

NEWS-PRINT PAPER INDUSTRY

LETTER FROM THE FEDERAL TRADE COMMISSION

TRANSMITTING

IN RESPONSE TO A SENATE RESOLUTION
OF APRIL 24, 1916, A REPORT RELATIVE
TO AN INVESTIGATION OF THE NEWS-PRINT
PAPER INDUSTRY OF THE UNITED STATES



SENATE RESOLUTION NO. 7.

BY MR. FLETCHER.

IN THE SENATE OF THE UNITED STATES,
March 9, 1917.

Resolved, That the report of the Federal Trade Commission, submitted in response to a Senate resolution of April twenty-fourth, nineteen hundred and sixteen, relative to an investigation of the news-print paper industry in the United States, be printed as a Senate Document, and that five thousand additional copies be printed for the use of the Senate Document Room.

Attest:

JAMES M. BAKER,
Secretary.



NEWS-PRINT PAPER INDUSTRY.

FEDERAL TRADE COMMISSION,
Washington, March 3, 1917.

To the PRESIDENT OF THE SENATE OF THE UNITED STATES:

Pursuant to a resolution of the United States Senate, dated April 24, 1916, the Federal Trade Commission has been engaged in an investigation of news-print paper industry of the United States.

Inquiry has been directed to the cost of the manufacture of news-print paper, its price to publishers and others, and to the question of unfair practices in the industry. A detailed report has been prepared and will be submitted hereafter.

On account of the exigencies of the present situation, the Federal Trade Commission submits herewith the following statement of its activities and findings:

1. The increases in the selling prices of news-print paper for the year 1917 in most cases were greater than could be justified by the increases in cost.

2. There is not now, and has not been, a serious shortage of news-print paper. The Commission finds that there is enough news-print paper to meet all the strictly necessary demands of publishers during 1917. There is, however, a close balance between supply and demand, and the Commission recommends the strictest economy in the use of news-print paper.

3. The system of distribution of news-print paper is faulty. By reason of this fact this close balance between supply and demand could easily be developed into local shortage, and this condition was taken advantage of and exaggerated by artificial means. Reports of alleged shortage were widely circulated for the purpose of justifying high prices. Keen competition among the comparatively unorganized publishers, who, in their anxiety to assure themselves of their necessary supplies of paper, bid feverishly in the open market, helped to make the situation more acute.

4. The increase in prices has been due in part to the fact that free competition has been seriously restricted in the news-print paper industry. Important manufacturers in the United States and Canada were banded together to secure unreasonable profits.

5. Some small publishers have already been put out of business and more are likely to suffer the same fate, and some large publishers

will be financially ruined and many others will be unable to make any profits unless conditions are remedied.

6. The Commission directed its efforts to a discovery of the facts affecting the economic and legal sides of the question and within the limitations of its power sought also to restore competitive conditions in the industry and at the same time to bring such immediate practical relief as would prevent serious financial distress and injury while the processes of competition were being restored.

PRESENT CONDITIONS SERIOUS.

Conditions in the newspaper publishing industry are serious. Within the year prices to large consumers of print paper have been advanced from about \$40 per ton to over \$60 and \$70 per ton, and in some cases even up to \$90 per ton. Also, by concerted action the terms of contracts have been so changed as to shift a considerable financial burden from the manufacturers to the publishers. To some of the larger newspapers of the country this price increase means, in some instances, an increase in cost of hundreds of thousands of dollars. This means in many instances not only the loss of profits for the year, but a serious financial embarrassment of the publication itself.

The smaller publishers have been forced to pay prices as high as \$150 and \$180 per ton. In addition to the above increases of price among publishers of minor dailies and weeklies, it is complained that they found great difficulty in getting paper at any price, and to a large number of such publishers in the country the increase in the price means the difference between a living margin and the complete ruin of their business and the suspension of their publications.

The financial strength of great daily publications may enable them to survive; it is the smaller newspapers that will probably suffer the most seriously if these conditions continue. The small weekly and daily publications of the country particularly serve a great and useful purpose in the dissemination of facts and in the creation of an intelligent public opinion, and such disaster as impends by reason of this increase in the price of news-print paper makes the question one of great public concern.

GENERAL STRUCTURE OF THE INDUSTRY.

News-print paper is produced in North America by approximately 80 manufacturing plants, of which, in 1916, 63 were located in the United States and 17 in Canada. Approximately 75 per cent of the Canadian production is consumed in the United States.

The costs of producing news-print paper depend upon varying factors, to wit, the size and integration of the plant, its access to

supplies of wood, the character and cost of its water power, and the efficiency of equipment and management. The large mills, which generally are the most efficient, usually make contracts for their entire output for a year in advance with the large metropolitan papers for the bulk of their tonnage. Some large contracts have been made for periods of from three to five years. The smaller mills, and those which are operating at higher costs, usually supply the smaller publishers and sell a larger proportion of their output in the open market, through jobbers, at higher prices.

CAUSES OF EXISTING CONDITIONS.

The existing situation is partly due to conditions of supply and demand. Generally speaking, due to the increase in advertising and news matter, there has been an increase in the demand for news-print paper. The supply of news-print paper available for domestic consumption increased from 1,644,000 tons in 1915 to 1,816,000 tons in 1916, an increase of 172,000 tons for the year 1916 over the year 1915. On January 1, 1916, the stocks of news-print paper carried by manufacturers were about 69,000 tons. At the end of 1916 these stocks were reduced to approximately 42,000 tons. While during 1916 prices advanced to an extraordinarily high level and there were difficulties in procuring paper, it is nevertheless a fact that newspapers were generally able to secure news-print paper for their reasonable requirements if they would pay very high prices. The quantity manufactured during the year was equal, therefore, to that needed for reasonable requirements of newspapers within approximately 27,000 tons, which quantity was taken from the reserve stocks. It is generally agreed among manufacturers that if publishers will exercise strict economy the supply will be equal to the requirements for the year 1917. It is expected that new paper machines will substantially increase the production for 1917.

The close balance between supply and demand inevitably tended to create general uneasiness. There is much evidence that manufacturers, instead of attempting to allay this natural fear on the part of the publishers, played upon it deliberately. A panic market was the result. While there was enough paper to go around, publishers were fearful that they could not get their supply. They tried to place orders with many mills and duplicated the placing of their orders for the purpose of being assured of a supply. Newspapers which had difficulty in closing contracts or which were fearful lest their supply under contract would prove inadequate went into the open market. The result was that requirements were made to appear many times greater than they actually were, and a fictitious demand was thus created, which produced a condition of

panic with panic prices. There is some evidence that this panic was stimulated deliberately by the organization of manufacturers.

ARTIFICIAL RESTRAINTS IN THE INDUSTRY.

While these conditions obtained and would naturally have some influence upon price, it is the opinion of the Commission that the prices were actually made in the industry without the operation of free competitive influences in their determination. By means of a trade association, organized ostensibly for a lawful purpose, conditions in the market were influenced in a very substantial degree and in a manner which sustained a price which would not be possible under conditions of free competition. Concert of action was made possible through this association in the matter of discouraging new production of news-print paper, in the division of customers, in the promotion of fear that the supply would not be equal to the demand, in disseminating propaganda justifying higher prices because of alleged higher costs, and in other ways. The increase in the prices charged are not justified by the increased costs of production.

COSTS OF PRODUCTION.

The costs of production have increased and, in the judgment of the Commission, may increase somewhat further. Through its accountants, the Commission has been able to determine from the books of the companies just what cost increases have occurred. For the first six months of the year 1916 costs had not increased over the last half of the year preceding. For the next four months, up to October 1, 1916, it may fairly be stated that the average increase of costs in the chief American mills was about \$1.50 per ton. These costs have materially increased since that time. Materials and supplies for the production of 1917 will be purchased at higher prices. Among the manufacturers generally it has been estimated that the advance would be between \$5 and \$10 per ton. Informal estimates made by the officials of the Canadian Government recently placed the maximum increase in cost of production at \$10 per ton for Canadian mills and prices were recently agreed upon with the Canadian Government by which publishers were furnished with print paper at the following prices: \$2.50 per 100 pounds for rolls and \$3.25 for sheets in car lots and \$3.50 per 100 pounds for sheets in less than car lots.

ACTION OF THE COMMISSION.

Contemporaneously with the economic investigation the Commission also conducted an inquiry into unfair trade practices or violations of the Federal antitrust laws. The full powers of the Com-

mission were invoked, and the books, papers, and private correspondence pertaining to the industry of the members of the manufacturers' association were examined. The facts so gathered were transmitted to the Department of Justice.

The Federal Trade Commission was created for the purpose of aiding in the maintenance of a condition of free and fair competition in industry. It was created with the expectation also that it might so conduct its investigations as to bring about accommodation between business and the Government that would secure competitive conditions by the most direct and immediate methods consistent with the public interest.

While pursuing the investigation of the news-print paper industry the Commission tried to bring about such a condition among manufacturers, distributors, and publishers as would afford some immediate and practical relief. Public hearings were held at which these interests appeared, and many conferences were had with them. The efforts of the Commission were made in the public interest but without express authority of law. Its aim was to act as arbiter in the situation for the purpose of securing prompt relief. It was particularly desired to provide some means whereby the smaller publishers could be relieved with respect to their most pressing necessities. The various interested parties, however, failed to come to any agreement among themselves. But largely as a result of the Commission's activities some substantial relief was obtained for smaller publishers in various sections of the country through the cooperation of manufacturers, jobbers, and publishers.

PROPOSAL OF MANUFACTURERS.

Following the activities of the Commission certain manufacturers producing in the aggregate about one-third of the total tonnage of news-print paper in the United States and Canada submitted the following proposal to the Commission:

Whereas among manufacturers and publishers there are differences of opinion regarding the increase since January, 1916, in the cost of production of news-print paper in the United States, and regarding the increased prices to which manufacturers are entitled for news-print paper sold for use in the United States for the six months' period beginning March 1, 1917, taking into consideration the increase in their cost of production and other conditions affecting such manufacturers; and

Whereas the undersigned manufacturers are desirous of cooperating in any plan that may be approved by the Federal Trade Commission providing for a more effective distribution of news-print paper among the smaller publishers; and

Whereas the undersigned manufacturers are desirous of submitting these matters to the arbitrament of the Federal Trade Commission:

Now, therefore, Each of the undersigned does hereby request the Federal Trade Commission to find, fix, and determine forthwith—

(a) The probable or estimated increased cost of production of standard news-print paper in the United States during the period of time commencing March 1, 1917, and ending September 1, 1917, over the cost of production of news-print paper in the United States during the year 1916.

(b) What price per hundred pounds at the mill would be a fair and reasonable price for the sale of such paper for use in the United States during the aforesaid period of time, from March 1, 1917, to September 1, 1917, taking into consideration such increased cost of production and other conditions affecting respective manufacturers which the Commission may deem pertinent at this time?

And each of the undersigned does hereby agree that it will carry out and complete at the prices and on the terms therein stated all of its existing contracts for the sale of such paper which were made at a price or prices as low as or lower than the price or prices so found, fixed, or determined by said Commission to be fair and reasonable for said period commencing March 1, 1917, and ending September 1, 1917, and that with respect to contracts which are for higher prices than those so found, fixed, and determined by said Commission for said last-mentioned period of time it will supply such contract purchasers with their necessary requirements only of such paper at a price not in excess of the amount so found, fixed, or determined by the Federal Trade Commission to be a fair and reasonable maximum price on such paper, as aforesaid, during said period of time from March 1, 1917, to September 1, 1917.

The purpose of limiting such last-mentioned contract purchasers to an amount of paper which will supply their necessary requirements only is to enable each of the undersigned to supply other, and particularly small, publishers who have no contracts with sufficient paper to cover their necessary requirements from time to time during said period of time; and consequently in the event that any dispute arises at any time between any undersigned manufacturer and such contract purchaser, or that any complaint is made to the Federal Trade Commission at any time concerning the question as to whether or not such contract purchaser is getting more than his necessary requirements only of paper during said period of time, then, and in that event, the Federal Trade Commission shall have the right, and is hereby authorized, to determine in each of said instances the amount of paper which is needed to supply the necessary requirements only of such contract purchaser, and the latter shall not be entitled to receive any reduction from his contract price for any paper during said period unless he has filed with this Commission his written consent to this arbitration and its terms.

And each of the undersigned does hereby agree that it will, so far as lies in its power, limit each contract purchaser to his necessary requirements only and sell to its customers, respectively, who have no contracts sufficient paper to meet their necessary requirements only during said period of time at a price not in excess of the amount found, fixed, and determined by the Federal Trade Commission to be a fair and reasonable maximum price on such paper.

While this arrangement is to run for only six months, it is understood that the contract prices named in contracts with publishers heretofore made which may be reduced by the action of the commission hereinunder are not hereafter to determine the price to be paid for news-print paper by such contract purchasers as consent to this arbitration.

And the undersigned does also agree and bind itself to cooperate with the Federal Trade Commission in carrying out any plan approved by the commission to bring about the distribution of news-print paper for the purpose of securing prompt and effective relief to the small publishers of the United States and which will enable such small publishers, through cooperative buying, to secure

their news-print paper at practically the same price as that which is herein-under to be enjoyed by the larger publishers, due provision being made for any additional cost of distribution. New publishers shall not be charged more than said maximum price so found, fixed, and determined by the Federal Trade Commission during said period of time.

And each of the undersigned, while not admitting but on the contrary expressly denying that any law has been violated by it, does nevertheless hereby agree that the Federal Trade Commission may, if it finds it necessary or advisable, proceed forthwith to make recommendations for the readjustment of its business in order that it may maintain its organization, management, and conduct of business in accordance with law.

Respectfully, yours,

INTERNATIONAL PAPER CO.,

By P. T. DODGE, *President*.

ABITIBI POWER & PAPER CO. (LTD.),

By ALEXANDER SMITH, *Vice President*.

THE SPANISH RIVER PULP & PAPER MILLS (LTD.),

By GEO. H. MEAD, *President*.

THE LAURENTIDE CO. (LTD.),

By GEORGE CHAHOON, Jr., *President*.

THE BELGO-CANADIAN PULP & PAPER CO.,

By W. H. BIERMAN, *General Manager*.

THE NORTHWEST PAPER CO.,

By C. I. McNAIR, *General Manager*.

TAGGARTS PAPER CO.,

By G. C. SHERMAN, *President*.

FEBRUARY 15, 1917.

To the FEDERAL TRADE COMMISSION,

Washington, D. C.

ACTION OF PUBLISHERS.

When the proposal of the manufacturers was made known to newspaper publishers a number of the larger of them agreed that if the price in their contracts made for the purchase of paper should be reduced to the maximum price to be determined by the Commission for the period of six months from March 1, 1917, they would release each month up to 5 per cent of their tonnage under contract, it being understood that such released paper would be used in the manner to be determined by the Commission to help publishers without contracts.

ACTION OF JOBBERS.

As the needs of the smaller publishers, widely scattered throughout the country, are most urgent, and since they are largely dependent upon the paper jobbers for their supplies, and as such jobbers appear to be the only means at hand for supplying these small publishers promptly, the Commission deemed it advisable to call the jobbers for a conference. The result was that the leading jobbers have entered into an agreement to handle and distribute such news-print paper as

the Commission may place at their disposal at fair and reasonable maximum rates of compensation as follows:

Single car lots direct from mill, not to exceed 5 per cent on f. o. b. mill price.

Less than carload lots, but not less than ton lots, delivered from warehouse, not to exceed 12½ per cent on cost in warehouse.

Less than ton lots, delivered from warehouse, not to exceed 20 per cent on cost in warehouse.

The agreement also provides that the jobbers during the period covered by it will handle all their news-print tonnage sold to publishers on the above rates of gross profit figured on current replacement value, and also that they will sell for cash or on approved credit in carload lots to the representative of any association of publishers at the same prices as to individuals.

In this connection it should be stated that while jobbers have been severely criticized in respect to the prices charged by them, the Commission has found many instances in which the mills have compelled the jobbers to pay exceedingly high prices, and in those instances it has been necessary for the jobbers in turn to charge extremely high prices to their customers. In some instances, however, it was found that jobbers who bought paper at reasonably low prices took advantage of their opportunity to sell such paper at unreasonably high prices.

FINDINGS OF THE COMMISSION.

Two specific phases of relief were presented in the proposal of the manufacturers set out above, (1) the matter of price reduction directly effecting the saving of millions to publishers, and (2) a more equitable distribution of paper supply directly benefiting the smaller publishers, not only saving them money but preserving many of them from suspension and bankruptcy.

The second phase, that relating to the distribution of paper to the smaller publishers, while requiring a relatively small quantity of paper, is the most difficult of accomplishment. It is hoped that this paper will be obtained in part by the proposal of the larger publishers indicated above.

The proposal of the manufacturers and the action of jobbers and publishers having been defined, the Commission decided to accept the difficult task of arbiter. In so doing it does not purport to act as an agency of government to fix prices, but, on the contrary, is serving only as an arbitrator.

The Commission's findings are as follows:

(1) That a fair and reasonable price for the sale of standard news-print paper in rolls by each of the aforesaid signatory manufacturers for use in the United States during the six months' period

of time beginning March 1, 1917, and ending August 31, 1917, is the sum of \$2.50 per 100 pounds f. o. b. at the mill in carload lots and is the sum of \$2.75 per 100 pounds f. o. b. at the mill in less-than-carload lots.

(2) That a fair and reasonable price for the sale of standard news-print paper in sheets by each of the aforesaid signatory manufacturers for use in the United States during the aforesaid six months' period of time is the sum of \$3.25 per 100 pounds f. o. b. at the mill in carload lots and is the sum of \$3.50 per 100 pounds f. o. b. at the mill in less-than-carload lots.

(3) That no publisher or jobber who has an existing contract with any of the aforesaid signatory manufacturers for standard news-print paper at a higher price or prices than is hereby found to be fair and reasonable shall be entitled to receive or be given the benefit of such reduced prices unless he files with this Commission prior to March 20, 1917, his written agreement to waive and release for sale and distribution to publishers only, who have no contracts, 5 per cent of the total amount of tonnage specified in such contract.

(4) That if any extraordinary new conditions hereafter arise which make it unjust to the aforesaid signatory manufacturers to continue the aforesaid prices during the full period of said six months, this Commission will readjust the same for the whole or any remaining part of the three months commencing June 1 and ending August 31, 1917; provided that said signatory manufacturers file with this Commission their written request so to do; and provided further that, in the opinion of this Commission, the facts presented in such petition requires such action in order to prevent plain injustice.

The Commission is of the opinion that the foregoing prices for news-print paper would not produce a fair and reasonable profit for some of the smaller mills under the unusual conditions now existing as to the cost of ground wood and sulphite. They produce not over 18 per cent of the tonnage of the North American Continent.

Further, it is of the opinion that on the basis of their respective costs of production, the foregoing prices are also fair and reasonable for each and all of the following manufacturers who have not thus far joined in this arbitration:

Minnesota & Ontario Power Co.,
including its subsidiary, the
Fort Frances Pulp & Paper
Co. (Ltd.).

Gould Paper Co.

Finch-Pruyn & Co.

Great Northern Paper Co.

Pejepscot Paper Co.

Crown-Willamette Paper Co.

St. Croix Paper Co.

Price Bros. & Co. (Ltd.)

Donnaconna Paper Co. (Ltd.)

Powell River Co.

In addition to the above companies, the Consolidated Water Power & Paper Co. and the Wisconsin River Pulp & Paper Co. can sell at a slight advance over the prices named and make a fair profit. It should also be stated that the Great Northern Paper Co., appearing in the above list, is selling most of its output at prices as low or lower than those named; and it should be further stated that the Powell River Co. and the Crown-Willamette Paper Co. have much tonnage under long-time contracts at lower prices.

In accepting the responsibilities here exercised, the Commission recognizes the grave difficulties involved. It may not bring all of the relief which may be expected from its action, but all publishers will be given an opportunity to become participants in the plans. In the opinion of the Commission the most certain remedy for the immediate relief of the present situation is for all the metropolitan dailies to still further reduce the size of their papers and the number of their editions, and for those who have not yet done so to cut out such wasteful practices as allowing full credit to news stands for the return of unsold papers.

It is the purpose of the Commission to continue its efforts with the object of restoring competitive conditions in the industry.

The Commission is of the opinion that it is desirable for small publishers to cooperate in buying in carload lots.

In its final report on the news-print industry, the Commission will make recommendations to Congress for remedial legislation that has been suggested by the facts during this inquiry.

The Commission desires to make formal and official acknowledgment of the highly effective assistance that has been rendered by its special counsel in this matter, the Hon. Francis J. Heney, of California, in effecting a solution of a very complicated situation.

Respectfully submitted.

WILLIAM J. HARRIS, *Chairman.*

WILL H. PARRY, *Commissioner.*

JOSEPH E. DAVIES, *Commissioner.*

MARCH 3, 1917.

