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The Newsprint Industry

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COLONEL JAMES MESS, CHAIRMAN:— Your Honour, Guests and members of the Canadian Club: Like children, young industries have growing pains—the more rapid the growth the greater the pain. The newsprint industry is no exception. After visiting nearly all the paper mills in Canada I feel certain that it is not through lack of hard work or a sense of responsibility on the part of the operators that the results of the depression have been aggravated in recent years. True, there may have been too much optimism and some extravagance but these are things that only experience and trials can moderate. But if years of hard labor mean anything at all, the experiences of the industry will mean much during the period of reconstruction that is coming.

What is the future of the newsprint industry?

Probably nobody is better able to tell us that than our guest speaker today. The failure of one committee after another to bring greater cooperation into the industry has undoubtedly made more difficult his personal efforts in this direction, which incidentally have met with much success. While diplomacy, enthusiasm and simplicity of expression may be factors in what he has done so far, I venture to suggest that an ability to leave a subject when resistance is met, and attack it later from an entirely different angle, is responsible for much of his success. Gentlemen, the President of the Newsprint Association of Canada, Mr. Charles Vining.

MR. VINING:— Mr. President and members of the Canadian Club: I think it highly appropriate that members of a Canadian Club should hear something of the Canadian newsprint industry. I think it appropriate, because it seems

to me that if we have anything in which Canadians should be concerned, it is this industry. It means welfare or misery for many thousands of Canadian people; it means Canadian homes and communities; it is a vital part of our national existence. The forest areas and water-power which constitute this industry, and which it vastly consumes each day, are Canada, as literally as the soil of our prairies, the rock of our mineral belt.

The few remarks I have to make are, therefore, submitted in the nature of a report to you as proprietors of this industry, although some of you may well feel that you have been its victims instead. I shall divide the report into three parts: first, the structure and extent of the industry; second, its present stage; third, a few words as to its outlook.

Looking first, then, at the industry's structure and extent, perhaps we had better be sure that we all understand what newsprint is, because I have found even Canadian Club members not quite certain.

Newsprint is paper, the paper on which newspapers are printed. It is made from trees, from spruce and balsam. Men cut these trees in our great forests and drive the logs each spring down our rivers to the pulp and paper mills. At the mills the logs are ground to a fine pulp and mixed with chemically treated pulp. The wet pulp, like thin porridge, is run into huge machines and emerges at the other end in rolls of newsprint. The rolls are shipped to every corner of this continent and across the seas to England, Australia, Africa, South America, the Orient; wherever there are newspapers.

If you picture the thousands of newspapers throughout the world, the millions of copies printed each day, and their part in our system of living, you will begin to appreciate that newsprint is a world commodity, as universally used as coal or cotton, steel or salt. Of this commodity Canada has become the chief producing country with an industry, which I shall now try to catalogue for a moment or so, in its items of companies, mills, capacity, workers, investment and income.

There are twenty-four companies in Canada directly engaged in making newsprint. These companies have forty mills, two or three of which are commonly classed as obso-

lete for newsprint purposes. Of these mills, fourteen are in Ontario, twenty in Quebec, one in Nova Scotia, two in New Brunswick, one in Manitoba and two in British Columbia.

In total effective capacity, the newsprint mills in Canada were rated by competent engineers a few months ago at about 3,860,000 tons a year, which is between forty and fifty percent of total world capacity. The next largest producing country is now England which relies chiefly upon European countries for raw materials. Third in production is the United States, which has steadily declined with depletion of its northern forests, and a close fourth is the Scandinavian group of Finland, Sweden and Norway.

The Canadian mills have effective capacity considerably greater than that of England, United States and the Scandinavian countries combined. Ontario alone has capacity equal to that of England or United States. If our prairie provinces are the granary of the world, Quebec and Ontario are its newsprint mill.

In terms of workers, the Canadian newsprint industry consists of something like one hundred thousand men at work in the woods and the mills and many thousands more, engaged in supplying transportation and other services. It seems safe to say that at least half a million of Canada's ten million population directly depend upon this industry for livelihood.

Measured in investment, it has been calculated that the industry represents some six hundred to seven hundred million dollars. Certainly the present replacement value of newsprint mills alone, as going concerns, is at least four hundred million dollars without valuation of timber limits or subsidiary power plants. Newsprint is our largest single industrial investment with the exception of investment in hydro-electric power, and the newsprint industry (with both primary and secondary requirements) accounts for at least two-fifths of Canada's total power development. There are single mills in the industry which use considerably more electrical energy per annum than is used to light the cities of Toronto and Montreal combined.

Measured in terms of national income, the newsprint industry in a year like 1936 means over one hundred million

dollars a year from foreign customers. During the difficult years, from 1930 to 1935, in spite of its disrupted condition, the newsprint industry brought to Canada from foreign sources a total of five hundred and sixty-three million dollars, compared with four hundred and seventy-five millions of gold production and one hundred and thirty millions of nickel exports. And newsprint income is spent in Canada, for nearly all materials of newsprint production are of Canadian origin.

So there you have a brief catalogue of your newsprint industry; twenty-four companies; forty mills; six out of nine provinces; productive capacity of 3,860,000 tons a year; one hundred thousand or more workers and at least half a million direct dependents; seven hundred million dollars or so of investment; user of two-fifths of our total power development; contributor to national income of one hundred million dollars a year; in short: a vital part of our national entity, whether measured in mills or men or money.

Let us look now at what I mentioned as the second part of this report: the present state of the industry.

As a starting point I think we might well examine the industry's performance during the year which has just closed, but we must measure this performance in dollars as well as in tons. It is a mistake, as we shall see, to think of newsprint only in terms of tonnage.

Measured in tons, 1936 has been a record year: the largest production year in the industry's history by a substantial margin. As reported by News Print Service Bureau, the Canadian mills in 1936 produced approximately 3,200,000 tons of newsprint, a gain of nearly 440,000 tons or sixteen percent over 1935 and a remarkable recovery of 1,275,000 tons or sixty-seven per cent from the depression low point of 1932. The 1936 total exceeded 1929 by seventeen percent.

The Canadian industry in 1936 operated at over eighty-two percent of rated effective capacity and its operations improved as the year moved on. For the first six months the rate was only seventy-seven percent; in the second six months it was nearly eighty-eight percent; in the final three months it was ninety-one per cent. In 1935, based on the same total capacity figure, the operating rate was seventy-one percent and in 1932 it was less than fifty percent.

During the final months of 1936 the Canadian companies were unable to fill all the orders their customers offered, although there were in the Canadian mills a number of machines standing idle, with rated effective capacity of over 350,000 tons a year. To newsprint buyers, who have received from statistical propagandists repeated assurances of Canada's excess capacity, this condition of scarcity was undoubtedly perplexing. But the explanation is simple enough and we shall see it now when we measure the industry's performance not in tons but in dollars.

In dollars, the story of 1936 is very different from the production record, for this huge volume of tonnage was sold at prices which yielded the Canadian industry at least twenty million dollars less than a minimum economic return.

As a gauge of prices we may take the price charged per ton for delivery at New York City. In 1936 this price was \$41.00. With the exception of the \$40.00 figure which prevailed throughout 1934 and 1935, this 1936 price was the lowest in the last thirty years. It compares with average prices of \$48.33 in 1932, \$57.00 in 1931 and \$62.00 in 1930. Prior to 1932 one must go back through the records for twenty years or so, to 1915, to find a price below \$50.00.

If we compare 1936 with 1932, the depression low point in production, we find a curious contradiction of supply and demand. We find that 1936 was sixty-seven percent higher in production but fifteen percent lower in price. In 1936 we had an all-time high in tonnage but virtually an all-time low in price.

And now we are into 1937, with one month of it behind us. On performance to date we have a repetition of 1936; high in tone, low in dollars.

In tons, the January reports of shipments show a gain over last January of approximately twenty-five percent. This rate of gain is much higher than should be expected for the full year, because of certain abnormal present factors, and one must always bear in mind the hazards of war, strikes, floods or other disasters. But, as far as one can foresee, it seems safe to put it down that 1937 means a new high record in tons.

In dollars, however, the 1937 performance is sad, to the point of absurdity. In some overseas markets substan-

tial price improvements have been established, ranging from \$5.00 to \$10.00 and more. But in the North American market, which represents 80 percent of our total, the 1937 contract price has been fixed at \$42.50, an advance of only \$1.50 over the 1936 figure and still nearly \$6.00 a ton below the 1932 average. Practically speaking, it is no advance at all, because rising costs of newsprint production, in almost every item of wages and materials, will more than absorb the \$1.50 before the year is over.

The abnormally low price of newsprint may be seen by comparing the newsprint price index with the general index of United States commodity prices. Taking 1932 prices as 100, the general commodity index had recovered to one hundred and twenty-nine in November, 1936, and to one hundred and thirty-four by the middle of January, 1937, while the newsprint index was eighty-five in 1936 and is now eighty-eight. The newsprint price reached its thirty-year low in 1934-1935 and has since recovered six percent. Other commodity prices have recovered from their ten-year low points by the following percentages: copper, 139; cotton, 160; wheat, 208; sugar, 403; rubber, 750. Newsprint's score, I said, is 6.

To sum it up: in 1937 the Canadian industry again will sell a huge volume of tonnage, probably the most it has ever made, but at contract prices which will yield it and this country many millions of dollars less than a minimum economic return.

What is a "minimum economic return"? That question, I assure you, is one which we might spend the rest of the afternoon discussing. Instead of inflicting a formula upon you, let me offer you a test case of actual performance.

To have the best possible example for our test case let us taken Great Northern Paper Company and its actual performance in 1935 as shown by its annual balance sheets. I suggest Great Northern as an example, because I think it is one which a newsprint buyer might most naturally select: an American company, commonly regarded as a model of efficiency in plant and production, producing its own power, and having the simplest possible capital structure (all common shares) with no debt. Over a considerable period it has enjoyed probably the most favourable

relative tonnage position in the industry. It is, in short, an example to which nobody could object.

In 1935 Great Northern operated at over eighty-five percent of effective newsprint capacity, while the Canadian industry averaged seventy-one percent. The company sold all its output to domestic customers favourably located for delivery. Its earnings after depreciation, on the closest calculation which can be made from its balance sheets, provided a return of 1.9 percent on its shareholders' investment of forty-two million odd dollars.

What should the company have earned to provide an economic return? Perhaps you would say 6 percent. You might say 7 percent, having in mind the hazardous nature of the newsprint business. You might argue more than 7 percent on the ground that earnings must be sufficient to attract new capital from time to time for expansion. It is unlikely that any business man would say less than 6 percent.

If we say 6 percent, Great Northern in 1935 fell short of this mark by something between \$6.50 and \$7.00 a ton. Its selling price was forty dollars. Its minimum economic price in 1935, therefore, was \$46.50 to \$47.00 and I have reason to believe that a calculation of \$47.50 as its economic price at the end of 1935 would be confirmed by all the facts of its performance.

What the figure would be for 1937 or 1938 I make no attempt to say, but it is obvious that it would be the 1935 figure of \$47.50 plus subsequent increases in production costs. It is too early to be precise about these increases but it can readily be demonstrated; to anyone who wishes to investigate, that newsprint production costs have risen materially since 1935 and are still rising.

Please let me make this clear. I am talking about an economic price. I am not talking about, nor suggesting, the market price which it might be expedient for a manufacturer to seek. The economic price is an item of fact; the market price is a matter of policy and judgment, in which one would probably find a wide variety of opinion. I have nothing to say about policies. I submit only the fact that a bare economic price for newsprint in 1935, based on actual performance of a model producer, was approximately

\$47.50 and that a bare economic price today or for 1938 is \$47.50 plus production cost increases since 1935. It is quite clear that in 1937, in spite of record demand for tonnage, the Canadian industry is entering its fifth consecutive year of operating at a substantial national loss.

This is a situation bordering on the ridiculous. The explanation of it, as many of you know, lies in methods of selling which became common practice in the industry under the continued stress of a buyers' market. First, it became a practice for a company to make contracts undertaking that its price for a year would not exceed the price of a certain other company or group of companies. Second, even without such contracts, it became a matter of policy with many companies to endeavour to hold their customers and maintain goodwill by following the lowest price of any important seller.

With this combination of interlocking contracts and lowest price policy, and with a low tonnage condition, it has been possible in recent years for a single manufacturer, by timidity, vanity or faulty judgment to be bullied, cajoled or bamboozled into a decision sealing the fate of the whole industry and for a whole year. It has been, as anyone in the industry knows, a situation of incredible folly, but one must put it down as an evil accompaniment of depression desperation, and feel relieved that the conditions which created it no longer exist. It is our misfortune that the 1937 contract price became established before the change in conditions was sufficiently apparent.

The national significance of what has taken place in recent years should, however, be fully realized; not by way of useless reproach but as protection against future folly. There are two consequences for Canadians to think about: first, the loss of national income; second, the loss of national capital in wasteful depletion of our forests.

The loss of national income is plain. Last year, with a tonnage total seventeen percent higher than in 1929, newsprint exports yielded \$50 million or thirty-three percent less. Last year the tonnage total was better than 1932 by sixty-seven percent, but the dollar gain of exports was only twenty odd percent.

Depletion of our forests is even more serious, for we

are consuming them at a prodigious rate. A single Sunday issue of the New York Times, for example, means some two hundred and twenty-five acres of our forest. The tabloid New York News, with its huge circulation, is using sixty square miles a year. The Canadian mills, during the last five years of selling newsprint at a loss, have consumed at least four thousand square miles of forest, equivalent to a strip twelve miles wide, stretching from Montreal to Toronto.

Canada is using up her forest wealth and getting little for it beyond wages for the industry's workers. Millions of dollars of real cash investment, the money that built the mills and opened up the forests, have gone for several years without a cent of return. Some Canadian mills have been kept in operation these last few years at actual loss to their owners and with no beneficial result in Canada except to give employment and keep communities in existence. This is an invaluable national contribution, it is true, but it is not good enough. If we sold our gold, as we have been selling our forests, one can almost say that we would mine the gold, pay the miners their wages, and then give the gold away.

It is, then, not difficult to explain the situation I mentioned a little earlier: the scarcity of supply which buyers found last November and December, although Canadian mills had effective machines standing idle; a situation which may develop again during coming months. The answer is: that to put newsprint machines into production requires time and money. You cannot make newsprint by turning a tap nor, by the way, can you make it from secretarial statistics of excess capacity. You must have wood, you must have men, you must have machines tuned up and ready to run.

To have wood supply on hand may mean planning and cutting as far as two years ahead, and it means paying wages during that time. To tune up machines, which have been inactive for some years, may involve considerable preparation and cash expenditure. No sensible manufacturer will undertake these things, without some inducement of possible profit. That inducement has not existed; the condition of scarcity is the result.

Newsprint buyers who may have felt grateful for the fixing of these low price levels for 1936 and 1937 have, in fact, no cause for gratitude. Their primary need is adequate, continuous supply, and a price level so low as to render that doubtful is no favour to them; it may well prove to be an injury.

So much for an appraisal of the present state of the newsprint industry. Let us take a few moments now for the third part of this report and consider briefly the industry's outlook.

If what I have said about the industry's present state has seemed somewhat gloomy in tone perhaps there is encouragement in the thought that the more evil one's plight the more room there is for improvement. And let me say at once that I believe improvement is coming. In the long run the law of supply and demand will have its way; it will not be denied by the sort of obstacles I have described. What little I have to say about the industry's outlook, therefore, relates chiefly to the subject of demand and supply.

On the side of supply, the immediate question is: how many tons can the Canadian mills produce in 1937? It is a question which has had a great deal of study within the industry and I will give you the closest answer which has been reached.

The Canadian mills have a total rated capacity, as I have mentioned, of about 3,860,000 tons based on competent investigations made a few months ago. With this figure as a starting point we must allow for two kinds of factors: plus and minus. The plus factors are improvements since the date of rating and the ability of certain mills to speed up their machines under pressure. The minus factors are, first, the delays in starting machines which represent rated capacity but which cannot be ready for production until later in the year and, second, the fact that it is an impossibility to have every machine in every one of the 40 mills operate at full rating every hours of 309 working days.

Weighing these factors in detail leads to the conclusion that the maximum production limit of all mills in Canada in 1937 is between 3,600,000 and 3,700,000 tons. As far as United States mills are concerned the outlook is that their 1937 production can be little, if any, greater than in 1936

and may easily be less. I believe one is being as accurate as any estimate will permit, in saying that the Canadian and United States mills combined, cannot produce in 1937 more than 400,000 to 500,000 tons above their 1936 total, or approximately the amount of the 1936 increase over 1935. This estimate is calculated from January first; it diminishes each month to whatever extent capacity is not fully used. Moreover, the estimate makes no allowance for loss of production by accidents, water shortage, strikes, shipping difficulties or other unpredictable factors.

With good luck and no accidents, however, the Canadian industry might supply increased 1937 demand to the extent I have mentioned, provided—and this is most important—provided buyers place their orders evenly throughout the year and avoid creating the seasonal peaks which have marked recent years. If buyers hold back their orders for the usual bulge in the second half of the year, even a moderate increase in 1937 demand will almost certainly create shortage of supply in certain months.

Many people interested in the industry seem to hope that a shortage will occur because they wish to see a spot market with non-contract sales at improved prices. I believe, however, that such a hope is not a long range view. A spot market, with buyers bidding frantically for supply, might be poetic justice, but it would not be good for the Canadian industry. A paper shortage and a spot market would mean extremely high prices and extreme prices would probably lead again to an orgy of promotion and expansion such as this industry experienced in the period from 1925 to 1930, with the inevitable consequences, from which we are just now beginning to escape.

The sound course for the industry and its customers is to avoid extremes, either on the up side or the down. This industry is just emerging from one downward extreme, with its attendant waste and human misery; let us not set the stage for another by permitting an upward extreme to develop, even though the required restraint runs contrary to natural inclinations.

If, as seems quite probable, some expansion of productive capacity is soon necessary, the duty and problem of all concerned in the Canadian industry will be, to manage that

expansion in an orderly and moderate fashion. The first method of expansion should be by improvements of existing machines, a method capable of providing very substantial new capacity with no construction of new mills or machines. Delay in such improvements and the consequent present risk of scarce supply have been due to low price levels. Establishment of a price sufficient to induce and permit improvements, should be recognized by newsprint buyers as a necessity in their own interests.

Moderation and restraint, an adequate price, sensible selling methods, constant effort for new efficiency of production: these should be the guiding principles of an industry supplying a world commodity in a world market under world competition. No newsprint producer should allow himself to forget that extreme prosperity, especially newsprint prosperity, carries with it the seeds of its own destruction.

In this situation, I suggest that you, who constitute the public and the real proprietors of forest wealth, have a part to play and a duty to perform by the force of your opinion. I firmly believe that a well-informed public, actively concerned in what is happening to one of our greatest national assets, can do much to prevent its further dissipation, to achieve its intended economic use, to establish policies of fairness, prudence and good sense.