack of labor. Some of our contractors closed their doors or dramatically scaled back their business as they were unable to find employees to fill the available jobs.

Our industry is directly tied to housing. We need single family housing starts and remodeling expenditures to be high because those are the homes where people install hardwood floors, hardwood furniture and cabinets, hardwood mouldings and millwork. Rising interest rates put a damper on housing in the latter half of 2022 and the outlook for 2023 is not good.

I have heard it said many times that higher costs don't really affect businesses and that they simply pass that additional cost along to their customer. It does not work that way in our industry. Our product pricing is based on supply and demand. We sell into a global market, and we have to compete with products from all over the world. If the price for our lumber becomes too high, customers will simply look for a cheaper alternative or a replacement product.

There are 5 Additional Pressures that have materialized over the past 2 years that are poised to impact our industry once again in 2023:

- *Dramatically Increasing Fuel Costs*
 - o Increased diesel fuel and oil cost hamper our industry at every link in the chain. From the logging and trucking contractors to the forklifts and loaders we operate, to the cost to ship our finished products. Every aspect of manufacturing is hampered by this.
- *Supply Chain Issues*
 - o Parts and supplies are hard to get and have dramatically increased in price.

- Timely and reliable ability to export our goods to our customers has been a major hurdle for 2 years.
- *The inability to find qualified labor.*
 - Much of the workforce does not appear to have returned to work following COVID.
- *Rising Interest Rates*
 - This is slowing down the housing market, it makes capital more expensive, and it will put the brakes on our entire industry.
- *Increasing regulations and bureaucracy* - regulatory agencies have ramped up attempts to come out with new initiatives and requirements that hamper permitting and place more burdens on small business at every turn.

Everyone knows what inflation has done to the price of a dozen eggs. You might think that would be the case for all goods and services across the board but pricing for our products has fallen 40% on average over the past 6 months.

Dealing with market fluctuations and regular business cycles is part of the challenge for anyone running a business, but the uncertainty of what will be imposed upon us next from Washington DC is what is really hampering our industry. This Committee and Congress can really help us by reigning in government over-regulation.

The economic outlook for 2023 does not look good, but we remain optimistic. We are blessed with an abundant natural resource and our industry is made up of some of the finest, hardest working people you will ever meet – both at AWP and the forest products industry as a whole. Thank you again for this opportunity, and I am happy to answer any questions.