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RE:

INQUIRY INTO THE MANUFACTURE, SALE,
PRICE AND SUPPLY OF NEWSPRINT IN
CANADA.

INTERIM REPORT

R. A. PRINGLE, K.C.,

COMMISSIONER

Ottawa, Ont.,

January 18th, 1918.

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OTTAWA, January 18th, 1918.

To:

Sir Thomas White,
Minister of Finance,
Ottawa, Ont.

Dear Sir,-

Interim Report of R. A. Pringle, K.C.,
Commissioner inquiring into the manufacture,
sale, price and supply of News Print in
Canada.

Acting under Commission, dated April 16th, 1917.

I have for some months been hearing evidence in an effort to ascertain the cost of manufacture of news print.

As you are aware, Orders have been made from time to time fixing the price of news print to the Canadian newspapers. The first Order extended from March 1st, 1917, to July 1st, 1917. Subsequent Orders have been made from time to time, and the prices first fixed are the prices now in force, the last order having been made by myself, as Controller, in November extending the prices to January 20th, 1918.

I have been urged for some time to make an Interim Report, and to vary the Order fixing prices in conformity with the evidence now before me.

The investigation which is now proceeding, and which will possibly continue for some time, was brought about by the representations made by the Chairman of the Newspapers Committee of the Canadian Press Association, Inc., these representations being contained in his letter of January 24th, 1917, copy of which letter I am filing herewith marked Number One.

In this letter the attention of the Government was called to the proposed increase in prices by paper manufacturers. The paper manufacturers proposed a minimum price to daily newspapers of \$3.00 per 100 lbs. f.o.b. mill for newsprint paper in rolls, an increase of \$1.25 per 100

lbs., or 71.42 per cent, as compared with the previous minimum price of \$1.75 per 100 lbs. f.o.b. mill. In the case of rural weekly newspapers the manufacturers proposed a minimum price of \$3.80 per 100 lbs. f.o.b. mill for newsprint paper in sheets, an increase of \$1.45 per 100 lbs. as compared with the previous minimum price of \$2.35 per 100 lbs. f.o.b. mill. It was stated in the letter referred to that the prices proposed were such that Canadian newspapers would not be able to carry on their business. It was further represented that the newspapers of Canada were doing a most important work in connection with public opinion in the prosecution of the war, that upon the extent and vigor of that work much of the national vigor must depend, and that it was not in the public interest that the press should be permitted to suffer grave injury that might materially reduce its power to exert influence on public opinion in carrying on of the war.

The Newspapers Committee were also of opinion that as the Canadian newsprint paper manufacturers were assured of large quantities of pulp if their production sold in other countries, they should be willing to treat fairly the newspapers of their own country, and that if the newsprint paper manufacturers should refuse to take this view that the Canadian Government should take such steps as they deemed necessary to secure to the Canadian newspapers a supply of paper at reasonable prices.

The Government endeavoured to bring about an amicable arrangement as between the manufacturers and the publishers, and several interviews took place between the representatives of the manufacturers, the newspaper publishers, and the representative of the Government.

In the early part of April it appeared as if an amicable arrangement would be arrived at, and a tentative agreement was drawn up by the manufacturers agreeing to supply to the Canadian publishers for newspaper purposes newsprint at a

price of \$2.50 per 100 lbs. in rolls in carload lots; at \$3.25 per 100 lbs. in sheets in carload lots, and \$3.50 per 100 lbs. in sheets in less than carload lots of two tons and over f.o.b., the mills of the various manufacturers, for a period of three months dating from the first day of March, 1917. It was further recited in said agreement as follows:-

"And whereas under existing conditions the supply of newsprint paper to Canadian publishers by the manufacturers is not proportionately distributed between them, and by reason of the fact that the prices so fixed are considerably below those the manufacturers are receiving from export business, it is necessary in consequence in order that each manufacturer should bear his due proportion of the loss so entailed in complying with the wishes of the Government, that arrangements should be made for a pooling of the said loss and for adjustment between the said manufacturers in proportion to the percentage of their output supplied to Canadian publishers."

Provisions were set out in the agreement in regard to the method of taking care of the differential. Unfortunately some difficulty arose between the manufacturers themselves, and this agreement was never executed. For purpose of reference I am filing copy of this Agreement herewith, marked Number Two.

At the time this agreement was being considered a statement was prepared by the Secretary of the Newsprint Manufacturers Association. That statement shewed that during the previous year there had been manufactured in Canada 611,320 tons of newsprint; that the Canadian tonnage amounted to 65,705 tons, the balance amounting to 545,615 tons being for export trade. Copy of this Statement is filed herewith, marked Number Three.

The manufacturers of newsprint and the publishers having failed to come to any agreement, and it being evident from the letter of the Federal Trade Commission, dated March 3rd, 1917, that in the opinion of the Commission the increase in selling price of newsprint for the year 1917 was greater than could be justified by the increase in cost, and also by their finding that free competition had been seriously restricted in the newsprint industry, and that important manufacturers in the United States and Canada were banded together to secure

~~unreasonable profits, also owing to the war that all~~ conditions previously prevailing in the paper trade had changed, the Government decided ⁱⁿ ~~to~~ order to ensure to the publishers of Canadian newspapers an adequate supply of newsprint at a reasonable price that it would take the responsibility of fixing prices.

The Government had before them at that time the prices which the Federal Trade Commission considered to be fair and reasonable in view of all the circumstances which are fully set out in the letter of the Federal Trade Commission to the President of the Senate of the United States, which letter is filed herewith, marked Number Four. On the 16th day of April, 1917, an Order-in-Council was passed under the powers conferred by Section 6 of the War Measures Act 1914, and under that Order-in-Council the Minister of Customs was empowered to fix the quantity and price of newsprint paper in sheets or rolls, furnished or to be furnished to the publishers in Canada by the manufacturers, from the first day of March, 1917, to the 1st day of June, 1917. Copy of this Order-in-Council is filed herewith, marked Number Five.

On the same date (16th April, 1917) an Order-in-Council was passed appointing me as Commissioner to conduct an inquiry into and concerning the manufacture, sale, price and supply of newsprint paper within the Dominion of Canada. Copy of this Order is filed herewith, marked Number Six, together with copies of all orders fixing price up to the present time.

The primary object of my investigation, as I understood, was to ascertain whether the prices fixed under Order-in-Council were fair and reasonable prices.

In considering the lines to be adopted in the investigation there were certain things which I assumed:

1st. That the Government had satisfied themselves that the time had come when the Laissez Faire policy, under which competition was relied upon for the establishing of fair prices,

should be set aside during the war in order that the newspapers of Canada could obtain an adequate supply of newsprint at reasonable prices, it being apparent that effective competition had been eliminated by consolidation of the manufacturers.

2nd. I assumed that the Government having fixed the prices at which newsprint manufacturers were to supply newsprint in Canada for a period of three months, and the manufacturers not being satisfied with the prices so fixed, and having been assured that a Commissioner would be appointed to investigate as to same, that the chief object of my inquiry was to ascertain the actual cost of the manufacture of newsprint in order that I could report to the Government, and that the Government would have before them full information upon which they could decide whether the price as fixed by them was a price sufficient to ~~xxxx~~ cover cost of manufacture with proper allowance for depreciation, and profit, on the value of the property used.

3rd. I further assumed that there was no desire on the part of the Government to injure the newspaper manufacturing industry in order to build up the prosperity of the newsprint industry, but that their only desire was to see that justice should be done between those conflicting interests.

I immediately proceeded to take up the questions referred to me, namely; the manufacture, sale, price and supply of newsprint paper within the Dominion of Canada, and I at once sent out questionnaires to be answered by each of the manufacturers. Copy of same are filed herewith, marked Number Seven.

As will be seen from these questions, full information was required from the manufacturers in regard to their capital stock, bonded indebtedness, quantity of newsprint manufactured ~~xx~~ and sold in the years 1914, 1915, 1916 and up to 30th April, 1917; also the cost and selling price in Canada for the same years, and the selling price for export, together with a full statement of their profits. All the manufacturers replied to these questions, and the full details are in the answers

given which are filed herewith under Number Eight.

At the commencement of the investigation some difficulty arose as to the cost of newsprint as set out in the answers, owing to the manufacturers having placed an arbitrary price on sulphite and ground wood. I did not consider this the proper method of arriving at cost, and consequently when investigation of the accounts of the manufacturers was made such basis was disregarded, and actual costs according to the records of the companies, but with some modifications, were ascertained. As all the details are given in statements filed it is unnecessary in this my interim report to discuss them at length. The fullest opportunity was given to every one connected with this inquiry to examine the answers to the questionnaires, and the manufacturers who furnished them.

It was considered by all parties interested that a much more satisfactory way of arriving at the actual cost of manufacture of newsprint was to have a thorough examination into cost made by competent accountants. I was particularly fortunate in being able to secure the services of Mr. Geoffrey Clarkson, of Toronto, who has gone into the matter with great thoroughness, as will be seen from his reports which I am filing, marked Number Nine.

Some comment has been made in regard to my rulings. The Federal Trade Commission is a tribunal appointed by the United States Government, and their powers are largely advisory, regulative and investigative, and they were authorized by resolution of Congress of April 24th, 1916, to enquire into the increase of price of print paper during the preceding year, and ascertain whether or not the newspapers of the United States were being subjected to unfair practices in the sale of print paper. It was clearly their duty to investigate as to a combination, and they so investigated and reported, and I felt that it was upon their report that the Government of Canada

had come to the conclusion that effective competition had been eliminated by the consolidation of the manufacturers in the United States, which was its justification for taking prompt measures to ensure to the publishers of Canadian newspapers newsprint at fair and reasonable prices.

It was urged upon me very strongly that I should admit evidence in regard to the alleged combination of newsprint manufacturers in the United States of America. I considered that the object of my inquiry was to ascertain as to cost within the Dominion of Canada, and that there was a clean cut issue between the newspapers on the one side and the manufacturers on the other---the newspapers contending that the prices fixed by the Government were fair and reasonable prices, and the manufacturers contending that the prices were too low to give them any profit---and my desire was to confine the evidence to the issue. I recognized that the Order-in-Council appointing me a Commissioner gave me very large powers which I was quite prepared to exercise to the limit, yet it gave me no power to investigate into an alleged combination in the United States of America, or in fact into a combination of any kind. Ruling otherwise might have been a smooth road to run on but in my opinion it was not the right road.

If the Canadian Press Association desired to investigate an alleged combination in Canada, they could have availed themselves of the provisions of the Act to provide for the investigation of combines, monopolies, trusts and mergers.

In this Act, unless the context otherwise requires, combine means any contract, agreement, arrangement or combination which has or is designed to have the effect of increasing or fixing the price or rental of any article of trade or commerce; or the cost of the storage or transportation thereof; or of the restricting of competition in, or of controlling the production, manufacture, transportation, storage.

sale or supply thereof to the detriment of consumers or producers of such article of trade or commerce, and includes the acquisition, leasing, or otherwise taking over or obtaining by any person to the end aforesaid of any control over or interest in the business, or any portion of the business of any other person, and also includes what is known as a trust, monopoly or merger. The procedure under this Act is very simple, and it is not necessary for me to go fully into it. Sufficient to say that if the Canadian Press Association were desirous of having an investigation as to whether a combine existed among the newsprint manufacturers in Canada, they could have made their application as set out in the Act. The application could be heard by any judge of the High Court of Justice in the Province of Ontario, and by any judge of the Superior Court in the Province of Quebec, and by any judge of the Supreme Court in the other provinces, and upon shewing to the Court by satisfactory evidence that the alleged combination operated to the detriment of the newspapers in Canada, they could have obtained an order directing an investigation. A Board would then have been appointed by the Minister of Labour, consisting of three members, one of whom would be appointed on the recommendation of the applicants, one on the recommendation of the persons named in the order as being concerned in the alleged combine, and the third on the recommendation of the two members so chosen. This Board's duties would have been to expeditiously, fully and carefully inquire into the matters referred to, and to have made their report to the Minister, and any person reported by the Board to have been guilty of unduly limiting the facilities for transporting, producing, manufacturing, supplying, storing, or dealing in any article which may be the subject of trade or commerce, or of restraining or injuring trade or commerce in relation to any such articles, or of unduly preventing, limiting or lessening the manufacture or production of any such article or of

unreasonably enhancing the price thereof, or of unduly preventing or lessening competition in the production, manufacture, purchase, barter or sale, transportation, storage, or supply of any such article, and who thereafter continued so to offend would have been guilty of an indictable offence, and liable to a penalty not exceeding \$1,000 and costs for each day after the expiration of ten days, or such further extension of time as in the opinion of the Board might be necessary from the date of the publication of the report of the Board in the Canada Gazette during which such person so continued to offend.

Or the Canadian Press Association could have availed themselves of the provisions of the Criminal Code. A full discussion in regard to my rulings as to the admissibility of evidence in regard to an alleged combine is to be found in the report of the proceedings of June 21st, 1917, pages 642-658 in record filed herewith:

On page 642 will be found my ruling as follows:

"THE COMMISSIONER: I regret exceedingly that this difficulty has arisen in the course of this investigation. I desire to give the fullest possible latitude to Counsel for the purpose of bringing out everything that may be material and that may assist me in deciding or reporting on the matter that has been referred to me. My position is absolutely and distinctly different from the position of the Federal Trade Commission which was appointed by the United States Government in 1916. That was not in any way a war measure. Conditions arose in the Dominion of Canada which indicated that the newspapers of this country might be placed in a position where they could not carry on their business. Now I take it that the newspapers have done a valuable work during the progress of this war. They are, as we know, the great mobilizers of public opinion. They have

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assisted in every way in furthering recruiting and in furthering all the efforts that have been made to carry on this war. Now we have in Canada a fair number of newspapers. The total consumption of the English and French daily newspapers of Canada amounts to 276.46 tons of newsprint, that the amount consumed per day. There are three daily Jewish newspapers, two Chinese daily newspapers, and one Japanese newspaper that are not counted in that. The number of English and French daily newspapers is 122, and the annual consumption of newsprint is 82,922 tons. We manufacture in this country at the present time upwards of 800,000 tons of newsprint paper. So it is obvious that it is a very important industry in so far as Canada is concerned. There are invested in this industry millions and millions of dollars. This industry is developing the natural resources of this country, and I, for one, would not like to see anything done which would tend to destroy that industry, or tend to keep capital out of the Dominion of Canada, which is intended to develop the resources of this country.

Now, as I said before, I am in a unique position. I am not in the position of a judge, but I am here as a Commissioner, and I have to exercise my best judgment and discretion in regard to this investigation, and unfortunately there may be no appeal from my decision. I feel that I have given to Counsel the fullest possible latitude in his examination of the witnesses. My duty, as I understand it, is simply to investigate the conditions as set out in the Order-in-Council, that is, to conduct an inquiry into and concerning the manufacture, sale, price and supply of newsprint within the Dominion of Canada -- and I have to do that for what purpose? It is to ensure to the publishers of the Dominion of Canada an ample supply of newsprint at a reasonable price. As was said a few minutes ago by Mr. Montgomery, this is merely a war measure. I am not here for the purpose of conducting an inquiry as to

whether there was an unlawful combination between the manufacturers of newsprint in this country. That is a matter that would have to come up before another tribunal, and my ruling now is that I will confine my investigation entirely to the four corners of this Order-in-Council, and that I will not go into any inquiry as to whether there was any unlawful combination between the manufacturers or not.

MR. TILLEY: Then do I understand that your Honour excludes evidence on the lines that I am seeking to follow?

THE COMMISSIONER: Any evidence that tends in the direction of showing there was a combination is excluded. I do not think it is is pertinent to the inquiry."

It is just possible that the Canadian Press Association may have by this time taken the necessary steps to have the question of unlawful combination investigated by the only tribunal authorized by Statute to conduct such an enquiry, and great relief from such combination should the same be found to exist. I have not, however, heard of their so doing.

I am referring to this probably at more length than I should, as to my mind it has little or no bearing on the matter under investigation, but it has been given by the Canadian Press Association as their reason for withdrawal of their Counsel from further participation in the inquiry.

Notwithstanding that Counsel for the Canadian Press Association did withdraw from the investigation, I felt it was my duty to see that everything in connection with the investigation was placed before them, and unofficially Counsel for the Canadian Press Association, with my consent and approval, has discussed with me many points in regard to figures as to costs shown by the manufacturers' records, and all of which will be carefully considered. I am under the impression that a representative of the Canadian Press Association has been present at every hearing held by me.

It is unnecessary for me to go into the details in regard to costs as they are all shown in the general statements prepared by Mr. Clarkson and filed herewith.

Early in November Mr. Clarkson furnished me with a statement showing the average cost in Canada of ~~the~~ ^{the} manufacture of newsprint as shown by the records of the companies including in instances certain costs which should properly have been taken into account by the ~~manufacturers~~ who had, however, in certain cases neglected to do so, and including what could not be considered as unreasonable return on the average on investment. This statement is filed herewith, marked Number Ten, and shows that the average for thirteen companies was \$56.90.

Objections have been taken by the Canadian Press Association to items included in such costs, and complete evidence yet remains to be heard in respect to several of them.

Since this statement was prepared the manufacturers claim that their costs have increased as they are now and have been for the last two or three months using pulp wood got out in the winter of 1917. As to whether this is the case or not, I am not in a position to say, but accountants are now busily engaged in obtaining the actual cost to the manufacturers for the later months of 1917.

On November 3rd, 1917, in addition to my duties as Commissioner I was appointed Controller, with full power during the continuance of the war, unless otherwise ordered, to fix the quantity and price of newsprint paper and other classes of paper to be furnished to the publishers in Canada, and to fix the price of pulp including sulphite and sulphate, the prices however to be first approved by the Governor-in-Council. I was also authorized in the course of and in connection with my investigation to confer with and co-operate with the Federal Trade Commission of the United States of America.

I visited Washington and attended a special meeting of the Federal Trade Commission where I had a very full and frank

discussion in regard to all the different items of cost, which are divided into three principal groups, viz: (1) Stock which includes sulphite, ground wood and other materials used. (2) Conversion which includes labor, power, fuel and various supplies necessary to convert the raw materials into paper. (3) General expenses which include taxes, insurance, depreciation, administration, etc.

At this meeting I was fortunate in having present Mr. Clarkson who had with him all his statements, and was in a position to discuss with the members of the Federal Trade Commission the methods he had adopted in arriving at costs as shown by the records of the Companies.

I desire to say that the Federal Trade Commission treated us with great courtesy and frankness, and with their permission Mr. Clarkson and Dr. Merchant had a full discussion as to the principles involved in determining costs.

I consider that the meeting was of great advantage in my inquiry and that it ~~will~~ ^{will} assist towards co-ordinating of the proceedings in both the United States and Canada,

The Federal Trade Commission have been good enough to forward to me a monthly cost ~~form~~ form with instructions, which each company has to file with the Commission, and I am considering the advisability of having a similar form sent out to the manufacturers in Canada, so that I would be able to keep in touch with the conditions in each of the mills in regard to production and cost.

I am filing with this my Interim Report (1) a complete set of statements of costs shown by the records of the paper mills, but subject to adjustments specified in respect of stumpage and sinkage; (2) Summary of costs as shown by such statements with additions thereto in respect of increases and adjustments claimed by the mills in evidence given before me and for return on investment; (3) Summary of costs for month of May, 1917, with additions thereto in respect of increases and adjustments claimed by companies in evidence given before

me and for the return of 8% on investment at the rate of \$30,000 per ton of newsprint produced: (4) Calculations compiled for purposes of information only, as to investment of Canadian Companies in mills with computations in respect to the balancing of same for newsprint purposes; --- Statement of machine losses as shown by records of the companies; (5) Memorandum covering investments in timber lands and limits, and calculations as to investment in operating assets.

It strikes me that outstanding securities are of little evidentiary weight except as part of the financial history of the property, and that the same principles in fixing what would be fair compensation to the manufacturers as are settled in the fixing of rates in the case of public utilities might be applicable in this case. The paper business partakes of the nature of a public utility. If compensation were to be allowed that would not provide means for the proper upkeep of the manufacturers' plants, it would be detrimental, not only to the manufacturers themselves but to those who rely upon their product, and to the public as a whole. The rate should be high enough so that the revenue therefrom would be sufficient to cover reasonable amounts for operating expenses including depreciation--interest--and profit on the fair value of the property used.

My first duty therefore seems to me to be to obtain evidence as to the fair values of property upon which the investors are entitled to interest and profit. Of course I will at once be met with conflicting opinion as to what should be included in the term property, and as to what is meant by fair value. Some argue that fair value is represented by the original costs, others again that it is represented by the cost of reproduction at the time of appraisal. Then again, a question arises after the value of the physical property has been determined, as to whether reasonable returns should be allowed for the cost of developing a paying business. The most

perfectly equipped plant in existence may be useless unless it has developed a business, and in the first few years of its operations it may not have been profitable. From all the authorities which I have been able to consult it appears to me that the tendency at the present time in appraisals is to attach greater importance to the cost of reproduction than to the original cost. However, as to which of these factors is of most importance is a matter that is greatly dependent on conditions.

Then again, I have to consider the return to be allowed to the investor. This return usually consists of two elements---the ordinary rate of interest for the use of his money, and a compensation for the risk he has undergone. I must say on a careful perusal of text books and authorities and judicial rulings, though at times contradictory and somewhat confusing, I find they nevertheless indicate the general lines upon which valuations must be made. I have in as brief a manner as possible pointed out some of the difficulties that I will have to encounter in arriving at a fairly accurate rate of compensation that should be allowed to the manufacturer. The interests are so large and so important I feel that they have got to be considered with great care.

I suggested at one of my hearings that it would be very pleasing to me if the Government could see their way in the event of either party being dissatisfied either with my ~~text~~ rulings or with my findings, to provide an appellate tribunal who would have full power to review or reverse any ruling made by me or any finding of fact, or who, if of opinion that the prices fixed by me are unjust either to the manufacturers or to the newspapers, would have the power to determine what prices are just and reasonable, and such appellate tribunal to have the right to hear any pertinent matter considered by me, also additional evidence or matter if it shall be shewn to their satisfaction that such additional evidence or matter is material

and that there were reasonable grounds for failure to adduce same in the proceedings before me. Or, if this should not be considered advisable then that either party should have the right to obtain from the Department of Justice an opinion as to any of my rulings or findings.

MANUFACTURE: The pulp and paper industry is one of Canada's greatest industries. From the statement filed shewing the export of domestic produce of newsprint paper, n.p.p., wood pulp and pulp wood during the fiscal years ending 31st March, 1914, 1915, 1916, and 1917, and during the six months ending 30th September, 1917, it will be seen that the newsprint industry is assuming very large proportions. I do not think it is too ~~much~~ much to say that Canada is destined to become one of the leading countries in the ~~world~~ world in the manufacture of pulp and paper products. Possibly the chief reason for the large investment that has taken place in this industry in late years is the fact that the United States market is an open market, and that owing to our extensive waterpower and suitable tree species for paper making, also for the making of soda pulp, large amounts of capital have been drawn to Canada. While not having the largest timber areas in the world, Russia being first, the United States second, and Canada third, Canada has the largest timber area in the British Empire.

I do not consider the present the proper time to say anything in regard to the question of the preservation of our forests. In my final report I may deem it expedient to give my views in regard to some matters that have come under my notice during this investigation.

By reference to statement shewing exports, etc., filed, it will be seen that there has been a very substantial increase in the export of both newsprint, wood pulp, chemically prepared; wood pulp mechanically ground, and pulp wood. I am also filing with this my Interim Report a statement by countries shewing the quantity and value of paper exported during the fiscal year

ending 31st March, 1917. This statement shows that we exported paper material to the value of \$26,072,646.00, a very large proportion of this going to the United States of America.

Prior to 1913 the United States imposed a duty upon the importation of newsprint paper into the United States. The Tariff Law passed in the United States in 1909 reduced the duty to $3/16\%$ per pound, equivalent to \$3.75 per ton upon newsprint valued at not above $2\frac{1}{2}\%$ per pound. In 1911 the United States removed the duty entirely on imports of newsprint paper and pulp from Canada except where the Canadian Government imposed an export duty. In 1913 the United States put newsprint paper from all countries valued at not above $2\frac{1}{2}\%$ per pound upon the free list. If valued at above $2\frac{1}{2}\%$ per pound a duty of 12% was imposed. About 60% of Canadian paper went into the States free in 1912; in 1913 over one million dollars' worth of Canadian paper entering the United States was subject to duty, but since 1913 no duty has been paid on Canadian paper entering the United States valued at not over $2\frac{1}{2}\%$ per lb. Owing to the increase in price in 1916 the United States on the 8th of September, 1916, raised the minimum of $2\frac{1}{2}\%$ per pound to 5% per pound. Consequently, although the price of paper has advanced beyond $2\frac{1}{2}\%$ per pound, Canadian paper, so long as the value does not exceed five cents per pound, enters the United States free of duty.

Canadian production has been increasing very rapidly, and no doubt will continue to increase. Upon examination into the financial affairs of the different companies, all of which is shown in the evidence, it is quite apparent that the industry has not been at all times remunerative.

I do not deem it necessary to go into details in regard to the enormous increase in cost to the manufacturers owing to war conditions. I am filing herewith certain statements which show comparative statements of prices for mill supplies

and wood supplies, taking as the basis prices of August 1st, 1914, and comparing these prices with the prices current on April 1st, 1917, and July 1st, 1917. As will be seen from these statements there have been increases ranging from 15% to over 200%.

According to the Honourable D. F. Houston, Secretary of Agriculture in the United States, the United States are using over six thousand tons of newsprint daily, and the demand is increasing at the rate of ten per cent per year. To supply presses in the United States with newsprint requires annually about three million cords of pulp wood; to meet requirements for magazine and book paper, stationery and business papers of all forms, wrapping papers, wall papers, cardboard, fibre board, etc., four million cords of pulp wood are consumed annually. Production barely keeps pace with consumption. The United States depend on Canada for a third of its newsprint paper, either in the form of finished product or raw material. This proportion is increasing rapidly. According to the same authority pulp wood stumpage in the northern states costs from \$2.50 to \$5 per cord standing in the forest.

According to statistics furnished by R. H. Campbell, Esq., Director of Forestry, the Canadian Pulp Mills in 1916 consumed for the manufacture of pulp in Canada 1,764,912 cords valued at ~~\$13,104,458.00~~ \$13,104,458.00, while 1,068,207 cords valued at \$6,866,699.00 were exported making a total production of 2,833,119 cords valued at \$19,971,127.00.

Bulletin No. 62B of the Forestry Branch contains full information in regard to production of pulp wood, wood pulp, etc., and is filed herewith.

According to figures of J. P. Steele, Secretary of the Newsprint Manufacturers' Association, the total production in the United States during the month of July last was 83,034 tons against total shipments during the month of 83,150 tons; total production in Canada during the month amounted to 49,425 tons against

tons against total shipments during the month of 48,535 tons; total production in the United States and Canada for the month 129,949 tons; total shipments for month 129,814 tons. The ~~xx~~ average tonnage per day for the first seven months of the year 1917 manufactured in Canada was 1953 tons. This is an increase of 153 tons per day over the average of 1800 tons per day in 1916.

SITUATION: In the United States an agreement appears to have been entered into between leading manufacturers of newsprint in the United States and Canada and the Attorney General of the United States under which certain prices are fixed from January 1st, 1918, until April 1st, 1918, for newsprint paper in rolls \$3.00 per 100 lbs. f.o.b. at the mill in carload lots; \$3.25 per 100 lbs. f.o.b. at the mill in less than carload lots, and for --- newsprint paper in sheets \$3.50 per 100 lbs. f.o.b. at the mill in less than carload lots. This, however, does not apply to all the mills. The Minnesota & Ontario Power Company, and the Fort Frances Pulp & Paper Co. Ltd. rates have not been fixed as yet, but are to be fixed by the Federal Trade Commission from January 1st, 1918, to April 1st, 1918, effective January 1st, 1918. The manufacturers on their part have agreed during the life of the agreement to offer newsprint paper for sale in accordance with the prices fixed. On April 1st, 1918, the just and reasonable maximum prices and terms of contract for the sale of all or any newsprint paper shall be determined and fixed by the Federal Trade Commission after due hearing and investigation subject to review by the Circuit Judges of the Second Circuit, who are given large powers of review. The maximum prices as finally fixed are to continue during the war and for three months thereafter with the right to any of the parties to ask the Federal Trade Commission for an investigation and determination of new prices or terms of contract whenever during such period

conditions arise which in the opinion of either make it desirable to ask for any change in the price or terms of contract subject to the same right of review. In determining the prices to be effective April 1, 1918, the Federal Trade Commission shall consider all pertinent conditions including those prevailing during the months of January, February and March, 1918 to the end that the prices when announced shall cover the facts as near the time of the effective date of the new prices as is possible.

I am filing with this my interim report the following documents, relating to the American situation:

Agreement, dated November 26th, 1917, between Thomas W. Gregory, Attorney General of the United States, and the several manufacturers of newsprint paper.

Final Decree in the District Court of the United States for the Southern District of New York---United States of America, petitioner, against Geo. H. Mead and others, defendants.

Petition filed November 26th, 1917, in the District Court of the United States for the Southern District of New York. United States of America, petitioner, against Geo. H. Mead and others, defendants;

It will be noted in the order fixing prices in Canada that while newsprint paper in rolls is fixed at a price of \$2.50 per 100 lbs. in carload lots f.o.b. at mill, the price in the Agreement in the United States is \$3.00 f.o.b. at the mill in carload lots. It will also be noted that the American price for newsprint paper in sheets in less than carload lots is \$3.75 per 100 lbs. f.o.b. at the mill, while the price in Canada for newsprint in sheets in less than carload lots is \$3.50 per 100 lbs., or in other words there is a difference of ~~\$2.25~~ \$10 a ton on newsprint paper in rolls and there is a difference of \$5.00 per ton on newsprint paper in sheets in less than carload lots. This, of

course, is for the same paper as used by the Canadian newspapers.

ADJUSTMENT BETWEEN MANUFACTURERS: This matter of adjustment between the manufacturers has caused me a great deal of anxiety. Under the first orders that were made a provision was inserted which reads as follows:- "And whereas under existing conditions the supply of newsprint paper to Canadian publishers is not proportionately distributed between them and by reason of the fact that the prices fixed are lower than the manufacturers are receiving from export business, I do order that each manufacturer should bear his due proportion of the cost so entailed in complying with above, and that if arrangements are not made between the manufacturers for the pooling of such cost and for adjustment between themselves in proportion to the percentage of their output supplied to Canadian publishers, first an accounting be made and the manufacturers or manufacturer who have supplied a greater percentage of Canadian tonnage than properly attributable to them shall be paid by the other manufacturers sufficient to place them in the same position as the manufacturer or manufacturers who have not supplied their proper percentage to the Canadian publishers."

At the time this order was made approximately 11% of total manufacture of newsprint was required for use in Canada. Several of the mills were not supplying any of the Canadian trade. Others were supplying more than their 11%---all desired to obtain the full market price which at that time was over \$60 per ton in the United States. Consequently, in order to keep the Canadian newspapers supplied those of the manufacturers who were long on Canadian tonnage had to be protected by those of the manufacturers who were ^{short} ~~long~~ on Canadian tonnage. At the present time there is owing to those who were long on Canadian tonnage approximately \$250,000.00 by those who were short on Canadian tonnage.

While I am bound to say that the manufacturers have

loyally obeyed every order that I have made for supply of paper to the different newspapers throughout Canada, yet there is an insistent demand upon me by ~~those~~ ^{those} who have been long on Canadian tonnage, and who are entitled to large amounts of money to get the matter closed up. Messrs. Clarkson and Sharpe have been working diligently in an effort to bring about a final adjustment, but many difficulties have presented themselves and delays have occurred in receipt of adequate returns from manufacturers. I have every hope that this will be closed out within the next ten days.

In dealing with the question of prices to govern from the 1st of February, 1916, a difficulty presents itself by reason of the provision in the Order of June 30, 1917, which is as follows:- "This order is made subject to revision as to price in the event of it being decided at a later date that the price now charged is either too high or too low. A similar provision has been made in all orders fixing ~~price~~ ^{price} subsequent to June 30th, 1917. If an increased price were now fixed dating back to July 1st, 1917, I have very grave doubts as to whether it would be feasible to collect from the small newspapers, from the Atlantic to the Pacific, the amounts that might be found due by them. Recognizing the injustice that might be done in the event of my making an order fixing price until I was thoroughly satisfied there was sufficient evidence before me to fix it with some degree of accuracy, I refrained from either increasing or lowering the price when making my order of 20th November, 1917, extending the prices then in force from 20th November, 1917, to 20th January, 1918.

It has been urged upon me by the manufacturers that as their records shew a cost with allowance for compensation to May 1917 of over \$50.00 per ton, and that such costs have increased very materially, (See Statement filed as of May costs, and subsequent evidence) that price should now be increased.

It will be seen by reference to Bulletin No. 426 issued by the Canadian Press Association (filed herewith) that reference is made to informal conferences which Mr. Tilley and Mr. Iaric had with myself, and Mr. Clarkson, and at which they pointed out points in the summary that required explanation. I have given every consideration up to the present time to the different points raised, although it is manifest further evidence will be required as to some of the points raised.

Some question has been raised in regard to the value of pulp wood on the stump. I have taken the position that pulpwood has a value. It has been contended that when obtained under concessions it should be taken into costs at the amount of the royalties paid in respect of it only. Where pulpwood has been purchased by the mills it has been taken at cost arriving at the cost of newsprint. Where a mill has large limits and their woodland investment is eliminated in considering their cost of manufacture of newsprint I have allowed a price of \$2.00 per cord, and there is abundant evidence to be found in the evidence filed with this interim report to justify this allowance. As a matter of fact, the evidence shows that in the Province of Quebec accessible pulp areas have become very valuable, and a much larger price than \$2.00 per cord has been paid for pulp wood on the stump in that province. In the State of New York according to the Honourable D. F. Houston, Secretary of Agriculture, pulpwood stumpage in the northern states cost from \$2.50 to \$5.00 a cord standing in the forest. Evidence given and records on file of judgments given by Superior Courts in the Province of Quebec in trespass actions where the damages were not considered in any way as punitive, show that liberal allowances were made. It was urged upon me that investments of millions of dollars in the forests in the

establishment of ~~pulp and paper mills~~ did not give any value to the timber areas adjoining these properties. I am of a contrary opinion. A pulp and paper industry is one of the most expensive industries to establish-- it requires a capital of \$25,000 to \$35,000 for every ton of production with the result that a successful industry cannot very well be established in the forest without an outlay if ~~two or three~~ ^{two or three} million of dollars, and once it is established, my opinion is that pulpwood adjacent thereto has a value of \$2.00 per cord as cut.

With the price fixed in the United States at \$60 per ton, and if the price in Canada remains at \$50 the differential that will require to be paid by the manufacturers short of Canadian tonnage to the manufacturers long of Canadian tonnage will run into very large figures. The newspapers of Canada will have had from 1st of March, 1917, to 1st of February, 1918 (eleven months) their paper at a price of at least \$10 a ton less than the price that the manufacturers of newsprint could have obtained in the open market. I have given to this matter every possible consideration. I have been urged by the manufacturers that in view of the evidence submitted to date that I ought to, as Controller, fix the maximum price to be allowed for newsprint from the 1st of July, 1917, at \$60.00 per ton. On the other hand it is contended by the Canadian Press Association that prices should remain as they now are.

There are many difficulties in the situation apart from settling the principles upon which a fair profit to the manufacturers is to be allowed. Among the difficulties are the following:-

- 1- The accuracy of the manufacturers is questioned by the Canadian Press Association.
- 2- The uncertainty which exists as to the real cost to the manufacturers of their supply of wood when cut by themselves, for the reason that frequently two or three years elapse between the time when such wood is cut in the bush and that when it is delivered to the mill, and as to the amount of sinkage upon such wood which when driven is estimated at from five to twenty per cent. based upon the conditions

at from five to twenty per cent. based upon the conditions. required to be met and the length of the drive.

3- In some cases mills have kept an ample supply of pulpwood ahead of their operations. In others, where they cut their own wood either wholly or in part, they produce little more than sufficient to keep them from year to year, and still other mills depend on their ability to purchase wood in the open market; as a result increased costs of operating. There is a marked difference in the cost of wood to some mills as compared with others.

4- The fact that in many instances mills have been constructed adjacent to their wood supply without which they would have little value located as they are, and the capital invested has therefore to be recovered as a charge against wood cut up that to all intents and purposes a sinking fund has to be built up to recover the investment.

5- The fact that wide variations are shown in the amount of machine losses. Records of some mills reveal losses, as low as seven and eight per cent, where others claim to have sustained losses of over 20%.

6- The lack of information contained in the records of the manufacturers as to the difference in cost of sheet news as compared with roll news.

7- The capital investment of the manufacturers necessary to the production of a ton of newsprint has not been proven - and excepting in one or two cases it is obscure and cannot be definitely ascertained short of physical valuation of their properties.

8- The fact that certain of the companies obtain power from the Hydro-Electric undertakings under contract, others obtain power from subsidiary corporations owned or controlled by them, while still others control their own power development as part and parcel of their undertakings thus making a variation in the cost of power.

9- The fact that the fair return to be allowed to the companies upon their investments cannot be ascertained without further evidence and until such be obtained the allowances to be added to the costs per ton of newsprint produced cannot be ascertained.

10- The question as to whether the average of the costs of the manufacturers is a fair basis to adopt in determining the general price to be received by them for print paper, having regard to the fact that such average price may give one mill increased profits and penalize another by compelling it to sell without profit.

The manufacturers claim they are met with increasing difficulties in the prosecution of their business, and the evidence indicates in some instances that they are suffering from shortage of labor, of water, fuel, and shipping facilities to an extent which may impair their production and increase the costs to them of a lowered production.

Having regard to the costs indicated by the companies

records and the evidence offered as to the increase in costs which have taken place in recent months, also the difficulties which some companies are met with in financing, and the inequities which may be presented in fixing an average cost thereby possibly penalizing the high cost mills with the risk of interfering with their ability to do business, and with a view to maintaining production in the interests of the consumers and the publishers I feel it incumbent upon me to fix a price that will at least keep up production until such time as all these involved questions have been thoroughly disposed of.

I am therefore enclosing to you an order extending prices as they now are until 1st of February, 1918, also an order fixing prices to prevail from 1st of February, 1918, until the first day of May, 1918, of \$2.85 per 100 lbs, for newsprint paper in rolls in carload lots. I am not increasing the price ~~therefor~~ for newsprint paper in ^{sheets} ~~rolls~~ in carload lots or for newsprint paper in sheets in less than carload lots, as no evidence has been presented to justify me in making a change in these prices.

In making this order I am taking into consideration the retroactive feature in the orders fixing prices from June 30th, 1917, to the present time, and I consider it is only equitable that the price set out in my order of \$2.85 should be fixed as I am satisfied from the evidence that the price of \$2.50 per 100 lbs. for newsprint in rolls in carload lots is not a price which properly remunerates the manufacturers. The price as now fixed for newsprint in rolls in carload lots will make the average price from the 1st of July, 1917, to the 1st of May 1918 \$2.60 $\frac{1}{2}$ per 100 lbs. for newsprint paper in rolls in carload lots f.o.b. at the mills of the various manufacturers for the whole of the period mentioned.

I have read with great care the statutes passed in

Great Britain with regard to state control, and I find that in every case provision has been made where compensation is to be allowed and is referred to an Arbitrator; that the Arbitrator shall have regard to the cost of production of the article and to the allowance of a reasonable profit, and I take it that is what is intended in this case.

Supply and demand are running very closely together. I have not to find any attempt on the part of the consumers to curtail in the use of paper. The man-power used for the production of paper is getting very scarce owing to the requirements of the war---evidence has come before me of very large amounts of money being expended by one of the companies in an endeavour to get men for this winter's woods operations. England has taken drastic steps to prevent waste of paper--see Defence of the Realm Manual, 4th enlarged edition, p. 326, 331 and 332. France has also passed strict regulations.

Up to the present Canada has not been called upon to take similar steps. The Federal Trade Commission in their report of June 13th, 1917, have called attention to the necessity for the strictest economy in the use of newsprint paper. I am thoroughly convinced that the only desire of the newspapers of Canada is that which has been expressed to me time and again by their representatives and perhaps as strongly put---by anyone as by the President of the Daily Newspaper Publishers of Western Canada, at meeting held in Calgary, where he stated that the newspapers had every desire that the manufacturers of newsprint should have a fair profit on their product.

I have fixed this price until the first of May, 1918.
Possibly I may be doing an injustice to the manufacturers, but I have given the matter my most serious consideration, and I have gone thoroughly and carefully into all statements,

evidence, etc. I understand that the whole question as to cost of manufacture of newsprint for both in Canada and the United States, and the principles involved in determining the investments of the manufacturers with the returns to be received by them thereupon will be gone into very thoroughly by the Federal Trade Commission when the contentions of both the publishers and manufacturers will undoubtedly be put forward with all the force in their control. The Federal Trade Commission will have to fix a price by the 1st of April, 1918, but as there is a provision for appeal, and the appeal may not be disposed of until first of May, 1918, I deemed it more advisable that instead of making order operative to the first of April, 1918, that I should make it operative to 1st May, 1918. In the meantime I am proceeding to hear all evidence that may be brought before me, and possibly the same evidence that will be brought before the Federal Trade Commission will be available to me.

In concluding this my Interim Report I desire to acknowledge the splendid work done by Mr. Clarkson, and also the valuable assistance given to me by Counsel representing the different interests in this matter.

All of which is respectfully submitted.

Sgd. R. A. PRINGLE,
Commissioner.