

The paper market
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On January 21-22 a combined seminar of the Empire State Paper Association and the Allied Paper Salesmen's Association was held at RIT to assess the challenges and opportunities for merchants in 1975.

Part of the program was presented by RIT faculty including Dr. H. J. "Pete" Raphael and Assistant Professor David Olssen, Packaging Science Department. Speakers from the School of Printing included Professor Walter Horne, Professor William Birkett, Professor Joe Brown, Professor Anthony Sears, and Dr. Julius Silver. Jack Kronenberg, Associate Dean of the College of Graphic Arts and Photography, talked about the paper market.

The market outlook for paper by Jack Kronenberg

A few months ago a major topic of conversation in the paper industry was the shortage of paper. Supposedly it was to be a long range situation that would concern and affect the entire consumer population. According to most reports, we were in serious trouble. But then, in October 1974, the situation changed. It seems that the shortages evaporated. Paper was available again. In fact, suddenly we had a surplus.

Most of us have wondered what happened.

In one sense, there probably never was a real shortage, only a shortage prognostication. For example, few, if any, printing jobs were refused due to the lack of paper. To be sure, the desired grades of paper in the desired weights were not always available when needed. But substitutes — usually heavier stock and higher grades — were available and could be used.

It was true that some printing presses were shut down due to lack of paper. In most of these cases, however, these presses were in plants with a history of uncongenial relations with suppliers. And some printers who had formerly relied on the purchase of job lots or seconds found their source of supply had diminished. In some cases, it vanished. But, for the most part, a permanent shortage did not develop although there was a temporary pinch.

It was in October 1974 that the printers and publishers began to feel the pinch of their problems. The cost of financing a large paper inventory was high and still rising. Money value

was at an all-time peak. The cost of warehouse paper had now outgrown the normal physical facilities for storage. And, of course, the ever-present inflation was increasing all manufacturing costs and quietly absorbing available working capital. Moreover, while paper suppliers demanded prompt payments from printers, the customers of printers and publishers were taking the maximum time in paying their commitments. The printer realized that he was in the middle of a capital squeeze. All these events began to hurt the printer and at that point more and more paper buyers decided to conserve their available capital and space by passing up the allotments and using up their inventory.

Suddenly the supply of paper had reversed. Some mills reported that in October the volume of cancellations actually exceeded the tonnage of new orders. Buyers of paper realized that now they could get paper deliveries rather quickly from many mills. The situation had changed almost overnight. Mills began to reduce running time and with the approaching holidays, they ordered long shut-downs at Thanksgiving and Christmas. Instead of operating 24 hours a day for seven (or six) days a week, mills ran four and five days each week. And that is basically the situation that exists today.

In addition to the "storage and capital" response to the "shortage" situation, there were other reasons for this apparent reversal. And there are valuable lessons in an analysis of the events. After what happened, I believe that the industry owes itself an analysis. After all, early prognostications had indicated that paper manufacturers planned to expand their production facilities at a rate that would lag behind foreseeable demand — short of a depression. But since October 1974 we have a surplus structure of productive capability.

Let's consider some of the manufacturer's events.

1. Some new manufacturing facilities probably came on stream faster than anticipated. In our competitive economy, when a manufacturer senses an opportunity for greater profits, we should never underestimate the strength of that motivation or his potential growth. And may it always operate that way!

2. Coupled with this profit motivation, paper mill personnel found they could increase

production with relatively small improvements.

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3. Paper mills began to run "all out" on grades and weights that they could produce most efficiently. Minimum trims provided fills as wide as the paper machine could handle. And they ran day in and day out — month after month. It was a new experience — never done before. It was like running a printing press with no makereadies or plate changes and few speed restrictions. It could have been called: pure production.

In order to operate this way, mills actually chose only the orders that would fit their productive facilities instead of adapting production to fit the needs of the market. If a paper machine was more efficient in the production of 70 and 80 pound weights, it was not burdened with 50 or 60 or 100 pound weights. And if a machine trimmed 150 inches in width, orders were combined so as to reach that maximum 150 inches at all times.

As a result, production exceeded all prior estimates. Mills had never before experienced this set of circumstances. It was outside the experience of the experts and they misjudged the production capability of the industry.

Finally let's consider one reason that everybody — most managers, buyers, manufacturers and others — had used in their prognostications. This final reason is probably the most important but the most difficult to admit or accept. It is the hedge of every forecaster. And when predictions turn sour, it becomes the excuse and scapegoat. It's simply this: such and such is the case UNLESS WE HAVE A DEPRESSION OR SEVERE RECESSION. I really don't know the difference between these two conditions but the clause is always there. THIS WILL HAPPEN — THAT WILL HAPPEN — UNLESS WE HAVE A DEPRESSION.

Now add another condition. It's this: UNLESS WE FEAR A DEPRESSION. I believe that the fear of a depression caused paper buyers to examine their buying policies last fall. It was this fear of a recession, then evident on the horizon, that triggered the collapse in orders. This fear of a recession caused some big buyers to re-orient their purchasing policies.

Paper lives its life doing its thing in an environment provided by the political, monetary, and economic forces of the world. Historically the printing paper business in the

United States parallels very closely the gross national product and it is evident that the GNP currently is depressed.

We are beset by inflation, an unfavorable foreign currency situation, a bad credit situation, an energy shortage, not to mention coals of warfare which could fan into flames. The western world is suffering from rampant inflation and a depression simultaneously. There are those who predict the end of our freedoms and perhaps the demise of civilization as we know it.

But it is a quirk of human nature that causes us to see things too dimly when things are trending downward — and to see them too brightly on the ascending.

I prefer to not accept the prognostications of the prophets of doom. I prefer to accept the "standard" forecast on which many prominent economists seem to agree: an unemployment rate not over 8% in 1975 followed by a resumption of confidence in our economy with good business in 1976 and with inflation contained to around 6%.

There is still a great need for paper. That is the criterion to watch. By most accepted criteria the United States has long enjoyed the highest standard of living in the world. And one of the things that sets us apart from most of the world is the fact that our consumption of papers such as packaging, newsprint, wall paper, containers and others, as well as printing papers, has been from 50% to 100% higher than in all other advanced countries except Canada and possibly Sweden.

As undeveloped countries — where the current use of paper is negligible — as low as 1% of our per capita use — improve their living standards, North America will be the supplier of paper to these countries. We have a reasonable supply of raw materials, the people, the know-how, and the equipment. Furthermore, the United States has an almost desperate need for the foreign exchange that the paper industry is capable of generating on a continuing basis.

There should be no lack of demand for paper. And with a reasonably good business climate, we should return to a tight supply situation or one that is periodically tight. What can we — you and I — contribute? I believe that we can contribute the ingredients that good business men have always contributed — optimism and confidence.

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