



Northeast Texas Forest Landowners Association Newsletter

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TIMOs and REITs

from Weyerhaeuser newsletter, "Tree Growing Times - Southern Regeneration", Summer, 2007; overview by Cliff Hickman, U.S. Forest Service forester, R&D, Policy Analysis Staff.

As an investment, owning timberland is not a new idea, of course. Owning over half the acreage of America's woodlands, tens of thousands of private landowners have done it for decades.

Until recently, however, large-scale commercial timberland ownership was dominated by the vertically integrated forest products companies (VIFPCs) like Weyerhaeuser, International Paper, Georgia Pacific, Champion and other familiar names. Together, these companies owned about 13 percent of the nation's commercial forestland, managing it as raw material for their mills. Long-term ownership and control of a long-term asset allowed for good, predictable forest management. Timberland was a strategic investment for these companies.

Pressure to Change - In recent years, several factors have affected these large owners of commercial forestland, bringing new perspectives on vertical integration and presenting opportunities that had not existed before. These include:

- required accounting methods that undervalued forested land while its potential as real estate for other uses was rising,
- the need for capital to help finance mergers and acquisitions of forest product companies,
- poor financial performance of the pulp and paper industry,
- less need to own forestland to supply paper mills as the globalization of the forest sector and fiber supplies now offer low-cost raw materials from new markets, along with an increase in recycling,
- changes in regulations affecting the kinds of investments, pension funds, university endowments, foundations and other tax-exempt institutional investors can own,
- tax regulations that penalize C-corporations – the business structure used by VIFPCs, pressure from large institutional investors to “unlock the true value” of VIFPCs timberland through sale or conversion to a REIT.

In response to these pressures several major forest products companies sold timberland holdings to Timberland Investment Management Organizations (TIMOs). Some VIFPCs restructured their businesses to separate manufacturing facilities from timberland holdings, placing the timberlands in Real Estate Investment Trusts (REITs). International Paper made the biggest news when it recently sold 5.7 million acres of timberland. Since then, Temple Inland and MeadWestvaco have announced

plans to sell some or all of their timberland.

How TIMOs and REITs Work – TIMOs typically focus on large investors with hundreds of thousands of dollars to invest while REITs are publicly traded, making them more accessible to the average investor. TIMOs and REITs appeal to investors looking for relatively low risk, excellent return investments. Their special tax status gives them a tax advantage over the traditional C-Corp structure. These factors, along with the fact that timberland returns have a low correlation with returns from other investment classes, have made TIMOs and REITs an increasingly popular investment.

TIMOs don't actually own timberland; rather, they manage it for investors who do. The owners/investors are often pension funds, endowments, foundations and high-wealth families. These are usually shorter-term investments, ranging from 10-20 years. TIMOs include Hancock Timber Resource Group, RMK Timberland Group, RMS (Resource Management Service, LLC) and others. In contrast, REITs own the land. REITs must achieve certain criteria to qualify for their special tax status, including distributing at least 90 percent of their taxable income, excluding capital gains, as dividends to shareholders. REITs include Plum Creek, Rayonier, Potlatch and more recent entry, Timberstar.

Growth of these kinds of timberland investments have been tracked since 1987. The Timberland Index has shown remarkable increases with only 95 properties included in 1994 and 235 in 2005. TIMOs and REITs have come from no holdings at all to over 25 million acres in little more than 15 years. Between 1980 and 2005, acreage of forestland owned by VIFPCs dropped nearly 60% from 58 million to 21 million, reversing the ownership roles between industry and these new players.

Impacts of TIMOs and REITs – Major questions about these new owners include:

- How will they manage their forestlands long-term?
- Will the flow of goods and services continue?
- Will this change in ownership ultimately contribute to more fragmentation or development of woodland?

(Continued on page 4)

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www.txforest.org



FROM THE FOREST



Sitting here musing on what the famous international terrorist Yasser Arafat and ex-vice president Al Gore have in common...oh, that's right — they both won the Nobel Peace Prize...

Our good friend Mike Murphrey cell-phoned me today on his way to the annual TFA meeting. I griped that looking over the last year the newsletter was mostly about politics and had fewer articles about how to grow better trees or manage wildlife — space taken up with carbon credits, water issues, property rights, increasing population influx, fragmentation of forest lands, and so on. Paraphrasing Mike, he replied “Hey, that’s where it’s at, man — if you can’t protect it, you sure can’t manage it.”

With that in mind, seems a good time to remind you about the Texas Constitutional Amendment elections on Tuesday, Nov. 6. There are 16 on the ballot, and probably only 10% of us will vote, even with early voting going on from Oct. 22 - Nov. 2. A good conservative friend of mine broke down the amendments this way: “Seems about half want to increase taxes, and the other half want to increase spending.” I don’t think it’s quite that simple, but suggest you review the amendments very carefully, and by all means vote (see the box later in the newsletter to find out why).

Got an email from TFA Grassroots Network today recommending a “yes” vote on Proposition 6, and I concur. I will study the rest before I vote, and suggest you do the same.

Please have patience with your election officials. As long as I’m an election judge, my precinct will make sure that the election is legal and that all qualified voters get their votes accurately counted. This is not an easy thing, and takes a good deal of work before election day for all of us. Our box is at the high school, and one of the adventures you never thought about is defending parking spaces for the voters from the kids’ cars...

We will be having our own biennial elections at the November meeting. As you look at the ballot, you’ll see that our good friend Harry Earl is retiring as secretary/treasurer but has agreed to serve as the Franklin County director. Harry is trying to simplify his life a bit, and this should help. Many, many thanks, Harry, for your dedication and hard work!

Remember, if you need to contact any officer or director, our local TFS foresters, or would like to visit the web site, all that information is in the gray box to the left of this column. The web site also has back issues of the newsletter archived for the last several years, as well as membership and program information, and can be a handy tool.

See you at the meeting!

Bill Tucker

Program and Meeting Notes

PLEASE NOTE: THE NOVEMBER MEETING STARTS AT 10:00, NOT 10:30. We will need to set up tables and chairs before the meeting, and take them down/clean up afterward, so any help will be greatly appreciated.

Ron Hufford, Executive Vice President of the Texas Forestry Association, will be our speaker for the November meeting. His topics will include the future of Texas forestry as well as a brief history of the Texas Forestry Association, followed by an informal question and answer session. Those of you that have heard Ron speak before know that he is excellent. He has perhaps the greatest knowledge of the Texas forest industry of any single person in the state, so don't miss a chance to pick his brain.

We will enjoy a free barbecue lunch because we won the TFA Landowners Association Membership Contest last year. And **WE WON IT AGAIN THIS YEAR!** Give yourselves a pat on the back.

We'll be having bbq ribs, beef, and sausage with all the trimmings and two desserts, probably something chocolate and a cobbler. Fat Boy's in Pittsburg will do the meal, and Keith is good!

Because we don't want to provide a free lunch for Northeast Texas, this meeting will not be announced in the media. Keep the newsletter for the details.

You are welcome to bring guests, but PLEASE RSVP TO BILL TUCKER BY TUESDAY, NOV. 6 so we can get as accurate a head count as possible.
903-856-6316 OR EMAIL BTIMBER@AOL.COM.

We will also be having elections. Please note that only paid full members — not associates — are allowed to vote.

See you in November!

2007 PROGRAM CALENDAR

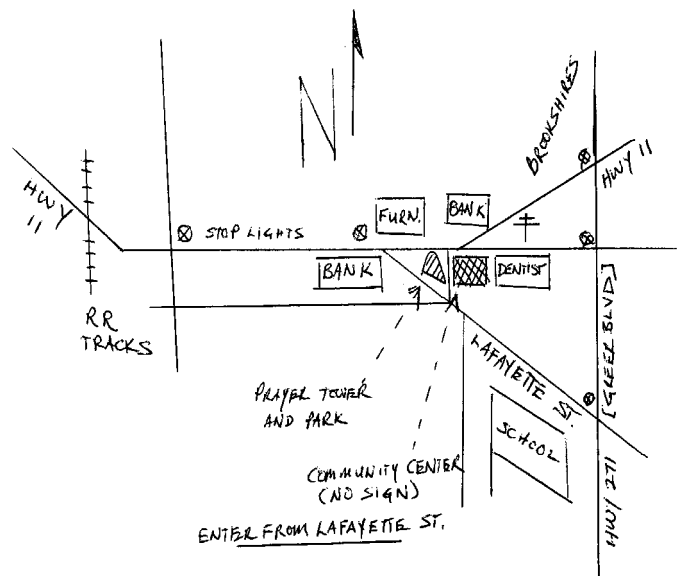
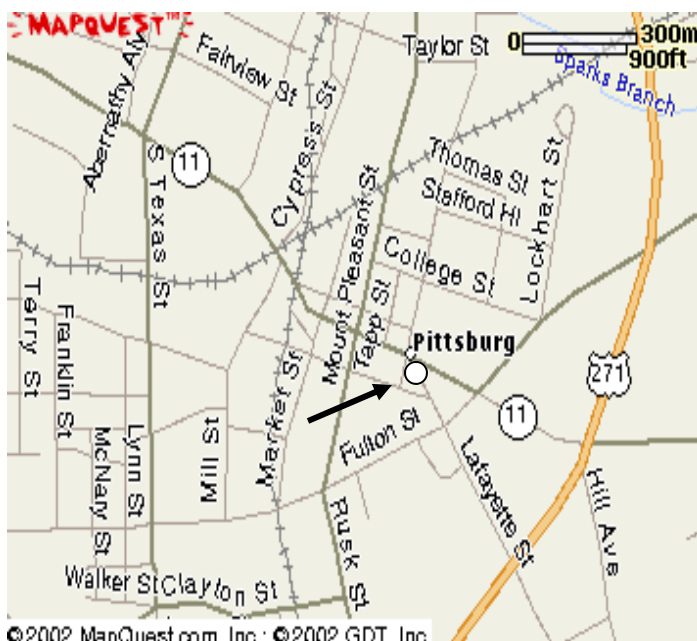
Saturday, Nov. 10, 10:00 AM
Pilgrim Community Room
Pittsburg, Texas
Ron Hufford on the
Future of Texas Forestry
TFA 2007 Membership Award
Free TFA Barbecue Lunch

Please check the next to last page to see if your dues are paid for 2007. We still show about 22 members with unpaid dues for 2007. At the beginning of 2008, members with unpaid dues for two years running will be dropped. Don't let this happen to you.

If your name is not on the Good Guys list, please bring a check to the meeting or remit your \$15 to:

NETFLA
PO Box 642
Mt. Vernon, TX 75457

Thanks!



Timos and Reits, cont. from front page

- Will these new owners be concerned about traditional forestry issues such as supporting research, creating public policies that served the forestry sector, holding values of good stewardship that recognize forestland's impact on the environment and society as a whole?

Since many of the TIMOs and REITs made agreements to supply timber to the companies from which they were formed, the supply of raw material will continue for some time. For example, when Timberstar purchased 900,000 acres from IP in Louisiana, Texas and Arkansas, Timberstar agreed to a 50-year fiber supply agreement for IP's pulp and paper mills. TIMOs and REITs are subject to restrictions as former owners of the forestland. As to voluntary management practices, costs will most likely play a big role in those choices. And whether TIMOs and REITs will be as concerned about opening their lands to the public for hunting, recreation and wildlife habitat is yet to be seen. To their credit, several REITs have entered into conservation easements with environmental groups and would probably enter into more if the groups could find sufficient funding. These agreements offer the companies upfront money and are good for public relations. Of course, charging fees to recreational users is a possibility, too.

As to fragmentation and development, TIMOs may offer the bigger risk since they are structured to end in 10 to 20 years. And of those TIMOs and REITs that have not agreed to supply mills, they may be more willing to sell off smaller parcels that offer higher returns for uses other than managing for timber production.

Effects of Potential Markets – In the future, TIMOs and REITs, and all timberland owners for that matter, may price and availability of raw material for mills. New opportunities may arise as cellulose becomes a potential energy source or a source for industrial chemicals. Carbon sequestration payments, watershed protection and other considerations could make forestland the source of a variety of services. Potential new markets could certainly affect the management of that land and the flow of raw materials to wood products manufacturing facilities.

Even though the rise of these new owners has been remarkable, TIMOs and REITs control only about five percent of US timberlands. Still, they are getting a lot of attention and that attention will likely continue due to their rapid growth, the source of their holdings, and the unknown effects their presence will have on the future of the forest industry.

For more in-depth information about TIMOs and REITs, enter this title in your favorite internet search engine: ***TIMOs and REITs*** by Cliff Hickman.

Carbon Credit Conference Notes

— Weiss, Hoffman, Tucker

Glenn and Judy Weiss, Larry Hoffman, and I spent a September day in Overton to attend the multi-state Carbon Credit Conference. After reflection on the day, some of our thoughts:

Glenn goes first —

I attended a Carbon Credit Conference in Overton on September 28. What did I learn? My overall impression is that voluntary carbon credits trading in the United States is still in its infancy and will continue to evolve. It does appear that reducing greenhouse gasses is the “politically correct” method of addressing global warming and climate change. Although greenhouse gas reductions are voluntary, there are corporations that have committed to reducing carbon dioxide emissions relative to their 1990 baseline level, and will purchase reductions from someone else if they do not meet their commitment. This has created an opportunity to sell carbon sequestered by forests.

How can landowners sell carbon being sequestered by their trees? The Chicago Climate Exchange (CCX) is the only marketplace in North America, and they deal in large quantities and only with members of the exchange. Therefore, it is necessary for landowners to use an aggregator as a link to CCX. Many aggregators are registered with CCX, and the following made presentations at the conference: The Texas Carbon Group representing AgraGate (Des Moines), Delta (Chicago), Dogwood Carbon (Missouri), and Forecon EcoMarket Solutions (New York). There are variations in their procedures, but the aggregators are knowledgeable and work with landowners for a percentage of the carbon credit payment to assist in preparing applications and carbon credit contracts.

CCX rules currently in effect mandate that carbon credits come from Afforestation projects (trees planted on land that was open on January 1, 1990). Payments will be based upon the tons of carbon sequestered, and the market price of credits when they are sold. Payments will be retroactive to 2003 and the contract will terminate on December 31, 2010. Will the landowner get rich from selling carbon credits under this contract? No, but net payments after fees for the 8 years of the contract could be around \$100 per acre for trees planted in the mid 1990's if contract obligations are met. Fire, ices storms, and insects that can destroy a timber stand are risks, but many landowners will not have to do anything differently from what they are already doing in managing their forest land.

Where does the carbon market appear to be headed? CCX has pilot projects under way in the Northeastern United States to determine the improvement in carbon sequestered by forests that are being actively managed. Establishing a baseline and calculating improvements are difficult, and potential payments will be lower than from Afforestation projects. Several of the speakers expect that the CCX managed forest rules will be approved before the end of 2007. This has the potential to open the door for many more acres of timberland in Northeast Texas to be eligible for carbon credit payments.

Glenn Weiss, Vice President, NETFLA

Now Larry —

By and large, this was a well planned, executed, and attended conference. The attendees were from Texas, Oklahoma, and Louisiana areas.

The areas of concern, interest, and need for extra caution for me are in general — but not limited to — the following.

The Chicago Climate Exchange (CCX) and Agragate are working to create and establish a market within the forest industry. They are North America's only active, voluntary and legally binding trading system.

The processes of qualification and contract participation are lengthy and complex, and the landowner has liability exposure for the life of the contract..

It would seem that CCX has all the control of pricing and the landowner has all the exposure to risk. I believe it would be good advice to seek competent counsel and exercise extreme caution before signing any contract.

In my opinion, there are still many questions to be answered, a lot of “models” to be studied, and experiences of other landowners to be weighed before committing to this new and binding trading system.

Larry Hoffman, Wood County Director, NETFLA

And Bill —

Interestingly enough, this discussion only has value because the politicians in D.C. are discussing carbon taxes/fines or carbon sequestration options. As I see it, these credits have been created by government fiat — out of thin air (grin) — and have no real independent value such as corn, beef, or other commodities.

The political purpose is to force large industrial emitters — particularly coal-burning power plants — to clean up their acts. In the beginning, with credits cheap, companies will find it cost effective to just buy credits on the open market. As competition among buyers rises, so will the price of carbon credits, and companies will eventually find it cheaper to clean up their acts than to buy credits. This has been the European model, and indeed their carbon prices are in the \$30 rather than \$3 range.

A similar approach to the problem of sulfur dioxide has taken about ten years, but has greatly reduced the acid rain problem in Canada and the U.S.

Things to think about:

- The CCX is a relatively new market, and there may be growing pains
- Unlike stocks, the seller has no control over the entry price. The aggregator acts as agent and tries to get the best price, since they work on a commission basis, but once the contract is sold, it's a done deal, with no recourse.
- Commission costs seem pretty high, may be as high as 30%+ after counting all charges.
- If, as Larry suggests, you get an attorney to review the con-

tract, his charges need to be figured in as well.

- The plan favors larger acreages, since other costs are fixed.
- Your farm needs to be certified under an acceptable system. American Tree Farm is fine, and at no cost to you.
- The paperwork and 3rd party verification can take as much as a year. On the other hand, those late to the party may get better prices as the “demand” for carbon credits increases, and commissions may come down a bit as well.

Bill Tucker, President, NETFLA

What is your plan? Do you have a plan? Is it time to get a plan?

*Todd Nightingale, District Forester
Texas Forest Service, Crockett, TX*

You make decisions every day about whether or not to manage your forest. Sometimes these decisions are actively planned out and are a result of following a process that you had predetermined to implement. Other times your management style is one of just letting nature take its course with little or no structured management on your property. Factors such as: fires, forest health, pests, disease and a whole host of other issues can play into these two styles of management and can alter the approach from a decision making standpoint. The time proven best management style is one where forest landowners seek out assistance from forestry professionals before implementing their management choices. This style of management allows for landowners to reach their goals for the property while managing in the fashion that best suits their personal tastes.

The non-management or passive management option is sometimes chosen to: protect and preserve fragile or special sites, develop habitat for specific wildlife species that favor undisturbed forest types, possibly to provide aesthetic and recreational opportunities or even to meet philosophical reasons where a landowner wants to develop their forest free from human intervention. What is seldom acknowledged is that forests are dynamic systems where changes occur even without human intervention. Plant competition, insect and disease activity and even natural disasters can cause change a forest's composition, structure and function over time. Additionally, human impacts on areas surrounding passively managed forests will eventually affect the non-managed forest.

In a managed forest, professional and landowner judgment are combined with scientific knowledge to create a plan tailored to each landowner's specific property. This plan will help you meet your individual goals while ensuring the resource will remain on course for future generations. Failing to plan is in actuality planning to fail, so it is in the best interest of both you and the forest of which you are a steward to get proactive and plan for the events on your property. Good planning will help in scheduling harvests, forest improvements, wildlife enhancing activities and so many more opportunities that move your forest toward the dreams and aspirations you have for the land. Contact your local forester today and begin a plan that will help you care for the land and be ready to make the best decisions to reach your goals.

Market Report – July/August, 2007

Product	Statewide Ave. Price		Previous Ave. Price		Volume Difference (*)
	Volume	Weight	Volume	Weight	
Pine-Sawlogs	\$322.85/ mbf	\$41.54/ton	\$303.03/ mbf	\$39.70/ton	+6.54%
Pine-Pulpwood	\$33.17/cord	\$12.36/ton	\$26.23/cord	\$9.73/ton	+26.45%
Pine-Chip'n'Saw	\$46.76/cord	\$17.32/ton	\$49.66/cord	\$18.39/ton	-5.83%
Mixed Hardwood-Sawlogs	\$202.21/ mbf	\$24.13/ton	\$186.77/ mbf	\$19.56/ton	+8.26%
Hardwood-Pulpwood	\$30.34/cord	\$10.71/ton	\$31.35/cord	\$11.20/ton	-3.22%

See [Timber Price Trends](http://texasforests.tamu.edu) at <http://texasforests.tamu.edu> for more detailed information. Copies can be purchased from the Texas Forest Service, Office of the Director, John B. Connally Building, 301 Tarrow, Suite 364, College Station, TX 77840-7896. It is recommended that you use the services of a professional consulting forester in managing any timber sale. Important factors affecting timber prices include the type, quality and volume of timber for sale, accessibility, distance to mills/markets, weather conditions, economy/market conditions, who is handling the sale, who is buying the timber, and contract requirements by the landowner.

1. Conversion factors between volume and weight vary from sale to sale, so the differences in volume prices above may not equal differences in weight prices.
2. Stumpage price statistics include gateway sales. They are estimated by subtracting cut-and-haul costs, other expenses, and profits provided by the reporter.
3. Price is calculated from a specific conversion factor for each sale, if available; otherwise the average conversion factors listed on page 8 of Timber Price Trends are used. MBF = Thousand Board Feet. Doyle Log Scale used for board foot measurements.
4. * indicates insufficient sales to report price statistics (less than 3 sales).

The Good Guys List — Are You On It?

This is the list of those in NETFLA whose dues are paid as of this date for 2007. Remember, we were all supposed to pay in January, and we need the funds for our expenses and non-profit purposes.

If you don't see your name on the list, please drop your check in the mail or bring it to the next meeting. Thanks!

Last Name	First Name
Andrews	Tod
Best	Benton
Blacketer	Talitha
Bolin	Kenneth
Brewington	Peggy J.
Brewington	Andrew
Coley	Harold & Patsy
Conaway	Kenneth
Connor	Curtis
Connor	Harold
Connor	Michael H.
Dalby	Jan and Diane
Dean	R.J
Dyke	Weldon
Earl	Harry
Emerick	Robert
Erwin	Betty
Ewan	Thomas
Greer	Sid

Handy-Sparks	Blanche
Hart	Arlis
Hart	Curtis V.
Hoffman	Larry
Holcomb	Vernon
Holman	John
Johnson	Oscar
Laschinger	David
Lindsey	Orval and Carol
Mitchell	Wanda R.
Morris	Robert
Murphrey	Michael
Osteen	John C.
Pope	Brian
Priest	Robert
Prince	Neal
Proctor	Warren
Pyle	Henry B.
Ray	Donald
Reynolds	Melvin
Riley	Andrew
Roane	Andrew
Rogers	Mr. and Mrs. C. M.
Rust	Leo
Shirey	W. Rex
Smith	Betty
Stewart	Kenneth
Tucker	Bill
Turner	Robert & Gloria
Weiss	Glenn and Judy
White	James C.
Winters	Fred
Wood	Wm. R. & Jimmy D.

ONE VOTE COUNTS — YOURS!

Did You Know That...

- In 1645 — one vote gave Oliver Cromwell control of England.
- In 1649 — one vote caused Charles I of England to be executed.
- In 1776 — one vote gave America the English language... instead of German.
- In 1839 — one vote elected Marcus Morton to be Governor of Massachusetts.
- In 1845 — one vote brought Texas into the Union.
- In 1876 — one vote changed France from a monarchy into a republic.
- In 1923 — one vote gave Adolph Hitler leadership of the Nazi Party.

Will yours make the difference?

**NORTHEAST TEXAS FOREST LANDOWNERS ASSOCIATION
BALLOT FOR OFFICERS AND DIRECTORS FOR 2008 AND 2009**

If you are unable to attend the meeting but would like to vote (full members only), use this ballot and return to the PO Box on the back of this form. Those attending will vote at the meeting.
Please check or X the box next to the candidate for whom you are voting.

PRESIDENT

- BILL TUCKER
- WRITE-IN _____

VICE PRESIDENT

- GLEN WEISS
- WRITE-IN _____

SECRETARY/TREASURER

- BLANCHE HANDY-SPARKS
- WRITE-IN _____

DIRECTOR FROM CAMP COUNTY

- BOB TURNER
- WRITE-IN _____

DIRECTOR FROM FRANKLIN COUNTY

- HARRY EARL
- WRITE-IN _____

DIRECTOR FROM MORRIS COUNTY

- BEN BEST
- WRITE-IN _____

DIRECTOR FROM TITUS COUNTY

WRITE-IN _____

DIRECTOR FROM UPSHUR COUNTY

- KEN STEWART
- WRITE-IN _____

DIRECTOR FROM WOOD COUNTY

- LARRY HOFFMAN
- WRITE-IN _____

According to the Bylaws, only FULL members WHOSE DUES ARE CURRENT may vote in this election, and the person submitting an absentee ballot must sign and date the ballot so their dues status may be verified. If you wish to get current, enclose a check for \$15 with your ballot.

Signature _____

Date: _____

Printed Signature _____

Northeast Texas Forest Landowners Association
P.O. Box 642
Mt. Vernon, TX 75457

RSVP FOR FREE BARBECUE LUNCHEON

We need to know how many will be eating so we can inform the caterer. Please let me know by Tuesday, November 6. Call me at 903-856-6316, or email to btimber@aol.com, or tear off and mail this slip to: Bill Tucker, 1172 CR 2412, Leesburg, TX 75451

You won't need the mail ballot on the other side if you are planning to attend the meeting, so rip away

NUMBER IN MY PARTY (INCLUDES GUESTS) _____