CONFIDENTIAL.

Scott. H-48—38,702—27-11-23.

Revenue (1894) Department.

Mois. SERIES.
(Printed).

G.O. No. 1993
Confidential.

DATED 21-5-1894.

[Despatch Abstract.]

Tobacco-tax.

Recording note re.—

BACK PAPERS.

G.O.	No.	Department.	Date.	G.O.	No.	Department.	Date.
			40				

FURTHER PAPERS.

G.O.	No.	Department.	Date.	G.O.	No.	Department.	Date.

Read C.no. 7965 of 1893.

G. O. Mis No. 1993 dt. 21st May 1894

Recorded with
reference to the Office note
the Chief Secretary No 23
21 May 1894.

21/5

GOVERNMENT BR
19 MAY 1925
12-50

No 23 dt 21 May 1894

Office note

The Secy. to Govt. R. D

The Hon. the Chief Secret

With reference to your
ce note dt 12 October 1893,
quiring whether the attention
the Govt. of India has been
ed in the Rev. Dept to
acco as a source of revenue
n to forward the accompan
paper which contains a
on the subject and the
n. Members' remarks there
n which it will be seen
no action need be take

20/7/60

with reference to Mr. G[illegible] remarks regarding the [illegible]tiveness of tobacco mon[illegible] in the Travancore State.

R.V.
19/5.

[illegible] 21/5

2/

Cus. 7965 of 1893

Re. Tobacco Tax.

Note

This was kept back in view to look up the note by Mr. Bazett Colvin referred to in the Hon. Mr. Bliss's note. The note has not yet been traced in any publication available in the Govt. office. Search is being ~~made~~ continued. In the meantime the ~~paper~~ current may be disposed of as suggested above.

R.V.

[illegible] 21/5

29-3-21 B II

DP 21/5

DISPOSED OF BY GOVT ORDER.
Mis. No. 1993
Date 21-5-94.

CONFIDENTIAL.

TAXATION ON TOBACCO.

I

Notes to G.O. Mis. No. 1993, *dated* 21*st May* 1894.

The question is whether we should take the success of Travancore in levying a revenue from tobacco as a reason for calling the attention of the Government of India to the possibility of levying a revenue for tobacco in our territories. I doubt if we have sufficient ground for doing so and whether such a suggestion would be well received. Travancore is exceptionally situated, so that it has been possible to abolish all growth of tobacco there and levy a revenue by import duties, and the Government of India know all about this. Such a system would be impossible in our territory where tobacco is grown almost everywhere and consumed by almost everybody, and where larger Native States abound. The possibility of levying a revenue on tobacco in our territory, in this or any other way, has been repeatedly discussed and decided against after full communication between all the Governments, so that any suggestion for us on the subject would amount to an insinuation that the discussion had not been complete. The only way in which, as far as I can see, a large revenue could be realized for tobacco would be by establishing monopoly of manufacture and sale. Though this was hardly possible in former days, I believe it would be possible in these days of improved communications and police, but the initial expenditure on warehouses, etc., would be too heavy for a time of financial pressure and the larger preventive establishments which would be necessary and extend through almost every village would result in oppression which would be so widespread and so frequently exercised that it would be eminently dangerous.

G. Garstin—7-3-93.

No doubt a tobacco monopoly *could* be worked but it would be a gigantic undertaking, and so very costly (especially in Bengal, where Government has no rural agency at all) that it would not, in my opinion, bring in a net return worth the imitation, the measure would certainly cause. The simplest way of raising a tax on tobacco would be by a special tax on the land on which it was grown, but that would not apply to Native States and cannot be worked in Bengal. A special establishment which would eat up the most part of the profits, while in all settled non-zamindari districts the terms of the settlement would prevent the imposition of such a tax. Independently of this, the taxation of land according to the crop grown would be a

This note is submitted with reference to the enquiry whether the attention of the Government of India has been called in the Revenue Department to tobacco as a possible source of revenue.

2. The occasion for this enquiry will appear from the notes of His Excellency the Governor and the Hon'ble Sir Henry Stokes to which reference is made in that office-note. It arose in this wise—

In submitting the budget estimate of the Travancore State for the Malabar year 1069 (August 1893–94) Mr. Grigg, the Resident, after observing that the most important increases occurred under certain heads of revenue of which tobacco was one, remarked regarding the increase under this head as follows :—

"That under tobacco is very remarkable. I have never heard a rumour of complaint regarding this tax, and yet it comes to approximately As. 6–6 per head of the population and gives a revenue nearly double that of abkari and opium and is now 55 per cent of that of salt—a necessary of life. Offences against the law relating to its importation are, I believe, not numerous. The lucrativeness of this monopoly may well attract the attention of Indian financiers (paragraph 3 of his letter, dated 3rd August 1893, in Government Order, dated 20th October 1893, No. 712, Political).

On this His Excellency noted—

"We should call the attention of the Government of India to the statistics of the tobacco tax and to the Resident's remarks thereon."

On this note Sir Henry Stokes remarked as follows :—

"The attention of the Government of India has been often enough directed to tobacco as a possible source of revenue. The peculiar position of Travancore makes its experience of little or no value in the consideration of the question.

retrograde measure, injurious to the cultivator and certainly beneficial to no one but the karnam.

A licence fee might be imposed and would yield something. It would be a return to the moturfa abolished years ago, and would come very hard on the very poor classes who sell tobacco. I should be sorry to see it tried. Similar objections can be found to every other plan of levying a tobacco tax in this country. I don't think that the Government of India would care to take the question up. It was examined, on another and later occasion, I think, than any of those mentioned in the note, by Mr. Bazeet Colvin when additional Member of the Viceroy's Council, who wrote a long note on this and other projects of taxation, a copy of which I have somewhere—given me by Sir Auckland Colvin, when Finance Minister, who told me at the time that the idea had been finally abandoned—or to that effect. This was in 1886 when the times were almost as hard as they are now.

H. E. STOKES—7-3-94.

This note is very clear, and gives me a complete answer. It is very evident that we should *not* call the attention of India to Mr. Grigg's remarks on the revenue derived in Travancore from taxing tobacco.

I found myself like many others lured into the belief that a large revenue might be derived from taxing this article, and the same results achieved here as in almost every civilized country in the world. But on inquiry I find that not only has it been thoroughly looked into, but the experiment has been tried and has failed, and there is no doubt the peculiar circumstances of the country have rendered the success of the experiment almost impossible. And as Sir J. Strachey very forcibly puts in the incidence of a tax on tobacco would fall with far greater severity on those who now pay the bulk of the salt tax; and we would thereby be putting a crushing weight on those least able to bear the burden. I confess myself converted and withdraw from any further attempt to bring this question within the domains of practical politics—although I can imagine a municipality looking upon it as a fair object for local taxation but even then extremely difficult to work, as poor Madras can testify.

I suppose though that imported tobacco will pay its 5 per cent like other articles (except cotton goods !).

WENLOCK—11-3-20.

Tobacco is not produced in the State : the revenue is derived from import duties, and the configuration of the country lends itself to the easy levy of these duties on the greater portion of the tobacco consumed, which comes from Ceylon. In this Presidency and probably in the rest of India, import duties would not produce any revenue worth having and would be prejudicial to the Cheroot industry (Tobacco imported consists mainly of cheroot covers from Java and Sumatra) : but I have no doubt that a considerable revenue might be got from licensees on the vend by others than the growers."

His Excellency wrote thereupon—

"Has this Government ever called their (India's) attention to it ? Anyhow I do not think we could do any harm in pointing out what a large sum a little place like Travancore manages to get from the consumers of tobacco. It does not seem to me material how it is raised, whether by import duties or licences. The very significant fact remains that the consumers of tobacco in Travancore contribute yearly Rs. 10 lakhs to the State."

3. His Excellency's query whether this Government has ever called the attention of the Government of India to tobacco as a possible source of revenue has been referred to this department for information, in the office-note from the Chief Secretary.

4. It will be seen from the references put up—

(1) That this question has frequently been considered by the Government of India and has also formed the subject of correspondence between that Government and this and other Local Governments ;

(2) That the conclusion come to by the Government of India is that the idea of raising a large imperial revenue from tobacco must be abandoned ;

(3) That our Government has also expressed the opinion that no large provincial revenue can be obtained from tobacco ; and

(4) That the Government of India is not unaware of the fact that Travancore manages to derive a large revenue from this source.

5. A summary of the correspondence on the subject is subjoined as also a short account of the tobacco monopoly in the districts of Coimbatore, Malabar and Canara which was abolished in the year 1853.

6. The Blue-Book entitled "Papers regarding the Tobacco Monopoly in the Presidency of Fort St. George etc.", gives the main correspondence up to 1868. It will be seen from pages 25–74 of the book, that for 50 years from 1803 to 1853, tobacco was the subject of a Government monopoly in the districts of Canara, Malabar and Coimbatore (vide Regulations 7 and 8 of 1811 and Regulation 5 of 1831 at pages 1, 4 and 8 of the Blue-Book), that the gross annual revenue derived during the 10 years—1833–1843 was about Rs. 8 lakhs and the net revenue about Rs. $5\frac{3}{4}$ lakhs ; that the evils arising from this monopoly were so great that the attention of Government was frequently invited thereto by the officers concerned ; that in 1845, the Government after recording a succinct review of the correspondence on the subject (vide No. 2 at page 26) called for a report from the Board of Revenue "on the practicability of a modification of the monopoly which, whilst we shall secure a considerable revenue, shall yet divest the tax of some of its most injurious attributes, its heavy charge of collection and the inducement it held out to smuggling"). The Government added that if a beneficial modification was impracticable, the possibility of finding an available substitute should be investigated.

It cost $2\frac{1}{4}$ lakhs to collect 8 lakhs !

J.G.

In reply the Board furnished an exhaustive report on the subject and said—

"It is with much reluctance that they are induced to advise the surrender without an equivalent of so considerable a source of revenue as the (tobacco) monopoly and they must be understood as doing so only, because, after much anxious reflection on the subject, they have been led to the conclusion that between such surrender and the retention of the present system with all its evils, there is no practicable middle course.

After a careful consideration of the subject the Government declared—

"The crying evils of the tobacco monopoly continue daily to become more notorious and demand an immediate remedy. The Right Hon'ble the Governor in Council entertains the most decided conviction that, as the Board of Revenue has represented, there is no effectual remedy short of total abolition and the expunging of so objectionable a branch of revenue from the system of Indian Finance."

Some of the evils of this system arose from its being confined to a limited area but the worst-springing from the fact that tobacco is produced almost everywhere and freely consumed by all classes so that any raising of the price gives rise to the worst sort of smuggling and is fatal to the peace of the country—will affect any system.

J.G.

In accordance with this view application was made to the Court of Directors for sanction to abolish the tobacco monopoly and on such sanction being obtained, Act IV of 1853 was passed abolishing the monopoly—

7. The subject of a tobacco-tax was considered by the Government of India during the years 1859–68. A summary of the correspondence which then took place on the subject and of the views held thereon will be found in Sir John Strachy's minute dated 21st October 1865 printed as No. 97 at page 152 of the Blue-Book and in the Government of India's letter to the Secretary of State printed as No. 98 at page 155.

All methods of taxing tobacco were considered then.

J.G.

It will be seen therefrom that, when after the events of the year 1857, the state of the finances rendered it necessary to resort to new sources of revenue, a tax on tobacco was among other things very much discussed.

Four methods of deriving a revenue from this source had been suggested :—

(1) The suppression of the cultivation of the plant throughout India and the imposition of an import duty.

(2) The establishment of a monopoly of the cultivation and manufacture of tobacco similar to that now applied to opium.

(3) The imposition of a licence duty on the cultivation of the plant.

(4) The imposition of licence fees on all wholesale and retail dealers in the manufactured article.

Of these, the first and second methods were soon dismissed as impracticable.

The third plan was at first favoured by the Government of India but most Local Governments disapproved it. The main objections urged were: that to impose a special tax on the cultivation of tobacco would be a violation of the principles on which land assessments were usually made; that it would also be economically a mistake; that the suppression of its cultivation except under a licence would be difficult to enforce; that as the enforcement cannot be extended to Native States (even if it could be extended to zamindari and inam estates) the measure would have the effect of contracting the area of its cultivation in British territory and greatly stimulating its growth in Native States and it would be extremely difficult to prevent the smuggling of free tobacco from such States. The views of this Government are contained in Mr. Bourdillon's letter to the Government of India, dated 11th June 1859, printed as No. 90 at pages 120–128. In the first enclosure to this letter the inexpediency of taxing tobacco in any form is fully set forth by the Board of Revenue.

The Government of India thereupon turned to the fourth plan of licensing the *sale* of tobacco and accordingly inserted a provision to this effect in the Licensing Bill then under its consideration. (The Bill, which was finally passed as India Act 18 of 1861 and repealed by India Act 2 of 1862). But the reports received from Local Governments on the point were not encouraging. They all went to show that no system of licensing would bring in any large revenue.

The Government of India resolved therefore to abandon altogether the idea of raising a revenue from tobacco by Imperial Legislation and the clause in the Licensing Bill which related to tobacco was accordingly expunged.

8. But while arriving at this opinion as to the unsuitability of tobacco for Imperial taxation the Government of India also thought, judging from the reports received from Local Governments, that a considerable revenue might be derived by Local Governments if they were left each to carry out the system best suited to the circumstances of its province. Accordingly, and as it was thought that Imperial revenues might be relieved to a considerable extent by establishing a system of local taxation for local purposes, the Government of India addressed Local Governments on the subject of such taxation and named tobacco as one of the sources from which a revenue might be derived.

The reply of this Government to the above letter is printed at pages 157—162 of the Blue-Book. This Government merely reiterated the opinion it had expressed in its letter of 11th June 1859 (No. 90 at page 120) that there were insurmountable objections to the realization of a revenue from tobacco unless in the shape of a tax on the shops where tobacco was sold, i.e., a licence tax; and that the produce of such a tax would not be considerable.

9. The Government of India appears to have considered this question of a tobacco tax on subsequent occasions also and to have arrived at substantially the same opinion as before, as will appear from the letter to the Secretary of State printed as No. 98 at page 155.

10. In 1870 when the question of raising the rate of income-tax was under the consideration of the Government of India, a proposal was made by one of the members (Mr. Cowie) to tax tobacco. Sir John Strachy and Sir Richard Temple both spoke against the measure and His Excellency Lord Mayo said:—

"Now it is quite true that in many civilized countries tobacco is considered to be a very proper object for taxation but I must remind the Council that tobacco in India is really an absolute necessary of life and that if you put a tax upon the production of tobacco, you tax the two great necessaries of life in this country, viz., salt and tobacco, and I am not prepared even in the present state of our finances to advocate the imposition of a burden upon such a prime necessary of life as that is.

11. The question appears to have been discussed also during Lord Lytton's Viceroyalty and the same conclusion arrived at, namely, that no large revenue could be raised by taxing tobacco (vide pages 368-70 of Strachy's book on "The Finances and

Public Works of India" and page 554 of the volume of Legislative Council's Proceedings for 1877). The following extract from Strachey's book may be noted:

"Tobacco is almost universally consumed and is looked upon as almost a necessary of life. Whatever means were adopted the tax would only be largely productive if it fell ultimately on the classes which form the great mass of the community. It would be paid by the same classes which now pay the salt tax, and if it should become necessary to increase the burden which they already bear this object would be more easily and economically gained and with far less vexation to the people by increasing the existing tax upon salt than by imposing a new tax upon tobacco. That any increase in the rate of the salt-tax would be one of the greatest possible mistakes, unless in most exceptional circumstances and on the other hand that its present reduction * would be financially a most desirable measure, has been shown in another chapter (page 370).

* The duty was reduced from Rs. 2-8-0 to Rs. 2 in 1882. It was raised as follows in this Presidency:—

	Duty. Rs.	A.	P.
August 1859	1	0	0
April 1861	1	4	0
1861–62 to 1865–66	1	5	0
1866–67 to 1868–69	1	8	0
1869–70 to 1877–78	1	12	0
1878–79 to 1881–82	2	8	0
1882–83 to 1886–87	2	0	0
1886–87	2	8	0

12. That the Government of India knows that Travancore derives a large revenue from tobacco, may be inferred from the correspondence which took place in 1860–65 relative to the Interportal Trade convention with Travancore and Cochin and more especially from the correspondence embodied in Government Order dated 14th May 1868, No. 1338.

It will be seen from the latter correspondence that at the desire of the Viceroy (Sir John Lawrence) whose attention seems to have been drawn to certain remarks which appeared in the Travancore Administration Report for 1865–66, regarding the tobacco tax in that State the Hon'ble Mr. G. N. Taylor addressed the then Resident in Travancore and Cochin (Mr. Newill) for full particulars regarding the mode in which the tax was levied in that State and that complete information on the subject was furnished by the Resident and the then Diwan T. Madhava Rao.

This correspondence came before this Government, mainly on account of a minute recorded by the Hon'ble Mr. G. N. Taylor, in which he suggested that this Government might consider the expediency of imposing a moderate import duty or an excise wherever practicable—vide his minute printed in the Government Order.

The Diwan's Memorandum shows that during the flourishing period of the monopoly system (it was abolished in 1862–63, that is, ten years after the abolition of the Government monopoly in Malabar and Canara) the gross revenue from tobacco amounted to more than half the revenue from all other sources or more than one-third of the total revenue of the State while the revenue now amounts to about one-eighth of the total revenue.

13. From the administration report of the Travancore State for the year 1891–92, it appears that 12,295 † candies of tobacco valued at Rs. 26,77,723 were imported during that year and that a duty of Rs. 9,43,030 was collected thereon.

† Equal to 6,147,500 lb. or 8,065,520 lb. according as a 'candy' is 500 lb. or 656 lb. (which latter is the equivalent given in Madhava Rao's Memorandum—vide paragraph 10.

14. The following statement gives the statistics of the imports of tobacco into this Presidency by sea for the last three years:—

Tobacco—Imports—Sea-Borne ‡ Trade.

Years.	Foreign trade.		Coasting trade.		Total.	
	Quantity in lb.	Value.	Quantity in lb.	Value.	Quantity in lb.	Value.
		Rs.		Rs.		Rs.
1890–91	446,477	2,06,021	218,915	33,563	665,392	2,39,584
1891–92	542,705	2,91,725	110,937	17,121	653,642	3,08,846
1892–93	915,719	3,37,980	135,775	27,107	1,051,494	3,65,087

‡ The rail-borne imports amount only to about 2,000 lb.

At the Travancore rate of duty the imports into this Presidency will bring in a gross revenue of a little over one lakh of rupees.

R.V.S.—1-3-94.

The foregoing account gives a clear and concise summary of all that has been written on this subject and shows that the feasibility of raising a revenue from tobacco has been most exhaustively debated and that the question has been considered in all its bearings. The situation is appropriately summed up by Sir John Strachey in paragraph 8 of his minute of the 21st October 1865 (page 154 of the Blue Book)—

"Tobacco has seemed at first sight a very promising subject of taxation to almost everyone who has thought upon the subject, but almost everyone had given up the scheme upon full consideration of the difficulties which surround it."

J.G.—3-3-94.

II

Mr. N. S. Brodie's Note dated 26th December 1915 (Secret D.O. No. A A-1, dated 11th January 1916).

Prior to 1910–11, *ad valorem* rates used to be charged on imported manufactured tobacco of all sorts at the rate of 5 per cent but this system was then abandoned and special quantitative rates introduced, presumably because of the difficulty of levying *ad valorem* rates. The rates introduced were about 33 per cent higher than those now in force which are—

	Rs.	A.	P.	
Unmanufactured tobacco	1	0	0	per lb.
Cigars	1	10	0	"
Cigarettes weighing less than 3 lb. per thousand.	3	2	0	per thousand.
Cigarettes weighing 3 lb. or more per thousand.	1	4	0	per lb.
Manufactured, other sorts	1	2	0	"

These rates are said to be approximately 36 per cent *ad valorem* on cigars and 33 per cent *ad valorem* on cigarettes though how this is arrived at I don't know, considering how much imported cigars and cigarettes vary in weight and value. The Government of India's first proposal is to raise these rates 'in approximately the same proportion, i.e., to a uniform 50 per cent *ad valorem*.' I presume this means that the duty on cigars is to be raised by about one-third and that on cigarettes by about half. Nothing is said about 'other sorts' which I suppose means principally pipe tobacco. Judging from Spencer's and Oakes' price lists the present rate seems to be from 28 to 41 per cent on the cheapest pipe tobacco and presumably this is also to be raised by about one-third. The rates will then read—

	Rs.	A.	P.	
Cigars	2	3	0	per lb.
Cigarettes	4	11	0	per thousand and
	1	14	0	per lb.
Other sorts	1	8	0	per lb.

I presume the Government of India does not intend to go back to *ad valorem* rates.

Effects of taxation introduced in 1910–11. Sea-Borne Trade Review of 1910–11, page 9.

2. The rates introduced in 1910–11 had the immediate effect of 'extensively curtailing the imports of foreign tobacco and they scarcely realized the revenue it was hoped they would bring in.' The total imports declined by 83 per cent in quantity and 52 per cent in value. Imports of leaf tobacco, *formerly duty free*, fell from 447,115 lb. to 63,267 lb. or by 86 per cent in quantity. Imports from Ceylon and the Straits Settlements practically ceased. [There used to be quite a large trade from the Jaffna and the northern Ceylon ports which supplied a great part of the tobacco used on the west coast of this Presidency.] Imports of cigarettes decreased 77 per cent in quantity and 48 per cent in value. The cheap American varieties were practically shut out, falling 94 per cent in value and the result was the foundation and development of the Indian cigarette industry which has probably taken their place. Exports of cigars to the United Kingdom fell by 72 per cent owing to the imposition of duty on wrapper tobacco. To avoid this, Messrs. Spencer & Co. removed their factory to Pondicherry.

Sea-Borne Trade Review of 1911–12.

3. In 1911–12, owing to the outcry from Ceylon and the leading local manufacturers of better class cigars, the rates were reduced by about 33 per cent to the present figures. Even this, however, failed to revive the import trade from Ceylon and the Straits Settlements which was completely and finally killed. Imports of leaf tobacco rose by 19,160 lb. but this was only a mere fraction of the fall of 383,848 lb. in 1910–11. The increase was confined to the higher grades required in the manufacture of cigars of good quality. Imports of cigarettes showed a further decline in quantity but an increase in value, the trade in cheap American cigarettes being completely extinguished. Exports of cigars to the United Kingdom declined another

The corresponding figures for 1914–15 are—

	LB.
Foreign exports	887,165
Coasting trade exports	275,018
Rail-borne exports	503,013
Do. internal trade	1,061,815
Total ...	2,727,001

Allowing for the disturbance of trade caused by the war, the export trade and rail-borne traffic in cigars may, therefore, be taken at about 2,750,000 lb. but this is probably an excess estimate of the quantity actually manufactured since the rail-borne traffic probably includes the greater part of the foreign exports and possibly a good deal of the coasting trade exports also.

Cigarettes.

10. The Indian cigarette industry has practically grown up since the Secretariat notes of 1911 were written. Foreign imports of the better class cigarettes have remained nearly stationary since 1911–11 at about 70,000 lb. Comparing the figures of 1909–10 with those of 1910–12 when the full effect of the tariff duties had had time to operate, 253,865 lb. of cheap American cigarettes appear to have been displaced. These have no doubt been replaced by Indian cigarettes and there has probably been a large increase in consumption in addition.

The export trade in cigarettes in 1914–15 appears to have been somewhat as follows:—

	LB.
Foreign exports	8,885*
Coasting trade exports	61,599
Rail-borne exports	392,750*
Do. internal trade	1,074,651*
Total ...	1,537,885

In the absence of figures for bidies, snuff, etc., it is not easy, however, to say how much of these 15 lakhs of pounds represent cigarettes and still less how much represents cigarettes manufactured in the Presidency. My inquiries in Vizagapatam show that none of the cigarettes there consumed (and the consumption is very large) are manufactured in this Presidency. The great bulk come from Calcutta and a good many from the Peninsular Tobacco Company, Bangalore. Similarly in Madras, the bulk of the cigarettes come from Bangalore or Bowringpet, both in Mysore territory and not subject to British excise. It will be seen from paragraph 7 above that 1,294,272 lb. of 'other sorts' including (no doubt mostly) cigarettes are imported from Mysore. Probably the greater number of these are shown in 'rail-borne internal trade' and exports of the Presidency over again. I should put the actual number manufactured in the Presidency at not more than 250,000 lb.

11. The following are principal Indian Cigaratte factories shown in the Lawrence Asylum Press Almanack, page 1438:—

(1) A.G.M. & Sons, Coimbatore.

(2) K.G.A., Coimbatore.

(3) McDowell & Co., Madras.

I have never seen any cigarettes from the first two factories and they seem to be very small and merely supply the local market. McDowell & Co. employ about 25 persons and some small hand machines. Pappadapoulos Brothers make Egyptian cigarettes but import Egyptian tobacco which already pays duty. Besides these there are the two large factories in Mysore—

4. The Peninsular Tobacco Company, Cleveland town, Bangalore, and

5. The Oriental Tobacco Manufacturing Company, Bowringpet.

*Includes, however, pipe tobacco, bidies, snuff, etc.

Both these are run on American lines and employ a large number of workmen and power-driven machinery, but as already remarked they are not subject to British excise.

Outturn of tobacco.

12. According to the 'Season and crop report' for 1914–15 the total area culivated with tobacco in the Presidency was 227,182 acres, the 'normal' area being 203,230 acres. I learn from Chadwick that 800 lb. of dried leaf per acre is a fair average crop as taken by Castlestuart Stuart in 1910. The total outturn was therefore about 182,000,000 lb. of which we have only accounted for about 3½ millions at most in the manufactured form. This outturn was spread over 24 districts, the area being over 10,000 acres in seven, Vizagapatam (29,115), Godavari (13,099), Guntur (78,560), Kistna (13,022), Kurnool (18,769), Coimbatore (26,001) and Madura (11,172). These figures show little change since 1908-09.

About 90,000,000 are exported in unmanufactured form.

Tobacco industry.

13. The census report for 1911 groups manufacturers of tobacco, opium and ganja together under Order 12, Group 66. The number of manufacturers of opium and ganja must be almost negligible and the total number of workers and dependents is shown to be 12,333. Under Order 33, Group 122, sellers of tobacco, opium, ganja, etc., are said to be 65,733 (workers 25,883, dependents 39,850). The total number of persons dependent on the tobacco trade is therefore about 78,066 against 75,000 in 1901. It is not possible to compare the figures of the other industries referred to in Mr. Castlestuart Stuart's demi-official of 5th November 1910 as the classification has been altered. Betel leaf and arecanut sellers are now grouped with vegetable and fruit sellers. It may be noted however that the number of persons engaged in the manufacture of tobacco is about as many as bakers and biscuit makers (12,970) whilst the number of sellers of tobacco is not much less than the number of sellers of milk, ghee, butter, poultry, eggs, etc. (80,981).

Present proposals criticised.

14. These figures show that there has been comparatively little change in the general position since 1910-11 and the arguments against any form of taxation of Indian grown tobacco remain as strong as they were then. The present proposals of the Government of India may now be examined in detail. The first is, as far as I understand it, to raise the quantitative rates of duty on imported cigars and cigarettes (and perhaps also on other manufactured tobacco) to the figures shown in paragraph 1 above. The quantity of imported cigars is now very small and was only 3,368 lb. in 1914–15. Assuming that the enhanced duty has no effect on consumption, the increase of revenue from this source will be only Rs. 1,824*. But judging from the effect of the enhancement of duty in 1910–11 it will probably be much less. The duty on imported cigarettes (78,429 lb. in 1914–15) was about Rs. 80,000 and the enhancement of the duty by one-half may give Rs. 40,000, though here also a heavy fall in consumption may be confidently looked for. The increase of duty on 'other sorts', i.e., probably pipe tobacco, snuff, etc. (which may be contemplated) by one-third would yield perhaps Rs. 10,742. Altogether, the maximum increase of revenue that may be looked for from this proposal cannot, therefore, be more than Rs. 60,000 and the burden will fall heavily on the poorly paid European and Eurasian assistants in shops, business firms, Railway Companies, etc., who are by far the largest consumers of imported cigarettes. However this increased revenue can no doubt be obtained without administrative difficulty or expense.

(a) First proposal.

*Present duty Rs. 5,473 one-third enhancement Rs. 1,824.

(b) Second proposal.

15. The second proposal is to levy an excise duty on cigarettes of Indian manufacture. The large factory referred to by the Government of India is probably that in Bengal, I think at Monghyr. It is proposed to differentiate bidies from cigarettes by the use of cigarette paper. This may be accepted. It is proposed that

the taxation should take the form of a quantitative duty equivalent to an *ad valorem* duty of about 15 per cent. A further point is whether the taxation should be restricted to factories equipped with power-driven machinery. If this qualification is accepted the question is a simple one for there are no such cigarette factories in this Presidency. Assuming, however, that all cigarette factories are to be taxed my inquiries show that cigarettes of Indian manufacture vary considerably in price. The cheapest are sold retail at prices varying from Rs. 1–4–6 per 500 or Rs. 2–6–0 per 1,000 to Rs. 2–12–0 per 500 or Rs. 5–2–0 per 1,000. These cigarettes both weigh almost exactly $2\frac{1}{2}$ lb. per 1,000, the cheaper ones a little more. The manufacturer's price to the trade is no doubt considerably less as these cigarettes have to be imported to Vizagapatam and there is the retailer's profit to be considered. The excise duty will of course have to be fixed with regard to the wholesale price at the factory. I should say Rs. 1–12–0 per 1,000 is probably an outside price for the cheapest cigarettes. This means $28/2\frac{1}{2}=11\frac{1}{5}$, say 11 annas a lb. or as they weigh rather more than $2\frac{1}{2}$ lb. per 1,000, say 10 annas a lb. 15 per cent on 10 annas is one and a half annas per lb. I have estimated the total production of cigarettes in this Presidency at not more than 250,000 lb. and the duty on this would be Rs. 23,437. It is impossible to say without a full inquiry what the number of cigarette factories is but they are certainly very small and probably average not more than 10,000 lb. of cigarettes each per annum. Putting the number at 25 scattered all over the Presidency, not less than 25 Sub-Inspectors on Rs. 40 per mensem would be required to supervise them. The cost of these would be Rs. 12,000 not allowing for contingent expenses such as weighing machines, etc. The net proceeds of the tax would therefore be somewhere about Rs. 10,000, even supposing that the duty had no effect on consumption which is extremely improbable. Moreover as Indian cigarettes vary considerably in price though not so much as cheroots, the duty would press most unfairly on the cheapest brands and on the poorest class of the population which consumes them.

Watch cigarettes—Peninsular Tobacco Company, Bangalore, Rs. 1-4-6.
Ruler cigarettes—Imperial Tobacco Company, Calcutta, Rs. 2-12-0 per 500.

16. The third proposal is to levy a similar quantitative excise duty equivalent to an *ad valorem* tax of 15 per cent on cigars of Indian manufacture. As already pointed out in 1911 this problem absolutely bristles with administrative difficulties. In the first place it is not clear whether bidies are to be included. It is possible to distinguish bidies from cigarettes but the difference between them and the poorest kind of cheroots is almost infinitesimal. Both are rolled in leaves, sometimes tobacco leaves sometimes not. The manufacture of bidies is admittedly a cottage industry carried on in every village and hamlet. However according to the Asylum Press Almanack one tobacco factory at least professes to make bidies. The vast bulk of the Indian cheroots are also made as a cottage industry as is evident from the fact that out of 182 millions of pounds of tobacco grown only about $3\frac{1}{2}$ millions ($4\frac{1}{2}$ at the outside) appear in the trade returns as manufactured. Possibly bidies could be excluded by excepting cheroots, etc., weighing less than as many pounds to the 1,000. My experiments show that the commonest bidies weigh about $1\frac{1}{4}$ lb. per 1,000, so that if manufactured cheroots weighing less than $1\frac{1}{2}$ lb. per 1,000 were excluded this might meet the case. However this would undoubtedly stimulate the consumption of bidies which I understand to be the most deleterious form of smoking. Bidies are sold at 12 annas a 1,000 wholesale in Madras, that is at about $9\frac{3}{5}$ annas per lb. The manufacturer's price may be less so that probably 9 annas per lb. would be a safe figure and the duty, if any, ought to be much the same as for cigarettes or a little less, say 1 anna 4 pies per lb.

(c) Third proposal.

Bidies.

17. Ordinary cheroots of the commonest kind seem to weigh about $3\frac{3}{4}$ lb. per 1,000 and cost Rs. 1-12-0 per 1,000 retail but both weight and price vary enormously. Better class cheroots which, however, are still largely consumed by the poorer classes weigh 20 lb. per 1,000 and cost Rupees 12–8–0. Assuming that the rates to the trade are somewhat less we may estimate the first kind at 6 annas a lb. and the second at 10 annas a lb. The duty ought to be fixed at 15 per cent on the cheapest

Cigars.

kind at 6 annas a lb. The duty would then be 11 pies but for convenience of reckoning might be fixed at one anna.

It is quite impossible to estimate with any accuracy the output of Indian manufactured cigars. The figures in paragraph 9 no doubt afford some guide. I should imagine 2,000,000 lb. to be a fair estimate. The duty on this at 1 anna per lb. would be Rs. 1,25,000. Against this has to be set the cost of establishment which would be enormous. It is not possible at present to form any idea of what this would be. Presumably the only way to ensure the collection of the duty would be to place each factory in charge of an officer who would have to weigh the quantity of raw tobacco received and the quantity finally passed out on payment of duty, seeing that none illicitly passed out and keeping accounts on the same lines as officers in charge of distilleries. The test of a factory would be I suppose that the proprietor sold the manufactured produce, for practically every householder buys a few leaves of tobacco now and again and rolls them up into cheroots for private consumption. Even excluding these individuals, there appear to be about 26,000 persons describing themselves as tobacco sellers in the census returns, excluding 2,000 partially agriculturist. This agrees with what I expected, being an average of about one for every village in the Presidency. In some places there are no doubt several and in others none, but it would be quite impossible to do much in the way of concentration without causing much hardship. The formation of central storehouses appears, therefore, to be impossible and practically every shop will have to have a properly locked storehouse for the cheroots manufactured which adds to the expense. The ordinary staff of the Salt and Abkari Department could not possibly undertake this enormous addition to its work. Assuming that one Sub-Inspector could efficiently supervise on the average 25 factories (which I take to be impossible with the shops scattered as at present) it would require a staff of 1,000 Sub-Inspectors to supervise the work in the Presidency. The opportunities for fraud would be so great that I fear even then the force would be demoralized. Certainly a great many of the Sub-Inspectors would have to be paid more than the lowest grade of Rs. 40 a month. Assuming that the average pay is Rs. 60, this establishment alone would cost Rs. 60,000 per month or Rs. 7,20,000 per annum or about six times the estimated proceeds of the tax. It seems hardly worth while to discuss the matter further. A complete staff of peons, inspectors, Assistant Commissioners and Deputy Commissioners would also be necessary to supervise such an establishment and it would be quite impossible for me to undertake so large an addition to my work. After all there would be no possibility of guarding against fraud as there would be nothing to distinguish between illicit and licit tobacco. As far as I can see no tax less than Re. 1 per lb. would do more than pay for the cost of collection and this of course would be ruinous having regard to the cost of the article.

18. In conclusion I can see nothing in favour of the tax or any possibility of working it. A tax on Indian cheroots made in power-driven factories might be possible. There are only two, viz.: Spencer's at Dindigul and Oakes & Co. at Guindy—employing 700 persons between them. But it seems very hard to discriminate against them, even if the tax was only one anna a lb. and anything more would probably drive them out of the Indian market altogether. I cannot say what the output of these two factories is, but excluding the amount manufactured in bond for Europe I doubt if it exceeds 500,000 lb. and the duty at one anna per lb. would yield only Rs. 31,250.

19. Another possible course would be to put an export duty on manufactured tobacco. In that case I should exclude cigars exported to the United Kingdom which have to pay heavy and enhanced duties there and have already sufferred by the tariff. There are not the same administrative objections to an export duty, at all events on exports by sea, as the establishment exists and evasion would be practically impossible. Exports by sea to foreign countries, excluding the United Kingdom, amounted to 853,731 lb. in 1914–15 and exports to other provinces to 275,018 lb. Total 1,128,749 lb. A duty of one anna per lb. might bring in Rs. 62,500 without any extra cost and as the exported cigars at all events to the Straits Settlements are of fairly good quality a duty of even 2 annas a lb. might not ruin the trade and bring in about one and quarter lakhs. Still the amount is so small that I see no use in upsetting the trade at all for so very little result.

N. S. Brodie—26–12–15.

III

Demi-official from L. DAVIDSON, Esq., I.C.S., to N. S. BRODIE, Esq., I.C.S., dated 4th July 1916, No. 39-S. (Secret No. 183 A, dated 18th December 1916.)

I am desired to refer to your note of the 26th December 1915, on the subject of imposing an excise on locally manufactured cigars and cigarettes. The Government of India are disposed to agree that the taxation of locally-made cigars is not likely to prove of practical value. As regards cigarettes, however, they are unable to abandon the possibility of revenue from an article which is not only a luxury but also, to some extent, a harmful luxury; and they have asked this Government to consider the question at greater leisure.

2. Your note, referred to above, gives an approximate estimate of the total outturn of cigarettes in the Presidency, the number of factories and the prevailing wholesale prices. I am to ask whether you cannot now quietly obtain more precise information as to the number and location of factories, the met hods of manufacture, the outturn and the prices obtained. Collectors could possibly procure the information under the guise of income-tax or statistical inquiries without exciting attention.

3. The calculations in your note are based on the assumption that the excise to be imposed would be equivalent to an *ad valorem* tax of about 15 per cent, as was then suggested by the Government of India. I am to ask you now further to consider the effect of taxation on the industry and to favour Government with your opinion as to the maximum which could safely be imposed without seriously crippling the trade.

4. The Government of India lay stress on the strictly confidential nature of this further reference, but say 'there is no objection to consulting any officer of Government whose advice would be of special value.'

Demi-official from N. S. BRODIE, Esq., I.C.S., to L. DAVIDSON, Esq., I.C.S., dated Ennore, 12th November 1916.

With reference to your demi-official No. 39-S., dated 4th July 1916, I have now made further inquiries into the subject of the production and sale of cigarettes in this Presidency both personally and through Collectors. I cannot say that I have elicited much additional information and the remarks which I made in my note of the 26th December 1915 continue to hold good. It appears, however, that I was wrong in stating that there were no cigarette factories in the Presidency equipped with power-driven machinery as it was found on further inspection that McDowell's factory in Moor street, Madras, had some cutting machines worked by an oil-engine recently set up.

2. The estimate of outturn may very well remain at 250,000 lb. The only details I have been able to get are from the Universal Tobacco Company in Madras which is believed to turn out about 30 lakhs of cigarettes per mensem and from McDowell's factory, also in Madras, which is believed to turn out about 20 lakhs. McDowell's factory does not use Indian tobacco exclusively and some of the brands contain imported tobacco to the extent, it is said, of 25 per cent on the whole. I have tested numerous brands from all parts of the Presidency and find that as a rule they weigh about 2½ lb. per 1,000, a little more or less. This gives the total Madras production about 150,000 lb. per annum. Allowing for the imported tobacco used in McDowell's factory the quantity of Indian cigarettes is about 135,000 lb. The only other factories appear to be Oakes & Co.'s factory at Guindy, a new factory started by Barry & Co. in Cocanada just recently and one or two small factories in Coimbatore. There was a factory at Guntur but it seems to have failed after working a few months. The Collector of Coimbatore has not yet replied to my letter on the subject but I made some inquiries in the course of my last tour and find that there are one and probably two factories in Coimbatore but they use imported tobacco for their cigarettes as does Pappadopoulos in Madras. Allowing for all these factories I should say 115,000 lb. per annum was a very liberal estimate, making 250,000 for the Presidency.

3. Retail prices seem to vary very considerably but on the whole I see no reason to modify my original calculations. The cheapest cigarettes are sold in packets of 5 or

6 and a slightly more expensive lot in packets of 10. The dealers' profit seems to be about eight annas a thousand and the trade discount about 20 per cent. Some cigarettes* are sold as cheaply as Re. 1 per 1,000 wholesale or allowing for the trade discount about thirteen annas per 1,000. This is less than half the price I estimated for the cheapest cigarettes in my last note (Rs. 1-12-0). I doubt if there are many of this brand sold, but there are numerous other brands at Re. 1-4-0, Re. 1-6-0 and Rs. 1-8-0 sold by McDowell & Co. However all other information tends to confirm the view that the cheapest cigarettes are sold at Rs. 2 to Rs. 2-12-0 by the wholesale dealers and consequently must cost somewhere about Rs. 1-12-0 per 1,000 from the manufacturers. These cheap cigarettes are manufactured in this Presidency by McDowell & Co., and the Universal Tobacco Company only. Those turned out by Oakes & Co., and the new factory started by Barry & Co., at Cocanada are much more expensive and work out at Rs. 11 to Rs. 14 per 1,000.

* By the Universal Tobacco Company, 1/6, Patters Road, Royapetta—'Bazaar' brand.

4. The method of manufacture is probably the same everywhere. The tobacco selected has all the main nibs cut out and the leaves are then laid one above the other to a considerable depth. They are then cut into small pieces by a cutting machine, the tabacco rolled in cagarette paper, gummed and cut into lengths. As far as I know the cutting and gumming, etc., machines are all worked by hand except in McDowell's factory above referred to.

5. In this connexion I should, however, bring to notice one or two facts which I have ascertained in the course of my inquiries. It is a common practice I understand for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale especially at the various shandies and markets in the Presidency. This is common in Malabar, Coimbatore and the Nilgiris at all events and probably elsewhere. Most Collectors have, however, reported that cigarette papers are not commonly sold in the bazaars. I believe the practice of individual consumers rolling their own cigarettes is not common at present though it is said to have been customary in Salem before the shop-made cigarettes became so cheap. It would be clearly impossible to levy an excise duty on cigarettes made by hawkers or private individuals and it may be expected that the practice would be much more largely resorted to if a duty were imposed on the manufactured article. This might perhaps be met by imposing a customs duty on cigarette paper which would have to be determined in accordance with the duty imposed on cigarettes, such customs duty to be refunded on paper actually used by the wholesale manufacturers. It seems that cigarette paper was formerly imported mostly from Austria and Germany—at present it is obtained from France.

6. As regards the duty to be imposed I find it difficult to express an opinion. The heavy rates imposed in 1910-11 practically killed the cheap American cigarettes but then the enhancement of rates was probably more than 100 per cent of the value so that this result was quite intelligible. My inquiries show that my estimate of the cost of collection was much too large. One Sub-Inspector would, I think, be required for each factory but as there seem to be only four or possibly five factories the cost would be only about Rs. 2,400 per annum. As observed in my previous note, a duty of one and a half annas per pound represents 15 per cent of the value of the cheap cigarette. This amounts to 3 annas 9 pies per 1,000 and could hardly affect the retail price at all. The usual retail price per packet of 10 cigarettes seems to be about 4 pies. A duty of 8 annas 4 pies per 1,000 should raise the retail price by one pie and this would probably not seriously affect the trade though even one pie is a consideration in a country like India. I do not think we could safely raise the duty beyond Re. 1 per 1,000 which would raise the retail price about 2 pies or 50 per cent. This would be 6·4 annas per pound and roughly about 60 per cent of the value. Although cheap cigarettes do not seem to vary much in weight I would prefer to levy the duty by the pound rather than by the number as being the only fair way of assessing it. A duty of 6½ annas per pound would, if the production remained at 250,000 lb., yield Rs. 1,01,562½ but if the consumption fell, as it probably would, to about 200,000 lb. the tax would yield Rs. 81,250. As far as this Presidency is concerned, the result would, therefore, be insignificant, but, no doubt, the revenue

from the whole of India would be very considerable and I cannot see any serious objection to the proposal except that it would greatly encourage the smoking of bidies and press rather hardly on the poorest class of the population who smoke cheap cigarettes at present and regard them as a great luxury.

Demi-official from F. J. RICHARDS, Esq., I.C.S., to LEY, Esq., I.C.S., dated the 18th December 1916, No. 75-S.

I am directed to reply to Mr. Low's Confidential demi-official letter No. 4493, dated 14th June 1916, on the subject of the expediency of imposing an excise on cigarettes manufactured in India from indigenous tobacco.

2. In the first place, I am to point out that the correspondence of 1910, to which reference is made in the first paragraph of Mr. Low's letter, did not turn on the present question, for at that time there was no manufacture of cigarettes from indigenous tobacco in this Presidency. It is stated that the question of an excise on manufacture was then dropped because the local cigarette industry was in its infancy and it was considered that the imposition of an excise would deal it a death-blow. So far as this Presidency is concerned, the position is virtually unaltered; for, as stated in Mr. Butterworth's demi-official letter No. A.A.-1, dated 11th January 1916, the local output of cigarettes does not exceed some 250,000 lb. annually. This estimate has been confirmed by subsequent enquiries, though the number of factories to be taken into account is found to be smaller than was thought to be the case. There are probably not more than 5 or 6, of which the two largest are those owned by Messrs. McDowell & Co., and the Universal Tobacco Company both in Madras City. The former has recently been equipped with an oil-engine for driving its cutting machines. The average wholesale price for the cheapest class of ciagarettes quoted in Mr. Butterworth's letter, viz. Rs. 1-12-0 per 1,000, may be taken as correct. These cheap cigarettes are manufactured only by Messrs. McDowell & Co. and the Universal Tobacco Company. Those turned out by Messrs. Oakes & Co., at Guindy and by Messrs. Barry & Co., at Cocanada are much more expensive, costing from Rs. 11 to Rs. 14 per 1,000.

3. The maximum rate of duty which is considered compatible with the survival of the industry is Re. 1 per 1,000 or approximately $6\frac{1}{2}$ annas per lb. This duty would if the production remained 250,000 lb. yield a revenue of a little over a lakh. The imposition of such a tax, however, is almost certain to preclude any expansion of the industry and would very probably strangle that which already exists; for it would either drive the masses to revert to *bidi* smoking or compel the manufacturers to transfer their factories to French territory or to Native States. I may here point out that the Director-General of Commercial Intelligence has incorrectly assumed that the tax realisable from the Peninsular Tobacco Company's factory in the Civil and Military Station, Bangalore, would be credited to Imperial revenues. By the terms of rendition, the Mysore Government is entitled to the whole of the surplus revenue of the Assigned Tract, after the cost of the administration of the tract is defrayed. This fact seriously affects the estimate formed of the probable receipts from the tax.

4. Another factor to be taken into consideration is the practice, common in several districts of this Presidency, for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale, especially at local markets. Individual consumers do not usually roll their own cigarettes, though it is said to have been customary for them to do so in Salem before the shop-made cigarettes became so cheap. It would obviously be impossible to levy an excise duty on cigarettes made by hawkers or private individuals; and it may be expected that the practice would be much more largely resorted to, if a duty were imposed on the manufactured article. Cigarette paper was formerly imported from Germany and Austria; now France is the chief source of supply. A customs duty might be imposed on it, such duty to be refunded on paper actually used by the wholesale manufacturers; but this expedient would not be free from difficulties and would almost certainly result in the use of a local substitute.

5. In these circumstances, I am to say that the Government of Madras are entirely opposed to the proposal. They can suggest no alternative scheme for internal taxation of tobacco, apart from those already rejected.

IV

Letter from C. R. WATKINS, Esq., C.I.E., Officiating Collector of Customs, Madras, to the Under Secretary to Government, Finance Department, dated 1st May 1925, No. L. Dis. Nil.

I forward herewith a statement showing the foreign imports into, and exports from, the Madras Presidency of tobacco since the year 1920-21.

2. The rates of customs duty at present in force are given below:—

Name of article.	Per	Tariff valuation.	Duty.
Cigars	.....	Ad valorem.	75 per cent.
Cigarettes of value.—Not exceeding Rs. 10-8-0 per thousand.	Thousand ...	.....	Rs. 7.
Exceeding Rs. 10-8-0 per thousand ...	Do.	.....	,, 10-8-0.
Tobacco, unmanufactured	Lb. ...	.....	,, 1.
All other sorts of tobacco manufactured	,, ...	.....	,, 2-4-0.

ENCLOSURE.

Foreign imports and exports of 'Tobacco' at the Presidency of Madras for the past five years ending 1924-25.

	1920-21.		1921-22.		1922-23.		1923-24.		1924-25.	
	Quantity.	Value.	Quantity	Value.	Quantity.	Value.	Quantity.	Value.	Quantity.	Value.
FOREIGN IMPORTS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.
Tobacco—Unmanufactured ..	77,507	1,45,703	489,693	13,17,036	742,412	14,07,436	3,105,459	34,57,277	3,485,871	29,29,162
Cigars	12,815	43,430	701	2,922	81	238	94	156	215	473
Cigarettes	500,267	16,39,198	186,750	9,40,779	278,384	12,34,116	296,516	13,54,712	1,86,952	8,34,717
Tobacco for pipes and cigarettes	304	1,296	5,293	54,393	22,524	1,19,720	18,155	97,606	½	3
Other sorts	28,058	1,46,309	9,590	39,508	852	3,891	12,402	40,892	20,564	1,06,279
Total ..	618,951	19,75,936	692,027	23,54,638	1,044,253	27,65,401	3,432,626	49,50,643	3,693,602	38,70,634
FOREIGN EXPORTS.										
Tobacco—Unmanufactured ..	3,118,784	13,57,807	4,650,985	16,84,266	4,258,743	17,68,621	9,953,877	37,65,684	14,366,170	42,49,345
Cigars	75,540	1,04,792	94,905	1,17,671	99,244	1,32,490	1,11,541	1,20,174	88,199	1,25,560
Cigarettes	..	..	129	615	31,230	30,049	1,574	1,492	72,086	81,746
Other sorts	34,166	27,373	48,237	46,322	45,300	44,918	110,903	1,03,645	99,555	49,769
Total ..	3,228,490	14,89,972	4,794,256	18,48,874	4,434,517	19,76,078	10,177,895	39,90,995	14,626,010	45,06,420

V

Statement showing the area under cultivation of tobacco in the Madras Presidency in 1923–24.

	Acs.		Acs.
Ganjam	3,299	Salem	3,737
Vizagapatam	48,285	Coimbatore	25,544
Godavari	11,591	Trichinopoly	4,032
Kistna	13,301	Tanjore	2,223
Guntur	64,481	Madura	7,400
Kurnool	11,542	Ramnad	3,889
Bellary	2,658	Tinnevelly	1,048
Anantapur	4,785	Malabar	17
Cuddapah	1,868	South Kanara	1,623
Nellore	2,625	The Nilgiris	72
Chingleput	62		
South Arcot	2,985	Total ...	219,841
Chittoor	595		
North Arcot	2,179		

3

Read Cyo. 7965 of 1893

(Office note from the Chief Secretary, dt 12 October 1893)

Note. Re. Tobacco-tax.

This note is submitted with reference to the enquiry made in the Office note read above, whether the attention of Govt of India has been called in the Revenue Department to tobacco as a possible source of revenue.

2. The occasion for this enquiry will appear from two of His Excellency the Governor and his Hon. Sir Henry Wilkes to which reference is made in that office note. It arose in this wise—

In submitting the Budget Estimate of his Travancore for the fasalahar year (Aug. 1893-94) Mr Gregg Resident, after observing on the most important increases occurred under certain heads of revenue of which tobacco was one, remarked regarding

The question is whether we should take steps for increasing our revenue by levying a revenue from Tobacco as a reason for calling the attention of the G.I. to the possibility of levying a revenue for Tobacco in our Territories. I doubt if we have sufficient ground for doing so, whether such a suggestion would be well received. Travancore exceptionally situated, so has been possible to abolish a growth of Tobacco there & levy a revenue & import duties & the G.I. knows all about this. Such a system would be impossible in our territory where Tobacco is grown almost everywhere & consumed by almost every body & where large Salt Stores abound. The question of levying a revenue on Tobacco in our territory, in this or any other way, has been repeatedly discussed & decided against. A full communication between the two Governments, on that point would amount to an admission that this decision was premature. We add.

regarding the increase under this head as follows:-

"That under tobacco is very remarkable. I have never heard a rumour of complaint regarding this tax, and yet it comes to approximately As. 6-6 per head of the population and gives a revenue nearly double that of abkari and opium and is now 55 per cent of that of salt — a necessary of life. Offences against the rules relating to its importation are, I believe, not numerous. The lucrativeness of this monopoly may well attract the attention of Indian financiers (para 3 of this letter D 3-8-93 with G.O. D 20-10-93 No. 712 Pol.)

On this His Excellency noted, ~~but~~

"We should call the attention of the Govt. of India to the statistics of the tobacco tax and to the Resident's remarks thereon."

On

any way in which, so far as our tax is, a large improvement could be realized for tobacco would be by establishing a monopoly of manufacture & sale. Though this was hardly possible in former days, I believe it would be possible in these days of improved communications & police, but the initial expenditure on weighing machines &c would be too heavy for a tax of this nature at present & the large private trade establishments which would be necessary & extended throughout almost every village would result in offences which would be as widespread & so frequently discovered that the whole would be enormously dangerous

7/3

No doubt a tobacco monopoly could be worked but it would be a gigantic undertaking, and so very costly (especially in Bengal, where Govt. has no rural agency at all) that it would, in my opinion, bring in a net return worth the vexation the measure would certainly cause. The simplest way of raising a tax on tobacco would be by a special tax on the land on which it was grown, but that would not apply to Native States & not be worked in Bengal

a special establishment which would destroy the [illegible] part of the profits, which [illegible] distinct the terms of the [illegible] ments would present the [illegible] sition of substantial [illegible]

~~[illegible]~~

Independently of this, the taxation of tobacco according to the crop grown would be a retrograde measure, [illegible] injurious to the cultivator & certainly beneficial to [illegible] in the Karnatic.

A license fee might be imposed & would yield [illegible] Burma & Madras & the [illegible] abolished years ago, & would [illegible] very hard on the very poor classes who sell tobacco. [illegible] because it is [illegible] similar objections can be found to every other plan of [illegible] a tax in this country. I don't think that Govt. would not take the profits

"Tobacco imported consists mainly of Cheroot covers from Java and Sumatra".

Cap. Wood said, on a former occasion, I think, a [illegible] of those mentioned in the [illegible] Bazett Colvin also added, [illegible] of the Viceroy's Council [illegible] subjects of taxation, a copy of [illegible] memorandum — for

On this note Sir Henry Stokes remarked as follows:—

"The attention of the Govt of India has been often much directed to tobacco as a possible source of revenue. The peculiar position of Trade more makes its experience of little or no value in the consideration of this question. Tobacco is not produced in the State: the revenue is derived from import duties, and the consumption of the country lends itself to the easy levy of these duties on the greater portion of the tobacco consumed, which comes from Ceylon. In this Presidency and probably in the rest of India, import duties would not produce any revenue worth having & would be prejudicial to the Cheroot industry: but there can no doubt that a considerable revenue might be got from licenses to be taken out by others than the growers of

Post

His Excellency wrote thereupon,

"Has this Govt. ever called their (India's) attention to it. Anyhow I do not think we could do any harm in pointing out what a large sum a little place like Travancore manages to get from the consumers of tobacco. It does not seem to me material how it is raised, whether by import duties or licenses. The very significant fact remains that the consumers of tobacco in Travancore contribute yearly Rs 10 lakhs to the State".

3. His Excellency's query whether this Govt. has ever called the attention of the Govt. of India to tobacco as a possible source of revenue has been referred to this Department for information, in office note from the Chief Secretary.

4. It will be seen [illegible] the references put up,

(1)

6/

[illegible] as far as I

me by Sir Auckland Colvin, when Finance Minister, who told me at the time that the idea had been finally abandoned — or to that effect. This was in '86, when the times were almost as hard as they are now.

[illegible]
7/3/94

This note is very clear - and gives me a complete answer. It is very evident that we should not call the attention of India to Mr. Griggs' remarks on the revenue derived in P. wre from taxing tobacco.

I found myself like many others lured into the belief that a large revenue might be derived from taxing this article, & the same results achieved here as in almost every civilized country in the world. But on enquiry I find that not only has it been thoroughly looked into but the experiment has been tried & has failed, and there is no doubt the peculiar circs of the country have rendered the success of the experiment almost impossible. And as Sir J. Strachey very forcibly puts it the incidence of a tax on tobacco would fall with far greater severity on those who now pay the bulk of the salt-tax, and we would thereby be putting a crushing weight on those least able to bear the burden. I confess myself converted [illegible]

4P

to bring this question within the domain of practical politics - although I can imagine a municipality looking upon it as a fair object for local taxation but even then extremely difficult to work, as poor Madras can testify.

I suppose though that imported tobacco will pay its 5% like other articles (except cotton goods!).

W
11 Mar

× Not available
16/[illegible]

as also a short account of the tobacco monopoly in the districts of Coimbatore, Malabar and Canara, which was abolished in the year 1853.

(1) That this question has frequently been considered by the Govt. of India and has also formed the subject of correspondence between that Govt. and this & other local Govts.

(2) That the conclusion come to by the Govt. of India is that the idea of raising a large imperial revenue from tobacco must be abandoned.

(3) That our Govt. has also expressed the opinion that no large provincial revenue can be obtained from tobacco, and

(4) That the Govt. of India is not unaware of the fact that Travancore manages to derive a large revenue from this source.

5. A summary of the correspondence on the subject is subjoined.

6. The blue-book entitled "Papers regarding the tobacco monopoly in the Presidency of Fort

8/

Fort St. George &c" gives the main correspondence up to 1868. It will be seen from p.p. 25-74 of the book, that for 50 years, from 1803 to 1853, tobacco was the subject of a Govt monopoly in the districts of ~~South~~ Canara, Malabar and Coimbatore (vide Regulations 7 & 8 of 1811 and Reg. 5 of 1831 at pages 1, 4 & 8 of the blue-book), that the gross annual revenue derived during the 10 years — 1833-1843 was about Rs 8 lakhs and the net revenue about Rs 5 3/4 lakhs; that the evils arising from this monopoly were so great that the attention of Govt was ~~constantly~~ frequently invited thereto by the officers concerned; that in 1845 the Govt after recording a succinct review of the correspondence on the subject (vide no. 2 at page 26) called for a report from the Board of Revenue "on the practicability of a modification of

Pr cost 2 1/4 lakhs to collect 8 lakhs!

JG

of the monopoly which, whilst it shall secure a considerable revenue, shall yet divest the tax of some of its most injurious attributes, its heavy charge of collection and the inducement it held out to smuggling" (para 12 ibid). The Govt added that if a beneficial modification was impracticable, the possibility of finding an available substitute should be investigated.

In reply the Board furnished an exhaustive report on the subject (no. 6 at page 31) and said

" It is with much reluctance that they are induced to advise the surrender without an equivalent of so considerable a source of revenue as the (tobacco) monopoly and they must be understood as doing so only, because, after much anxious reflection on the subject, they have been led to the conclusion that between such surrender and

and the retention of the present system with all its evils, there is no practicable middle course (para 45 at page 44).

After a careful consideration of the Subject (vide the minutes recorded by the then Members of Govt — Nos. 19 to 22 at pages 50 – 65 of the blue-book) the Govt declared (pages 67-8 para 10)

"The crying evils of the tobacco monopoly continue daily to become more notorious and demand an immediate remedy. The Right Honorable the Governor in Council entertains the most decided conviction that, as the Board of Revenue has represented, there is no effectual remedy short of total abolition and the expunging of so objectionable a branch of revenue from the System of Indian finance."

In

Some of the evils of this system arose from its being confined to a limited area but the worst – springing from the fact that tobacco is produced almost every where & freely consumed by all classes so that any raising of the price gives rise to the worst sort of smuggling & is fatal to the peace of the country will affect any system

JG

All methods of taxing tobacco were considered there

JG

In accordance with this new application was made to the Court of Directors (no. 24 at page 68) for sanction to abolish the tobacco monopoly and on such sanction being obtained, Act IV of 1853 was passed abolishing the monopoly — Nos. 37 & 38 at page 74.

7. The Subject of a tobacco-tax was considered by the Govt of India during the years 1859-68. A summary of the correspondence which then took place on the subject and of the views held thereon will be found in Sir John Strachey's minute 1-10-65 printed as no. 97 at page 152 of the blue-book and in the Govt of India's letter to the Secretary of State printed as no. 98 at page 165.

It will be seen therefrom that, when after the events of the year 1857, the state

state of the finances rendered it necessary to resort to new sources of revenue, a tax on tobacco was among other things very much discussed.

Four methods of deriving a revenue from this source had been suggested.

(1) The suppression of the cultivation of the plant throughout India and the imposition of an import duty.

(2) The establishment of a monopoly of the cultivation and manufacture of tobacco similar to that now applied to opium.

(3) The imposition of a license duty on the cultivation of the plant.

(4) The imposition of licenses fees on all Wholesale and retail dealers in the manufactured article.

Of these, the 1st and 2nd methods were soon dismissed as impracticable.

The 3rd plan was at first favoured by the Govt. of India: but most

most local Governments disapproved it. The main objections urged were: that to impose a Special tax on the cultivation of tobacco would be a violation of the principles on which land assessments were usually made. that it would also be Economically a mistake; that the Suppression of its cultivation except under a license would be difficult to Enforce: that as the Enforcement cannot be Extended to Native States (Even if it could be extended to Zemindary and Inam Estates) the measure would have the effect of contracting the area of the cultivation in British territory and greatly stimulating its growth in native States and it would be Extremely difficult to prevent the smuggling of free tobacco from such States. The views of this Government are contained in Mr Bourdillon's Letter to the Government of India

India of 11th June 1859 printed as no. 90 at pages 120-128. In the first Enclosure to this letter the inexpediency of taxing tobacco in any form is fully set forth by the Board of Revenue.

The Government of India thereupon turned to the 4th plan of licensing the Sale of tobacco and accordingly inserted a provision to this Effect in the Licensing Bill then under its consideration (The Bill, which was finally passed as India Act 18 of 1860 and repealed by India Act 2 of 1862). But the reports received from local Governments on the point were not encouraging. They all went to show that no System of Licensing would bring in any la[illegible]e.

The Government of India resolved therefore to abandon altogether the idea of raising a revenue from tobacco by Imperial Legislation

gislation and the clause the Licensing bill which lated to tobacco was accordingly expunged.

But while arriving this opinion as to the insuitability of tobacco for Imperial taxation the Government of India also hoped, judging from the reports received from local Governments, that a considerable revenue might be derived by local Governments if they were left each to carry out a System best suited to the circumstances of its province. Accordingly, and as it was hoped that imperial revenues might be relieved to a considerable extent, by establishing a System of local taxation for local purposes, the Government of India addressed local Governments on the Subject of such taxation and named tobacco as one of the Sources from which a revenue might be derived.

derived—Vide Extract from a Confidential letter from the Government of India of 16° March 1861 printed as no. 50 at page 83.

The reply of this Government to the above letter is printed at pages 157–162 of the blue book. This Government merely reiterated the opinion it had expressed in its letter of 11° June 1859 (no. 90 at page 120) that there were insurmountable objections ~~against~~ to the realization of a revenue from tobacco ~~[illegible]~~ unless in the shape of a tax on the shops where tobacco was sold, ie a licence tax; and that the produce of such a tax would not be considerable (para 5 at page 157 and para 7 at page 159).

9. The Government of India appears to have considered this question of a tobacco tax on subsequent occasions also and to have arrived at

at substantially the same opinion as before, as will appear from the letter to the Secretary of State printed as no. 98 at page 155.

10. In 1870 when the question of raising the rate of income-tax was under the consideration of the Government of India, a proposal was made by one of the members (Mr. Cowie) to tax tobacco. Sir John Strachy and Sir Richard Temple both spoke against the measure and His Excellency Lord Mayo said,

"Now it is quite true that in many civilized countries tobacco is considered to be a very proper object for taxation but I must remind the Council that tobacco in India is really an absolute necessary of life and that if you put a tax upon the production of tobacco,

tax the two great necessaries of life in this country viz Salt and tobacco; and I am not prepared Even in the present State of our finances to advocate the imposition of a burden upon such a prime necessary of life as that is (Vide passages marked at pages 281, 289, 302 and 315 of the Volume of Legislative Council's Proceedings for 1870 put up). Vide also in this connection, for an opposite view, the Extract from the Indian Economist printed as appendix E to the blue book above referred to.

11. The question appears to have been discussed also during Lord Lytton's Viceroyalty and the same conclusion arrived at, namely, that no large revenue could be raised by taxing tobacco (Vide page 368-70 of Strachey's book on "The Finances

and the paper printed as appendix D thereto. D ... Travancore

Finances and Public Works of India" and page 554 of the Volume of Legislative Council's Proceedings for 1877). The following Extract from Strachey's book may be noted:

"Tobacco is almost universally consumed and is looked upon as almost a necessary of life: Whatever means were adopted the tax would only be largely productive if it fell ultimately on the classes which form the great mass of the community. It would be paid by the same classes which now pay the Salt tax; and if it should become necessary to increase the burden which they already bear, this object would be more easily and Economically gained and with far less vexation to the people by increasing the existing tax upon Salt than by imposing a new tax upon tobacco. That any increase in

in the rate of the Salt tax would be one of the greatest possible mistakes, unless in most exceptional circumstances and on the other hand that its present reduction would be financially a most desirable measure, has been shown in another chapter (page 370).

12. That the Government of India knows that Travancore derives a large revenue from tobacco, may be inferred from the correspondence which took place in 1860-65 relative to the Interportal Trade Convention with Travancore and Cochin and more especially from the correspondence embodied in G. O. of 14th May 1868, No 1338.

It will be seen from the latter correspondence that at the desire of the Viceroy (Sir John Lawrence) whose attention seems to have been drawn to certain remarks which

The duty was reduced from Rs 2½ to Rs 2 in 1882. It was raised as follows in this Presidency.

	Duty
august 1859 ——	1.0.0
april 1861 ——	1.4.0
1861-62 to 65-66	1.5.0
66-67 to 68-69	1.8.0
69-70 to 77-78	1.12.0
78-79 to 81-82	2.8.0
82-83 to 86-87	2.0.0
86-87 ——	2.8.0

This correspondence came before this Govt, mainly on account of a minute recorded by the Hon. E. N. Taylor, in which he suggested that this Govt might consider the expediency of imposing a moderate import duty or an excise wherever practicable — vide his minute printed in the G.O.

which appeared in the Travancore Administration Report for 1865-66, regarding the tobacco tax in that State the honourable E. N. Taylor addressed the then Resident in Travancore and Cochin (Mr. Newill) for full particulars regarding the mode in which the tax was levied in that State and that complete information on the subject was furnished by the Resident and the then Dewan T. Madava Rao.

→ The Dewan's memorandum shows that during the flourishing period of the monopoly system (it was abolished in 1862-63, that is, 10 years after the abolition of the Government monopoly in Malabar & S. Canara) the Gross revenue from tobacco amounted to more than ⅓ the revenue from all other sources or more than ⅛ of the total revenue of the State.

State, while The revenue now amounts to about 1/8" of the total revenue.

13. From the administration Report of the Travancore State for the year 1891-92 it appears that 12,295 x) Candies of tobacco valued at Rs 26,77,723 were imported during that year and that a duty of Rs 9,43,030 was collected thereon.

14. The Marginal Statement gives the Statistics of the imports of tobacco into this Presidency by Sea for the last three years.

At the Travancore rate of duty the imports into this Presidency will bring in a gross revenue of a little over one lakh of rupees.

R.V.S.

The foregoing account [illegible] a clear & concise [illegible] of all that has [illegible] written on this subject

x) equal to 6,147,500 lbs. or 8,065,520 lbs. according as a 'candy' is 500 lbs. or 656 lbs. (which latter is the equivalent given in Madava Rowe's Memorandum — vide para. 10).

Tobacco. Imports

x) Sea. Borne Trade

Years	Foreign Trade		Coasting Trade		Total	
	Quantity in lbs	value Rs	Quantity in lbs	value Rs	Quantity in lbs	value
1890-91	446,477	2,06,021	218,915	33,563	665,392	2,39,584
1891-92	542,705	2,91,725	110,937	17,121	653,642	3,08,846
1892-93	915,719	3,37,980	135,775	27,107	1,051,494	3,65,087

x) The rail-borne imports amount only to about 3,000 lbs.

[illegible] shows that the feasibi[illegible] of raising a revenue [illegible] Tobacco has been most [illegible]austively debated & that [illegible] question has been con[illegible]d in all its bearings. [illegible] situation is appropri[illegible] summed up by Sir [illegible] Strachey in para 8 [illegible] Minute of the 21 [illegible] 165 (page 154 of the [illegible] book).

[illegible]acco has seemed at [illegible] sight a very promising [illegible] of taxation to al[illegible] everyone who has [illegible] upon the subject, [illegible] almost everyone has [illegible] up the scheme upon [illegible] consideration of the [illegible]culties which surround [illegible]"

Cl
3 March/94

1/3 to the State.

29.3.21 II ✓

Rev Go 1993 & 21-5-1894 mis

C. No. 7965 of 1893.

Re. Tobacco Tax.

H.M. & H.E. the Governor

C 3/3 Rev 11/3

CHIEF SECRETARIAT,

~~Madras,~~ Bolacamund,

12th October 1893.

Despd 27 — D —

OFFICE NOTE.

From

THE CHIEF SECRETARY,

To

The Secretary to Government

Revenue Department

With reference to the notes of H.E. the Governor & the Hon'ble Sir H. Stokes on the accompanying paper, will you please say whether the attention of the Govt. of India has been ~~directed~~ called in the Revenue department to tobacco as a possible source of revenue.

Indrin C. Price

Chief Secretary

C.S. 11.10

Rev: 14-5-68: 1338 A/E

(1893.)

REVENUE DEPARTMENT.

Current Number.

Office Note

From

The Chief Secretary,
Ootacamund.

Dated 12 Oct

Received 28 "

Enclosures 6

No.

SUBJECT.

Requesting to be informed with reference to the note of H. E. the Gov.r & the Honble Sir R. Stokes whether the attention of the Govt of India has been called to the Rev. dept to tobacco as a possible source of revenue.

ABSTRACT.

When given for copying——
When copied——
When examined——
When signed—— } 192

D AGAIN G.O. No. , DATED
192 .

CURRENT No.

ENCLOSURES TO C. No.

ORDER OF GOVERNMENT	A	A	A	A	A	A	A
LETTER OF GOVERNMENT.							
STATEMENT WITH DITTO.							
PAPERS NOT FILED OF, BEING MEANT FOR DESPATCH IN ORIGINAL.							

N.B.—
A = Copy in full.
B = Not to be copied.
P = Copy abstract only.
Q = Copy heading only.

Destroyed as the copies are torn in many places blanks have been left for filling in as well as for illegible words. Please see to them.

GOVERNMENT BRANCH PRESS RECEIVED 21 MAY 1925 TRIVANDRUM

CONFIDENTIAL.

TAXATION ON TOBACCO.

~~Read G. No. 7965 of 1893.~~

G.O. Mis. No. 1993, *dated* 21*st May* 1894.

~~Recorded with reference to the office-note to the Chief Secretary No. 23, dated 21st May 1894.~~

~~E. G.~~
Secretary.

Office-note from the Secretary to Government, Revenue Department, to the Honourable the Chief Secretary dated 21st May 1894, No. 23.

With reference to your office-note dated 12th October 1893, enquiring whether the attention of the Government of India has been called in the Revenue Department to tobacco as a source of revenue, I am to forward the accompanying paper which contains a note on the subject and the Honourable Member's remarks thereon from which it will be seen that no action need be taken with reference to Mr. Grigg's remarks regarding the lucrativeness of tobacco monopoly in the Travancore State.

~~Read G. No. 7965 of 1893.~~

~~*Office-note from the Chief Secretary, dated 12th October* 1893 *regarding tobacco tax.*~~

This note is submitted with reference to the enquiry ~~made in the office-note read above,~~ whether the attention of the Government of India has been called in the Revenue Department to tobacco as a possible source of revenue.

2. The occasion for this enquiry will appear from the notes of His Excellency the Governor and the Hon'ble Sir Henry Stokes to which reference is made in that office-note. It arose in this wise—

In submitting the budget estimate of the Travancore State for the Malabar year 1069 (August 1893–94) Mr. Grigg, the Resident, after observing that the most important increases occurred under certain heads of revenue of which tobacco was one, remarked regarding the increase under this head as follows:—

"That under tobacco is very remarkable. I have never heard a rumour of complaint regarding this tax, and yet it comes to approximately As. 6-6 per head of the population and gives a revenue nearly double that of abkari and opium and is now 55 per cent of that of salt—a necessary of life. Offences against the law relating to its importation are, I believe, not numerous. The lucrativeness of this monopoly may well attract the attention of Indian financiers (paragraph 3 of his letter, dated 3rd August 1893, in Government Order, dated 20th October 1893 No. 712, Political).

On this His Excellency noted—

"We should call the attention of the Government of India to the statistics of the tobacco tax and to the Resident's remarks thereon."

The question is whether we should take the success of Travancore in levying a revenue from tobacco as a reason for calling the attention of the Government of India to the possibility of levying a revenue for tobacco in our territories. I doubt if we have sufficient ground for doing so and whether such a suggestion would be well received. Travancore is exceptionally situated, so that it has been possible to abolish all growth of tobacco there and levy a revenue by import duties, and the Government of India know all about this. Such a system would be impossible in our territory where tobacco is grown almost everywhere and consumed by almost every body, and where larger Native States abound. The possibility of levying a revenue on tobacco in our territory, in this or any other way, has been repeatedly discussed and decided against after full communication between all the Governments, so that any suggestion for us on the subject would amount to an ... that the discussion ... not been complete. The only way in which, as far as I can see, a larger revenue could be realized for tobacco would be by establishing monopoly of manufacture and sale. Though this was hardly possible in former days, I believe it would be possible in these days of improved communications and police, but the initial expenditure on warehouses, etc., would be too heavy for a time of financial pressure and the larger preventive establishments which would be necessary and extend through almost every village would result in oppression which would be so widespread and so frequently exercised but it would be eminently dangerous.

No doubt a tobacco monopoly *could* be worked but it would be a gigantic undertaking, and so very costly (especially in Bengal, where Government has no rural agency at all) that it would not, in my opinion, bring in a net return worth the imitation, the measure would certainly cause. The simplest way of raising ... on tobacco would be by a special tax ... which it was grown, but that ... Native States and

A special establishment which would eat up the most part of the profits, while in all settled non-zamindari districts the terms of the settlements would prevent the imposition of such a tax. Independently of this, the taxation of land according to the crop grown would be a retrograde measure, injurious to the cultivator and certainly beneficial to no one but the karnam.

A licence fee might be imposed and would yield something. It would be a return to the notification abolished years ago, and would come very hard on the very poor classes who sell tobacco. I should be sorry to see it tried. Similar objections can be found to every other plan of leving a tobacco tax in this country. I don't think that the Government of India would care to take the question up. It was examined, on another and later occasion, I think, than any of those mentioned in the note, by Mr. Bazeet Colvin when additional Member of the Viceroy's Council, who wrote a long note on this and other projects of taxation, a copy of which I have somewhere—given me by Sir Auckland Colvin, when Finance Minister, who told me at the time that the idea had been finally abandoned—or to that effect. This was in 1886 when the times were almost as hard as they are now.

H. E. Stokes. L.R.—7-3-9[illegible]

This note is very clear, and gives me a complete answer. It is very evident that we should *not* call the attention of India to Mr. Grigg's remarks on the revenue derived in Travancore from taxing tobacco.

I found myself like many others lured into the belief that a large revenue might be derived from taxing this article, and the same results achieved here as in almost every civilized country in the world. But on inquiry I find that not only has it been thoroughly looked into, but the experiment has been tried and has failed, and there is no doubt the peculiar circumstances of the country have rendered the success of the experiment almost impossible. And as Sir J. Westland very forcibly puts in the incidence of a tax on tobacco would fall with far greater severity on those who now pay the bulk of the salt tax, and we would thereby be putting a crushing weight on those least able to bear the burden. I confess myself converted to

"Tobacco imported consists mainly of cheroot covers from Java and Sumatra"

to bring this question within the domains of practical politics—although I can imagine a municipality looking upon it as a fair object for local taxation but even then extremly difficult to work, as poor Madras can testify.

I suppose though that imported tobacco will pay its 5 per cent like other articles (except cotton goods !).

Wenlock W.—11-3-20.

On this note Sir Henry Stokes remarked as follows:—

"The attention of the Government of India has been often enough directed to tobacco as a possible source of revenue. The peculiar position of Travancore makes its experience of little or no value in the consideration of the question. Tobacco is not produced in the State: the revenue is derived from import duties, and the configuration of the country lends itself to the easy levy of these duties on the greater portion of the tobacco consumed, which comes from Ceylon. In this Presidency and probably in the rest of India, import duties would not produce any revenue worth having and would be prejudicial to the Cheroot industry: but I have no doubt that a considerable revenue might be got from licensees on the vend by others than the growers".

His Excellency wrote thereupon—

"Has this Government ever called their (India's) attention to it. Anyhow I do not think we could do any harm in pointing out what a large sum a little place like Travancore manages to get from the consumers of tobacco. It does not seem to me material how it is raised, whether by import duties or licences. The very significant fact remains that the consumers of tobacco in Travancore contribute yearly Rs. 10 lakhs to the State."

3. His Excellency's query whether this Government has ever called the attention of the Government of India to tobacco as a possible source of revenue has been referred to this Department for information, in the office-note from the Chief Secretary.

4. It will be seen from the references put up—

(1) That this question has frequently been considered by the Government of India and has also formed the subject of correspondence between that Government and this and other Local Governments.

and withdraw from any further attempt

(2) That the conclusion come to by the Government of India is that the idea of raising a large imperial revenue from tobacco must be abandoned.

(3) That our Government has also expressed the opinion that no large provincial revenue can be obtained from tobacco.

(4) That the Government of India is not unaware of the fact that Travancore manages to derive a large revenue from this source.

5. A summary of the correspondence on the subject is subjoined as also a short account of the tobacco monopoly in the districts of Coimbatore, Malabar and Canara which was abolished in the year 1853.

6. The blue-book entitled "Papers regarding the Tobacco Monopoly in the Presidency of Fort St. George etc.", gives the main correspondence up to 1868. It will be seen from pages 25–74 of the book, that for 50 years from 1803 to 1853, tobacco was the subject of a Government monopoly in the districts of Canara, Malabar and Coimbatore (vide Regulations 7 and 8 of 1811 and Regulation 5 of 1831 at pages 1, 4 and 3 of the Blue-Book), that the gross annual revenue derived during the 10 years—1833–1843 was about Rs. 8 lakhs and the net revenue about Rs. $5\frac{3}{4}$ lakhs; that the evils arising from this monopoly were so great that the attention of Government was frequently invited thereto by the officers concerned; that in 1845, the Government after recording a succinct review of the correspondence on the subject (vide No. 2 at page 26) called for a report from the Board of Revenue on the practicability of a modification of the monopoly which, whilst we shall secure a considerable revenue, shall yet divest the tax of some of its most injurious attributes, its heavy charge of collection and the inducement it held out to smuggling" paragraph 12 ibid). The Government added that if a beneficial modification was impracticable, the possibility of finding an available substitute should be investigated.

In reply the Board furnished an exhaustive report on the subject (No. 6 at page 31) and said—

"It is with much reluctance that they are induced to advise the surrender without an equivalent of so considerable a source of revenue as the (tobacco) monopoly and they must be understood as doing so only, because, after much anxious reflection on the subject, they have been led to the conclusion that between such surrender and the retention of the present system with all its evils, there is no practicable middle course (paragraph 45 at page 44).

After a careful consideration of the subject (vide the minutes recorded by the then Members of Government Nos. 19 to 22 at pages 50–65 of the Blue Book) the Government declared (pages 67–8, paragraph 10)—

"The crying evils of the tobacco monopoly continue daily to become more notorious and demand an immediate remedy. The Right Hon'ble the Governor in Council entertains the most decided conviction that, as the Board of Revenue has represented, there is no effectual remedy short of total abolition and the expunging of so objectionable a branch of revenue from the system of Indian Finance."

Some of the evils of this system arose from its being confined to limited areas but the worst springing of the fact that tobacco is produced almost every where and freely consumed by all classes so that any raisng of the price gives rise to the worst sort of smugging and is fatal to the peace of the country—will affect any system.

In accordance with this view application was made to the Court of Directors (No. 24 at page 68) for sanction to abolish the tobacco monopoly and on such sanction being obtained, Act IV of 1853 was passed abolishing the monopoly—Nos. 37 and 38 at page 71.

The reply of this Government to the above letter is printed at pages 157—162 of the Blue Book. This Government merely reiterated the opinion it had expressed in its letter of 11th June 1859 (No. 90 at page 120) that there were insurmountable objections to the realization of a revenue from tobacco unless in the shape of a tax on the shops where tobacco was sold, i.e., a licence tax; and that the produce of such a tax would not be considerable (paragraph 5 at page 157 and paragraph 7 at page 159).

9. The Government of India appears to have considered this question of a tobacco tax on subsequent occasions also and to have arrived at substantially the same opinion as before, as will appear from the letter to the Secretary of State printed as No. 98 at page 155.

10. In 1870 when the question of raising the rate of income-tax was under the consideration of the Government of India, a proposal was made by one of the members (Mr. Cowie) to tax tobacco. Sir John Strachy and Sir Richard Temple both spoke against the measure and His Excellency Lord Mayo said:—

"Now it is quite true that in many civilized countries tobacco is considered to be a very proper object for taxation but I must remind the Council that tobacco in India is really an absolute necessary of life and that if you put a tax upon the production of tobacco, you tax the two great necessaries of life in this country, viz., salt and tobacco, and I am not prepared even in the present state of our finances to advocate the imposition of a burden upon such a prime necessary of life as that is (vide passages marked at pages 281, 289, 302 and 315 of the volume of Legislative Council's Proceedings for 1870 put up). Vide also in this connexion, for an opposite view, the extract from the Indian Economist printed as Appendix E to the Blue-Book above referred to and the paper printed as Appendix D thereto.

D under Travancore.

11. The question appears to have been discussed also during Lord Lytton's Viceroyalty and the same conclusion arrived at, namely, that no large revenue could be raised by taxing tobacco (vide pages 368-70 of Strachey's book on "The Finances and Public Works of India" and page 554 of the volume of Legislative Council's Proceedings for 1877). The following extract from Strachey's book may be noted:

"Tobacco is almost universally consumed and is looked upon as almost a necessary of life. Whatever means were adopted the tax would only be largely productive if it fell ultimately on the classes which form the great mass of the community. It would be paid by the same classes which now pay the salt tax, and if it should become necessary to increase the burden which they already bear this object would be more easily and economically gained and with far less vexation to the people by increasing the existing tax upon salt than by imposing a new tax upon tobacco. That any increase in the rate of the salt-tax would be one of the greatest possible mistakes, unless in most exceptional circumstances and on the other hand that its present reduction * would be financially a most desirable measure, has been shown in another chapter (page 370).

* The duty was reduced from Rs. 2-8-0 to Rs. 2 in 1882. It was raised as follows in this Presidency:—

	Duty. Rs.	A.	P.
August 1859	1	0	0
April 1861	1	4	0
1861-62 to 1865-66	1	5	0
1866-67 to 1868-69	1	8	0
1869-70 to 1877-78	1	12	0
1878-79 to 1881-82	2	8	0
1882-83 to 1886-87	2	0	0
1886-87	2	8	0

12. That the Government of India knows that Travancore derives a large revenue from tobacco, may be inferred from the correspondence which took place in 1860-65 relative to the Interportal Trade convention with Travancore and Cochin and more especially from the correspondence embodied in Government Order dated 14th May 1868, No. 1338.

It will be seen from the latter correspondence that at the desire of the Viceroy (Sir John Lawrence) whose attention seems to have been drawn to certain remarks

which appeared in the Travancore Administration Report for 1865–66, regarding the tobacco tax in that State the Hon'ble Mr. G. N. Taylor addressed the then Resident in Travancore and Cochin (Mr. Newill) for full particulars regarding the mode in which the tax was levied in that State and that complete information on the subject was furnished by the Resident and the then Diwan T. Madhava Rao.

This correspondence came before this Government, mainly on account of a minute recorded by the Hon'ble Mr. G. N. Taylor, in which he suggested that this Government might consider the expediency of imposing a moderate import duty or an excise wherever practicable—vide his minute printed in the Government Order.

The Diwan's Memorandum shows that during the flourishing period of the monopoly system (it was abolished in 1862–63, that is, ten years after the abolition of the Government monopoly in Malabar and Canara) the gross revenue from tobacco amounted to more than half the revenue from all other sources or more than one-third of the total revenue of the State while the revenue now amounts to about one-eighth of the total revenue.

13. From the administration report of the Travancore State for the year 1891–92, it appears that 12,295 * candies of tobacco valued at Rs. 26,77,723 were imported during that year and that a duty of Rs. 9,43,030 was collected thereon.

* Equal to 6,147,500 lb. or 8,065,520 lb. according as a 'candy' is 500 lb. or 656 lb. (which latter is the equivalent given in Madava Rao's Memorandum—vide paragraph 10.

14. The following statement gives the statistics of the imports of tobacco into this Presidency by sea for the last three years :—

Tobacco imports.

† Sea-borne Trade.

Years.	Foreign trade.		Coasting trade.		Total.	
	Quantity in lb.	Value.	Quantity in lb.	Value.	Quantity in lb.	Value.
		Rs.		Rs.		Rs.
1890-91	446,477	2,06,021	218,915	33,563	665,392	2,39,584
1891-92	542,705	2,91,725	110,937	17,121	653,642	3,08,846
1892-93	915,719	3,37,980	135,775	27,107	1,051,494	3,65,087

† The rail-borne imports amount only to about 2,000 lb.

At the Travancore rate of duty the imports into this Presidency will bring in a gross revenue of a little over one lakh of rupees.

R.V.S.—1–3–94.

The foregoing account gives a clear and concise summary of all that has been written on this subject and shows that the feasibility of raising a revenue from tobacco has been most exhaustively debated and that the question has been considered in all its bearings. The situation is appropriately summed up by Sir John Strachey in paragraph 8 of his minute of the 21st October 1865 (page 154 of the Blue Book)—

"Tobacco has seemed at first sight a very promising subject of taxation to almost everyone who has thought upon the subject, but almost everyone had given up the scheme upon full consideration of the difficulties which summoned it."

J.G.—3–3–94.

~~Office-note from the Chief Secretary to the Secretary to Government, Revenue Department, dated Ootacamund, the 12th October 1893.~~

~~With reference to the notes of His Excellency the Governor and the Hon'ble Sir H. Stokes on the accompanying paper, will you please say whether the attention of the Government of India has been called in the Revenue Department to tobacco as a possible source of revenue.~~

Mr. N.S. Brodie's Note d. 26-12-15 (Secret D.O. No. AA-1, d. 11-1-1916)

II

Prior to 1910–11, *ad valorem* rates used to be charged on imported manufactured tobacco of all sorts at the rate of 5 per cent but this system was then abandoned and special quantitative rates introduced, presumably because of the difficulty of levying *ad valorem* rates. The rates introduced were about 33 per cent higher than those now in force which are—

	RS.	A.	P.	
Unmanufactured tobacco	1	0	0	per lb.
Cigars	1	10	0	"
Cigarettes weighing less than 3 lb. per thousand.	3	2	0	per thousand.
Cigarettes weighing 3 lb. or more per thousand.	1	4	0	per lb.
Manufactured, other sorts	1	2	0	"

These rates are said to be approximately 36 per cent *ad valorem* on cigars and 33 per cent *ad valorem* on cigarettes though how this is arrived at I don't know, considering how much imported cigars and cigarettes vary in weight and value. The Government of India first proposal is to raise these rates 'in approximately the same proportion, i.e., to a uniform 50 per cent *ad valorem*.' I presume this means that the duty on cigars is to be raised by about one-third and that on cigarettes by about half. Nothing is said about 'other sorts' which I suppose means principally pipe tobacco. Judging from Spencer's and Oakes' price lists the present rate seems to be from 28 to 41 per cent on the cheapest pipe tobacco and presumably this is also to be raised by about one-third. The rates will then read—

	RS.	A.	P.	
Cigars	2	3	0	per lb.
Cigarettes	4	11	0	per thousand and
	1	14	0	per lb.
Other sorts	1	8	0	per lb.

~~N.B.—Secretary seemed to think that they did.~~

I presume the Government of India does not intend to go back to *ad valorem* rates.

Effects of taxation introduced in 1910–11.
Sea-borne trade review of 1910–11, page 9.

2. The rates introduced in 1910–11 had the immediate effect of 'extensively curtailing the imports of foreign tobacco and they scarcely realized the revenue it was hoped they would bring in.' The total imports declined by 83 per cent in quantity and 52 per cent in value. Imports of leaf tobacco, *formerly duty free*, fell from 447,115 lb. to 63,267 lb. or by 86 per cent in quantity. Imports from Ceylon and the Straits Settlements practically ceased. [There used to be quite a large trade from the Jaffna and the northern Ceylon ports which supplied a great part of the tobacco used on the west coast of this Presidency.] Imports of cigarettes decreased 77 per cent in quantity and 48 per cent in value. The cheap American varieties were practically shut out, falling 94 per cent in value and the result was the foundation and development of the Indian cigarette industry which has probably taken their place. Exports of cigars to the United Kingdom fell by 72 per cent owing to the imposition of duty on wrapper tobacco. To avoid this, Messrs. Spencer & Co., removed their factory to Pondicherry.

Sea-borne trade review of 1911–12.

3. In 1911–12, owing to the outcry from Ceylon and the leading local manufacturers of better class cigars, the rates were reduced by about 33 per cent to the present figures. Even this, however, failed to revive the import trade from Ceylon and the Straits Settlements which was completely and finally killed. Imports of leaf tobacco rose by 19,100 lb. but this was only a mere fraction of the fall of 383,848 lb. in 1910–11. The increase was confined to the higher grades required in the manufacture of cigars of good quality. Imports of cigarettes showed a further decline in quantity but an increase in value, the trade in cheap American cigarettes being completely extinguished. Exports of cigars to the United Kingdom declined another

7 per cent in value but exports to the Straits Settlements increased by 23 per cent and the whole exports of cigars increased by 13 per cent in quantity and 9 per cent in value. The cigars exported to the Straits Sttlements and Federated Malay States appear to be made of purely Indian tobacco which pays no duty.

Sea-borne Trade Review of 1912–13.

4. In 1912–13, there was a further decrease in imports of cigarettes by 15 per cent and a large factory was opened at Bangalore by the Peninsular Tobacco Company. Manufacture of cigars for export to the United Kingdom was permitted in bond and Messrs. Spencer & Co. returned from Pondicherry. The exports of these cigars rose by 46 per cent but of course the revenue did not profit by this.

Sea-borne Trade Review of 1913–14.

There was a general increase both in imports and exports of tobacco in 1913–14 and some recovery in imports of cigarettes to a little above the figures of 1910–11. The exports of high grade cigars to the United Kingdom rose to ·88 lakh against ·57 lakh in 1910–11.

Effects of the war sea-borne trade review 1914–15.

However, the effect of the war was to send most of the principal figures lower than ever. Imports of raw tobacco fell to 70,573 lb. in 1914–15 and exports of high grade cigars to the United Kingdom fell to 33,434 lb. and to ·45 lakh in value (nearly 50 per cent), the lowest figure on record.

5. The figures since the introduction of the new tariff are tabulated below :—

Annual value of the sea-borne trade and navigation of the Madras Presidency for 1914–15.

Foreign trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.	LB.	LB.	LB.	LB.	LB.	LB.
1. Unmanufactured (total for Presidency).	447,115	63,267	82,427	90,458	110,458	70,573
2. Manufactured—						
(*a*) Cigars	11,099	1,049	937	830	1,107	3,368
(*b*) Cigarettes	319,275	72,139	65,410	55,217	78,616	78,429
(*c*) Other sorts	94,940	12,473	26,397	23,370	24,723	28,090
Exports.						
1. Unmanufactured (unaffected by tariff).	1,444,632	1,670,842	1,619,966	1,806,998	2,234,511	2,332,786
Of the above exported to Straits Settlements and Federated Malay States.	1,374,612	1,621,543	1,568,878	1,773,160	2,115,056	2,304,144
2. Manufactured—						
(*a*) Cigars	697,507	704,791	797,383	989,811	988,668	887,165
Of the above, quantity exported to United Kingdom.	80,360	42,565	36,184	51,156	56,976	33,434
Straits Settlements and Federaded Malay State (unaffected by tariff).	415,357	547,613	661,294	827,278	811,219	800,488
(*b*) Other sorts	4,196	4,515	9,010	8,513	9,363	8,885

Coasting trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.	LB.	LB.	LB.	LB.	LB.	LB.
1. Unmanufactured	610,603	683,787	664,054	578,058	604,165	596,038
2. Manufactured	142,514	84,439	59,021	94,319	57,595	71,301
Of the above importedfrom Calcutta.	118,687	73,703	52,511	85,214	46,637	53,301
Exports.						
1. Unmanufactured	7,721,625	7,535,386	6,870,154	6,536,820	6,928,569	5,168,826
Of the above—exported to Burma..	6,926,830	6,474,041	6,149,974	6,133,770	6,521,676	4,579,130
2. Manufactured—						
(*a*) Cigars	347,507	314,933	410,526	419,710	349,618	275,018
Of the above exported to Burma ..	194,493	204,649	292,004	320,781	251,706	177,844
Of the above exported to Bengal ..	101,866	73,706	76,815	61,785	63,117	65,373
	..	..	2,877	4,200	26,471	64,599
(*b*) Cigarettes	35,726	43,920	37,620	39,906	33,407	77,190
(*c*) Other sorts						

6. The net result of the introduction of the heavier tobacco duties in 1910–11 has, therefore, been to kill the import trade in raw tobacco from Ceylon and the Straits Settlements and in cigarettes from America and to lay the foundations of a cigarette manufacturing industry in India from Indian leaf. The trade in high grade cigars exported to the United Kingdom has suffered very heavily, despite permission to manufacture export in bond. The fall between 1909–10 and 1913–14 (when this industry reached its highest point after the imposition of duties and before the outbreak of war) was about 29 per cent. This shows what an effect even a slight rise in the cost of such a thing as tobacco has on consumption as it was undoubtedly the increased cost (and that only of the wrapper) in 1910–11 that gave the trade this set back. The wrapper is only a minute fraction of the weight of the cigar and if the duty on whole cigars is only equal to an ad valorem rate of 36 per cent the duty on a cigar whose wrapper alone pays duty must be nearer 1 or 2 per cent. Since the concession of manufacture in bond has been granted these cigars pay no duty and it is presumed that this concession will be continued so that any enhancement of rates will not affect them.

7. *Rail-borne trade* 1914–15.—

STATEMENT II (*a*).

Imports from other Presidencies and Native States.

	LB.
1. Unmanufactured	2,051,959
Of which imported from Mysore	1,344,550
2. Manufactured—	
(*a*) Cigars	13,330
(*b*) Other sorts—probably cigarettes	1,497,517
Of which imported from Mysore	1,294,272

STATEMENT II (*b*).

Exports to other Presidencies and Native States.

1. Unmanufactured	24,729,076
Of which exported to—	
Mysore	8,181,339
Calcutta	5,282,496
Nzam's Territory	4,242,157
2. Manufactured—	
(*a*) Cigars	503,013
(*b*) Other sorts	392,750

STATEMENT III.

Internal trade between various parts of the Presidency.

1. Unmanufactured	53,774,208
2. Manufactured—	
(*a*) Cigars	1,061,815
(*b*) Other sorts—probably cigarettes, bidies and snuff ...	1,074,651

8. From these figures it appears that by far the greatest part of the Delta tobacco is exported in the manufactured condition

Cigars.

and made up locally. The trade in manufactured tobacco is comparatively small, which agrees with my information that there are no manufactories of any size. A fairly large quantity of manufactured cigars is exported by rail from the Central districts (i.e., Trichinopoly, Salem and Coimbatore) to Negapatam but this no doubt is included also in the exports by sea to the Straits Settlements.

9. In the Secretariat note of 1911 the total outturn of cigars was estimated by Mr. Innes at about 2,500,000 lb; i.e.:—

	1909–10. LB.
Foreign exports	697,507
Coasting trade exports	347,507
Rail-borne exports	451,164
Do. Internal trade	971,208
Total ...	2,467,386

The corresponding figures for 1914–15 are—

	LB.
Foreign exports	887,165
Coasting trade exports	275,018
Rail-borne exports	503,013
Do. internal trade	1,061,815
Total ...	2,727,001

probably an outside price for the cheapest cigarettes. This means $28/2\frac{1}{2}=11\frac{1}{5}$, say 11 annas a lb. or as they weigh rather more than $2\frac{1}{2}$ lb. per 1,000, say 10 annas a lb. 15 per cent on 10 annas is one and a half annas per lb. I have estimated the total production of cigarettes in this Presidency at not more than 250,000 lb. and the duty on this would be Rs. 23,437. It is impossible to say without a full inquiry what the number of cigarette factories is but they are certainly very small and probably average not more than 10,000 lb. of cigarettes each per annum. Putting the number at 25 scattered all over the Presidency, not less than 25 Sub-Inspectors on Rs. 40 per mensem would be required to supervise them. The cost of these would be Rs. 12,000 not allowing for contingent expenses such as weighing machines, etc. The net proceeds of the tax would therefore be somewhere about Rs. 10,000, even supposing that the duty had no effect on consumption which is extremely improbable. Moreover as Indian cigarettes vary considerably in price though not so much as cheroots, the duty would press most unfairly on the cheapest brands and on the poorest class of the population which consumes them.

(*c*) Third proposal.

16. The third proposal is to levy a similar quantitative excise duty equivalent to an *ad valorem* tax of 15 per cent on cigars of Indian manufacture. As already pointed out in 1911 this problem absolutely bristles with administrative difficulties. In the first place it is not clear whether bidies are to be included. It is possible to distinguish bidies from cigarettes but the difference between them and the poorest kind of cheroots is almost infinitesimal. Both are rolled in leaves, sometimes tobacco leaves sometimes not. The manufacture of bidies is admittedly a cottage industry carried on in every village and hamlet. However according to the Asylum Press Almanack one tobacco factory at least professes to make bidies. The vast bulk of the Indian cheroots are also made as a cottage industry as is evident frem the fact that out of 182 millions of pounds of tobacco grown only about $3\frac{1}{2}$ millions ($4\frac{1}{2}$ at the outside) appear in the trade returns as manufactured. Possibly bidies could be excluded by excepting cheroots, etc., weighing less than as many pounds to the 1,000. My experiments show that the commonest bidies weigh about $1\frac{1}{4}$ lb. per 1,000, so that if manufactured cheroots weighing less than $1\frac{1}{2}$ lb. per 1,000 were excluded this might meet the case.

Bidies.

A However this would undoubtedly stimulate the consumption of bidies which I understand to be the most deleterious form of smoking. Bidies are sold at 12 annas a 1,000 wholesale in Madras, that is at about $9\frac{3}{5}$ annas per lb. The manufacturer's price may be less so that probably 9 annas per lb. would be a safe figure and the duty, if any, ought to be much the same as for cigarettes or a little less, say 1 anna 4 pies per lb.

17. Ordinary cheroots of the commonest kind seem to weigh about $3\frac{3}{4}$ lb. per 1,000 and cost Rs. 1-12-0 per 1,000 retail but both weight and price vary enormously. Better class cheroots which, however, are still largely consumed by the poorer classes weigh 20 lb. per 1,000 and cost Rupees 12-8-0. Assuming that the rates to the trade are somewhat less we may estimate the first kind at 6 annas a lb. and the second at 10 annas a lb. The duty ought to be fixed at 15 per cent on the cheapest kind at 6 annas a lb. The duty would then be 11 pies but for convenience of reckoning might be fixed at one anna.

Cigars.

It is quite impossible to estimate with any accuracy the output of Indian manufactured cigars. The figures in paragraph 9 no doubt afford some guide. I should imagine 2,000,000 lb. to be a fair estimate. The duty on this at 1 anna per lb. would be Rs. 1,25,000. Against this has to be set the cost of establishment which would be enormous. It is not possible at present to form any idea of what this would be. Presumably the only way to ensure the collection of the duty would be to place each factory in charge of an officer who would have to weigh the quantity of raw tobacco received and the quantity finally passed out on payment of duty, seeing that none illicitly passed out and keeping accounts on the same lines as officers in charge of

in seven, Vizagapatam (29,115), Godavari (13,099), Guntur (78,560), Kistna (13,022), Kurnool (18,769), Coimbatore (26,001) and Madura (11,172). These figures show little change since 1908-09.

Tobacco industry.

13. The census report for 1911 groups manufacturers of tobacco, opium and ganja together under Order 12, Group 66. The number of manufacturers of opium and ganja must be almost negligible and the total number of workers and dependents is shown to be 12,333. Under Order 33, Group 122, sellers of tobacco, opium, ganja, etc., are said to be 65,733 (workers 25,883, dependents 39,850). The total number of persons dependent on the tobacco trade is therefore about 78,066 against 75,000 in 1901. It is not possible to compare the figures of the other industries referred to in Mr. Castlestuart Stuart's demi-official of 5th November 1910 as the classification has been altered. Betel leaf and arecanut sellers are now grouped with vegetable and fruit sellers. It may be noted however that the number of persons engaged in the manufacture of tobacco is about as many as bakers and biscuit makers (12,970) whilst the number of sellers of tobacco is not much less than the number of sellers of milk, ghee, butter, poultry, eggs, etc. (80,981).

Present proposals criticised.

14. These figures show that there has been comparatively little change in the general position since 1910-11 and the arguments against any form of taxation of Indian grown tobacco remain as strong as they were then. The present proposals of the Government of India may now be examined in detail. The first is, as far as I understand it, to raise the quantitative rates of duty on imported cigars and cigarettes

(*a*) First proposal.

(and perhaps also on other manufactured tobacco) to the figures shown in paragraph 1 above. The quantity of imported cigars is now very small and was only 3,368 lb. in 1914-15. Assuming that the enhanced duty has no effect on consumption, the increase of revenue from this source will be only Rs. 1,824*. But judging from the effect of the enhancement of duty in 1910-11 it will probably be much less. The duty on imported cigarettes (78,429 lb. in 1914-15) was about Rs. 80,000 and the enhancement of the duty by one-half may give Rs. 40,000, though here also a heavy fall in consumption may be confidently looked for. The increase of duty on 'other sorts', i.e., probably pipe tobacco, snuff, etc. (which may be contemplated) by one-third would yield perhaps Rs. 10,742. Altogether, the maximum increase of revenue that may be looked for from this proposal cannot, therefore, be more than Rs. 60,000 and the burden will fall heavily on the poorly paid European and Eurasian assistants in shops, business firms, Railway Companies etc. who are by far the largest consumers of imported cigarettes. However this increased revenue can no doubt be obtained without administrative difficulty or expense.

*Present duty Rs. 5,473 one-third enhancement Rs. 1,824.

(*b*) Second proposal.

15. The second proposal is to levy an excise duty on cigarettes of Indian manufacture. The large factory referred to by the Government of India is probably that in Bengal, I think at Monghyr. It is proposed to differentiate bidies from cigarettes by the use of cigarette paper. This may be accepted. It is proposed that the taxation should take the form of a quantitative duty equivalent to an *ad valorem* duty of about 15 per cent. A further point is whether the taxation should be restricted to factories equipped with power-driven machinery. If this qualification is accepted the question is a simple one for there are no such cigarette factories in this Presidency. Assuming, however, that all cigarette factories are to be taxed my inquiries show that cigarettes of Indian manufacture vary considerably in price. The cheapest are sold retail at prices varying from Rs. 1-4-6 per 500 or Rs. 2-6-0 per 1,000 to Rs. 2-12-0 per 500 or Rs. 5-2-0 per 1,000. These cigarettes both weigh almost exactly $2\frac{1}{2}$ lb. per 1,000, the cheaper ones a little more. The manufacturer's price to the trade is no doubt considerably less as these cigarettes have to be imported to Vizagapatam and there is the retailer's profit to be considered. The excise duty will of course have to be fixed with regard to the wholesale price at the factory. I should say Rs. 1-12-0 per 1,000 is

Watch cigarettes—Peninsular Tobacco Company, Bangalore, Rs. 1-4-6.
Ruler cigarettes—Imperial Tobacco Company, Calcutta, Rs. 2-12-0 per 500.

information as to the number and location of factories, the methods of manufacture, the outturn and the prices obtained. Collectors could poissbly procure the information under the guise of income-tax or statistical inquiries without exciting attention.

3. The calculations in your note are based on the assumption that the excise to be imposed would be equivalent to an *ad valorem* tax of about 15 per cent, as was then suggested by the Government of India. I am to ask you now further to consider the effect of taxation on the industry and to favour Government with your opinion as to the maximum which could safely be imposed without seriously crippling the trade.

4. The Government of India lay stress on the strictly confidential nature of this further reference, but say 'there is no objection to consulting any officer of Government whose advice would be of special value.'

Demi-official from N. S. Brodie, Esq., I.C.S., to L. Davidson, Esq., I.C.S., dated, Ennore, 12th November 1916.

With reference to your Demi-official No. 39-S., dated 4th July 1916, I have now made further inquiries into the subject of the production and sale of cigarettes in this Presidency both personally and through Collectors. I cannot say that I have elicited much additional information and the remarks which I made in my note of the 26th December 1915 ~~(herewith returned)~~ continue to hold good. It appears, however, that I was wrong in stating that there were no cigarette factories in the Presidency equipped with power-driven machinery as it was found on further inspection that McDowell's factory in Moor street, Madras, had some cutting machines worked by an oil-engine recently set up.

2. The estimate of outturn may very well remain at 250,000 lb. The only detail I have been able to get are from the Universal Tobacco Company in Madras which is believed to turn out about 30 lakhs of cigarettes per mensem and from McDowell's factory, also in Madras, which is believed to turn out about 20 lakhs. McDowell's factory does not use Indian tobacco exclusively and some of the brands contain imported tobacco to the extent, it is said, of 25 per cent on the whole. I have tested numerous brands from all parts of the Presidency and find that as a rule they weigh about 2½ lb. per 1,000, a little more or less. This gives the total Madras production about 150,000 lb. per annum. Allowing for the imported tobacco used in McDowell's factory the quantity of Indian cigarettes is about 135,000 lb. The only other factories appear to be Oakes & Co.'s factory at Guindy, a new factory started by Barry & Co. in Cocanada just recently and one or two small factories in Coimbatore. There was a factory at Guntur but it seems to have failed after working a few months. The Collector of Coimbatore has not yet replied to my letter on the subject but I made some inquiries in the course of my last tour and find that there are one and probably two factories in Coimbatore but they use imported tobacco for their cigarettes as does Pappadopoulos in Madras. Allowing for all these factories I should say 115,000 lb. per annum was a very liberal estimate, making 250,000 for the Presidency.

3. Retail prices seem to vary very considerably but on the whole I see no reason to modify my original calculations. The cheapest cigarettes are sold in packets of 5 or 6 and a slightly more expensive lot in packets of 10. The dealers' profit seems to be about eight annas a thousand and the trade discount about 20 per cent. Some cigarettes* are sold as cheaply as Re. 1 per 1,000 wholesale or allowing for the trade discount about thirteen annas per 1,000. This is less than half the price I estimated for the cheapest cigarettes in my last note (Rs. 1-12-0). I doubt if there are many of this brand sold, but there are numerous other brands at Re. 1-4-0, Re. 1-6-0 and Rs. 1-8-0 sold by McDowell & Co. However all other information tends to confirm the view that the cheapest cigarettes are sold at Rs. 2 to Rs. 2-12-0 by the wholesale dealers and consequently must cost somewhere about Rs. 1-12-0 per 1,000 from the manufacturers. These cheap cigarettes are manufactured in this Presidency by McDowell & Co., and the Universal Tobacco Company only. Those turned out by Oakes & Co., and the new factory started by Barry & Co., at Cocanada are much more expensive and work out at Rs. 11 to Rs. 14 per 1,000.

*By the Universal Tobacco Company, 1/6, Patters Road, Royapetta—'Bazaar' brand.

4. The method of manufacture is probably the same everywhere. The tobacco selected has all the main nibs cut out and the leaves are then laid one above the other to a considerable depth. They are then cut into small pieces by a cutting machine, the tabacco rolled in cagarette paper, gummed and cut into lengths. As far as I know the cutting and gumming, etc., machines are all worked by hand except in McDowell's factory above referred to.

5. In this connexion I should, however, bring to notice one or two facts which I have ascertained in the course of my inquiries. It is a common practice I understand for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale especially at the various shandies and markets in the Presidency. This is common in Malabar, Coimbatore and the Nilgiris at all events and probably elsewhere. Most Collectors have, however, reported that cigarette papers are not commonly sold in the bazaars. I believe the practice of individual consumers rolling their own cigarettes is not common at present though it is said to have been customary in Salem before the shop-made cigarettes became so cheap. It would be clearly impossible to levy an excise duty on cigarettes made by hawkers or private individuals and it may be expected that the practice would be much more largely resorted to if a duty were imposed on the manufactured article. This might perhaps be met by imposing a customs duty on cigarette paper which would have to be determined in accordance with the duty imposed on cigarettes, such customs duty to be refunded on paper actually used by the wholesale manufacturers. It seems that cigarette paper was formerly imported mostly from Austria and Germany—at present it is obtained from France.

6. As regards the duty to be imposed I find it difficult to express an opinion. The heavy rates imposed in 1910–11 practically killed the cheap American cigarettes but then the enhancement of rates was probably more than 100 per cent of the value so that this result was quite intelligible. My inquiries show that my estimate of the cost of collection was much too large. One Sub-Inspector would, I think, be required for each factory but as there seem to be only four or possibly five factories the cost would be only about Rs. 2,400 per annum. As observed in my previous note, a duty of one and a half annas per pound represents 15 per cent of the value of the cheap cigarette. This amounts to 3 annas 9 pies per 1,000 and could hardly affect the retail price at all. The usual retail price per packet of 10 cigarettes seems to be about 4 pies. A duty of 8 annas 4 pies per 1,000 should raise the retail price by one pie and this would probably not seriously affect the trade though even one pie is a consideration in a country like India. I do not think we could safely raise the duty beyond Re. 1 per 1,000 which would raise the retail price about 2 pies or 50 per cent. This would be 6·4 annas per pound and roughly about 6$\frac{1}{2}$ per cent of the value. Although cheap cigarettes do not seem to vary much in weight I would prefer to levy the duty by the pound rather than by the number as being the only fair way of assessing it. A duty of 6$\frac{1}{2}$ annas per pound would, if the production remained at 250,000 lb., yield Rs. 1,01,562$\frac{1}{2}$ but if the consumption fell, as it probably would, to about 200,000 lb. the tax would yield Rs. 81,250. As far as this Presidency is concerned, the result would, therefore, be insignificant, but, no doubt, the revenue from the whole of India would be very considerable and I cannot see any serious objection to the proposal except that it would greatly encourage the smoking of bidies and press rather hardly on the poorest class of the population who smoke cheap cigarettes at present and regard them as a great luxury.

Demi-official from F. J. RICHARDS, Esq., I.C.S., to LEY, Esq., I.C.S., dated the 18th December 1916, No. 75-S.

I am directed to reply to Mr. Low's Confidential demi-official letter No. 4493, dated 14th June 1916, on the subject of the expediency of imposing an excise on cigarettes manufactured in India from indigenous tobacco.

2. In the first place, I am to point out that the correspondence of 1910, to which reference is made in the first paragraph of Mr. Low's letter, did not turn on the present question, for at that time there was no manufacture of cigarettes from indigenous tobacco in this Presidency. It is stated that the question of an excise on manufacture was then dropped because the local cigarette industry was in its infancy and it was considered that the imposition of an excise would deal it a death-blow. So far as this Presidency is concerned, the position is virtually unaltered; for, as stated in Mr. Butterworth's demi-official letter No. A.A.-1, dated 11th January 1916, the local output of cigarettes does not exceed some 250,000 lb. annually. This estimate has been confirmed by subsequent enquiries, though the number of factories to be taken into account is found to be smaller than was thought to be the case. There are probably not more than 5 or 6, of which the two largest are those owned by Messrs. McDowell & Co., and the Universal Tobacco Company both in Madras City. The former has recently been equipped with an oil-engine for driving its cutting machines. The average wholesale price for the cheapest class of cigarettes quoted in Mr. Butterworth's letter, viz. Rs. 1-12-0 per 1,000, may be taken as correct. These cheap cigarettes are manufactured only by Messrs. McDowell & Co. and the Universal Tobacco Company. Those turned out by Messrs. Oakes & Co., at Guindy and by Messrs. Barry & Co., at Cocanada are much more expensive, costing from Rs. 11 to Rs. 14 per 1,000

3. The maximum rate of duty which is considered compatible with the survival of the industry is Re. 1 per 1,000 or approximately $6\frac{1}{2}$ annas per lb. This duty would if the production remained 250,000 lb. yield a revenue of a little over a lakh. The imposition of such a tax, however, is almost certain to preclude any expansion of the industry and would very probably strangle that which already exists; for it would either drive the masses to revert to *bidi* smoking or compel the manufacturers to transfer their factories to French territory or to Native States. I may here point out that the Director-General of Commercial Intelligence has incorrectly assumed that the tax realisable from the Peninsular Tobacco Company's factory in the Civil and Military Station, Bangalore, would be credited to Imperial revenues. By the terms of rendition, the Mysore Government is entitled to the whole of the surplus revenue of the Assigned Tract, after the cost of the administration of the tract is defrayed. This fact seriously affects the estimate formed of the probable receipts from the tax.

4. Another factor to be taken into consideration is the practice, common in several districts of this Presidency, for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale, especially at local markets. Individual consumers do not usually roll their own cigarettes, though it is said to have been customary for them to do so in Salem before the shop-made cigarettes became so cheap. It would obviously be impossible to levy an excise duty on cigarettes made by hawkers or private individuals; and it may be expected that the practice would be much more largely resorted to, if a duty were imposed on the manufactured article. Cigarette paper was formerly imported from Germany and Austria; now France is the chief source of supply. A customs duty might be imposed on it, such duty to be refunded on paper actually used by the wholesale manufacturers; but this expedient would not be free from difficulties and would almost certainly result in the use of a local substitute.

5. In these circumstances, I am to say that the Government of Madras are entirely opposed to the proposal. They can suggest no alternative scheme for internal taxation of tobacco, apart from those already rejected.

IV

Letter from C. R. WATKINS, Esq., C.I.E., Officiating Collector of Customs, Madras, to the Under Secretary to Government, Finance Department, dated 1st May 1925 No. L. Dis. Nil.

~~[Subject.—Statistics—Tobacco, manufactured and unmanufactured—Your telephone message, dated 1st May 1925.]~~

I forward herewith a statement showing the foreign imports into, and exports from, the Madras Presidency of tobacco since the year 1920-21.

2. The rates of customs duty at present in force are given below :—

Name of article.	Per	Tariff valuation.	Duty.
Cigars	.....	Ad valorem.	75 per cent.
Cigarettes of value.—Not exceeding Rs. 10-8-0 per thousand.	Per thousand.	.....	Rs. 7.
Exceeding Rs. 10-8-0 per thousand ...	Do.	.....	,, 10-8-0.
Tobacco, unmanufactured	Lb. ...	.....	,, 1.
All other sorts of tobacco manufactured	,, ...	.....	,, 2-4-0.

ENCLOSURE.

Foreign imports and exports of "Tobacco" at the Presidency of Madras for the past five years ending 1924-25.

	1920-21.		1921-22.		1922-23.		1923-24.		1924-25.	
	Quantity.	Value.	Quantity	Value.	Quantity.	Value.	Quantity.	Value.	Quantity.	Value.
FOREIGN IMPORTS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.
Tobacco—Unmanufactured ..	77,507	1,45,703	489,693	13,17,036	742,412	14,07,436	3,105,459	34,57,277	3,485,871	29,29,162
Cigars	12,815	43,430	701	2,922	81	238	94	156	215	473
Cigarettes	500,267	16,39,198	186,750	9,40,779	278,384	12,34,116	293,516	13,54,712	1,86,952	8,34,717
Tobacco for pipes and cigarettes	304	1,296	5,293	54,393	22,524	1,19,720	18,155	97,606	½	3
Other sorts	28,058	1,46,309	9,590	39,508	852	3,891	12,402	40,892	20,564	1,06,279
Total ..	619,951	19,75,936	692,027	23,54,638	1,044,253	27,65,401	3,432,626	49,50,643	3,693,602	38,70,634
FOREIGN EXPORTS.										
Tobacco—Unmanufactured ..	3,118,784	13,57,807	4,650,985	16,84,266	4,258,743	17,68,621	9,953,877	37,65,684	14,366,170	42,49,345
Cigars	75,540	1,04,792	94,905	1,17,671	99,244	1,32,490	1,11,541	1,20,174	88,199	1,25,560
Cigarettes	..	..	129	615	31,230	30,049	1,574	1,492	72,086	81,746
Other sorts	34,166	27,373	48,237	46,322	45,300	44,918	110,903	1,03,645	99,555	49,769
Total ..	3,228,490	14,89,972	4,794,256	18,48,874	4,434,517	19,76,078	10,177,895	39,90,995	14,626,010	45,06,420

V

Statement showing the area under cultivation of tobacco in the Madras Presidency in 1923-24.

	ACS.		ACS.
Ganjam	3,299	Salem	3,737
Vizagapatam	48,285	Coimbatore	25,544
Godavari	11,591	Trichinopoly	4,032
Kistna	13,301	Tanjore	2,223
Guntur	64,481	Madura	7,400
Kurnool	11,542	Ramnad	3,889
Bellary	2,658	Tinnevelly	1,048
Anantapur	4,785	Malabar	17
Cuddapah	1,868	South Canara	1,623
Nellore	2,625	The Nilgiris	72
Chingleput	62		
South Arcot	2,985	Total ...	219,841
Chittoor	595		
North Arcot	2,179		

CONFIDENTIAL.

TAXATION ON TOBACCO.

I

Notes to G.O. Mis. No. 1993, *dated* 21*st May* 1894.

The question is whether we should take the success of Travancore in levying a revenue from tobacco as a reason for calling the attention of the Government of India to the possibility of levying a revenue for tobacco in our territories. I doubt if we have sufficient ground for doing so and whether such a suggestion would be well received. Travancore is exceptionally situated, so that it has been possible to abolish all growth of tobacco there and levy a revenue by import duties, and the Government of India know all about this. Such a system would be impossible in our territory where tobacco is grown almost everywhere and consumed by almost everybody, and where larger Native States abound. The possibility of levying a revenue on tobacco in our territory, in this or any other way, has been repeatedly discussed and decided against after full communication between all the Governments, so that any suggestion for us on the subject would amount to an insinuation that the discussion had not been complete. The only way in which, as far as I can see, a large revenue could be realized for tobacco would be by establishing monopoly of manufacture and sale. Though this was hardly possible in former days, I believe it would be possible in these days of improved communications and police, but the initial expenditure on warehouses, etc., would be too heavy for a time of financial pressure and the larger preventive establishments which would be necessary and extend through almost every village would result in oppression which would be so widespread and so frequently exercised that it would be eminently dangerous.

G. GARSTIN—7-3-93.

No doubt a tobacco monopoly *could* be worked but it would be a gigantic undertaking, and so very costly (especially in Bengal, where Government has no rural agency at all) that it would not, in my opinion, bring in a net return worth the imitation, the measure would certainly cause. The simplest way of raising a tax on tobacco would be by a special tax on the land on which it was grown, but that would not apply to Native States and cannot be worked in Bengal. A special establishment which would eat up the most part of the profits, while in all settled non-zamindari districts the terms of the settlements would prevent the imposition of such a tax. Independently of this, the taxation of land according to the crop grown would be a

This note is submitted with reference to the enquiry whether the attention of the Government of India has been called in the Revenue Department to tobacco as a possible source of revenue.

2. The occasion for this enquiry will appear from the notes of His Excellency the Governor and the Hon'ble Sir Henry Stokes to which reference is made in that office-note. It arose in this wise—

In submitting the budget estimate of the Travancore State for the Malabar year 1069 (August 1893–94) Mr. Grigg, the Resident, after observing that the most important increases occurred under certain heads of revenue of which tobacco was one, remarked regarding the increase under this head as follows :—

"That under tobacco is very remarkable. I have never heard a rumour of complaint regarding this tax, and yet it comes to approximately As. 6–6 per head of the population and gives a revenue nearly double that of abkari and opium and is now 55 per cent of that of salt—a necessary of life. Offences against the law relating to its importation are, I believe, not numerous. The lucrativeness of this monopoly may well attract the attention of Indian financiers (paragraph 5 of his letter, dated 3rd August 1893, in Government Order, dated 20th October 1893, No. 712, Political).

On this His Excellency noted—

"We should call the attention of the Government of India to the statistics of the tobacco tax and to the Resident's remarks thereon."

On this note Sir Henry Stokes remarked as follows :—

"The attention of the Government of India has been often enough directed to tobacco as a possible source of revenue. The peculiar position of Travancore makes its experience of little or no value in the consideration of the question.

retrograde measure, injurious to the cultivator and certainly beneficial to no one but the karnam.

A licence fee might be imposed and would yield something. It would be a return to the moturfa abolished years ago, and would come very hard on the very poor classes who sell tobacco. I should be sorry to see it tried. Similar objections can be found to every other plan of levying a tobacco tax in this country. I don't think that the Government of India would care to take the question up. It was examined, on another and later occasion, I think, than any of those mentioned in the note, by Mr. Bazeet Colvin when additional Member of the Viceroy's Council, who wrote a long note on this and other projects of taxation, a copy of which I have somewhere—given me by Sir Auckland Colvin, when Finance Minister, who told me at the time that the idea had been finally abandoned—or to that effect. This was in 1886 when the times were almost as hard as they are now.

H. E. STOKES—7-3-94.

This note is very clear, and gives me a complete answer. It is very evident that we should *not* call the attention of India to Mr. Grigg's remarks on the revenue derived in Travancore from taxing tobacco.

I found myself like many others lured into the belief that a large revenue might be derived from taxing this article, and the same results achieved here as in almost every civilized country in the world. But on inquiry I find that not only has it been thoroughly looked into, but the experiment has been tried and has failed, and there is no doubt the peculiar circumstances of the country have rendered the success of the experiment almost impossible. And as Sir J. Strachey very forcibly puts in the incidence of a tax on tobacco would fall with far greater severity on those who now pay the bulk of the salt tax, and we would thereby be putting a crushing weight on those least able to bear the burden. I confess myself converted and withdraw from any further attempt to bring this question within the domains of practical politics—although I can imagine a municipality looking upon it as a fair object for local taxation but even then extremely difficult to work, as poor Madras can testify.

I suppose though that imported tobacco will pay its 5 per cent like other articles (except cotton goods !).

WENLOCK—11-3-20.

Tobacco is not produced in the State : the revenue is derived from import duties, and the configuration of the country lends itself to the easy levy of these duties on the greater portion of the tobacco consumed, which comes from Ceylon. In this Presidency and probably in the rest of India, import duties would not produce any revenue worth having and would be prejudicial to the Cheroot industry (Tobacco imported consists mainly of cheroot covers from Java and Sumatra) : but I have no doubt that a considerable revenue might be got from licensees on the vend by others than the growers."

His Excellency wrote thereupon—

"Has this Government ever called their (India's) attention to it? Anyhow I do not think we could do any harm in pointing out what a large sum a little place like Travancore manages to get from the consumers of tobacco. It does not seem to me material how it is raised, whether by import duties or licences. The very significant fact remains that the consumers of tobacco in Travancore contribute yearly Rs. 10 lakhs to the State."

3. His Excellency's query whether this Government has ever called the attention of the Government of India to tobacco as a possible source of revenue has been referred to this department for information, in the office-note from the Chief Secretary.

4. It will be seen from the references put up—

(1) That this question has frequently been considered by the Government of India and has also formed the subject of correspondence between that Government and this and other Local Governments ;

(2) That the conclusion come to by the Government of India is that the idea of raising a large imperial revenue from tobacco must be abandoned ;

(3) That our Government has also expressed the opinion that no large provincial revenue can be obtained from tobacco ; and

(4) That the Government of India is not unaware of the fact that Travancore manages to derive a large revenue from this source.

5. A summary of the correspondence on the subject is subjoined as also a short account of the tobacco monopoly in the districts of Coimbatore, Malabar and Canara which was abolished in the year 1853.

6. The Blue-Book entitled "Papers regarding the Tobacco Monopoly in the Presidency of Fort St. George etc.", gives the main correspondence up to 1868. It will be seen from pages 25–74 of the book, that for 50 years from 1803 to 1853, tobacco was the subject of a Government monopoly in the districts of Canara, Malabar and Coimbatore (vide Regulations 7 and 8 of 1811 and Regulation 5 of 1831 at pages 1, 4 and 8 of the Blue-Book), that the gross annual revenue derived during the 10 years—1833–1843 was about Rs. 8 lakhs and the net revenue about Rs. $5\frac{3}{4}$ lakhs ; that the evils arising from this monopoly were so great that the attention of Government was frequently invited thereto by the officers concerned ; that in 1845, the Government after recording a succinct review of the correspondence on the subject (vide No. 2 at page 26) called for a report from the Board of Revenue "on the practicability of a modification of the monopoly which, whilst we shall secure a considerable revenue, shall yet divest the tax of some of its most injurious attributes, its heavy charge of collection and the inducement it held out to smuggling"). The Government added that if a beneficial modification was impracticable, the possibility of finding an available substitute should be investigated.

It cost $2\frac{1}{4}$ lakhs to collect 8 lakhs !

J.G.

In reply the Board furnished an exhaustive report on the subject and said—

"It is with much reluctance that they are induced to advise the surrender without an equivalent of so considerable a source of revenue as the (tobacco) monopoly and they must be understood as doing so only, because, after much anxious reflection on the subject, they have been led to the conclusion that between such surrender and the retention of the present system with all its evils, there is no practicable middle course.

After a careful consideration of the subject the Government declared—

"The crying evils of the tobacco monopoly continue daily to become more notorious and demand an immediate remedy. The Right Hon'ble the Governor in Council entertains the most decided conviction that, as the Board of Revenue has represented, there is no effectual remedy short of total abolition and the expunging of so objectionable a branch of revenue from the system of Indian Finance."

Some of the evils of this system arose from its being confined to a limited area but the worst-springing from the fact that tobacco is produced almost everywhere and freely consumed by all classes so that any raising of the price gives rise to the worst sort of smuggling and is fatal to the peace of the country—will affect any system.

J.G.

In accordance with this view application was made to the Court of Directors for sanction to abolish the tobacco monopoly and on such sanction being obtained, Act IV of 1853 was passed abolishing the monopoly—

7. The subject of a tobacco-tax was considered by the Government of India during the years 1859–68. A summary of the correspondence which then took place on the subject and of the views held thereon will be found in Sir John Strachy's minute dated 21st October 1865 printed as No. 97 at page 152 of the Blue-Book and in the Government of India's letter to the Secretary of State printed as No. 98 at page 155.

All methods of taxing tobacco were considered then.

J.G.

It will be seen therefrom that, when after the events of the year 1857, the state of the finances rendered it necessary to resort to new sources of revenue, a tax on tobacco was among other things very much discussed.

Four methods of deriving a revenue from this source had been suggested :—

(1) The suppression of the cultivation of the plant throughout India and the imposition of an import duty.

(2) The establishment of a monopoly of the cultivation and manufacture of tobacco similar to that now applied to opium.

(3) The imposition of a licence duty on the cultivation of the plant.

(4) The imposition of licence fees on all wholesale and retail dealers in the manufactured article.

Of these, the first and second methods were soon dismissed as impracticable.

The third plan was at first favoured by the Government of India but most Local Governments disapproved it. The main objections urged were: that to impose a special tax on the cultivation of tobacco would be a violation of the principles on which land assessments were usually made; that it would also be economically a mistake; that the suppression of its cultivation except under a licence would be difficult to enforce; that as the enforcement cannot be extended to Native States (even if it could be extended to zamindari and inam estates) the measure would have the effect of contracting the area of its cultivation in British territory and greatly stimulating its growth in Native States and it would be extremely difficult to prevent the smuggling of free tobacco from such States. The views of this Government are contained in Mr. Bourdillon's letter to the Government of India, dated 11th June 1859, printed as No. 90 at pages 120–128. In the first enclosure to this letter the inexpediency of taxing tobacco in any form is fully set forth by the Board of Revenue.

The Government of India thereupon turned to the fourth plan of licensing the *sale* of tobacco and accordingly inserted a provision to this effect in the Licensing Bill then under its consideration. (The Bill, which was finally passed as India Act 18 of 1861 and repealed by India Act 2 of 1862). But the reports received from Local Governments on the point were not encouraging. They all went to show that no system of licensing would bring in any large revenue.

The Government of India resolved therefore to abandon altogether the idea of raising a revenue from tobacco by Imperial Legislation and the clause in the Licensing Bill which related to tobacco was accordingly expunged.

8. But while arriving at this opinion as to the unsuitability of tobacco for Imperial taxation the Government of India also thought, judging from the reports received from Local Governments, that a considerable revenue might be derived by Local Governments if they were left each to carry out the system best suited to the circumstances of its province. Accordingly, and as it was thought that Imperial revenues might be relieved to a considerable extent by establishing a system of local taxation for local purposes, the Government of India addressed Local Governments on the subject of such taxation and named tobacco as one of the sources from which a revenue might be derived.

The reply of this Government to the above letter is printed at pages 157—162 of the Blue-Book. This Government merely reiterated the opinion it had expressed in its letter of 11th June 1859 (No. 90 at page 120) that there were insurmountable objections to the realization of a revenue from tobacco unless in the shape of a tax on the shops where tobacco was sold, i.e., a licence tax; and that the produce of such a tax would not be considerable.

9. The Government of India appears to have considered this question of a tobacco tax on subsequent occasions also and to have arrived at substantially the same opinion as before, as will appear from the letter to the Secretary of State printed as No. 98 at page 155.

10. In 1870 when the question of raising the rate of income-tax was under the consideration of the Government of India, a proposal was made by one of the members (Mr. Cowie) to tax tobacco. Sir John Strachy and Sir Richard Temple both spoke against the measure and His Excellency Lord Mayo said:—

"Now it is quite true that in many civilized countries tobacco is considered to be a very proper object for taxation but I must remind the Council that tobacco in India is really an absolute necessary of life and that if you put a tax upon the production of tobacco, you tax the two great necessaries of life in this country, viz., salt and tobacco, and I am not prepared even in the present state of our finances to advocate the imposition of a burden upon such a prime necessary of life as that is.

11. The question appears to have been discussed also during Lord Lytton's Viceroyalty and the same conclusion arrived at, namely, that no large revenue could be raised by taxing tobacco (vide pages 368-70 of Strachy's book on "The Finances and

Public Works of India" and page 554 of the volume of Legislative Council's Proceedings for 1877). The following extract from Strachey's book may be noted:

"Tobacco is almost universally consumed and is looked upon as almost a necessary of life. Whatever means were adopted the tax would only be largely productive if it fell ultimately on the classes which form the great mass of the community. It would be paid by the same classes which now pay the salt tax, and if it should become necessary to increase the burden which they already bear this object would be more easily and economically gained and with far less vexation to the people by increasing the existing tax upon salt than by imposing a new tax upon tobacco. That any increase in the rate of the salt-tax would be one of the greatest possible mistakes, unless in most exceptional circumstances and on the other hand that its present reduction * would be financially a most desirable measure, has been shown in another chapter (page 370).

* The duty was reduced from Rs. 2-8-0 to Rs. 2 in 1882. It was raised as follows in this Presidency:—

	Duty. Rs.	A.	P.
August 1859	1	0	0
April 1861	1	4	0
1861–62 to 1865–66	1	5	0
1866–67 to 1868–69	1	8	0
1869–70 to 1877–78	1	12	0
1878–79 to 1881–82	2	8	0
1882–83 to 1886–87	2	0	0
1886–87	2	8	0

12. That the Government of India knows that Travancore derives a large revenue from tobacco, may be inferred from the correspondence which took place in 1860–65 relative to the Interportal Trade convention with Travancore and Cochin and more especially from the correspondence embodied in Government Order dated 14th May 1868, No. 1338.

It will be seen from the latter correspondence that at the desire of the Viceroy (Sir John Lawrence) whose attention seems to have been drawn to certain remarks which appeared in the Travancore Administration Report for 1865–66, regarding the tobacco tax in that State the Hon'ble Mr. G. N. Taylor addressed the then Resident in Travancore and Cochin (Mr. Newill) for full particulars regarding the mode in which the tax was levied in that State and that complete information on the subject was furnished by the Resident and the then Diwan T. Madhava Rao.

This correspondence came before this Government, mainly on account of a minute recorded by the Hon'ble Mr. G. N. Taylor, in which he suggested that this Government might consider the expediency of imposing a moderate import duty or an excise wherever practicable—vide his minute printed in the Government Order.

The Diwan's Memorandum shows that during the flourishing period of the monopoly system (it was abolished in 1862–63, that is, ten years after the abolition of the Government monopoly in Malabar and Canara) the gross revenue from tobacco amounted to more than half the revenue from all other sources or more than one-third of the total revenue of the State while the revenue now amounts to about one-eighth of the total revenue.

13. From the administration report of the Travancore State for the year 1891–92, it appears that 12,295 † candies of tobacco valued at Rs. 26,77,723 were imported during that year and that a duty of Rs. 9,43,030 was collected thereon.

† Equal to 6,147,500 lb. or 8,065,520 lb. according as a 'candy' is 500 lb. or 656 lb. (which latter is the equivalent given in Madhava Rao's Memorandum—vide paragraph 10.

14. The following statement gives the statistics of the imports of tobacco into this Presidency by sea for the last three years:—

Tobacco—Imports—Sea-Borne ‡ Trade.

Years.	Foreign trade. Quantity in lb.	Value.	Coasting trade. Quantity in lb.	Value.	Total. Quantity in lb.	Value.
		Rs.		Rs.		Rs.
1890–91	446,477	2,06,021	218,915	33,563	665,392	2,39,584
1891–92	542,705	2,91,725	110,937	17,121	653,642	3,08,846
1892–93	915,719	3,37,980	135,775	27,107	1,051,494	3,65,087

‡ The rail-borne imports amount only to about 2,000 lb.

At the Travancore rate of duty the imports into this Presidency will bring in a gross revenue of a little over one lakh of rupees.

R.V.S.—1-3-94.

The foregoing account gives a clear and concise summary of all that has been written on this subject and shows that the feasibility of raising a revenue from tobacco has been most exhaustively debated and that the question has been considered in all its bearings. The situation is appropriately summed up by Sir John Strachey in paragraph 8 of his minute of the 21st October 1865 (page 154 of the Blue Book)—

"Tobacco has seemed at first sight a very promising subject of taxation to almost everyone who has thought upon the subject, but almost everyone had given up the scheme upon full consideration of the difficulties which surround it."

J.G.—3-3-94.

II

Mr. N. S. Brodie's Note dated 26th December 1915 (Secret D.O. No. A A-1, dated 11th January 1916).

Prior to 1910–11, *ad valorem* rates used to be charged on imported manufactured tobacco of all sorts at the rate of 5 per cent but this system was then abandoned and special quantitative rates introduced, presumably because of the difficulty of levying *ad valorem* rates. The rates introduced were about 33 per cent higher than those now in force which are—

	Rs.	A.	P.	
Unmanufactured tobacco	1	0	0	per lb.
Cigars	1	10	0	"
Cigarettes weighing less than 3 lb. per thousand.	3	2	0	per thousand.
Cigarettes weighing 3 lb. or more per thousand.	1	4	0	per lb.
Manufactured, other sorts	1	2	0	"

These rates are said to be approximately 36 per cent *ad valorem* on cigars and 33 per cent *ad valorem* on cigarettes though how this is arrived at I don't know, considering how much imported cigars and cigarettes vary in weight and value. The Government of India's first proposal is to raise these rates 'in approximately the same proportion, i.e., to a uniform 50 per cent *ad valorem*.' I presume this means that the duty on cigars is to be raised by about one-third and that on cigarettes by about half. Nothing is said about 'other sorts' which I suppose means principally pipe tobacco. Judging from Spencer's and Oakes' price lists the present rate seems to be from 28 to 41 per cent on the cheapest pipe tobacco and presumably this is also to be raised by about one-third. The rates will then read—

	Rs.	A.	P.	
Cigars	2	3	0	per lb.
Cigarettes	4	11	0	per thousand and
	1	14	0	per lb.
Other sorts	1	8	0	per lb.

I presume the Government of India does not intend to go back to *ad valorem* rates.

2. The rates introduced in 1910–11 had the immediate effect of 'extensively curtailing the imports of foreign tobacco and they scarcely realized the revenue it was hoped they would bring in.' The total imports declined by 83 per cent in quantity and 52 per cent in value. Imports of leaf tobacco, *formerly duty free*, fell from 447,115 lb. to 63,267 lb. or by 86 per cent in quantity. Imports from Ceylon and the Straits Settlements practically ceased. [There used to be quite a large trade from the Jaffna and the northern Ceylon ports which supplied a great part of the tobacco used on the west coast of this Presidency.] Imports of cigarettes decreased 77 per cent in quantity and 48 per cent in value. The cheap American varieties were practically shut out, falling 94 per cent in value and the result was the foundation and development of the Indian cigarette industry which has probably taken their place. Exports of cigars to the United Kingdom fell by 72 per cent owing to the imposition of duty on wrapper tobacco. To avoid this, Messrs. Spencer & Co. removed their factory to Pondicherry.

Effects of taxation introduced in 1910–11. Sea-Borne Trade Review of 1910–11, page 9.

3. In 1911–12, owing to the outcry from Ceylon and the leading local manufacturers of better class cigars, the rates were reduced by about 33 per cent to the present figures. Even this, however, failed to revive the import trade from Ceylon and the Straits Settlements which was completely and finally killed. Imports of leaf tobacco rose by 19,160 lb. but this was only a mere fraction of the fall of 383,848 lb. in 1910–11. The increase was confined to the higher grades required in the manufacture of cigars of good quality. Imports of cigarettes showed a further decline in quantity but an increase in value, the trade in cheap American cigarettes being completely extinguished. Exports of cigars to the United Kingdom declined another

Sea-Borne Trade Review of 1911–12.

7 per cent in value but exports to the Straits Settlements increased by 23 per cent and the whole export of cigars increased by 13 per cent in quantity and 9 per cent in value. The cigars exported to the Straits Sttlements and Federated Malay States appear to be made of purely Indian tobacco which pays no duty.

Sea-Borne Trade Review of 1912–13.

4. In 1912–13, there was a further decrease in imports of cigarettes by 15 per cent and a large factory was opened at Bangalore by the Peninsular Tobacco Company. Manufacture of cigars for export to the United Kingdom was permitted in bond and Messrs. Spencer & Co returned from Pondicherry. The exports of these cigars rose by 46 per cent but of course the revenue did not profit by this.

Sea-Borne Trade Review of 1913–14.

There was a general increase both in imports and exports of tobacco in 1913–14 and some recovery in imports of cigarettes to a little above the figures of 1910–11. The export of high grade cigars to the United Kingdom rose to ·88 lakh against ·57 lakh in 1910–11.

Effects of the war—Sea-Borne Trade Review, 1914–15.

However, the effect of the war was to send most of the principal figures lower than ever. Imports of raw tobacco fell to 70,573 lb. in 1914–15 and exports of high grade cigars to the United Kingdom fell to 33,434 lb. and to ·45 lakh in value (nearly 50 per cent), the lowest figure on record.

5. The figures since the introduction of the new tariff are tabulated below :—

Annual value of the sea-borne trade and navigation of the Madras Presidency for 1914–15.

Foreign trade.

——	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.	LB.	LB.	LB.	LB.	LB.	LB.
1. Unmanufactured (total for Presidency).	447,115	63,267	82,427	90,458	110,458	70,573
2. Manufactured—						
(*a*) Cigars	11,099	1,049	937	830	1,107	3,368
(*b*) Cigarettes	319,275	72,139	65,410	55,217	78,616	78,429
(*c*) Other sorts	94,940	12,473	26,397	23,370	24,723	28,090
Exports.						
1. Unmanufactured (unaffected by tariff).	1,444,632	1,670,842	1,619,966	1,806,998	2,234,511	2,362,766
Of the above exported to Straits Settlements and Federated Malay States.	1,374,612	1,621,543	1,568,878	1,773,160	2,115,056	2,304,144
2. Manufactured—						
(*a*) Cigars	697,507	704,791	797,383	989,811	988,668	887,165
Of the above quantity exported to United Kingdom.	80,360	42,565	36,184	51,156	56,976	33,434
Straits Settlements and Federated Malay States (unaffected by tariff).	415,357	547,613	661,294	827,278	811,219	800,488
(*b*) Other sorts	4,196	4,515	9,010	8,513	9,363	8,885

Coasting trade.

——	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.	LB.	LB.	LB.	LB.	LB.	LB.
1. Unmanufactured	610,603	683,787	664,054	578,058	604,165	596,038
2. Manufactured	142,514	84,439	59,021	94,319	57,595	71,301
Of the above imported from Calcutta.	118,687	73,703	52,511	85,214	46,637	53,301
Exports.						
1. Unmanufactured	7,721,625	7,535,386	6,870,154	6,536,820	6,928,569	5,168,826
Of the above exported to Burma ..	6,926,830	6,474,041	6,149,974	6,133,770	6,521,676	4,579,130
2. Manufactured—						
(*a*) Cigars	347,507	314,933	410,526	419,710	349,618	275,018
Of the above exported to Burma ..	194,493	204,649	292,004	320,781	251,706	177,844
Of the above exported to Bengal ..	101,866	73,206	76,815	61,785	63,117	65,373
(*b*) Cigarettes	..	..	2,877	4,200	26,471	61,599
(*c*) Other sorts	35,726	43,920	37,620	39,906	33,407	77,190

6. The net result of the introduction of the heavier tobacco duties in 1910–11 has, therefore, been to kill the import trade in raw tobacco from Ceylon and the Straits Settlements and in cigarettes from America and to lay the foundations of a cigarette manufacturing industry in India from Indian leaf. The trade in high grade cigars exported to the United Kingdom has suffered very heavily, despite permission to manufacture export in bond. The fall between 1909–10 and 1913–14 (when this industry reached its highest point after the imposition of duties and before the outbreak of war) was about 29 per cent. This shows what an effect even a slight rise in the cost of such a thing as tobacco has on consumption as it was undoubtedly the increased cost (and that only of the wrapper) in 1910–11 that gave the trade this set back. The wrapper is only a minute fraction of the weight of the cigar and if the duty on whole cigars is only equal to an *ad valorem* rate of 36 per cent the duty on a cigar whose wrapper alone pays duty must be nearer 1 or 2 per cent. Since the concession of manufacture in bond has been granted these cigars pay no duty and it is presumed that this concession will be continued so that any enhancement of rates will not affect them.

7. *Rail-borne trade*, 1914–15.—

Imports from other Presidencies and Native States.

	LB.
1. Unmanufactured	2,051,959
Of which imported from Mysore	1,344,550
2. Manufactured—	
(*a*) Cigars	13,330
(*b*) Other sorts—probably cigarettes	1,497,517
Of which imported from Mysore	1,294,272

Exports to other Presidencies and Native States.

1. Unmanufactured	24,729,076
Of which exported to—	
Mysore	8,181,339
Calcutta	5,282,496
Nzam's Territory	4,242,157
2. Manufactured—	
(*a*) Cigars	503,013
(*b*) Other sorts	392,750

Internal trade between various parts of the Presidency.

1. Unmanufactured	53,774,208
2. Manufactured—	
(*a*) Cigars	1,061,815
(*b*) Other sorts—probably cigarettes, bidies and snuff ...	1,074,651

Cigars.

8. From these figures it appears that by far the greatest part of the Delta tobacco is exported in the manufactured condition and made up locally. The trade in manufactured tobacco is comparatively small, which agrees with my information that there are no manufactories of any size. A fairly large quantity of manufactured cigars is exported by rail from the Central districts (i.e., Trichinopoly, Salem and Coimbatore) to Negapatam but this no doubt is included also in the exports by sea to the Straits Settlements.

9. In the Secretariat note of 1911 the total outturn of cigars was estimated by Mr. Innes at about 2,500,000 lb; i.e.:—

	1909–10.
	LB.
Foreign exports	697,507
Coasting trade exports	347,507
Rail-borne exports	451,164
Do. internal trade	971,208
Total ...	2,467,386

The corresponding figures for 1914–15 are—

	LB.
Foreign exports	887,165
Coasting trade exports	275,018
Rail-borne exports	503,013
Do. internal trade	1,061,815
Total ...	2,727,001

Allowing for the disturbance of trade caused by the war, the export trade and rail-borne traffic in cigars may, therefore, be taken at about 2,750,000 lb. but this is probably an excess estimate of the quantity actually manufactured since the rail-borne traffic probably includes the greater part of the foreign exports and possibly a good deal of the coasting trade exports also.

Cigarettes.

10. The Indian cigarette industry has practically grown up since the Secretariat notes of 1911 were written. Foreign imports of the better class cigarettes have remained nearly stationary since 1911–11 at about 70,000 lb. Comparing the figures of 1909–10 with those of 1910–12 when the full effect of the tariff duties had had time to operate, 253,865 lb. of cheap American cigarettes appear to have been displaced. These have no doubt been replaced by Indian cigarettes and there has probably been a large increase in consumption in addition.

The export trade in cigarettes in 1914–15 appears to have been somewhat as follows:—

	LB.
Foreign exports	8,885 *
Coasting trade exports	61,599
Rail-borne exports	392,750 *
Do. internal trade	1,074,651 *
Total ...	1,537,885

In the absence of figures for bidies, snuff, etc., it is not easy, however, to say how much of these 15 lakhs of pounds represent cigarettes and still less how much represents cigarettes manufactured in the Presidency. My inquiries in Vizagapatam show that none of the cigarettes there consumed (and the consumption is very large) are manufactured in this Presidency. The great bulk come from Calcutta and a good many from the Peninsular Tobacco Company, Bangalore. Similarly in Madras, the bulk of the cigarettes come from Bangalore or Bowringpet, both in Mysore territory and not subject to British excise. It will be seen from paragraph 7 above that 1,294,272 lb. of 'other sorts' including (no doubt mostly) cigarettes are imported from Mysore. Probably the greater number of these are shown in 'rail-borne internal trade' and exports of the Presidency over again. I should put the actual number manufactured in the Presidency at not more than 250,000 lb.

11. The following are principal Indian Cigaratte factories shown in the Lawrence Asylum Press Almanack, page 1438:—

(1) A.G.M. & Sons, Coimbatore.

(2) K.G.A., Coimbatore.

(3) McDowell & Co., Madras.

I have never seen any cigarettes from the first two factories and they seem to be very small and merely supply the local market. McDowell & Co. employ about 25 persons and some small hand machines. Pappadapoulos Brothers make Egyptian cigarettes but import Egyptian tobacco which already pays duty. Besides these there are the two large factories in Mysore—

4. The Peninsular Tobacco Company, Cleveland town, Bangalore, and

5. The Oriental Tobacco Manufacturing Company, Bowringpet.

* Includes, however, pipe tobacco, bidies, snuff, etc.

Both these are run on American lines and employ a large number of workmen and power-driven machinery, but as already remarked they are not subject to British excise.

Outturn of tobacco.

12. According to the 'Season and crop report' for 1914–15 the total area culivated with tobacco in the Presidency was 227,182 acres, the 'normal' area being 203,230 acres. I learn from Chadwick that 800 lb. of dried leaf per acre is a fair average crop as taken by Castlestuart Stuart in 1910. The total outturn was therefore about 182,000,000 lb. of which we have only accounted for about 3½ millions at most in the manufactured form. This outturn was spread over 24 districts, the area being over 10,000 acres in seven, Vizagapatam (29,115), Godavari (13,099), Guntur (78,560), Kistna (13,022), Kurnool (18,769), Coimbatore (26,001) and Madura (11,172). These figures show little change since 1908–09.

About 90,000,000 are exported in unmanufactured form.

Tobacco industry.

13. The census report for 1911 groups manufacturers of tobacco, opium and ganja together under Order 12, Group 66. The number of manufacturers of opium and ganja must be almost negligible and the total number of workers and dependents is shown to be 12,333. Under Order 33, Group 122, sellers of tobacco, opium, ganja, etc., are said to be 65,733 (workers 25,883, dependents 39,850). The total number of persons dependent on the tobacco trade is therefore about 78,066 against 75,000 in 1901. It is not possible to compare the figures of the other industries referred to in Mr. Castlestuart Stuart's demi-official of 5th November 1910 as the classification has been altered. Betel leaf and arecanut sellers are now grouped with vegetable and fruit sellers. It may be noted however that the number of persons engaged in the manufacture of tobacco is about as many as bakers and biscuit makers (12,970) whilst the number of sellers of tobacco is not much less than the number of sellers of milk, ghee, butter, poultry, eggs, etc. (80,981).

Present proposals criticised.

14. These figures show that there has been comparatively little change in the general position since 1910–11 and the arguments against any form of taxation of Indian grown tobacco remain as strong as they were then. The present proposals of the Government of India may now be examined in detail. The first is, as far as I understand it, to raise the quantitative rates of duty on imported cigars and cigarettes (and perhaps also on other manufactured tobacco) to the figures shown in paragraph 1 above. The quantity of imported cigars is now very small and was only 3,368 lb. in 1914–15. Assuming that the enhanced duty has no effect on consumption, the increase of revenue from this source will be only Rs. 1,824*. But judging from the effect of the enhancement of duty in 1910–11 it will probably be much less. The duty on imported cigarettes (78,429 lb. in 1914–15) was about Rs. 80,000 and the enhancement of the duty by one-half may give Rs. 40,000, though here also a heavy fall in consumption may be confidently looked for. The increase of duty on 'other sorts', i.e., probably pipe tobacco, snuff, etc. (which may be contemplated) by one-third would yield perhaps Rs. 10,742. Altogether, the maximum increase of revenue that may be looked for from this proposal cannot, therefore, be more than Rs. 60,000 and the burden will fall heavily on the poorly paid European and Eurasian assistants in shops, business firms, Railway Companies, etc., who are by far the largest consumers of imported cigarettes. However this increased revenue can no doubt be obtained without administrative difficulty or expense.

(a) First proposal.

*Present duty Rs. 5,473 one-third enhancement Rs. 1,824.

(b) Second proposal.

15. The second proposal is to levy an excise duty on cigarettes of Indian manufacture. The large factory referred to by the Government of India is probably that in Bengal, I think at Monghyr. It is proposed to differentiate bidies from cigarettes by the use of cigarette paper. This may be accepted. It is proposed that

the taxation should take the form of a quantitative duty equivalent to an *ad valorem* duty of about 15 per cent. A further point is whether the taxation should be restricted to factories equipped with power-driven machinery. If this qualification is accepted the question is a simple one for there are no such cigarette factories in this Presidency. Assuming, however, that all cigarette factories are to be taxed my inquiries show that cigarettes of Indian manufacture vary considerably in price. The cheapest are sold retail at prices varying from Rs. 1–4–6 per 500 or Rs. 2–6–0 per 1,000 to Rs. 2–12–0 per 500 or Rs. 5–2–0 per 1,000. These cigarettes both weigh almost exactly $2\frac{1}{2}$ lb. per 1,000, the cheaper ones a little more. The manufacturer's price to the trade is no doubt considerably less as these cigarettes have to be imported to Vizagapatam and there is the retailer's profit to be considered. The excise duty will of course have to be fixed with regard to the wholesale price at the factory. I should say Rs. 1–12–0 per 1,000 is probably an outside price for the cheapest cigarettes. This means $28/2\frac{1}{2}=11\frac{1}{5}$, say 11 annas a lb. or as they weigh rather more than $2\frac{1}{2}$ lb. per 1,000, say 10 annas a lb. 15 per cent on 10 annas is one and a half annas per lb. I have estimated the total production of cigarettes in this Presidency at not more than 250,000 lb. and the duty on this would be Rs. 23,437. It is impossible to say without a full inquiry what the number of cigarette factories is but they are certainly very small and probably average not more than 10,000 lb. of cigarettes each per annum. Putting the number at 25 scattered all over the Presidency, not less than 25 Sub-Inspectors on Rs. 40 per mensem would be required to supervise them. The cost of these would be Rs. 12,000 not allowing for contingent expenses such as weighing machines, etc. The net proceeds of the tax would therefore be somewhere about Rs. 10,000, even supposing that the duty had no effect on consumption which is extremely improbable. Moreover as Indian cigarettes vary considerably in price though not so much as cheroots, the duty would press most unfairly on the cheapest brands and on the poorest class of the population which consumes them.

Watch cigarettes—Peninsular Tobacco Company, Bangalore, Rs. 1-4-6.
Ruler cigarettes—Imperial Tobacco Company, Calcutta, Rs. 2–12–0 per 500.

16. The third proposal is to levy a similar quantitative excise duty equivalent to an *ad valorem* tax of 15 per cent on cigars of Indian manufacture. As already pointed out in 1911 this problem absolutely bristles with administrative difficulties. In the first place it is not clear whether bidies are to be included. It is possible to distinguish bidies from cigarettes but the difference between them and the poorest kind of cheroots is almost infinitesimal. Both are rolled in leaves, sometimes tobacco leaves sometimes not. The manufacture of bidies is admittedly a cottage industry carried on in every village and hamlet. However according to the Asylum Press Almanack one tobacco factory at least professes to make bidies. The vast bulk of the Indian cheroots are also made as a cottage industry as is evident from the fact that out of 182 millions of pounds of tobacco grown only about $3\frac{1}{2}$ millions ($4\frac{1}{2}$ at the outside) appear in the trade returns as manufactured. Possibly bidies could be excluded by excepting cheroots, etc., weighing less than as many pounds to the 1,000. My experiments show that the commonest bidies weigh about $1\frac{1}{4}$ lb. per 1,000, so that if manufactured cheroots weighing less than $1\frac{1}{2}$ lb. per 1,000 were excluded this might meet the case.

(c) Third proposal.

Bidies.

A However this would undoubtedly stimulate the consumption of bidies which I understand to be the most deleterious form of smoking. Bidies are sold at 12 annas a 1,000 wholesale in Madras, that is at about $9\frac{3}{5}$ annas per lb. The manufacturer's price may be less so that probably 9 annas per lb. would be a safe figure and the duty, if any, ought to be much the same as for cigarettes or a little less, say 1 anna 4 pies per lb.

17. Ordinary cheroots of the commonest kind seem to weigh about $3\frac{3}{4}$ lb. per 1,000 and cost Rs. 1–12–0 per 1,000 retail but both weight and price vary enormously. Better class cheroots which, however, are still largely consumed by the poorer classes weigh 20 lb. per 1,000 and cost Rupees 12–8–0. Assuming that the rates to the trade are somewhat less we may estimate the first kind at 6 annas a lb. and the second at 10 annas a lb. The duty ought to be fixed at 15 per cent on the cheapest

Cigars.

kind at 6 annas a lb. The duty would then be 11 pies but for convenience of reckoning might be fixed at one anna.

It is quite impossible to estimate with any accuracy the output of Indian manufactured cigars. The figures in paragraph 9 no doubt afford some guide. I should imagine 2,000,000 lb. to be a fair estimate. The duty on this at 1 anna per lb. would be Rs. 1,25,000. Against this has to be set the cost of establishment which would be enormous. It is not possible at present to form any idea of what this would be. Presumably the only way to ensure the collection of the duty would be to place each factory in charge of an officer who would have to weigh the quantity of raw tobacco received and the quantity finally passed out on payment of duty, seeing that none illicitly passed out and keeping accounts on the same lines as officers in charge of distilleries. The test of a factory would be I suppose that the proprietor sold the manufactured produce, for practically every householder buys a few leaves of tobacco now and again and rolls them up into cheroots for private consumption. Even excluding these individuals, there appear to be about 26,000 persons describing themselves as tobacco sellers in the census returns, excluding 2,000 partially agriculturist. This agrees with what I expected, being an average of about one for every village in the Presidency. In some places there are no doubt several and in others none, but it would be quite impossible to do much in the way of concentration without causing much hardship. The formation of central storehouses appears, therefore, to be impossible and practically every shop will have to have a properly locked storehouse for the cheroots manufactured which adds to the expense. The ordinary staff of the Salt and Abkari Department could not possibly undertake this enormous addition to its work. Assuming that one Sub-Inspector could efficiently supervise on the average 25 factories (which I take to be impossible with the shops scattered as at present) it would require a staff of 1,000 Sub-Inspectors to supervise the work in the Presidency. The opportunities for fraud would be so great that I fear even then the force would be demoralized. Certainly a great many of the Sub-Inspectors would have to be paid more than the lowest grade of Rs. 40 a month. Assuming that the average pay is Rs. 60, this establishment alone would cost Rs. 60,000 per month or Rs. 7,20,000 per annum or about six times the estimated proceeds of the tax. It seems hardly worth while to discuss the matter further. A complete staff of peons, inspectors, Assistant Commissioners and Deputy Commissioners would also be necessary to supervise such an establishment and it would be quite impossible for me to undertake so large an addition to my work. After all there would be no possibility of guarding against fraud as there would be nothing to distinguish between illicit and licit tobacco. As far as I can see no tax less than Re. 1 per lb. would do more than pay for the cost of collection and this of course would be ruinous having regard to the cost of the article.

18. In conclusion I can see nothing in favour of the tax or any possibility of working it. A tax on Indian cheroots made in power-driven factories might be possible. There are only two, viz.: Spencer's at Dindigul and Oakes & Co. at Guindy—employing 700 persons between them. But it seems very hard to discriminate against them, even if the tax was only one anna a lb. and anything more would probably drive them out of the Indian market altogether. I cannot say what the output of these two factories is, but excluding the amount manufactured in bond for Europe I doubt if it exceeds 500,000 lb. and the duty at one anna per lb. would yield only Rs. 31,250.

19. Another possible course would be to put an export duty on manufactured tobacco. In that case I should exclude cigars exported to the United Kingdom which have to pay heavy and enhanced duties there and have already sufferred by the tariff. There are not the same administrative objections to an export duty, at all events on exports by sea, as the establishment exists and evasion would be practically impossible. Exports by sea to foreign countries, excluding the United Kingdom, amounted to 853,731 lb. in 1914–15 and exports to other provinces to 275,018 lb. Total 1,128,749 lb. A duty of one anna per lb. might bring in Rs. 62,500 without any extra cost and as the exported cigars at all events to the Straits Settlements are of fairly good quality a duty of even 2 annas a lb. might not ruin the trade and bring in about one and quarter lakhs. Still the amount is so small that I see no use in upsetting the trade at all for so very little result.

N. S. Brodie—26–12–15.

III

Demi-official from L. Davidson, Esq., I.C.S., to N. S. Brodie, Esq., I.C.S., dated 4th July 1916, No. 39-S. (Secret No. 183 A, dated 18th December 1916.)

I am desired to refer to your note of the 26th December 1915, on the subject of imposing an excise on locally manufactured cigars and cigarettes. The Government of India are disposed to agree that the taxation of locally-made cigars is not likely to prove of practical value. As regards cigarettes, however, they are unable to abandon the possibility of revenue from an article which is not only a luxury but also, to some extent, a harmful luxury; and they have asked this Government to consider the question at greater leisure.

2. Your note, referred to above, gives an approximate estimate of the total outturn of cigarettes in the Presidency, the number of factories and the prevailing wholesale prices. I am to ask whether you cannot now quietly obtain more precise information as to the number and location of factories, the met hods of manufacture, the outturn and the prices obtained. Collectors could possibly procure the information under the guise of income-tax or statistical inquiries without exciting attention.

3. The calculations in your note are based on the assumption that the excise to be imposed would be equivalent to an *ad valorem* tax of about 15 per cent, as was then suggested by the Government of India. I am to ask you now further to consider the effect of taxation on the industry and to favour Government with your opinion as to the maximum which could safely be imposed without seriously crippling the trade.

4. The Government of India lay stress on the strictly confidential nature of this further reference, but say 'there is no objection to consulting any officer of Government whose advice would be of special value.'

Demi-official from N. S. Brodie, Esq., I.C.S., to L. Davidson, Esq., I.C.S., dated Ennore, 12th November 1916.

With reference to your demi-official No. 39-S., dated 4th July 1916, I have now made further inquiries into the subject of the production and sale of cigarettes in this Presidency both personally and through Collectors. I cannot say that I have elicited much additional information and the remarks which I made in my note of the 26th December 1915 continue to hold good. It appears, however, that I was wrong in stating that there were no cigarette factories in the Presidency equipped with power-driven machinery as it was found on further inspection that McDowell's factory in Moor street, Madras, had some cutting machines worked by an oil-engine recently set up.

2. The estimate of outturn may very well remain at 250,000 lb. The only details I have been able to get are from the Universal Tobacco Company in Madras which is believed to turn out about 30 lakhs of cigarettes per mensem and from McDowell's factory, also in Madras, which is believed to turn out about 20 lakhs. McDowell's factory does not use Indian tobacco exclusively and some of the brands contain imported tobacco to the extent, it is said, of 25 per cent on the whole. I have tested numerous brands from all parts of the Presidency and find that as a rule they weigh about $2\frac{1}{2}$ lb. per 1,000, a little more or less. This gives the total Madras production about 150,000 lb. per annum. Allowing for the imported tobacco used in McDowell's factory the quantity of Indian cigarettes is about 135,000 lb. The only other factories appear to be Oakes & Co.'s factory at Guindy, a new factory started by Barry & Co. in Cocanada just recently and one or two small factories in Coimbatore. There was a factory at Guntur but it seems to have failed after working a few months. The Collector of Coimbatore has not yet replied to my letter on the subject but I made some inquiries in the course of my last tour and find that there are one and probably two factories in Coimbatore but they use imported tobacco for their cigarettes as does Pappadopoulos in Madras. Allowing for all these factories I should say 115,000 lb. per annum was a very liberal estimate, making 250,000 for the Presidency.

3. Retail prices seem to vary very considerably but on the whole I see no reason to modify my original calculations. The cheapest cigarettes are sold in packets of 5 or

6 and a slightly more expensive lot in packets of 10. The dealers' profit seems to be about eight annas a thousand and the trade discount about 20 per cent. Some cigarettes* are sold as cheaply as Re. 1 per 1,000 wholesale or allowing for the trade discount about thirteen annas per 1,000. This is less than half the price I estimated for the cheapest cigarettes in my last note (Rs. 1-12-0). I doubt if there are many of this brand sold, but there are numerous other brands at Re. 1-4-0, Re. 1-6-0 and Rs. 1-8-0 sold by McDowell & Co. However all other information tends to confirm the view that the cheapest cigarettes are sold at Rs. 2 to Rs. 2-12-0 by the wholesale dealers and consequently must cost somewhere about Rs. 1-12-0 per 1,000 from the manufacturers. These cheap cigarettes are manufactured in this Presidency by McDowell & Co., and the Universal Tobacco Company only. Those turned out by Oakes & Co., and the new factory started by Barry & Co., at Cocanada are much more expensive and work out at Rs. 11 to Rs. 14 per 1,000.

* By the Universal Tobacco Company, 1/6, Patters Road, Royapetta—'Bazaar' brand.

4. The method of manufacture is probably the same everywhere. The tobacco selected has all the main nibs cut out and the leaves are then laid one above the other to a considerable depth. They are then cut into small pieces by a cutting machine, the tabacco rolled in cagarette paper, gummed and cut into lengths. As far as I know the cutting and gumming, etc., machines are all worked by hand except in McDowell's factory above referred to.

5. In this connexion I should, however, bring to notice one or two facts which I have ascertained in the course of my inquiries. It is a common practice I understand for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale especially at the various shandies and markets in the Presidency. This is common in Malabar, Coimbatore and the Nilgiris at all events and probably elsewhere. Most Collectors have, however, reported that cigarette papers are not commonly sold in the bazaars. I believe the practice of individual consumers rolling their own cigarettes is not common at present though it is said to have been customary in Salem before the shop-made cigarettes became so cheap. It would be clearly impossible to levy an excise duty on cigarettes made by hawkers or private individuals and it may be expected that the practice would be much more largely resorted to if a duty were imposed on the manufactured article. This might perhaps be met by imposing a customs duty on cigarette paper which would have to be determined in accordance with the duty imposed on cigarettes, such customs duty to be refunded on paper actually used by the wholesale manufacturers. It seems that cigarette paper was formerly imported mostly from Austria and Germany—at present it is obtained from France.

6. As regards the duty to be imposed I find it difficult to express an opinion. The heavy rates imposed in 1910-11 practically killed the cheap American cigarettes but then the enhancement of rates was probably more than 100 per cent of the value so that this result was quite intelligible. My inquiries show that my estimate of the cost of collection was much too large. One Sub-Inspector would, I think, be required for each factory but as there seem to be only four or possibly five factories the cost would be only about Rs. 2,400 per annum. As observed in my previous note, a duty of one and a half annas per pound represents 15 per cent of the value of the cheap cigarette. This amounts to 3 annas 9 pies per 1,000 and could hardly affect the retail price at all. The usual retail price per packet of 10 cigarettes seems to be about 4 pies. A duty of 8 annas 4 pies per 1,000 should raise the retail price by one pie and this would probably not seriously affect the trade though even one pie is a consideration in a country like India. I do not think we could safely raise the duty beyond Re. 1 per 1,000 which would raise the retail price about 2 pies or 50 per cent. This would be 6·4 annas per pound and roughly about 60 per cent of the value. Although cheap cigarettes do not seem to vary much in weight I would prefer to levy the duty by the pound rather than by the number as being the only fair way of assessing it. A duty of $6\frac{1}{2}$ annas per pound would, if the production remained at 250,000 lb., yield Rs. 1,01,562$\frac{1}{2}$ but if the consumption fell, as it probably would, to about 200,000 lb. the tax would yield Rs. 81,250. As far as this Presidency is concerned, the result would, therefore, be insignificant, but, no doubt, the revenue

from the whole of India would be very considerable and I cannot see any serious objection to the proposal except that it would greatly encourage the smoking of bidies and press rather hardly on the poorest class of the population who smoke cheap cigarettes at present and regard them as a great luxury.

Demi-official from F. J. Richards, Esq., I.C.S., to Ley, Esq., I.C.S., dated the 18th December 1916, No. 75-S.

I am directed to reply to Mr. Low's Confidential demi-official letter No. 4493, dated 14th June 1916, on the subject of the expediency of imposing an excise on cigarettes manufactured in India from indigenous tobacco.

2. In the first place, I am to point out that the correspondence of 1910, to which reference is made in the first paragraph of Mr. Low's letter, did not turn on the present question, for at that time there was no manufacture of cigarettes from indigenous tobacco in this Presidency. It is stated that the question of an excise on manufacture was then dropped because the local cigarette industry was in its infancy and it was considered that the imposition of an excise would deal it a death-blow. So far as this Presidency is concerned, the position is virtually unaltered; for, as stated in Mr. Butterworth's demi-official letter No. A.A.-1, dated 11th January 1916, the local output of cigarettes does not exceed some 250,000 lb. annually. This estimate has been confirmed by subsequent enquiries, though the number of factories to be taken into account is found to be smaller than was thought to be the case. There are probably not more than 5 or 6, of which the two largest are those owned by Messrs. McDowell & Co., and the Universal Tobacco Company both in Madras City. The former has recently been equipped with an oil-engine for driving its cutting machines. The average wholesale price for the cheapest class of ciagarettes quoted in Mr. Butterworth's letter, viz. Rs. 1-12-0 per 1,000, may be taken as correct. These cheap cigarettes are manufactured only by Messrs. McDowell & Co. and the Universal Tobacco Company. Those turned out by Messrs. Oakes & Co., at Guindy and by Messrs. Barry & Co., at Cocanada are much more expensive, costing from Rs. 11 to Rs. 14 per 1,000.

3. The maximum rate of duty which is considered compatible with the survival of the industry is Re. 1 per 1,000 or approximately $6\frac{1}{2}$ annas per lb. This duty would if the production remained 250,000 lb. yield a revenue of a little over a lakh. The imposition of such a tax, however, is almost certain to preclude any expansion of the industry and would very probably strangle that which already exists; for it would either drive the masses to revert to *bidi* smoking or compel the manufacturers to transfer their factories to French territory or to Native States. I may here point out that the Director-General of Commercial Intelligence has incorrectly assumed that the tax realisable from the Peninsular Tobacco Company's factory in the Civil and Military Station, Bangalore, would be credited to Imperial revenues. By the terms of rendition, the Mysore Government is entitled to the whole of the surplus revenue of the Assigned Tract, after the cost of the administration of the tract is defrayed. This fact seriously affects the estimate formed of the probable receipts from the tax.

4. Another factor to be taken into consideration is the practice, common in several districts of this Presidency, for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale, especially at local markets. Individual consumers do not usually roll their own cigarettes, though it is said to have been customary for them to do so in Salem before the shop-made cigarettes became so cheap. It would obviously be impossible to levy an excise duty on cigarettes made by hawkers or private individuals; and it may be expected that the practice would be much more largely resorted to, if a duty were imposed on the manufactured article. Cigarette paper was formerly imported from Germany and Austria; now France is the chief source of supply. A customs duty might be imposed on it, such duty to be refunded on paper actually used by the wholesale manufacturers; but this expedient would not be free from difficulties and would almost certainly result in the use of a local substitute.

5. In these circumstances, I am to say that the Government of Madras are entirely opposed to the proposal. They can suggest no alternative scheme for internal taxation of tobacco, apart from those already rejected.

IV

Letter from C. R. Watkins, Esq., c.i.e., Officiating Collector of Customs, Madras, to the Under Secretary to Government, Finance Department, dated 1st May 1925, No. L. Dis. Nil.

I forward herewith a statement showing the foreign imports into, and exports from, the Madras Presidency of tobacco since the year 1920-21.

2. The rates of customs duty at present in force are given below:—

Name of article.	Per	Tariff valuation.	Duty.
Cigars	.....	Ad valorem.	75 per cent.
Cigarettes of value.—Not exceeding Rs. 10-8-0 per thousand.	Thousand ...	.....	Rs. 7.
Exceeding Rs. 10-8-0 per thousand ...	Do.	.....	,, 10-8-0.
Tobacco, unmanufactured	Lb. ...	.....	,, 1.
All other sorts of tobacco manufactured	,, ...	.....	,, 2-4-0.

Enclosure.

Foreign imports and exports of 'Tobacco' at the Presidency of Madras for the past five years ending 1924-25.

—	1920-21.		1921-22.		1922-23.		1923-24.		1924-25.	
	Quantity.	Value.	Quantity	Value.	Quantity.	Value.	Quantity.	Value.	Quantity.	Value.
Foreign imports.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.
Tobacco—Unmanufactured ..	77,507	1,45,703	489,698	13,17,036	742,412	14,07,436	3,105,459	34,57,277	3,485,871	29,29,162
Cigars	12,815	43,430	701	2,922	81	238	94	156	216	473
Cigarettes	500,267	16,39,198	186,750	9,40,779	278,384	12,34,116	296,516	13,54,712	1,86,952	8,34,717
Tobacco for pipes and cigarettes	304	1,296	5,293	54,393	22,524	1,19,720	18,155	97,606	½	3
Other sorts	28,058	1,46,309	9,590	39,508	852	3,891	12,402	40,892	20,564	1,06,279
Total ..	618,951	19,75,936	692,027	23,54,638	1,044,253	27,65,401	3,432,626	49,50,643	3,693,602	38,70,634
Foreign exports.										
Tobacco—Unmanufactured ..	3,118,784	13,57,807	4,650,985	16,84,266	4,258,743	17,68,621	9,953,877	37,65,684	14,366,170	42,49,345
Cigars	75,540	1,04,792	94,905	1,17,671	99,244	1,32,490	1,11,541	1,20,174	88,199	1,25,560
Cigarettes	..	..	129	615	31,230	30,049	1,574	1,492	72,086	81,746
Other sorts	34,166	27,373	48,237	46,322	45,300	44,918	110,903	1,03,645	99,555	49,769
Total ..	3,228,490	14,89,972	4,794,256	18,48,874	4,434,517	19,76,078	10,177,895	39,90,995	14,626,010	45,06,420

V

Statement showing the area under cultivation of tobacco in the Madras Presidency in 1923–24.

	ACS.		ACS.
Ganjam	3,299	Salem	3,737
Vizagapatam	48,285	Coimbatore	25,544
Godavari	11,591	Trichinopoly	4,032
Kistna	13,301	Tanjore	2,223
Guntur	64,481	Madura	7,400
Kurnool	11,542	Ramnad	3,889
Bellary	2,658	Tinnevelly	1,048
Anantapur	4,785	Malabar	17
Cuddapah	1,868	South Kanara	1,623
Nellore	2,625	The Nilgiris	72
Chingleput	62		
South Arcot	2,985	Total ...	219,841
Chittoor	595		
North Arcot	2,179		

30

1889

Govt. of {1889} Madras.

REVENUE.

CONFIDENTIAL

Issued

Recd. *Encl.*

G.O., 8th May 1889, No. 368.

MAY.

Fishery Rents.

Considering that — are not liable to land-cess.

CONFIDENTIAL.

GOVERNMENT OF MADRAS.

REVENUE DEPARTMENT.

READ—again G.O., dated 28th February 1889, No. 134, Revenue.

ABSTRACT.—Passing orders on Board's Proceedings regarding the assessment of the Kálahasti zamindari for land-cess.

READ—also the following Proceedings of the Board of Revenue (Land Revenue), dated 11th March 1889, Mis. No. 1469 :—

W. S. WHITESIDE, ESQ.
THE HON. J. GROSE, M.A.

Read—G.O., dated 28th February 1889, No. 134, Revenue.

Resolution—dated 11th March 1889, Mis. No. 1469.

With reference to para. 3 of the above order, the Board request that they may be informed whether, in the opinion of Government, fishery rents and chunam shell rents outside zamindaris are also liable to pay land-cess. As far as the Board are aware, such rents have not hitherto been held anywhere liable to the cess. The fishery rents are credited to Local Funds, and, under the Government Order, in addition to the rent the contractor will, in future, have to pay the road-cess. As, therefore, general orders will have to issue to all Collectors upon the subject, the Board would ask for an expression of the wishes of Government on the matter. They venture respectfully to urge that the land which forms the beds of tanks, the fishery of which is rented, cannot be considered "occupied land" in the sense in which the term is used in section 57, Act V of 1884.

(True Extract.)

(Signed) M. HAMMICK,
Secretary.

To the Secretary to Government, Revenue Department.

ORDER—dated 8th May 1889, No. 368, Revenue.

Land Revenue No. 43.

The Government, on reconsideration, is of opinion that fishery rents are not liable to land-cess. It also considers that the view of the Board, in para. 4 of its Proceedings, dated 24th September 1888, No. 820, is not correct. Where a whole jungle, or a whole quarry, or a whole chunam shell pit is leased out, the rental thus derived becomes liable to the cess, but the liability does not occur in respect of casual receipts, such as payments for permits for forest produce or for quarrying stones.

(True Extract.)

(Signed) C. A. GALTON,
Secretary.

To the Commissioners of Land Revenue.

40 Copies.

Exd. E. Fernandez.

CONFIDENTIAL.

TAXATION ON TOBACCO.

I

Notes to G.O. Mis. No. 1993, *dated* 21*st May* 1894.

The question is whether we should take the success of Travancore in levying a revenue from tobacco as a reason for calling the attention of the Government of India to the possibility of levying a revenue for tobacco in our territories. I doubt if we have sufficient ground for doing so and whether such a suggestion would be well received. Travancore is exceptionally situated, so that it has been possible to abolish all growth of tobacco there and levy a revenue by import duties, and the Government of India know all about this. Such a system would be impossible in our territory where tobacco is grown almost everywhere and consumed by almost everybody, and where larger Native States abound. The possibility of levying a revenue on tobacco in our territory, in this or any other way, has been repeatedly discussed and decided against after full communication between all the Governments, so that any suggestion for us on the subject would amount to an insinuation that the discussion had not been complete. The only way in which, as far as I can see, a large revenue could be realized for tobacco would be by establishing monopoly of manufacture and sale. Though this was hardly possible in former days, I believe it would be possible in these days of improved communications and police, but the initial expenditure on warehouses, etc., would be too heavy for a time of financial pressure and the larger preventive establishments which would be necessary and extend through almost every village would result in oppression which would be so widespread and so frequently exercised that it would be eminently dangerous.

G. GARSTIN—7-3-93.

No doubt a tobacco monopoly *could* be worked but it would be a gigantic undertaking, and so very costly (especially in Bengal, where Government has no rural agency at all) that it would not, in my opinion, bring in a net return worth the imitation, the measure would certainly cause. The simplest way of raising a tax on tobacco would be by a special tax on the land on which it was grown, but that would not apply to Native States and cannot be worked in Bengal. A special establishment which would eat up the most part of the profits, while in all settled non-zamindari districts the terms of the settlements would prevent the imposition of such a tax. Independently of this, the taxation of land according to the crop grown would be a

This note is submitted with reference to the enquiry whether the attention of the Government of India has been called in the Revenue Department to tobacco as a possible source of revenue.

2. The occasion for this enquiry will appear from the notes of His Excellency the Governor and the Hon'ble Sir Henry Stokes to which reference is made in that office-note. It arose in this wise—

In submitting the budget estimate of the Travancore State for the Malabar year 1069 (August 1893–94) Mr. Grigg, the Resident, after observing that the most important increases occurred under certain heads of revenue of which tobacco was one, remarked regarding the increase under this head as follows :—

"That under tobacco is very remarkable. I have never heard a rumour of complaint regarding this tax, and yet it comes to approximately As. 6–6 per head of the population and gives a revenue nearly double that of abkari and opium and is now 55 per cent of that of salt—a necessary of life. Offences against the law relating to its importation are, I believe, not numerous. The lucrativeness of this monopoly may well attract the attention of Indian financiers (paragraph 3 of his letter, dated 3rd August 1893, in Government Order, dated 20th October 1893, No. 712, Political).

On this His Excellency noted—

"We should call the attention of the Government of India to the statistics of the tobacco tax and to the Resident's remarks thereon."

On this note Sir Henry Stokes remarked as follows :—

"The attention of the Government of India has been often enough directed to tobacco as a possible source of revenue. The peculiar position of Travancore makes its experience of little or no value in the consideration of the question.

retrograde measure, injurious to the cultivator and certainly beneficial to no one but the karnam.

A licence fee might be imposed and would yield something. It would be a return to the moturfa abolished years ago, and would come very hard on the very poor classes who sell tobacco. I should be sorry to see it tried. Similar objections can be found to every other plan of levying a tobacco tax in this country. I don't think that the Government of India would care to take the question up. It was examined, on another and later occasion, I think, than any of those mentioned in the note, by Mr. Bazeet Colvin when additional Member of the Viceroy's Council, who wrote a long note on this and other projects of taxation, a copy of which I have somewhere—given me by Sir Auckland Colvin, when Finance Minister, who told me at the time that the idea had been finally abandoned—or to that effect. This was in 1886 when the times were almost as hard as they are now.

H. E. STOKES—7-3-94.

This note is very clear, and gives me a complete answer. It is very evident that we should *not* call the attention of India to Mr. Grigg's remarks on the revenue derived in Travancore from taxing tobacco.

I found myself like many others lured into the belief that a large revenue might be derived from taxing this article, and the same results achieved here as in almost every civilized country in the world. But on inquiry I find that not only has it been thoroughly looked into, but the experiment has been tried and has failed, and there is no doubt the peculiar circumstances of the country have rendered the success of the experiment almost impossible. And as Sir J. Strachey very forcibly puts in the incidence of a tax on tobacco would fall with far greater severity on those who now pay the bulk of the salt tax, and we would thereby be putting a crushing weight on those least able to bear the burden. I confess myself converted and withdraw from any further attempt to bring this question within the domains of practical politics—although I can imagine a municipality looking upon it as a fair object for local taxation but even then extremely difficult to work, as poor Madras can testify.

I suppose though that imported tobacco will pay its 5 per cent like other articles (except cotton goods !).

WENLOCK—11-3-20.

Tobacco is not produced in the State : the revenue is derived from import duties, and the configuration of the country lends itself to the easy levy of these duties on the greater portion of the tobacco consumed, which comes from Ceylon. In this Presidency and probably in the rest of India, import duties would not produce any revenue worth having and would be prejudicial to the Cheroot industry (Tobacco imported consists mainly of cheroot covers from Java and Sumatra) : but I have no doubt that a considerable revenue might be got from licensees on the vend by others than the growers."

His Excellency wrote thereupon—

"Has this Government ever called their (India's) attention to it ? Anyhow I do not think we could do any harm in pointing out what a large sum a little place like Travancore manages to get from the consumers of tobacco. It does not seem to me material how it is raised, whether by import duties or licences. The very significant fact remains that the consumers of tobacco in Travancore contribute yearly Rs. 10 lakhs to the State."

3. His Excellency's query whether this Government has ever called the attention of the Government of India to tobacco as a possible source of revenue has been referred to this department for information, in the office-note from the Chief Secretary.

4. It will be seen from the references put up—

(1) That this question has frequently been considered by the Government of India and has also formed the subject of correspondence between that Government and this and other Local Governments ;

(2) That the conclusion come to by the Government of India is that the idea of raising a large imperial revenue from tobacco must be abandoned ;

(3) That our Government has also expressed the opinion that no large provincial revenue can be obtained from tobacco ; and

(4) That the Government of India is not unaware of the fact that Travancore manages to derive a large revenue from this source.

5. A summary of the correspondence on the subject is subjoined as also a short account of the tobacco monopoly in the districts of Coimbatore, Malabar and Canara which was abolished in the year 1853.

6. The Blue-Book entitled "Papers regarding the Tobacco Monopoly in the Presidency of Fort St. George etc.", gives the main correspondence up to 1868. It will be seen from pages 25–74 of the book, that for 50 years from 1803 to 1853, tobacco was the subject of a Government monopoly in the districts of Canara, Malabar and Coimbatore (vide Regulations 7 and 8 of 1811 and Regulation 5 of 1831 at pages 1, 4 and 8 of the Blue-Book), that the gross annual revenue derived during the 10 years—1833–1843 was about Rs. 8 lakhs and the net revenue about Rs. 5¾ lakhs ; that the evils arising from this monopoly were so great that the attention of Government was frequently invited thereto by the officers concerned ; that in 1845, the Government after recording a succinct review of the correspondence on the subject (vide No. 2 at page 26) called for a report from the Board of Revenue "on the practicability of a modification of the monopoly which, whilst we shall secure a considerable revenue, shall yet divest the tax of some of its most injurious attributes, its heavy charge of collection and the inducement it held out to smuggling"). The Government added that if a beneficial modification was impracticable, the possibility of finding an available substitute should be investigated.

It cost 2¼ lakhs to collect 8 lakhs !

J.G.

In reply the Board furnished an exhaustive report on the subject and said—

"It is with much reluctance that they are induced to advise the surrender without an equivalent of so considerable a source of revenue as the (tobacco) monopoly and they must be understood as doing so only, because, after much anxious reflection on the subject, they have been led to the conclusion that between such surrender and the retention of the present system with all its evils, there is no practicable middle course.

After a careful consideration of the subject the Government declared—

"The crying evils of the tobacco monopoly continue daily to become more notorious and demand an immediate remedy. The Right Hon'ble the Governor in Council entertains the most decided conviction that, as the Board of Revenue has represented, there is no effectual remedy short of total abolition and the expunging of so objectionable a branch of revenue from the system of Indian Finance."

In accordance with this view application was made to the Court of Directors for sanction to abolish the tobacco monopoly and on such sanction being obtained, Act IV of 1853 was passed abolishing the monopoly—

Some of the evils of this system arose from its being confined to a limited area but the worst-springing from the fact that tobacco is produced almost everywhere and freely consumed by all classes so that any raising of the price gives rise to the worst sort of smuggling and is fatal to the peace of the country—will affect any system.

J.G.

7. The subject of a tobacco-tax was considered by the Government of India during the years 1859–68. A summary of the correspondence which then took place on the subject and of the views held thereon will be found in Sir John Strachy's minute dated 21st October 1865 printed as No. 97 at page 152 of the Blue-Book and in the Government of India's letter to the Secretary of State printed as No. 98 at page 155.

All methods of taxing tobacco were considered then.

J.G.

It will be seen therefrom that, when after the events of the year 1857, the state of the finances rendered it necessary to resort to new sources of revenue, a tax on tobacco was among other things very much discussed.

Four methods of deriving a revenue from this source had been suggested :—

(1) The suppression of the cultivation of the plant throughout India and the imposition of an import duty.

(2) The establishment of a monopoly of the cultivation and manufacture of tobacco similar to that now applied to opium.

(3) The imposition of a licence duty on the cultivation of the plant.

(4) The imposition of licence fees on all wholesale and retail dealers in the manufactured article.

Of these, the first and second methods were soon dismissed as impracticable.

The third plan was at first favoured by the Government of India but most Local Governments disapproved it. The main objections urged were: that to impose a special tax on the cultivation of tobacco would be a violation of the principles on which land assessments were usually made; that it would also be economically a mistake; that the suppression of its cultivation except under a licence would be difficult to enforce; that as the enforcement cannot be extended to Native States (even if it could be extended to zamindari and inam estates) the measure would have the effect of contracting the area of its cultivation in British territory and greatly stimulating its growth in Native States and it would be extremely difficult to prevent the smuggling of free tobacco from such States. The views of this Government are contained in Mr. Bourdillon's letter to the Government of India, dated 11th June 1859, printed as No. 90 at pages 120–128. In the first enclosure to this letter the inexpediency of taxing tobacco in any form is fully set forth by the Board of Revenue.

The Government of India thereupon turned to the fourth plan of licensing the *sale* of tobacco and accordingly inserted a provision to this effect in the Licensing Bill then under its consideration. (The Bill, which was finally passed as India Act 18 of 1861 and repealed by India Act 2 of 1862). But the reports received from Local Governments on the point were not encouraging. They all went to show that no system of licensing would bring in any large revenue.

The Government of India resolved therefore to abandon altogether the idea of raising a revenue from tobacco by Imperial Legislation and the clause in the Licensing Bill which related to tobacco was accordingly expunged.

8. But while arriving at this opinion as to the unsuitability of tobacco for Imperial taxation the Government of India also thought, judging from the reports received from Local Governments, that a considerable revenue might be derived by Local Governments if they were left each to carry out the system best suited to the circumstances of its province. Accordingly, and as it was thought that Imperial revenues might be relieved to a considerable extent by establishing a system of local taxation for local purposes, the Government of India addressed Local Governments on the subject of such taxation and named tobacco as one of the sources from which a revenue might be derived.

The reply of this Government to the above letter is printed at pages 157—162 of the Blue-Book. This Government merely reiterated the opinion it had expressed in its letter of 11th June 1859 (No. 90 at page 120) that there were insurmountable objections to the realization of a revenue from tobacco unless in the shape of a tax on the shops where tobacco was sold, i.e., a licence tax; and that the produce of such a tax would not be considerable.

9. The Government of India appears to have considered this question of a tobacco tax on subsequent occasions also and to have arrived at substantially the same opinion as before, as will appear from the letter to the Secretary of State printed as No. 98 at page 155.

10. In 1870 when the question of raising the rate of income-tax was under the consideration of the Government of India, a proposal was made by one of the members (Mr. Cowie) to tax tobacco. Sir John Strachy and Sir Richard Temple both spoke against the measure and His Excellency Lord Mayo said:—

"Now it is quite true that in many civilized countries tobacco is considered to be a very proper object for taxation but I must remind the Council that tobacco in India is really an absolute necessary of life and that if you put a tax upon the production of tobacco, you tax the two great necessaries of life in this country, viz., salt and tobacco, and I am not prepared even in the present state of our finances to advocate the imposition of a burden upon such a prime necessary of life as that is.

11. The question appears to have been discussed also during Lord Lytton's Viceroyalty and the same conclusion arrived at, namely, that no large revenue could be raised by taxing tobacco (vide pages 368-70 of Strachy's book on "The Finances and

Public Works of India" and page 554 of the volume of Legislative Council's Proceedings for 1877). The following extract from Strachey's book may be noted:

"Tobacco is almost universally consumed and is looked upon as almost a necessary of life. Whatever means were adopted the tax would only be largely productive if it fell ultimately on the classes which form the great mass of the community. It would be paid by the same classes which now pay the salt tax, and if it should become necessary to increase the burden which they already bear this object would be more easily and economically gained and with far less vexation to the people by increasing the existing tax upon salt than by imposing a new tax upon tobacco. That any increase in the rate of the salt-tax would be one of the greatest possible mistakes, unless in most exceptional circumstances and on the other hand that its present reduction * would be financially a most desirable measure, has been shown in another chapter (page 370).

* The duty was reduced from Rs. 2-8-0 to Rs. 2 in 1882. It was raised as follows in this Presidency:—

	Duty. Rs.	A.	P.
August 1859	1	0	0
April 1861	1	4	0
1861–62 to 1865–66	1	5	0
1866–67 to 1868–69	1	8	0
1869–70 to 1877–78	1	12	0
1878–79 to 1881–82	2	8	0
1882–83 to 1886–87	2	0	0
1886–87	2	8	0

12. That the Government of India knows that Travancore derives a large revenue from tobacco, may be inferred from the correspondence which took place in 1860–65 relative to the Interportal Trade convention with Travancore and Cochin and more especially from the correspondence embodied in Government Order dated 14th May 1868, No. 1338.

It will be seen from the latter correspondence that at the desire of the Viceroy (Sir John Lawrence) whose attention seems to have been drawn to certain remarks which appeared in the Travancore Administration Report for 1865–66, regarding the tobacco tax in that State the Hon'ble Mr. G. N. Taylor addressed the then Resident in Travancore and Cochin (Mr. Newill) for full particulars regarding the mode in which the tax was levied in that State and that complete information on the subject was furnished by the Resident and the then Diwan T. Madhava Rao.

This correspondence came before this Government, mainly on account of a minute recorded by the Hon'ble Mr. G. N. Taylor, in which he suggested that this Government might consider the expediency of imposing a moderate import duty or an excise wherever practicable—vide his minute printed in the Government Order.

The Diwan's Memorandum shows that during the flourishing period of the monopoly system (it was abolished in 1862–63, that is, ten years after the abolition of the Government monopoly in Malabar and Canara) the gross revenue from tobacco amounted to more than half the revenue from all other sources or more than one-third of the total revenue of the State while the revenue now amounts to about one-eighth of the total revenue.

13. From the administration report of the Travancore State for the year 1891–92, it appears that 12,295 † candies of tobacco valued at Rs. 26,77,723 were imported during that year and that a duty of Rs. 9,43,030 was collected thereon.

† Equal to 6,147,500 lb. or 8,065,520 lb. according as a 'candy' is 500 lb. or 656 lb. (which latter is the equivalent given in Madhava Rao's Memorandum—vide paragraph 10.

14. The following statement gives the statistics of the imports of tobacco into this Presidency by sea for the last three years:—

Tobacco—Imports—Sea-Borne ‡ Trade.

Years.	Foreign trade.		Coasting trade.		Total.	
——	Quantity in lb.	Value.	Quantity in lb.	Value.	Quantity in lb.	Value.
		Rs.		Rs.		Rs.
1890–91	446,477	2,06,021	218,915	33,563	665,392	2,39,584
1891–92	542,705	2,91,725	110,937	17,121	653,642	3,08,846
1892–93	915,719	3,37,980	135,775	27,107	1,051,494	3,65,087

‡ The rail-borne imports amount only to about 2,000 lb.

At the Travancore rate of duty the imports into this Presidency, will bring in a gross revenue of a little over one lakh of rupees.

R.V.S.—1-3-94.

The foregoing account gives a clear and concise summary of all that has been written on this subject and shows that the feasibility of raising a revenue from tobacco has been most exhaustively debated and that the question has been considered in all its bearings. The situation is appropriately summed up by Sir John Strachey in paragraph 8 of his minute of the 21st October 1865 (page 154 of the Blue Book)—

"Tobacco has seemed at first sight a very promising subject of taxation to almost everyone who has thought upon the subject, but almost everyone had given up the scheme upon full consideration of the difficulties which surround it."

J.G.—3-3-94.

II

Mr. N. S. Brodie's Note dated 26th December 1915 (Secret D.O. No. A A-1, dated 11th January 1916).

Prior to 1910–11, *ad valorem* rates used to be charged on imported manufactured tobacco of all sorts at the rate of 5 per cent but this system was then abandoned and special quantitative rates introduced, presumably because of the difficulty of levying *ad valorem* rates. The rates introduced were about 33 per cent higher than those now in force which are—

	Rs.	A.	P.	
Unmanufactured tobacco	1	0	0	per lb.
Cigars	1	10	0	"
Cigarettes weighing less than 3 lb. per thousand.	3	2	0	per thousand.
Cigarettes weighing 3 lb. or more per thousand.	1	4	0	per lb.
Manufactured, other sorts	1	2	0	"

These rates are said to be approximately 36 per cent *ad valorem* on cigars and 33 per cent *ad valorem* on cigarettes though how this is arrived at I don't know, considering how much imported cigars and cigarettes vary in weight and value. The Government of India's first proposal is to raise these rates 'in approximately the same proportion, i.e., to a uniform 50 per cent *ad valorem*.' I presume this means that the duty on cigars is to be raised by about one-third and that on cigarettes by about half. Nothing is said about 'other sorts' which I suppose means principally pipe tobacco. Judging from Spencer's and Oakes' price lists the present rate seems to be from 28 to 41 per cent on the cheapest pipe tobacco and presumably this is also to be raised by about one-third. The rates will then read—

	Rs.	A.	P.	
Cigars	2	3	0	per lb.
Cigarettes	4	11	0	per thousand and
	1	14	0	per lb.
Other sorts	1	8	0	per lb.

I presume the Government of India does not intend to go back to *ad valorem* rates.

2. The rates introduced in 1910–11 had the immediate effect of 'extensively curtailing the imports of foreign tobacco and they scarcely realized the revenue it was hoped they would bring in.' The total imports declined by 83 per cent in quantity and 52 per cent in value. Imports of leaf tobacco, *formerly duty free*, fell from 447,115 lb. to 63,267 lb. or by 86 per cent in quantity. Imports from Ceylon and the Straits Settlements practically ceased. [There used to be quite a large trade from the Jaffna and the northern Ceylon ports which supplied a great part of the tobacco used on the west coast of this Presidency.] Imports of cigarettes decreased 77 per cent in quantity and 48 per cent in value. The cheap American varieties were practically shut out, falling 94 per cent in value and the result was the foundation and development of the Indian cigarette industry which has probably taken their place. Exports of cigars to the United Kingdom fell by 72 per cent owing to the imposition of duty on wrapper tobacco. To avoid this, Messrs. Spencer & Co. removed their factory to Pondicherry.

Effects of taxation introduced in 1910–11. Sea-Borne Trade Review of 1910–11, page 9.

3. In 1911–12, owing to the outcry from Ceylon and the leading local manufacturers of better class cigars, the rates were reduced by about 33 per cent to the present figures. Even this, however, failed to revive the import trade from Ceylon and the Straits Settlements which was completely and finally killed. Imports of leaf tobacco rose by 19,160 lb. but this was only a mere fraction of the fall of 383,848 lb. in 1910–11. The increase was confined to the higher grades required in the manufacture of cigars of good quality. Imports of cigarettes showed a further decline in quantity but an increase in value, the trade in cheap American cigarettes being completely extinguished. Exports of cigars to the United Kingdom declined another

Sea-Borne Trade Review of 1911–12.

7 per cent in value but exports to the Straits Settlements increased by 23 per cent and the whole export of cigars increased by 13 per cent in quantity and 9 per cent in value. The cigars exported to the Straits Ssttlements and Federated Malay States appear to be made of purely Indian tobacco which pays no duty.

4. In 1912–13, there was a further decrease in imports of cigarettes by 15 per cent and a large factory was opened at Bangalore by the Peninsular Tobacco Company. Manufacture of cigars for export to the United Kingdom was permitted in bond and Messrs. Spencer & Co. returned from Pondicherry. The exports of these cigars rose by 46 per cent but of course the revenue did not profit by this.

Sea-Borne Trade Review of 1912–13.

There was a general increase both in imports and exports of tobacco in 1913–14 and some recovery in imports of cigarettes to a little above the figures of 1910–11. The export of high grade cigars to the United Kingdom rose to ·88 lakh against ·57 lakh in 1910–11.

Sea-Borne Trade Review of 1913–14.

However, the effect of the war was to send most of the principal figures lower than ever. Imports of raw tobacco fell to 70,573 lb. in 1914–15 and exports of high grade cigars to the United Kingdom fell to 33,434 lb. and to ·45 lakh in value (nearly 50 per cent), the lowest figure on record.

Effects of the war—Sea-Borne Trade Review, 1914–15.

5. The figures since the introduction of the new tariff are tabulated below :—

Annual value of the sea-borne trade and navigation of the Madras Presidency for 1914–15.

Foreign trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.						
1. Unmanufactured (total for Presidency).	LB. 447,115	LB. 63,267	LB. 82,427	LB. 90,458	LB. 110,458	LB. 70,573
2. Manufactured—						
(*a*) Cigars	11,099	1,049	937	830	1,107	3,368
(*b*) Cigarettes	319,275	72,139	65,410	55,217	78,616	78,429
(*c*) Other sorts	94,940	12,473	26,397	23,370	24,723	28,090
Exports.						
1. Unmanufactured (unaffected by tariff).	1,444,632	1,670,842	1,619,966	1,806,998	2,234,511	2,362,766
Of the above exported to Straits Settlements and Federated Malay States.	1,374,612	1,621,543	1,568,878	1,773,160	2,115,056	2,304,144
2. Manufactured—						
(*a*) Cigars	697,507	704,791	797,383	989,811	988,668	887,165
Of the above quantity exported to United Kingdom.	80,360	42,565	36,184	51,156	56,976	33,434
Straits Settlements and Federated Malay States (unaffected by tariff).	415,357	547,613	661,294	827,278	811,219	800,488
(*b*) Other sorts	4,196	4,515	9,010	8,513	9,363	8,885

Coasting trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.						
1. Unmanufactured	LB. 610,603	LB. 683,787	LB. 664,054	LB. 578,058	LB. 604,165	LB. 596,038
2. Manufactured	142,514	84,439	59,021	94,319	57,595	71,301
Of the above imported from Calcutta.	118,687	73,703	52,511	85,214	46,637	53,301
Exports.						
1. Unmanufactured	7,721,625	7,535,386	6,870,154	6,536,820	6,928,569	5,168,826
Of the above exported to Burma ..	6,926,830	6,474,041	6,149,974	6,133,770	6,521,676	4,579,130
2. Manufactured—						
(*a*) Cigars	347,507	314,933	410,526	419,710	349,618	275,018
Of the above exported to Burma ..	194,493	204,649	292,004	320,781	251,706	177,844
Of the above exported to Bengal ..	101,866	73,206	76,815	61,785	63,117	65,373
(*b*) Cigarettes	..	..	2,877	4,200	26,471	61,599
(*c*) Other sorts	35,726	43,920	37,620	39,906	33,407	77,190

6. The net result of the introduction of the heavier tobacco duties in 1910–11 has, therefore, been to kill the import trade in raw tobacco from Ceylon and the Straits Settlements and in cigarettes from America and to lay the foundations of a cigarette manufacturing industry in India from Indian leaf. The trade in high grade cigars exported to the United Kingdom has suffered very heavily, despite permission to manufacture export in bond. The fall between 1909–10 and 1913–14 (when this industry reached its highest point after the imposition of duties and before the outbreak of war) was about 29 per cent. This shows what an effect even a slight rise in the cost of such a thing as tobacco has on consumption as it was undoubtedly the increased cost (and that only of the wrapper) in 1910–11 that gave the trade this set back. The wrapper is only a minute fraction of the weight of the cigar and if the duty on whole cigars is only equal to an *ad valorem* rate of 36 per cent the duty on a cigar whose wrapper alone pays duty must be nearer 1 or 2 per cent. Since the concession of manufacture in bond has been granted these cigars pay no duty and it is presumed that this concession will be continued so that any enhancement of rates will not affect them.

7. *Rail-borne trade*, 1914–15.—

Imports from other Presidencies and Native States.

	LB.
1. Unmanufactured	2,051,959
Of which imported from Mysore	1,344,550
2. Manufactured—	
(*a*) Cigars	13,330
(*b*) Other sorts—probably cigarettes	1,497,517
Of which imported from Mysore	1,294,272

Exports to other Presidencies and Native States.

1. Unmanufactured	24,729,076
Of which exported to—	
Mysore	8,181,339
Calcutta	5,282,496
Nzam's Territory	4,242,157
2. Manufactured—	
(*a*) Cigars	503,013
(*b*) Other sorts	392,750

Internal trade between various parts of the Presidency.

1. Unmanufactured	53,774,208
2. Manufactured—	
(*a*) Cigars	1,061,815
(*b*) Other sorts—probably cigarettes, bidies and snuff ...	1,074,651

8. From these figures it appears that by far the greatest part of the Delta tobacco is exported in the manufactured condition and made up locally. The trade in manufactured tobacco is comparatively small, which agrees with my information that there are no manufactories of any size. A fairly large quantity of manufactured cigars is exported by rail from the Central districts (i.e., Trichinopoly, Salem and Coimbatore) to Negapatam but this no doubt is included also in the exports by sea to the Straits Settlements.

Cigars.

9. In the Secretariat note of 1911 the total outturn of cigars was estimated by Mr. Innes at about 2,500,000 lb; i.e.:—

	1909–10. LB.
Foreign exports	697,507
Coasting trade exports	347,507
Rail-borne exports	451,164
Do. internal trade	971,208
Total ...	2,467,386

The corresponding figures for 1914–15 are—

	LB.
Foreign exports	887,165
Coasting trade exports	275,018
Rail-borne exports	503,013
Do. internal trade	1,061,815
Total ...	2,727,001

Allowing for the disturbance of trade caused by the war, the export trade and rail-borne traffic in cigars may, therefore, be taken at about 2,750,000 lb. but this is probably an excess estimate of the quantity actually manufactured since the rail-borne traffic probably includes the greater part of the foreign exports and possibly a good deal of the coasting trade exports also.

Cigarettes.

10. The Indian cigarette industry has practically grown up since the Secretariat notes of 1911 were written. Foreign imports of the better class cigarettes have remained nearly stationary since 1911–11 at about 70,000 lb. Comparing the figures of 1909–10 with those of 1910–12 when the full effect of the tariff duties had had time to operate, 253,865 lb. of cheap American cigarettes appear to have been displaced. These have no doubt been replaced by Indian cigarettes and there has probably been a large increase in consumption in addition.

The export trade in cigarettes in 1914–15 appears to have been somewhat as follows:—

	LB.
Foreign exports	8,885*
Coasting trade exports	61,599
Rail-borne exports	392,750*
Do. internal trade	1,074,651*
Total ...	1,537,885

In the absence of figures for bidies, snuff, etc., it is not easy, however, to say how much of these 15 lakhs of pounds represent cigarettes and still less how much represents cigarettes manufactured in the Presidency. My inquiries in Vizagapatam show that none of the cigarettes there consumed (and the consumption is very large) are manufactured in this Presidency. The great bulk come from Calcutta and a good many from the Peninsular Tobacco Company, Bangalore. Similarly in Madras, the bulk of the cigarettes come from Bangalore or Bowringpet, both in Mysore territory and not subject to British excise. It will be seen from paragraph 7 above that 1,294,272 lb. of 'other sorts' including (no doubt mostly) cigarettes are imported from Mysore. Probably the greater number of these are shown in 'rail-borne internal trade' and exports of the Presidency over again. I should put the actual number manufactured in the Presidency at not more than 250,000 lb.

11. The following are principal Indian Cigaratte factories shown in the Lawrence Asylum Press Almanack, page 1438:—

(1) A.G.M. & Sons, Coimbatore.

(2) K.G.A., Coimbatore.

(3) McDowell & Co., Madras.

I have never seen any cigarettes from the first two factories and they seem to be very small and merely supply the local market. McDowell & Co. employ about 25 persons and some small hand machines. Pappadapoulos Brothers make Egyptian cigarettes but import Egyptian tobacco which already pays duty. Besides these there are the two large factories in Mysore—

4. The Peninsular Tobacco Company, Cleveland town, Bangalore, and

5. The Oriental Tobacco Manufacturing Company, Bowringpet.

*Includes, however, pipe tobacco, bidies, snuff, etc.

Both these are run on American lines and employ a large number of workmen and power-driven machinery, but as already remarked they are not subject to British excise.

Outturn of tobacco.

12. According to the 'Season and crop report' for 1914–15 the total area cultivated with tobacco in the Presidency was 227,182 acres, the 'normal' area being 203,230 acres. I learn from Chadwick that 800 lb. of dried leaf per acre is a fair average crop as taken by Castlestuart Stuart in 1910. The total outturn was therefore about 182,000,000 lb. of which we have only accounted for about 3½ millions at most in the manufactured form. This outturn was spread over 24 districts, the area being over 10,000 acres in seven, Vizagapatam (29,115), Godavari (13,099), Guntur (78,560), Kistna (13,022), Kurnool (18,769), Coimbatore (26,001) and Madura (11,172). These figures show little change since 1908–09.

About 90,000,000 are exported in unmanufactured form.

Tobacco industry.

13. The census report for 1911 groups manufacturers of tobacco, opium and ganja together under Order 12, Group 66. The number of manufacturers of opium and ganja must be almost negligible and the total number of workers and dependents is shown to be 12,333. Under Order 33, Group 122, sellers of tobacco, opium, ganja, etc., are said to be 65,733 (workers 25,883, dependents 39,850). The total number of persons dependent on the tobacco trade is therefore about 78,066 against 75,000 in 1901. It is not possible to compare the figures of the other industries referred to in Mr. Castlestuart Stuart's demi-official of 5th November 1910 as the classification has been altered. Betel leaf and arecanut sellers are now grouped with vegetable and fruit sellers. It may be noted however that the number of persons engaged in the manufacture of tobacco is about as many as bakers and biscuit makers (12,970) whilst the number of sellers of tobacco is not much less than the number of sellers of milk, ghee, butter, poultry, eggs, etc. (80,981).

Present proposals criticised.

14. These figures show that there has been comparatively little change in the general position since 1910–11 and the arguments against any form of taxation of Indian grown tobacco remain as strong as they were then. The present proposals of the Government of India may now be examined in detail. The first is, as far as I understand it, to raise the quantitative rates of duty on imported cigars and cigarettes

(*a*) First proposal.

(and perhaps also on other manufactured tobacco) to the figures shown in paragraph 1 above. The quantity of imported cigars is now very small and was only 3,368 lb. in 1914–15. Assuming that the enhanced duty has no effect on consumption, the increase of revenue from this source will be only Rs. 1,824*. But judging from the effect of the enhancement of duty in 1910–11 it will probably be much less. The duty on imported cigarettes (78,429 lb. in 1914–15) was about Rs. 80,000 and the enhancement of the duty by one-half may give Rs. 40,000, though here also a heavy fall in consumption may be confidently looked for. The increase of duty on 'other sorts', i.e., probably pipe tobacco, snuff, etc. (which may be contemplated) by one-third would yield perhaps Rs. 10,742. Altogether, the maximum increase of revenue that may be looked for from this proposal cannot, therefore, be more than Rs. 60,000 and the burden will fall heavily on the poorly paid European and Eurasian assistants in shops, business firms, Railway Companies, etc., who are by far the largest consumers of imported cigarettes. However this increased revenue can no doubt be obtained without administrative difficulty or expense.

*Present duty Rs. 5,473 one-third enhancement Rs. 1,824.

(*b*) Second proposal.

15. The second proposal is to levy an excise duty on cigarettes of Indian manufacture. The large factory referred to by the Government of India is probably that in Bengal, I think at Monghyr. It is proposed to differentiate bidies from cigarettes by the use of cigarette paper. This may be accepted. It is proposed that

the taxation should take the form of a quantitative duty equivalent to an *ad valorem* duty of about 15 per cent. A further point is whether the taxation should be restricted to factories equipped with power-driven machinery. If this qualification is accepted the question is a simple one for there are no such cigarette factories in this Presidency. Assuming, however, that all cigarette factories are to be taxed my inquiries show that cigarettes of Indian manufacture vary considerably in price. The cheapest are sold retail at prices varying from Rs. 1–4–6 per 500 or Rs. 2–6–0 per 1,000 to Rs. 2–12–0 per 500 or Rs. 5–2–0 per 1,000. These cigarettes both weigh almost exactly $2\frac{1}{2}$ lb. per 1,000, the cheaper ones a little more. The manufacturer's price to the trade is no doubt considerably less as these cigarettes have to be imported to Vizagapatam and there is the retailer's profit to be considered. The excise duty will of course have to be fixed with regard to the wholesale price at the factory. I should say Rs. 1–12–0 per 1,000 is probably an outside price for the cheapest cigarettes. This means $28/2\frac{1}{2}=11\frac{1}{5}$, say 11 annas a lb. or as they weigh rather more than $2\frac{1}{2}$ lb. per 1,000, say 10 annas a lb. 15 per cent on 10 annas is one and a half annas per lb. I have estimated the total production of cigarettes in this Presidency at not more than 250,000 lb. and the duty on this would be Rs. 23,437. It is impossible to say without a full inquiry what the number of cigarette factories is but they are certainly very small and probably average not more than 10,000 lb. of cigarettes each per annum. Putting the number at 25 scattered all over the Presidency, not less than 25 Sub-Inspectors on Rs. 40 per mensem would be required to supervise them. The cost of these would be Rs. 12,000 not allowing for contingent expenses such as weighing machines, etc. The net proceeds of the tax would therefore be somewhere about Rs. 10,000, even supposing that the duty had no effect on consumption which is extremely improbable. Moreover as Indian cigarettes vary considerably in price though not so much as cheroots, the duty would press most unfairly on the cheapest brands and on the poorest class of the population which consumes them.

Watch cigarettes—Peninsular Tobacco Company, Bangalore, Rs. 1-4-6.
Ruler cigarettes—Imperial Tobacco Company, Calcutta, Rs. 2–12–0 per 500.

16. The third proposal is to levy a similar quantitative excise duty equivalent to an *ad valorem* tax of 15 per cent on cigars of Indian manufacture. As already pointed out in 1911 this problem absolutely bristles with administrative difficulties. In the first place it is not clear whether bidies are to be included. It is possible to distinguish bidies from cigarettes but the difference between them and the poorest kind of cheroots is almost infinitesimal. Both are rolled in leaves, sometimes tobacco leaves sometimes not. The manufacture of bidies is admittedly a cottage industry carried on in every village and hamlet. However according to the Asylum Press Almanack one tobacco factory at least professes to make bidies. The vast bulk of the Indian cheroots are also made as a cottage industry as is evident from the fact that out of 182 millions of pounds of tobacco grown only about $3\frac{1}{2}$ millions ($4\frac{1}{2}$ at the outside) appear in the trade returns as manufactured. Possibly bidies could be excluded by excepting cheroots, etc., weighing less than as many pounds to the 1,000. My experiments show that the commonest bidies weigh about $1\frac{1}{4}$ lb. per 1,000, so that if manufactured cheroots weighing less than $1\frac{1}{2}$ lb. per 1,000 were excluded this might meet the case. However this would undoubtedly stimulate the consumption of bidies which I understand to be the most deleterious form of smoking. Bidies are sold at 12 annas a 1,000 wholesale in Madras, that is at about $9\frac{3}{5}$ annas per lb. The manufacturer's price may be less so that probably 9 annas per lb. would be a safe figure and the duty, if any, ought to be much the same as for cigarettes or a little less, say 1 anna 4 pies per lb.

(c) Third proposal.

Bidies.

17. Ordinary cheroots of the commonest kind seem to weigh about $3\frac{3}{4}$ lb. per 1,000 and cost Rs. 1–12–0 per 1,000 retail but both weight and price vary enormously. Better class cheroots which, however, are still largely consumed by the poorer classes weigh 20 lb. per 1,000 and cost Rupees 12–8–0. Assuming that the rates to the trade are somewhat less we may estimate the first kind at 6 annas a lb. and the second at 10 annas a lb. The duty ought to be fixed at 15 per cent on the cheapest

Cigars.

kind at 6 annas a lb. The duty would then be 11 pies but for convenience of reckoning might be fixed at one anna.

It is quite impossible to estimate with any accuracy the output of Indian manufactured cigars. The figures in paragraph 9 no doubt afford some guide. I should imagine 2,000,000 lb. to be a fair estimate. The duty on this at 1 anna per lb. would be Rs. 1,25,000. Against this has to be set the cost of establishment which would be enormous. It is not possible at present to form any idea of what this would be. Presumably the only way to ensure the collection of the duty would be to place each factory in charge of an officer who would have to weigh the quantity of raw tobacco received and the quantity finally passed out on payment of duty, seeing that none illicitly passed out and keeping accounts on the same lines as officers in charge of distilleries. The test of a factory would be I suppose that the proprietor sold the manufactured produce, for practically every householder buys a few leaves of tobacco now and again and rolls them up into cheroots for private consumption. Even excluding these individuals, there appear to be about 26,000 persons describing themselves as tobacco sellers in the census returns, excluding 2,000 partially agriculturist. This agrees with what I expected, being an average of about one for every village in the Presidency. In some places there are no doubt several and in others none, but it would be quite impossible to do much in the way of concentration without causing much hardship. The formation of central storehouses appears, therefore, to be impossible and practically every shop will have to have a properly locked storehouse for the cheroots manufactured which adds to the expense. The ordinary staff of the Salt and Abkari Department could not possibly undertake this enormous addition to its work. Assuming that one Sub-Inspector could efficiently supervise on the average 25 factories (which I take to be impossible with the shops scattered as at present) it would require a staff of 1,000 Sub-Inspectors to supervise the work in the Presidency. The opportunities for fraud would be so great that, I fear even then the force would be demoralized. Certainly a great many of the Sub-Inspectors would have to be paid more than the lowest grade of Rs. 40 a month. Assuming that the average pay is Rs. 60, this establishment alone would cost Rs. 60,000 per month or Rs. 7,20,000 per annum or about six times the estimated proceeds of the tax. It seems hardly worth while to discuss the matter further. A complete staff of peons, inspectors, Assistant Commissioners and Deputy Commissioners would also be necessary to supervise such an establishment and it would be quite impossible for me to undertake so large an addition to my work. After all there would be no possibility of guarding against fraud as there would be nothing to distinguish between illicit and licit tobacco. As far as I can see no tax less than Re. 1 per lb. would do more than pay for the cost of collection and this of course would be ruinous having regard to the cost of the article.

18. In conclusion I can see nothing in favour of the tax or any possibility of working it. A tax on Indian cheroots made in power-driven factories might be possible. There are only two, viz.: Spencer's at Dindigul and Oakes & Co. at Guindy—employing 700 persons between them. But it seems very hard to discriminate against them, even if the tax was only one anna a lb. and anything more would probably drive them out of the Indian market altogether. I cannot say what the output of these two factories is, but excluding the amount manufactured in bond for Europe I doubt if it exceeds 500,000 lb. and the duty at one anna per lb. would yield only Rs. 31,250.

19. Another possible course would be to put an export duty on manufactured tobacco. In that case I should exclude cigars exported to the United Kingdom which have to pay heavy and enhanced duties there and have already sufferred by the tariff. There are not the same administrative objections to an export duty, at all events on exports by sea, as the establishment exists and evasion would be practically impossible. Exports by sea to foreign countries, excluding the United Kingdom, amounted to 853,731 lb. in 1914–15 and exports to other provinces to 275,018 lb. Total 1,128,749 lb. A duty of one anna per lb. might bring in Rs. 62,500 without any extra cost and as the exported cigars at all events to the Straits Settlements are of fairly good quality a duty of even 2 annas a lb. might not ruin the trade and bring in about one and quarter lakhs. Still the amount is so small that I see no use in upsetting the trade at all for so very little result.

N. S. Brodie—26–12–15.

III

Demi-official from L. DAVIDSON, Esq., I.C.S., to N. S. BRODIE, Esq., I.C.S., dated 4th July 1916, No. 39-S. (Secret No. 183 A, dated 18th December 1916.)

I am desired to refer to your note of the 26th December 1915, on the subject of imposing an excise on locally manufactured cigars and cigarettes. The Government of India are disposed to agree that the taxation of locally-made cigars is not likely to prove of practical value. As regards cigarettes, however, they are unable to abandon the possibility of revenue from an article which is not only a luxury but also, to some extent, a harmful luxury; and they have asked this Government to consider the question at greater leisure.

2. Your note, referred to above, gives an approximate estimate of the total outturn of cigarettes in the Presidency, the number of factories and the prevailing wholesale prices. I am to ask whether you cannot now quietly obtain more precise information as to the number and location of factories, the met hods of manufacture, the outturn and the prices obtained. Collectors could possibly procure the information under the guise of income-tax or statistical inquiries without exciting attention.

3. The calculations in your note are based on the assumption that the excise to be imposed would be equivalent to an *ad valorem* tax of about 15 per cent, as was then suggested by the Government of India. I am to ask you now further to consider the effect of taxation on the industry and to favour Government with your opinion as to the maximum which could safely be imposed without seriously crippling the trade.

4. The Government of India lay stress on the strictly confidential nature of this further reference, but say 'there is no objection to consulting any officer of Government whose advice would be of special value.'

Demi-official from N. S. BRODIE, Esq., I.C.S., to L. DAVIDSON, Esq., I.C.S., dated Ennore, 12th November 1916.

With reference to your demi-official No. 39-S., dated 4th July 1916, I have now made further inquiries into the subject of the production and sale of cigarettes in this Presidency both personally and through Collectors. I cannot say that I have elicited much additional information and the remarks which I made in my note of the 26th December 1915 continue to hold good. It appears, however, that I was wrong in stating that there were no cigarette factories in the Presidency equipped with power-driven machinery as it was found on further inspection that McDowell's factory in Moor street, Madras, had some cutting machines worked by an oil-engine recently set up.

2. The estimate of outturn may very well remain at 250,000 lb. The only details I have been able to get are from the Universal Tobacco Company in Madras which is believed to turn out about 30 lakhs of cigarettes per mensem and from McDowell's factory, also in Madras, which is believed to turn out about 20 lakhs. McDowell's factory does not use Indian tobacco exclusively and some of the brands contain imported tobacco to the extent, it is said, of 25 per cent on the whole. I have tested numerous brands from all parts of the Presidency and find that as a rule they weigh about 2½ lb. per 1,000, a little more or less. This gives the total Madras production about 150,000 lb. per annum. Allowing for the imported tobacco used in McDowell's factory the quantity of Indian cigarettes is about 135,000 lb. The only other factories appear to be Oakes & Co.'s factory at Guindy, a new factory started by Barry & Co. in Cocanada just recently and one or two small factories in Coimbatore. There was a factory at Guntur but it seems to have failed after working a few months. The Collector of Coimbatore has not yet replied to my letter on the subject but I made some inquiries in the course of my last tour and find that there are one and probably two factories in Coimbatore but they use imported tobacco for their cigarettes as does Pappadopoulos in Madras. Allowing for all these factories I should say 115,000 lb. per annum was a very liberal estimate, making 250,000 for the Presidency.

3. Retail prices seem to vary very considerably but on the whole I see no reason to modify my original calculations. The cheapest cigarettes are sold in packets of 5 or

6 and a slightly more expensive lot in packets of 10. The dealers' profit seems to be about eight annas a thousand and the trade discount about 20 per cent. Some cigarettes* are sold as cheaply as Re. 1 per 1,000 wholesale or allowing for the trade discount about thirteen annas per 1,000. This is less than half the price I estimated for the cheapest cigarettes in my last note (Rs. 1-12-0). I doubt if there are many of this brand sold, but there are numerous other brands at Re. 1-4-0, Re. 1-6-0 and Rs. 1-8-0 sold by McDowell & Co. However all other information tends to confirm the view that the cheapest cigarettes are sold at Rs. 2 to Rs. 2-12-0 by the wholesale dealers and consequently must cost somewhere about Rs. 1-12-0 per 1,000 from the manufacturers. These cheap cigarettes are manufactured in this Presidency by McDowell & Co., and the new Universal Tobacco Company only. Those turned out by Oakes & Co., and the new factory started by Barry & Co., at Cocanada are much more expensive and work out at Rs. 11 to Rs. 14 per 1,000.

* By the Universal Tobacco Company, 1/6, Patters Road, Royapetta—'Bazaar' brand.

4. The method of manufacture is probably the same everywhere. The tobacco selected has all the main nibs cut out and the leaves are then laid one above the other to a considerable depth. They are then cut into small pieces by a cutting machine, the tabacco rolled in cagarette paper, gummed and cut into lengths. As far as I know the cutting and gumming, etc., machines are all worked by hand except in McDowell's factory above referred to.

5. In this connexion I should, however, bring to notice one or two facts which I have ascertained in the course of my inquiries. It is a common practice I understand for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale especially at the various shandies and markets in the Presidency. This is common in Malabar, Coimbatore and the Nilgiris at all events and probably elsewhere. Most Collectors have, however, reported that cigarette papers are not commonly sold in the bazaars. I believe the practice of individual consumers rolling their own cigarettes is not common at present though it is said to have been customary in Salem before the shop-made cigarettes became so cheap. It would be clearly impossible to levy an excise duty on cigarettes made by hawkers or private individuals and it may be expected that the practice would be much more largely resorted to if a duty were imposed on the manufactured article. This might perhaps be met by imposing a customs duty on cigarette paper which would have to be determined in accordance with the duty imposed on cigarettes, such customs duty to be refunded on paper actually used by the wholesale manufacturers. It seems that cigarette paper was formerly imported mostly from Austria and Germany—at present it is obtained from France.

6. As regards the duty to be imposed I find it difficult to express an opinion. The heavy rates imposed in 1910-11 practically killed the cheap American cigarettes but then the enhancement of rates was probably more than 100 per cent of the value so that this result was quite intelligible. My inquiries show that my estimate of the cost of collection was much too large. One Sub-Inspector would, I think, be required for each factory but as there seem to be only four or possibly five factories the cost would be only about Rs. 2,400 per annum. As observed in my previous note, a duty of one and a half annas per pound represents 15 per cent of the value of the cheap cigarette. This amounts to 3 annas 9 pies per 1,000 and could hardly affect the retail price at all. The usual retail price per packet of 10 cigarettes seems to be about 4 pies. A duty of 8 annas 4 pies per 1,000 should raise the retail price by one pie and this would probably not seriously affect the trade though even one pie is a consideration in a country like India. I do not think we could safely raise the duty beyond Re. 1 per 1,000 which would raise the retail price about 2 pies or 50 per cent. This would be 6·4 annas per pound and roughly about 60 per cent of the value. Although cheap cigarettes do not seem to vary much in weight I would prefer to levy the duty by the pound rather than by the number as being the only fair way of assessing it. A duty of 6½ annas per pound would, if the production remained at 250,000 lb., yield Rs. 1,01,562½ but if the consumption fell, as it probably would, to about 200,000 lb. the tax would yield Rs. 81,250. As far as this Presidency is concerned, the result would, therefore, be insignificant, but, no doubt, the revenue

from the whole of India would be very considerable and I cannot see any serious objection to the proposal except that it would greatly encourage the smoking of bidies and press rather hardly on the poorest class of the population who smoke cheap cigarettes at present and regard them as a great luxury.

Demi-official from F. J. Richards, Esq., I.C.S., to Ley, Esq., I.C.S., dated the 18th December 1916, No. 75-S.

I am directed to reply to Mr. Low's Confidential demi-official letter No. 4493, dated 14th June 1916, on the subject of the expediency of imposing an excise on cigarettes manufactured in India from indigenous tobacco.

2. In the first place, I am to point out that the correspondence of 1910, to which reference is made in the first paragraph of Mr. Low's letter, did not turn on the present question, for at that time there was no manufacture of cigarettes from indigenous tobacco in this Presidency. It is stated that the question of an excise on manufacture was then dropped because the local cigarette industry was in its infancy and it was considered that the imposition of an excise would deal it a death-blow. So far as this Presidency is concerned, the position is virtually unaltered; for, as stated in Mr. Butterworth's demi-official letter No. A.A.-1, dated 11th January 1916, the local output of cigarettes does not exceed some 250,000 lb. annually. This estimate has been confirmed by subsequent enquiries, though the number of factories to be taken into account is found to be smaller than was thought to be the case. There are probably not more than 5 or 6, of which the two largest are those owned by Messrs. McDowell & Co., and the Universal Tobacco Company both in Madras City. The former has recently been equipped with an oil-engine for driving its cutting machines. The average wholesale price for the cheapest class of ciagarettes quoted in Mr. Butterworth's letter, viz. Rs. 1-12-0 per 1,000, may be taken as correct. These cheap cigarettes are manufactured only by Messrs. McDowell & Co. and the Universal Tobacco Company. Those turned out by Messrs. Oakes & Co., at Guindy and by Messrs. Barry & Co., at Cocanada are much more expensive, costing from Rs. 11 to Rs. 14 per 1,000.

3. The maximum rate of duty which is considered compatible with the survival of the industry is Re. 1 per 1,000 or approximately $6\frac{1}{2}$ annas per lb. This duty would if the production remained 250,000 lb. yield a revenue of a little over a lakh. The imposition of such a tax, however, is almost certain to preclude any expansion of the industry and would very probably strangle that which already exists; for it would either drive the masses to revert to *bidi* smoking or compel the manufacturers to transfer their factories to French territory or to Native States. I may here point out that the Director-General of Commercial Intelligence has incorrectly assumed that the tax realisable from the Peninsular Tobacco Company's factory in the Civil and Military Station, Bangalore, would be credited to Imperial revenues. By the terms of rendition, the Mysore Government is entitled to the whole of the surplus revenue of the Assigned Tract, after the cost of the administration of the tract is defrayed. This fact seriously affects the estimate formed of the probable receipts from the tax.

4. Another factor to be taken into consideration is the practice, common in several districts of this Presidency, for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale, especially at local markets. Individual consumers do not usually roll their own cigarettes, though it is said to have been customary for them to do so in Salem before the shop-made cigarettes became so cheap. It would obviously be impossible to levy an excise duty on cigarettes made by hawkers or private individuals; and it may be expected that the practice would be much more largely resorted to, if a duty were imposed on the manufactured article. Cigarette paper was formerly imported from Germany and Austria; now France is the chief source of supply. A customs duty might be imposed on it, such duty to be refunded on paper actually used by the wholesale manufacturers; but this expedient would not be free from difficulties and would almost certainly result in the use of a local substitute.

5. In these circumstances, I am to say that the Government of Madras are entirely opposed to the proposal. They can suggest no alternative scheme for internal taxation of tobacco, apart from those already rejected.

IV

Letter from C. R. Watkins, Esq., C.I.E., Officiating Collector of Customs, Madras, to the Under Secretary to Government, Finance Department, dated 1st May 1925, No. L. Dis. Nil.

I forward herewith a statement showing the foreign imports into, and exports from, the Madras Presidency of tobacco since the year 1920-21.

2. The rates of customs duty at present in force are given below:—

Name of article.	Per	Tariff valuation.	Duty.
Cigars	.....	Ad valorem.	75 per cent.
Cigarettes of value.—Not exceeding Rs. 10-8-0 per thousand.	Thousand ...	.....	Rs. 7.
Exceeding Rs. 10-8-0 per thousand ...	Do.	.....	,, 10-8-0.
Tobacco, unmanufactured	Lb. ...	.....	,, 1.
All other sorts of tobacco manufactured	,, ...	.....	,, 2-4-0.

Enclosure.

Foreign imports and exports of 'Tobacco' at the Presidency of Madras for the past five years ending 1924-25.

	1920-21.		1921-22.		1922-23.		1923-24.		1924-25.	
	Quantity.	Value.	Quantity	Value.	Quantity.	Value.	Quantity.	Value.	Quantity.	Value.
	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.
FOREIGN IMPORTS.										
Tobacco—Unmanufactured ..	77,507	1,45,703	489,693	13,17,036	742,412	14,07,436	3,105,459	34,57,277	3,485,871	29,29,162
Cigars	12,815	43,430	701	2,922	81	238	94	156	215	473
Cigarettes	500,267	16,39,198	186,750	9,40,779	278,384	12,34,116	296,516	13,54,712	1,86,952	8,34,717
Tobacco for pipes and cigarettes	304	1,296	5,293	54,393	22,524	1,19,720	18,155	97,606	½	3
Other sorts	28,058	1,46,309	9,590	39,508	852	3,891	12,402	40,892	20,564	1,06,279
Total ..	618,951	19,75,936	692,027	23,54,638	1,044,253	27,65,401	3,432,626	49,50,643	3,693,602	38,70,634
FOREIGN EXPORTS.										
Tobacco—Unmanufactured ..	3,118,784	13,57,807	4,650,985	16,84,266	4,258,743	17,68,621	9,953,877	37,65,684	14,366,170	42,49,345
Cigars	75,540	1,04,792	94,905	1,17,671	99,244	1,32,490	1,11,541	1,20,174	88,199	1,25,560
Cigarettes	..	..	129	615	31,230	30,049	1,574	1,492	72,086	81,746
Other sorts	34,166	27,373	48,237	46,322	45,300	44,918	110,903	1,03,645	99,555	49,769
Total ..	3,228,490	14,89,972	4,794,256	18,48,874	4,434,517	19,76,078	10,177,895	39,90,995	14,626,010	45,06,420

V

Statement showing the area under cultivation of tobacco in the Madras Presidency in 1923–24.

	Acs.		Acs.
Ganjam	3,299	Salem	3,737
Vizagapatam	48,285	Coimbatore	25,544
Godavari	11,591	Trichinopoly	4,032
Kistna	13,301	Tanjore	2,223
Guntur	64,481	Madura	7,400
Kurnool	11,542	Ramnad	3,889
Bellary	2,658	Tinnevelly	1,048
Anantapur	4,785	Malabar	17
Cuddapah	1,868	South Kanara	1,623
Nellore	2,625	The Nilgiris	72
Chingleput	62		
South Arcot	2,985	Total ...	219,841
Chittoor	595		
North Arcot	2,179		

CONFIDENTIAL.

TAXATION ON TOBACCO.

I

Notes to G.O. Mis. No. 1993, *dated* 21*st May* 1894.

The question is whether we should take the success of Travancore in levying a revenue from tobacco as a reason for calling the attention of the Government of India to the possibility of levying a revenue for tobacco in our territories. I doubt if we have sufficient ground for doing so and whether such a suggestion would be well received. Travancore is exceptionally situated, so that it has been possible to abolish all growth of tobacco there and levy a revenue by import duties, and the Government of India know all about this. Such a system would be impossible in our territory where tobacco is grown almost everywhere and consumed by almost everybody, and where larger Native States abound. The possibility of levying a revenue on tobacco in our territory, in this or any other way, has been repeatedly discussed and decided against after full communication between all the Governments, so that any suggestion for us on the subject would amount to an insinuation that the discussion had not been complete. The only way in which, as far as I can see, a large revenue could be realized for tobacco would be by establishing monopoly of manufacture and sale. Though this was hardly possible in former days, I believe it would be possible in these days of improved communications and police, but the initial expenditure on warehouses, etc., would be too heavy for a time of financial pressure and the larger preventive establishments which would be necessary and extend through almost every village would result in oppression which would be so widespread and so frequently exercised that it would be eminently dangerous.

G. Garstin—7-3-93.

No doubt a tobacco monopoly *could* be worked but it would be a gigantic undertaking, and so very costly (especially in Bengal, where Government has no rural agency at all) that it would not, in my opinion, bring in a net return worth the imitation, the measure would certainly cause. The simplest way of raising a tax on tobacco would be by a special tax on the land on which it was grown, but that would not apply to Native States and cannot be worked in Bengal. A special establishment which would eat up the most part of the profits, while in all settled non-zamindari districts the terms of the settlements would prevent the imposition of such a tax. Independently of this, the taxation of land according to the crop grown would be a

This note is submitted with reference to the enquiry whether the attention of the Government of India has been called in the Revenue Department to tobacco as a possible source of revenue.

2. The occasion for this enquiry will appear from the notes of His Excellency the Governor and the Hon'ble Sir Henry Stokes to which reference is made in that office-note. It arose in this wise—

In submitting the budget estimate of the Travancore State for the Malabar year 1069 (August 1893–94) Mr. Grigg, the Resident, after observing that the most important increases occurred under certain heads of revenue of which tobacco was one, remarked regarding the increase under this head as follows :—

"That under tobacco is very remarkable. I have never heard a rumour of complaint regarding this tax, and yet it comes to approximately As. 6–6 per head of the population and gives a revenue nearly double that of abkari and opium and is now 55 per cent of that of salt—a necessary of life. Offences against the law relating to its importation are, I believe, not numerous. The lucrativeness of this monopoly may well attract the attention of Indian financiers (paragraph 3 of his letter, dated 3rd August 1893, in Government Order, dated 20th October 1893, No. 712, Political).

On this His Excellency noted—

"We should call the attention of the Government of India to the statistics of the tobacco tax and to the Resident's remarks thereon."

On this note Sir Henry Stokes remarked as follows :—

"The attention of the Government of India has been often enough directed to tobacco as a possible source of revenue. The peculiar position of Travancore makes its experience of little or no value in the consideration of the question.

retrograde measure, injurious to the cultivator and certainly beneficial to no one but the karnam.

A licence fee might be imposed and would yield something. It would be a return to the moturfa abolished years ago, and would come very hard on the very poor classes who sell tobacco. I should be sorry to see it tried. Similar objections can be found to every other plan of levying a tobacco tax in this country. I don't think that the Government of India would care to take the question up. It was examined, on another and later occasion, I think, than any of those mentioned in the note, by Mr. Bazeet Colvin when additional Member of the Viceroy's Council, who wrote a long note on this and other projects of taxation, a copy of which I have somewhere—given me by Sir Auckland Colvin, when Finance Minister, who told me at the time that the idea had been finally abandoned—or to that effect. This was in 1886 when the times were almost as hard as they are now.

H. E. STOKES—7-3-94.

This note is very clear, and gives me a complete answer. It is very evident that we should *not* call the attention of India to Mr. Grigg's remarks on the revenue derived in Travancore from taxing tobacco.

I found myself like many others lured into the belief that a large revenue might be derived from taxing this article, and the same results achieved here as in almost every civilized country in the world. But on inquiry I find that not only has it been thoroughly looked into, but the experiment has been tried and has failed, and there is no doubt the peculiar circumstances of the country have rendered the success of the experiment almost impossible. And as Sir J. Strachey very forcibly puts in the incidence of a tax on tobacco would fall with far greater severity on those who now pay the bulk of the salt tax, and we would thereby be putting a crushing weight on those least able to bear the burden. I confess myself converted and withdraw from any further attempt to bring this question within the domains of practical politics—although I can imagine a municipality looking upon it as a fair object for local taxation but even then extremely difficult to work, as poor Madras can testify.

I suppose though that imported tobacco will pay its 5 per cent like other articles (except cotton goods !).

WENLOCK—11-3-20.

Tobacco is not produced in the State : the revenue is derived from import duties, and the configuration of the country lends itself to the easy levy of these duties on the greater portion of the tobacco consumed, which comes from Ceylon. In this Presidency and probably in the rest of India, import duties would not produce any revenue worth having and would be prejudicial to the Cheroot industry (Tobacco imported consists mainly of cheroot covers from Java and Sumatra): but I have no doubt that a considerable revenue might be got from licensees on the vend by others than the growers."

His Excellency wrote thereupon—

"Has this Government ever called their (India's) attention to it? Anyhow I do not think we could do any harm in pointing out what a large sum a little place like Travancore manages to get from the consumers of tobacco. It does not seem to me material how it is raised, whether by import duties or licences. The very significant fact remains that the consumers of tobacco in Travancore contribute yearly Rs. 10 lakhs to the State."

3. His Excellency's query whether this Government has ever called the attention of the Government of India to tobacco as a possible source of revenue has been referred to this department for information, in the office-note from the Chief Secretary.

4. It will be seen from the references put up—

(1) That this question has frequently been considered by the Government of India and has also formed the subject of correspondence between that Government and this and other Local Governments;

(2) That the conclusion come to by the Government of India is that the idea of raising a large imperial revenue from tobacco must be abandoned;

(3) That our Government has also expressed the opinion that no large provincial revenue can be obtained from tobacco; and

(4) That the Government of India is not unaware of the fact that Travancore manages to derive a large revenue from this source.

5. A summary of the correspondence on the subject is subjoined as also a short account of the tobacco monopoly in the districts of Coimbatore, Malabar and Canara which was abolished in the year 1853.

6. The Blue-Book entitled "Papers regarding the Tobacco Monopoly in the Presidency of Fort St. George etc.", gives the main correspondence up to 1868. It will be seen from pages 25–74 of the book, that for 50 years from 1803 to 1853, tobacco was the subject of a Government monopoly in the districts of Canara, Malabar and Coimbatore (vide Regulations 7 and 8 of 1811 and Regulation 5 of 1831 at pages 1, 4 and 8 of the Blue-Book), that the gross annual revenue derived during the 10 years—1833–1843 was about Rs. 8 lakhs and the net revenue about Rs. $5\frac{3}{4}$ lakhs; that the evils arising from this monopoly were so great that the attention of Government was frequently invited thereto by the officers concerned; that in 1845, the Government after recording a succinct review of the correspondence on the subject (vide No. 2 at page 26) called for a report from the Board of Revenue "on the practicability of a modification of the monopoly which, whilst we shall secure a considerable revenue, shall yet divest the tax of some of its most injurious attributes, its heavy charge of collection and the inducement it held out to smuggling"). The Government added that if a beneficial modification was impracticable, the possibility of finding an available substitute should be investigated.

It cost $2\frac{1}{4}$ lakhs to collect 8 lakhs!

J.G.

In reply the Board furnished an exhaustive report on the subject and said—

"It is with much reluctance that they are induced to advise the surrender without an equivalent of so considerable a source of revenue as the (tobacco) monopoly and they must be understood as doing so only, because, after much anxious reflection on the subject, they have been led to the conclusion that between such surrender and the retention of the present system with all its evils, there is no practicable middle course.

After a careful consideration of the subject the Government declared—

"The crying evils of the tobacco monopoly continue daily to become more notorious and demand an immediate remedy. The Right Hon'ble the Governor in Council entertains the most decided conviction that, as the Board of Revenue has represented, there is no effectual remedy short of total abolition and the expunging of so objectionable a branch of revenue from the system of Indian Finance."

Some of the evils of this system arose from its being confined to a limited area but the worst-springing from the fact that tobacco is produced almost everywhere and freely consumed by all classes so that any raising of the price gives rise to the worst sort of smuggling and is fatal to the peace of the country—will affect any system.

J.G.

In accordance with this view application was made to the Court of Directors for sanction to abolish the tobacco monopoly and on such sanction being obtained, Act IV of 1853 was passed abolishing the monopoly—

7. The subject of a tobacco-tax was considered by the Government of India during the years 1859–68. A summary of the correspondence which then took place on the subject and of the views held thereon will be found in Sir John Strachy's minute dated 21st October 1865 printed as No. 97 at page 152 of the Blue-Book and in the Government of India's letter to the Secretary of State printed as No. 98 at page 155.

All methods of taxing tobacco were considered then.

J.G.

It will be seen therefrom that, when after the events of the year 1857, the state of the finances rendered it necessary to resort to new sources of revenue, a tax on tobacco was among other things very much discussed.

Four methods of deriving a revenue from this source had been suggested :—

(1) The suppression of the cultivation of the plant throughout India and the imposition of an import duty.

(2) The establishment of a monopoly of the cultivation and manufacture of tobacco similar to that now applied to opium.

(3) The imposition of a licence duty on the cultivation of the plant.

(4) The imposition of licence fees on all wholesale and retail dealers in the manufactured article.

Of these, the first and second methods were soon dismissed as impracticable.

The third plan was at first favoured by the Government of India but most Local Governments disapproved it. The main objections urged were: that to impose a special tax on the cultivation of tobacco would be a violation of the principles on which land assessments were usually made; that it would also be economically a mistake; that the suppression of its cultivation except under a licence would be difficult to enforce; that as the enforcement cannot be extended to Native States (even if it could be extended to zamindari and inam estates) the measure would have the effect of contracting the area of its cultivation in British territory and greatly stimulating its growth in Native States and it would be extremely difficult to prevent the smuggling of free tobacco from such States. The views of this Government are contained in Mr. Bourdillon's letter to the Government of India, dated 11th June 1859, printed as No. 90 at pages 120–128. In the first enclosure to this letter the inexpediency of taxing tobacco in any form is fully set forth by the Board of Revenue.

The Government of India thereupon turned to the fourth plan of licensing the *sale* of tobacco and accordingly inserted a provision to this effect in the Licensing Bill then under its consideration. (The Bill, which was finally passed as India Act 18 of 1861 and repealed by India Act 2 of 1862). But the reports received from Local Governments on the point were not encouraging. They all went to show that no system of licensing would bring in any large revenue.

The Government of India resolved therefore to abandon altogether the idea of raising a revenue from tobacco by Imperial Legislation and the clause in the Licensing Bill which related to tobacco was accordingly expunged.

8. But while arriving at this opinion as to the unsuitability of tobacco for Imperial taxation the Government of India also thought, judging from the reports received from Local Governments, that a considerable revenue might be derived by Local Governments if they were left each to carry out the system best suited to the circumstances of its province. Accordingly, and as it was thought that Imperial revenues might be relieved to a considerable extent by establishing a system of local taxation for local purposes, the Government of India addressed Local Governments on the subject of such taxation and named tobacco as one of the sources from which a revenue might be derived.

The reply of this Government to the above letter is printed at pages 157—162 of the Blue-Book. This Government merely reiterated the opinion it had expressed in its letter of 11th June 1859 (No. 90 at page 120) that there were insurmountable objections to the realization of a revenue from tobacco unless in the shape of a tax on the shops where tobacco was sold, i.e., a licence tax; and that the produce of such a tax would not be considerable.

9. The Government of India appears to have considered this question of a tobacco tax on subsequent occasions also and to have arrived at substantially the same opinion as before, as will appear from the letter to the Secretary of State printed as No. 98 at page 155.

10. In 1870 when the question of raising the rate of income-tax was under the consideration of the Government of India, a proposal was made by one of the members (Mr. Cowie) to tax tobacco. Sir John Strachy and Sir Richard Temple both spoke against the measure and His Excellency Lord Mayo said:—

"Now it is quite true that in many civilized countries tobacco is considered to be a very proper object for taxation but I must remind the Council that tobacco in India is really an absolute necessary of life and that if you put a tax upon the production of tobacco, you tax the two great necessaries of life in this country, viz., salt and tobacco, and I am not prepared even in the present state of our finances to advocate the imposition of a burden upon such a prime necessary of life as that is.

11. The question appears to have been discussed also during Lord Lytton's Viceroyalty and the same conclusion arrived at, namely, that no large revenue could be raised by taxing tobacco (vide pages 368-70 of Strachy's book on "The Finances and

Public Works of India" and page 554 of the volume of Legislative Council's Proceedings for 1877). The following extract from Strachey's book may be noted:

"Tobacco is almost universally consumed and is looked upon as almost a necessary of life. Whatever means were adopted the tax would only be largely productive if it fell ultimately on the classes which form the great mass of the community. It would be paid by the same classes which now pay the salt tax, and if it should become necessary to increase the burden which they already bear this object would be more easily and economically gained and with far less vexation to the people by increasing the existing tax upon salt than by imposing a new tax upon tobacco. That any increase in the rate of the salt-tax would be one of the greatest possible mistakes, unless in most exceptional circumstances and on the other hand that its present reduction * would be financially a most desirable measure, has been shown in another chapter (page 370).

* The duty was reduced from Rs. 2-8-0 to Rs. 2 in 1882. It was raised as follows in this Presidency:—

	Duty. Rs.	A.	P.
August 1859	1	0	0
April 1861	1	4	0
1861–62 to 1865–66	1	5	0
1866–67 to 1868–69	1	8	0
1869–70 to 1877–78	1	12	0
1878–79 to 1881–82	2	8	0
1882–83 to 1886–87	2	0	0
1886–87	2	8	0

12. That the Government of India knows that Travancore derives a large revenue from tobacco, may be inferred from the correspondence which took place in 1860–65 relative to the Interportal Trade convention with Travancore and Cochin and more especially from the correspondence embodied in Government Order dated 14th May 1868, No. 1338.

It will be seen from the latter correspondence that at the desire of the Viceroy (Sir John Lawrence) whose attention seems to have been drawn to certain remarks which appeared in the Travancore Administration Report for 1865–66, regarding the tobacco tax in that State the Hon'ble Mr. G. N. Taylor addressed the then Resident in Travancore and Cochin (Mr. Newill) for full particulars regarding the mode in which the tax was levied in that State and that complete information on the subject was furnished by the Resident and the then Diwan T. Madhava Rao.

This correspondence came before this Government, mainly on account of a minute recorded by the Hon'ble Mr. G. N. Taylor, in which he suggested that this Government might consider the expediency of imposing a moderate import duty or an excise wherever practicable—vide his minute printed in the Government Order.

The Diwan's Memorandum shows that during the flourishing period of the monopoly system (it was abolished in 1862–63, that is, ten years after the abolition of the Government monopoly in Malabar and Canara) the gross revenue from tobacco amounted to more than half the revenue from all other sources or more than one-third of the total revenue of the State while the revenue now amounts to about one-eighth of the total revenue.

13. From the administration report of the Travancore State for the year 1891–92, it appears that 12,295 † candies of tobacco valued at Rs. 26,77,723 were imported during that year and that a duty of Rs. 9,43,030 was collected thereon.

† Equal to 6,147,500 lb. or 8,065,520 lb. according as a 'candy' is 500 lb. or 656 lb. (which latter is the equivalent given in Madhava Rao's Memorandum—vide paragraph 10.

14. The following statement gives the statistics of the imports of tobacco into this Presidency by sea for the last three years:—

Tobacco—Imports—Sea-Borne ‡ Trade.

Years.	Foreign trade.		Coasting trade.		Total.	
	Quantity in lb.	Value.	Quantity in lb.	Value.	Quantity in lb.	Value.
		Rs.		Rs.		Rs.
1890–91	446,477	2,06,021	218,915	33,563	665,392	2,39,584
1891–92	542,705	2,91,725	110,937	17,121	653,642	3,08,846
1892–93	915,719	3,37,980	135,775	27,107	1,051,494	3,65,087

‡ The rail-borne imports amount only to about 2,000 lb.

At the Travancore rate of duty the imports into this Presidency will bring in a gross revenue of a little over one lakh of rupees.

R.V.S.—1-3-94.

The foregoing account gives a clear and concise summary of all that has been written on this subject and shows that the feasibility of raising a revenue from tobacco has been most exhaustively debated and that the question has been considered in all its bearings. The situation is appropriately summed up by Sir John Strachey in paragraph 8 of his minute of the 21st October 1865 (page 154 of the Blue Book)—

"Tobacco has seemed at first sight a very promising subject of taxation to almost everyone who has thought upon the subject, but almost everyone had given up the scheme upon full consideration of the difficulties which surround it."

J.G.—3-3-94.

II

Mr. N. S. BRODIE'S NOTE DATED 26th DECEMBER 1915 (SECRET D.O. No. A A-1, DATED 11th JANUARY 1916).

Prior to 1910–11, *ad valorem* rates used to be charged on imported manufactured tobacco of all sorts at the rate of 5 per cent but this system was then abandoned and special quantitative rates introduced, presumably because of the difficulty of levying *ad valorem* rates. The rates introduced were about 33 per cent higher than those now in force which are—

	Rs.	A.	P.	
Unmanufactured tobacco	1	0	0	per lb.
Cigars	1	10	0	"
Cigarettes weighing less than 3 lb. per thousand.	3	2	0	per thousand.
Cigarettes weighing 3 lb. or more per thousand.	1	4	0	per lb.
Manufactured, other sorts	1	2	0	"

These rates are said to be approximately 36 per cent *ad valorem* on cigars and 33 per cent *ad valorem* on cigarettes though how this is arrived at I don't know, considering how much imported cigars and cigarettes vary in weight and value. The Government of India's first proposal is to raise these rates 'in approximately the same proportion, i.e., to a uniform 50 per cent *ad valorem*.' I presume this means that the duty on cigars is to be raised by about one-third and that on cigarettes by about half. Nothing is said about 'other sorts' which I suppose means principally pipe tobacco. Judging from Spencer's and Oakes' price lists the present rate seems to be from 28 to 41 per cent on the cheapest pipe tobacco and presumably this is also to be raised by about one-third. The rates will then read—

	Rs.	A.	P.	
Cigars	2	3	0	per lb.
Cigarettes	4	11	0	per thousand and
	1	14	0	per lb.
Other sorts	1	8	0	per lb.

I presume the Government of India does not intend to go back to *ad valorem* rates.

Effects of taxation introduced in 1910–11. Sea-Borne Trade Review of 1910–11, page 9.

2. The rates introduced in 1910–11 had the immediate effect of 'extensively curtailing the imports of foreign tobacco and they scarcely realized the revenue it was hoped they would bring in.' The total imports declined by 83 per cent in quantity and 52 per cent in value. Imports of leaf tobacco, *formerly duty free*, fell from 447,115 lb. to 63,267 lb. or by 86 per cent in quantity. Imports from Ceylon and the Straits Settlements practically ceased. [There used to be quite a large trade from the Jaffna and the northern Ceylon ports which supplied a great part of the tobacco used on the west coast of this Presidency.] Imports of cigarettes decreased 77 per cent in quantity and 48 per cent in value. The cheap American varieties were practically shut out, falling 94 per cent in value and the result was the foundation and development of the Indian cigarette industry which has probably taken their place. Exports of cigars to the United Kingdom fell by 72 per cent owing to the imposition of duty on wrapper tobacco. To avoid this, Messrs. Spencer & Co. removed their factory to Pondicherry.

Sea-Borne Trade Review of 1911–12.

3. In 1911–12, owing to the outcry from Ceylon and the leading local manufacturers of better class cigars, the rates were reduced by about 33 per cent to the present figures. Even this, however, failed to revive the import trade from Ceylon and the Straits Settlements which was completely and finally killed. Imports of leaf tobacco rose by 19,160 lb. but this was only a mere fraction of the fall of 383,848 lb. in 1910–11. The increase was confined to the higher grades required in the manufacture of cigars of good quality. Imports of cigarettes showed a further decline in quantity but an increase in value, the trade in cheap American cigarettes being completely extinguished. Exports of cigars to the United Kingdom declined another

7 per cent in value but exports to the Straits Settlements increased by 23 per cent and the whole export of cigars increased by 13 per cent in quantity and 9 per cent in value. The cigars exported to the Straits Sttlements and Federated Malay States appear to be made of purely Indian tobacco which pays no duty.

4. In 1912–13, there was a further decrease in imports of cigarettes by 15 per cent and a large factory was opened at Bangalore by the Peninsular Tobacco Company. Manufacture of cigars for export to the United Kingdom was permitted in bond and Messrs. Spencer & Co. returned from Pondicherry. The exports of these cigars rose by 46 per cent but of course the revenue did not profit by this.

Sea-Borne Trade Review of 1912–13.

There was a general increase both in imports and exports of tobacco in 1913–14 and some recovery in imports of cigarettes to a little above the figures of 1910–11. The export of high grade cigars to the United Kingdom rose to ·88 lakh against ·57 lakh in 1910–11.

Sea-Borne Trade Review of 1913–14.

However, the effect of the war was to send most of the principal figures lower than ever. Imports of raw tobacco fell to 70,573 lb. in 1914–15 and exports of high grade cigars to the United Kingdom fell to 33,434 lb. and to ·45 lakh in value (nearly 50 per cent), the lowest figure on record.

Effects of the war—Sea-Borne Trade Review, 1914–15.

5. The figures since the introduction of the new tariff are tabulated below :—

Annual value of the sea-borne trade and navigation of the Madras Presidency for 1914–15.

Foreign trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.						
1. Unmanufactured (total for Presidency).	LB. 447,115	LB. 63,267	LB. 82,427	LB. 90,458	LB. 110,458	LB. 70,573
2. Manufactured—						
(*a*) Cigars	11,099					
(*b*) Cigarettes	319,275	1,049	937	830	1,107	3,368
(*c*) Other sorts	94,940	72,139	65,410	55,217	78,616	78,429
		12,473	26,397	23,370	24,723	28,090
Exports.						
1. Unmanufactured (unaffected by tariff).	1,444,632	1,670,842	1,619,966	1,806,998	2,234,511	2,362,766
Of the above exported to Straits Settlements and Federated Malay States.	1,374,612	1,621,543	1,568,878	1,773,160	2,115,056	2,304,144
2. Manufactured—						
(*a*) Cigars	697,507	704,791	797,383	989,811	988,668	887,165
Of the above quantity exported to United Kingdom.	80,360	42,565	36,184	51,156	56,976	33,434
Straits Settlements and Federated Malay States (unaffected by tariff).	415,357	547,613	661,294	827,278	811,219	800,488
(*b*) Other sorts	4,196	4,515	9,010	8,513	9,363	8,885

Coasting trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.						
1. Unmanufactured	LB. 610,603	LB. 683,787	LB. 664,054	LB. 578,058	LB. 604,165	LB. 596,038
2. Manufactured	142,514	84,439	59,021	94,319	57,595	71,301
Of the above imported from Calcutta.	118,687	73,703	52,511	85,214	46,637	53,301
Exports.						
1. Unmanufactured	7,721,625	7,535,386	6,870,154	6,536,820	6,928,569	5,168,826
Of the above exported to Burma ..	6,926,830	6,474,041	6,149,974	6,133,770	6,521,676	4,579,130
2. Manufactured—						
(*a*) Cigars	347,507	314,933	410,526	419,710	349,618	275,018
Of the above exported to Burma ..	194,493	204,649	292,004	320,781	251,706	177,844
Of the above exported to Bengal ..	101,866	73,206	76,815	61,785	63,117	65,373
(*b*) Cigarettes	..	..	2,877	4,200	26,471	64,599
(*c*) Other sorts	35,726	43,920	37,620	39,906	33,407	77,190

6. The net result of the introduction of the heavier tobacco duties in 1910–11 has, therefore, been to kill the import trade in raw tobacco from Ceylon and the Straits Settlements and in cigarettes from America and to lay the foundations of a cigarette manufacturing industry in India from Indian leaf. The trade in high grade cigars exported to the United Kingdom has suffered very heavily, despite permission to manufacture export in bond. The fall between 1909–10 and 1913–14 (when this industry reached its highest point after the imposition of duties and before the outbreak of war) was about 29 per cent. This shows what an effect even a slight rise in the cost of such a thing as tobacco has on consumption as it was undoubtedly the increased cost (and that only of the wrapper) in 1910–11 that gave the trade this set back. The wrapper is only a minute fraction of the weight of the cigar and if the duty on whole cigars is only equal to an *ad valorem* rate of 36 per cent the duty on a cigar whose wrapper alone pays duty must be nearer 1 or 2 per cent. Since the concession of manufacture in bond has been granted these cigars pay no duty and it is presumed that this concession will be continued so that any enhancement of rates will not affect them.

7. *Rail-borne trade*, 1914–15.—

Imports from other Presidencies and Native States.

	LB.
1. Unmanufactured	2,051,959
Of which imported from Mysore	1,344,550
2. Manufactured—	
(*a*) Cigars	13,330
(*b*) Other sorts—probably cigarettes	1,497,517
Of which imported from Mysore	1,294,272

Exports to other Presidencies and Native States.

1. Unmanufactured	24,729,076
Of which exported to—	
Mysore	8,181,339
Calcutta	5,282,496
Nzam's Territory	4,242,157
2. Manufactured—	
(*a*) Cigars	503,013
(*b*) Other sorts	392,750

Internal trade between various parts of the Presidency.

1. Unmanufactured	53,774,208
2. Manufactured—	
(*a*) Cigars	1,061,815
(*b*) Other sorts—probably cigarettes, bidies and snuff ...	1,074,651

8. From these figures it appears that by far the greatest part of the Delta tobacco is exported in the manufactured condition and made up locally. The trade in manufactured tobacco is comparatively small, which agrees with my information that there are no manufactories of any size. A fairly large quantity of manufactured cigars is exported by rail from the Central districts (i.e., Trichinopoly, Salem and Coimbatore) to Negapatam but this no doubt is included also in the exports by sea to the Straits Settlements.

Cigars.

9. In the Secretariat note of 1911 the total outturn of cigars was estimated by Mr. Innes at about 2,500,000 lb; i.e.:—

	1909–10.
	LB.
Foreign exports	697,507
Coasting trade exports	347,507
Rail-borne exports	451,164
Do. internal trade	971,208
Total ...	2,467,386

The corresponding figures for 1914–15 are—

	LB.
Foreign exports	887,165
Coasting trade exports	275,018
Rail-borne exports	503,013
Do. internal trade	1,061,815
Total ...	2,727,001

Allowing for the disturbance of trade caused by the war, the export trade and rail-borne traffic in cigars may, therefore, be taken at about 2,750,000 lb. but this is probably an excess estimate of the quantity actually manufactured since the rail-borne traffic probably includes the greater part of the foreign exports and possibly a good deal of the coasting trade exports also.

Cigarettes.

10. The Indian cigarette industry has practically grown up since the Secretariat notes of 1911 were written. Foreign imports of the better class cigarettes have remained nearly stationary since 1911–11 at about 70,000 lb. Comparing the figures of 1909–10 with those of 1910–12 when the full effect of the tariff duties had had time to operate, 253,865 lb. of cheap American cigarettes appear to have been displaced. These have no doubt been replaced by Indian cigarettes and there has probably been a large increase in consumption in addition.

The export trade in cigarettes in 1914–15 appears to have been somewhat as follows:—

	LB.
Foreign exports	8,885*
Coasting trade exports	61,599
Rail-borne exports	392,750*
Do. internal trade	1,074,651*
Total ...	1,537,885

In the absence of figures for bidies, snuff, etc., it is not easy, however, to say how much of these 15 lakhs of pounds represent cigarettes and still less how much represents cigarettes manufactured in the Presidency. My inquiries in Vizagapatam show that none of the cigarettes there consumed (and the consumption is very large) are manufactured in this Presidency. The great bulk come from Calcutta and a good many from the Peninsular Tobacco Company, Bangalore. Similarly in Madras, the bulk of the cigarettes come from Bangalore or Bowringpet, both in Mysore territory and not subject to British excise. It will be seen from paragraph 7 above that 1,294,272 lb. of 'other sorts' including (no doubt mostly) cigarettes are imported from Mysore. Probably the greater number of these are shown in 'rail-borne internal trade' and exports of the Presidency over again. I should put the actual number manufactured in the Presidency at not more than 250,000 lb.

11. The following are principal Indian Cigaratte factories shown in the Lawrence Asylum Press Almanack, page 1438:—

(1) A.G.M. & Sons, Coimbatore.

(2) K.G.A., Coimbatore.

(3) McDowell & Co., Madras.

I have never seen any cigarettes from the first two factories and they seem to be very small and merely supply the local market. McDowell & Co. employ about 25 persons and some small hand machines. Pappadapoulos Brothers make Egyptian cigarettes but import Egyptian tobacco which already pays duty. Besides these there are the two large factories in Mysore—

4. The Peninsular Tobacco Company, Cleveland town, Bangalore, and

5. The Oriental Tobacco Manufacturing Company, Bowringpet.

*Includes, however, pipe tobacco, bidies, snuff, etc.

Both these are run on American lines and employ a large number of workmen and power-driven machinery, but as already remarked they are not subject to British excise.

Outturn of tobacco.

12. According to the 'Season and crop report' for 1914–15 the total area culivated with tobacco in the Presidency was 227,182 acres, the 'normal' area being 203,230 acres. I learn from Chadwick that 800 lb. of dried leaf per acre is a fair average crop as taken by Castlestuart Stuart in 1910. The total outturn was therefore about 182,000,000 lb. of which we have only accounted for about 3½ millions at most in the manufactured form. This outturn was spread over 24 districts, the area being over 10,000 acres in seven, Vizagapatam (29,115), Godavari (13,099), Guntur (78,560), Kistna (13,022), Kurnool (18,769), Coimbatore (26,001) and Madura (11,172). These figures show little change since 1908–09.

About 90,000,000 are exported in unmanufactured form.

Tobacco industry.

13. The census report for 1911 groups manufacturers of tobacco, opium and ganja together under Order 12, Group 66. The number of manufacturers of opium and ganja must be almost negligible and the total number of workers and dependents is shown to be 12,333. Under Order 33, Group 122, sellers of tobacco, opium, ganja, etc., are said to be 65,733 (workers 25,883, dependents 39,850). The total number of persons dependent on the tobacco trade is therefore about 78,066 against 75,000 in 1901. It is not possible to compare the figures of the other industries referred to in Mr. Castlestuart Stuart's demi-official of 5th November 1910 as the classification has been altered. Betel leaf and arecanut sellers are now grouped with vegetable and fruit sellers. It may be noted however that the number of persons engaged in the manufacture of tobacco is about as many as bakers and biscuit makers (12,970) whilst the number of sellers of tobacco is not much less than the number of sellers of milk, ghee, butter, poultry, eggs, etc. (80,981).

Present proposals criticised.

14. These figures show that there has been comparatively little change in the general position since 1910–11 and the arguments against any form of taxation of Indian grown tobacco remain as strong as they were then. The present proposals of the Government of India may now be examined in detail. The first is, as far as I understand it, to raise the quantitative rates of duty on imported cigars and cigarettes (and perhaps also on other manufactured tobacco) to the figures shown in paragraph 1 above. The quantity of imported cigars is now very small and was only 3,368 lb. in 1914–15. Assuming that the enhanced duty has no effect on consumption, the increase of revenue from this source will be only Rs. 1,824*. But judging from the effect of the enhancement of duty in 1910–11 it will probably be much less. The duty on imported cigarettes (78,429 lb. in 1914–15) was about Rs. 80,000 and the enhancement of the duty by one-half may give Rs. 40,000, though here also a heavy fall in consumption may be confidently looked for. The increase of duty on 'other sorts', i.e., probably pipe tobacco, snuff, etc. (which may be contemplated) by one-third would yield perhaps Rs. 10,742. Altogether, the maximum increase of revenue that may be looked for from this proposal cannot, therefore, be more than Rs. 60,000 and the burden will fall heavily on the poorly paid European and Eurasian assistants in shops, business firms, Railway Companies, etc., who are by far the largest consumers of imported cigarettes. However this increased revenue can no doubt be obtained without administrative difficulty or expense.

(a) First proposal.

*Present duty Rs. 5,473 one-third enhancement Rs. 1,824.

(b) Second proposal.

15. The second proposal is to levy an excise duty on cigarettes of Indian manufacture. The large factory referred to by the Government of India is probably that in Bengal, I think at Monghyr. It is proposed to differentiate bidies from cigarettes by the use of cigarette paper. This may be accepted. It is proposed that

the taxation should take the form of a quantitative duty equivalent to an *ad valorem* duty of about 15 per cent. A further point is whether the taxation should be restricted to factories equipped with power-driven machinery. If this qualification is accepted the question is a simple one for there are no such cigarette factories in this Presidency. Assuming, however, that all cigarette factories are to be taxed my inquiries show that cigarettes of Indian manufacture vary considerably in price. The cheapest are sold retail at prices varying from Rs. 1–4–6 per 500 or Rs. 2–6–0 per 1,000 to Rs. 2–12–0 per 500 or Rs. 5–2–0 per 1,000. These cigarettes both weigh almost exactly $2\frac{1}{2}$ lb. per 1,000, the cheaper ones a little more. The manufacturer's price to the trade is no doubt considerably less as these cigarettes have to be imported to Vizagapatam and there is the retailer's profit to be considered. The excise duty will of course have to be fixed with regard to the wholesale price at the factory. I should say Rs. 1–12–0 per 1,000 is probably an outside price for the cheapest cigarettes. This means $28/2\frac{1}{2}=11\frac{1}{5}$, say 11 annas a lb. or as they weigh rather more than $2\frac{1}{2}$ lb. per 1,000, say 10 annas a lb. 15 per cent on 10 annas is one and a half annas per lb. I have estimated the total production of cigarettes in this Presidency at not more than 250,000 lb. and the duty on this would be Rs. 23,437. It is impossible to say without a full inquiry what the number of cigarette factories is but they are certainly very small and probably average not more than 10,000 lb. of cigarettes each per annum. Putting the number at 25 scattered all over the Presidency, not less than 25 Sub-Inspectors on Rs. 40 per mensem would be required to supervise them. The cost of these would be Rs. 12,000 not allowing for contingent expenses such as weighing machines, etc. The net proceeds of the tax would therefore be somewhere about Rs. 10,000, even supposing that the duty had no effect on consumption which is extremely improbable. Moreover as Indian cigarettes vary considerably in price though not so much as cheroots, the duty would press most unfairly on the cheapest brands and on the poorest class of the population which consumes them.

Watch cigarettes—Peninsular Tobacco Company, Bangalore, Rs. 1-4-6.
Ruler cigarettes—Imperial Tobacco Company, Calcutta, Rs. 2–12–0 per 500.

16. The third proposal is to levy a similar quantitative excise duty equivalent to an *ad valorem* tax of 15 per cent on cigars of Indian manufacture. As already pointed out in 1911 this problem absolutely bristles with administrative difficulties. In the first place it is not clear whether bidies are to be included. It is possible to distinguish bidies from cigarettes but the difference between them and the poorest kind of cheroots is almost infinitesimal. Both are rolled in leaves, sometimes tobacco leaves sometimes not. The manufacture of bidies is admittedly a cottage industry carried on in every village and hamlet. However according to the Asylum Press Almanack one tobacco factory at least professes to make bidies. The vast bulk of the Indian cheroots are also made as a cottage industry as is evident from the fact that out of 182 millions of pounds of tobacco grown only about $3\frac{1}{2}$ millions ($4\frac{1}{2}$ at the outside) appear in the trade returns as manufactured. Possibly bidies could be excluded by excepting cheroots, etc., weighing less than as many pounds to the 1,000. My experiments show that the commonest bidies weigh about $1\frac{1}{4}$ lb. per 1,000, so that if manufactured cheroots weighing less than $1\frac{1}{2}$ lb. per 1,000 were excluded this might meet the case. However this would undoubtedly stimulate the consumption of bidies which I understand to be the most deleterious form of smoking. Bidies are sold at 12 annas a 1,000 wholesale in Madras, that is at about $9\frac{3}{5}$ annas per lb. The manufacturer's price may be less so that probably 9 annas per lb. would be a safe figure and the duty, if any, ought to be much the same as for cigarettes or a little less, say 1 anna 4 pies per lb.

(c) Third proposal.

Bidies.

A

17. Ordinary cheroots of the commonest kind seem to weigh about $3\frac{3}{4}$ lb. per 1,000 and cost Rs. 1–12–0 per 1,000 retail but both weight and price vary enormously. Better class cheroots which, however, are still largely consumed by the poorer classes weigh 20 lb. per 1,000 and cost Rupees 12–8–0. Assuming that the rates to the trade are somewhat less we may estimate the first kind at 6 annas a lb. and the second at 10 annas a lb. The duty ought to be fixed at 15 per cent on the cheapest

Cigars.

kind at 6 annas a lb. The duty would then be 11 pies but for convenience of reckoning might be fixed at one anna.

It is quite impossible to estimate with any accuracy the output of Indian manufactured cigars. The figures in paragraph 9 no doubt afford some guide. I should imagine 2,000,000 lb. to be a fair estimate. The duty on this at 1 anna per lb. would be Rs. 1,25,000. Against this has to be set the cost of establishment which would be enormous. It is not possible at present to form any idea of what this would be. Presumably the only way to ensure the collection of the duty would be to place each factory in charge of an officer who would have to weigh the quantity of raw tobacco received and the quantity finally passed out on payment of duty, seeing that none illicitly passed out and keeping accounts on the same lines as officers in charge of distilleries. The test of a factory would be I suppose that the proprietor sold the manufactured produce, for practically every householder buys a few leaves of tobacco now and again and rolls them up into cheroots for private consumption. Even excluding these individuals, there appear to be about 26,000 persons describing themselves as tobacco sellers in the census returns, excluding 2,000 partially agriculturist. This agrees with what I expected, being an average of about one for every village in the Presidency. In some places there are no doubt several and in others none, but it would be quite impossible to do much in the way of concentration without causing much hardship. The formation of central storehouses appears, therefore, to be impossible and practically every shop will have to have a properly locked storehouse for the cheroots manufactured which adds to the expense. The ordinary staff of the Salt and Abkari Department could not possibly undertake this enormous addition to its work. Assuming that one Sub-Inspector could efficiently supervise on the average 25 factories (which I take to be impossible with the shops scattered as at present) it would require a staff of 1,000 Sub-Inspectors to supervise the work in the Presidency. The opportunities for fraud would be so great that I fear even then the force would be demoralized. Certainly a great many of the Sub-Inspectors would have to be paid more than the lowest grade of Rs. 40 a month. Assuming that the average pay is Rs. 60, this establishment alone would cost Rs. 60,000 per month or Rs. 7,20,000 per annum or about six times the estimated proceeds of the tax. It seems hardly worth while to discuss the matter further. A complete staff of peons, inspectors, Assistant Commissioners and Deputy Commissioners would also be necessary to supervise such an establishment and it would be quite impossible for me to undertake so large an addition to my work. After all there would be no possibility of guarding against fraud as there would be nothing to distinguish between illicit and licit tobacco. As far as I can see no tax less than Re. 1 per lb. would do more than pay for the cost of collection and this of course would be ruinous having regard to the cost of the article.

18. In conclusion I can see nothing in favour of the tax or any possibility of working it. A tax on Indian cheroots made in power-driven factories might be possible. There are only two, viz.: Spencer's at Dindigul and Oakes & Co. at Guindy—employing 700 persons between them. But it seems very hard to discriminate against them, even if the tax was only one anna a lb. and anything more would probably drive them out of the Indian market altogether. I cannot say what the output of these two factories is, but excluding the amount manufactured in bond for Europe I doubt if it exceeds 500,000 lb. and the duty at one anna per lb. would yield only Rs. 31,250.

19. Another possible course would be to put an export duty on manufactured tobacco. In that case I should exclude cigars exported to the United Kingdom which have to pay heavy and enhanced duties there and have already sufferred by the tariff. There are not the same administrative objections to an export duty, at all events on exports by sea, as the establishment exists and evasion would be practically impossible. Exports by sea to foreign countries, excluding the United Kingdom, amounted to 853,731 lb. in 1914–15 and exports to other provinces to 275,018 lb. Total 1,128,749 lb. A duty of one anna per lb. might bring in Rs. 62,500 without any extra cost and as the exported cigars at all events to the Straits Settlements are of fairly good quality a duty of even 2 annas a lb. might not ruin the trade and bring in about one and quarter lakhs. Still the amount is so small that I see no use in upsetting the trade at all for so very little result.

N. S. Brodie—26–12–15.

III

Demi-official from L. DAVIDSON, Esq., I.C.S., to N. S. BRODIE, Esq., I.C.S., dated 4th July 1916, No. 39–S. (Secret No. 183 A, dated 18th December 1916.)

I am desired to refer to your note of the 26th December 1915, on the subject of imposing an excise on locally manufactured cigars and cigarettes. The Government of India are disposed to agree that the taxation of locally-made cigars is not likely to prove of practical value. As regards cigarettes, however, they are unable to abandon the possibility of revenue from an article which is not only a luxury but also, to some extent, a harmful luxury; and they have asked this Government to consider the question at greater leisure.

2. Your note, referred to above, gives an approximate estimate of the total outturn of cigarettes in the Presidency, the number of factories and the prevailing wholesale prices. I am to ask whether you cannot now quietly obtain more precise information as to the number and location of factories, the met hods of manufacture, the outturn and the prices obtained. Collectors could possibly procure the information under the guise of income-tax or statistical inquiries without exciting attention.

3. The calculations in your note are based on the assumption that the excise to be imposed would be equivalent to an *ad valorem* tax of about 15 per cent, as was then suggested by the Government of India. I am to ask you now further to consider the effect of taxation on the industry and to favour Government with your opinion as to the maximum which could safely be imposed without seriously crippling the trade.

4. The Government of India lay stress on the strictly confidential nature of this further reference, but say 'there is no objection to consulting any officer of Government whose advice would be of special value.'

Demi-official from N. S. BRODIE, Esq., I.C.S., to L. DAVIDSON, Esq., I.C.S., dated Ennore, 12th November 1916.

With reference to your demi-official No. 39-S., dated 4th July 1916, I have now made further inquiries into the subject of the production and sale of cigarettes in this Presidency both personally and through Collectors. I cannot say that I have elicited much additional information and the remarks which I made in my note of the 26th December 1915 continue to hold good. It appears, however, that I was wrong in stating that there were no cigarette factories in the Presidency equipped with power-driven machinery as it was found on further inspection that McDowell's factory in Moor street, Madras, had some cutting machines worked by an oil-engine recently set up.

2. The estimate of outturn may very well remain at 250,000 lb. The only details I have been able to get are from the Universal Tobacco Company in Madras which is believed to turn out about 30 lakhs of cigarettes per mensem and from McDowell's factory, also in Madras, which is believed to turn out about 20 lakhs. McDowell's factory does not use Indian tobacco exclusively and some of the brands contain imported tobacco to the extent, it is said, of 25 per cent on the whole. I have tested numerous brands from all parts of the Presidency and find that as a rule they weigh about $2\frac{1}{2}$ lb. per 1,000, a little more or less. This gives the total Madras production about 150,000 lb. per annum. Allowing for the imported tobacco used in McDowell's factory the quantity of Indian cigarettes is about 135,000 lb. The only other factories appear to be Oakes & Co.'s factory at Guindy, a new factory started by Barry & Co. in Cocanada just recently and one or two small factories in Coimbatore. There was a factory at Guntur but it seems to have failed after working a few months. The Collector of Coimbatore has not yet replied to my letter on the subject but I made some inquiries in the course of my last tour and find that there are one and probably two factories in Coimbatore but they use imported tobacco for their cigarettes as does Pappadopoulos in Madras. Allowing for all these factories I should say 115,000 lb. per annum was a very liberal estimate, making 250,000 for the Presidency.

3. Retail prices seem to vary very considerably but on the whole I see no reason to modify my original calculations. The cheapest cigarettes are sold in packets of 5 or

6 and a slightly more expensive lot in packets of 10. The dealers' profit seems to be about eight annas a thousand and the trade discount about 20 per cent. Some cigarettes* are sold as cheaply as Re. 1 per 1,000 wholesale or allowing for the trade discount about thirteen annas per 1,000. This is less than half the price I estimated for the cheapest cigarettes in my last note (Rs. 1–12–0). I doubt if there are many of this brand sold, but there are numerous other brands at Re. 1–4–0, Re. 1–6–0 and Rs. 1–8–0 sold by McDowell & Co. However all other information tends to confirm the view that the cheapest cigarettes are sold at Rs. 2 to Rs. 2–12–0 by the wholesale dealers and consequently must cost somewhere about Rs. 1–12–0 per 1,000 from the manufacturers. These cheap cigarettes are manufactured in this Presidency by McDowell & Co., and the Universal Tobacco Company only. Those turned out by Oakes & Co., and the new factory started by Barry & Co., at Cocanada are much more expensive and work out at Rs. 11 to Rs. 14 per 1,000.

* By the Universal Tobacco Company, 1/6, Patters Road, Royapetta—'Bazaar' brand.

4. The method of manufacture is probably the same everywhere. The tobacco selected has all the main nibs cut out and the leaves are then laid one above the other to a considerable depth. They are then cut into small pieces by a cutting machine, the tabacco rolled in cagarette paper, gummed and cut into lengths. As far as I know the cutting and gumming, etc., machines are all worked by hand except in McDowell's factory above referred to.

5. In this connexion I should, however, bring to notice one or two facts which I have ascertained in the course of my inquiries. It is a common practice I understand for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale especially at the various shandies and markets in the Presidency. This is common in Malabar, Coimbatore and the Nilgiris at all events and probably elsewhere. Most Collectors have, however, reported that cigarette papers are not commonly sold in the bazaars. I believe the practice of individual consumers rolling their own cigarettes is not common at present though it is said to have been customary in Salem before the shop-made cigarettes became so cheap. It would be clearly impossible to levy an excise duty on cigarettes made by hawkers or private individuals and it may be expected that the practice would be much more largely resorted to if a duty were imposed on the manufactured article. This might perhaps be met by imposing a customs duty on cigarette paper which would have to be determined in accordance with the duty imposed on cigarettes, such customs duty to be refunded on paper actually used by the wholesale manufacturers. It seems that cigarette paper was formerly imported mostly from Austria and Germany—at present it is obtained from France.

6. As regards the duty to be imposed I find it difficult to express an opinion. The heavy rates imposed in 1910–11 practically killed the cheap American cigarettes but then the enhancement of rates was probably more than 100 per cent of the value so that this result was quite intelligible. My inquiries show that my estimate of the cost of collection was much too large. One Sub-Inspector would, I think, be required for each factory but as there seem to be only four or possibly five factories the cost would be only about Rs. 2,400 per annum. As observed in my previous note, a duty of one and a half annas per pound represents 15 per cent of the value of the cheap cigarette. This amounts to 3 annas 9 pies per 1,000 and could hardly affect the retail price at all. The usual retail price per packet of 10 cigarettes seems to be about 4 pies. A duty of 8 annas 4 pies per 1,000 should raise the retail price by one pie and this would probably not seriously affect the trade though even one pie is a consideration in a country like India. I do not think we could safely raise the duty beyond Re. 1 per 1,000 which would raise the retail price about 2 pies or 50 per cent. This would be 6·4 annas per pound and roughly about 60 per cent of the value. Although cheap cigarettes do not seem to vary much in weight I would prefer to levy the duty by the pound rather than by the number as being the only fair way of assessing it. A duty of $6\frac{1}{2}$ annas per pound would, if the production remained at 250,000 lb., yield Rs. 1,01,562$\frac{1}{2}$ but if the consumption fell, as it probably would, to about 200,000 lb. the tax would yield Rs. 81,250. As far as this Presidency is concerned, the result would, therefore, be insignificant, but, no doubt, the revenue

from the whole of India would be very considerable and I cannot see any serious objection to the proposal except that it would greatly encourage the smoking of bidies and press rather hardly on the poorest class of the population who smoke cheap cigarettes at present and regard them as a great luxury.

Demi-official from F. J. Richards, Esq., I.C.S., to Ley, Esq., I.C.S., dated the 18th December 1916, No. 75-S.

I am directed to reply to Mr. Low's Confidential demi-official letter No. 4493, dated 14th June 1916, on the subject of the expediency of imposing an excise on cigarettes manufactured in India from indigenous tobacco.

2. In the first place, I am to point out that the correspondence of 1910, to which reference is made in the first paragraph of Mr. Low's letter, did not turn on the present question, for at that time there was no manufacture of cigarettes from indigenous tobacco in this Presidency. It is stated that the question of an excise on manufacture was then dropped because the local cigarette industry was in its infancy and it was considered that the imposition of an excise would deal it a death-blow. So far as this Presidency is concerned, the position is virtually unaltered; for, as stated in Mr. Butterworth's demi-official letter No. A.A.-1, dated 11th January 1916, the local output of cigarettes does not exceed some 250,000 lb. annually. This estimate has been confirmed by subsequent enquiries, though the number of factories to be taken into account is found to be smaller than was thought to be the case. There are probably not more than 5 or 6, of which the two largest are those owned by Messrs. McDowell & Co., and the Universal Tobacco Company both in Madras City. The former has recently been equipped with an oil-engine for driving its cutting machines. The average wholesale price for the cheapest class of ciagarettes quoted in Mr. Butterworth's letter, viz. Rs. 1-12-0 per 1,000, may be taken as correct. These cheap cigarettes are manufactured only by Messrs. McDowell & Co. and the Universal Tobacco Company. Those turned out by Messrs. Oakes & Co., at Guindy and by Messrs. Barry & Co., at Cocanada are much more expensive, costing from Rs. 11 to Rs. 14 per 1,000.

3. The maximum rate of duty which is considered compatible with the survival of the industry is Re. 1 per 1,000 or approximately $6\frac{1}{2}$ annas per lb. This duty would if the production remained 250,000 lb. yield a revenue of a little over a lakh. The imposition of such a tax, however, is almost certain to preclude any expansion of the industry and would very probably strangle that which already exists; for it would either drive the masses to revert to *bidi* smoking or compel the manufacturers to transfer their factories to French territory or to Native States. I may here point out that the Director-General of Commercial Intelligence has incorrectly assumed that the tax realisable from the Peninsular Tobacco Company's factory in the Civil and Military Station, Bangalore, would be credited to Imperial revenues. By the terms of rendition, the Mysore Government is entitled to the whole of the surplus revenue of the Assigned Tract, after the cost of the administration of the tract is defrayed. This fact seriously affects the estimate formed of the probable receipts from the tax.

4. Another factor to be taken into consideration is the practice, common in several districts of this Presidency, for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale, especially at local markets. Individual consumers do not usually roll their own cigarettes, though it is said to have been customary for them to do so in Salem before the shop-made cigarettes became so cheap. It would obviously be impossible to levy an excise duty on cigarettes made by hawkers or private individuals; and it may be expected that the practice would be much more largely resorted to, if a duty were imposed on the manufactured article. Cigarette paper was formerly imported from Germany and Austria; now France is the chief source of supply. A customs duty might be imposed on it, such duty to be refunded on paper actually used by the wholesale manufacturers; but this expedient would not be free from difficulties and would almost certainly result in the use of a local substitute.

5. In these circumstances, I am to say that the Government of Madras are entirely opposed to the proposal. They can suggest no alternative scheme for internal taxation of tobacco, apart from those already rejected.

IV

Letter from C. R. Watkins, Esq., C.I.E., Officiating Collector of Customs, Madras, to the Under Secretary to Government, Finance Department, dated 1st May 1925, No. L. Dis. Nil.

I forward herewith a statement showing the foreign imports into, and exports from, the Madras Presidency of tobacco since the year 1920-21.

2. The rates of customs duty at present in force are given below:—

Name of article.	Per	Tariff valuation.	Duty.
Cigars	.....	Ad valorem.	75 per cent.
Cigarettes of value.—Not exceeding Rs. 10-8-0 per thousand.	Thousand ...	.....	Rs. 7.
Exceeding Rs. 10-8-0 per thousand ...	Do.	.....	,, 10-8-0.
Tobacco, unmanufactured	Lb. ...	.....	,, 1.
All other sorts of tobacco manufactured	,, ...	.....	,, 2-4-0.

Enclosure.

Foreign imports and exports of 'Tobacco' at the Presidency of Madras for the past five years ending 1924-25.

	1920-21.		1921-22.		1922-23.		1923-24.		1924-25.	
	Quantity.	Value.	Quantity	Value.	Quantity.	Value.	Quantity.	Value.	Quantity.	Value.
Foreign imports.	Lb.	Rs.	Lb.	Rs.	Lb.	Rs.	Lb.	Rs.	Lb.	Rs.
Tobacco—Unmanufactured ..	77,507	1,45,703	489,693	13,17,036	742,412	14,07,436	3,105,459	34,57,277	3,485,871	29,29,162
Cigars	12,815	43,430	701	2,922	81	238	94	156	215	473
Cigarettes	500,267	16,39,198	186,750	9,40,779	278,384	12,34,116	296,516	13,54,712	1,86,952	8,34,717
Tobacco for pipes and cigarettes	304	1,296	5,293	54,393	22,524	1,19,720	18,155	97,606	½	3
Other sorts	28,058	1,46,309	9,590	39,508	852	3,891	12,402	40,892	20,564	1,06,279
Total ..	618,951	19,75,936	692,027	23,54,638	1,044,253	27,65,401	3,432,626	49,50,643	3,693,602	38,70,634
Foreign exports.										
Tobacco—Unmanufactured ..	3,118,784	13,57,807	4,650,985	16,84,266	4,258,743	17,68,621	9,953,877	37,65,684	14,366,170	42,49,345
Cigars	75,540	1,04,792	94,905	1,17,671	99,244	1,32,490	1,11,541	1,20,174	88,199	1,25,560
Cigarettes	..	..	129	615	31,230	30,049	1,574	1,492	72,086	81,746
Other sorts	34,166	27,373	48,237	46,322	45,300	44,918	110,903	1,03,645	99,555	49,769
Total ..	3,228,490	14,89,972	4,794,256	18,48,874	4,434,517	19,76,078	10,177,895	39,90,995	14,626,010	45,06,420

V

Statement showing the area under cultivation of tobacco in the Madras Presidency in 1923–24.

	Acs.		Acs.
Ganjam	3,299	Salem	3,737
Vizagapatam	48,285	Coimbatore	25,544
Godavari	11,591	Trichinopoly	4,032
Kistna	13,301	Tanjore	2,223
Guntur	64,481	Madura	7,400
Kurnool	11,542	Ramnad	3,889
Bellary	2,658	Tinnevelly	1,048
Anantapur	4,785	Malabar	17
Cuddapah	1,868	South Kanara	1,623
Nellore	2,625	The Nilgiris	72
Chingleput	62		
South Arcot	2,985	Total ...	219,841
Chittoor	595		
North Arcot	2,179		

CONFIDENTIAL.

TAXATION ON TOBACCO.

I

Notes to G.O. Mis. No. 1993, *dated* 21*st May* 1894.

The question is whether we should take the success of Travancore in levying a revenue from tobacco as a reason for calling the attention of the Government of India to the possibility of levying a revenue for tobacco in our territories. I doubt if we have sufficient ground for doing so and whether such a suggestion would be well received. Travancore is exceptionally situated, so that it has been possible to abolish all growth of tobacco there and levy a revenue by import duties, and the Government of India know all about this. Such a system would be impossible in our territory where tobacco is grown almost everywhere and consumed by almost everybody, and where larger Native States abound. The possibility of levying a revenue on tobacco in our territory, in this or any other way, has been repeatedly discussed and decided against after full communication between all the Governments, so that any suggestion for us on the subject would amount to an insinuation that the discussion had not been complete. The only way in which, as far as I can see, a large revenue could be realized for tobacco would be by establishing monopoly of manufacture and sale. Though this was hardly possible in former days, I believe it would be possible in these days of improved communications and police, but the initial expenditure on warehouses, etc., would be too heavy for a time of financial pressure and the larger preventive establishments which would be necessary and extend through almost every village would result in oppression which would be so widespread and so frequently exercised that it would be eminently dangerous.

G. Garstin—7-3-93.

No doubt a tobacco monopoly *could* be worked but it would be a gigantic undertaking, and so very costly (especially in Bengal, where Government has no rural agency at all) that it would not, in my opinion, bring in a net return worth the imitation, the measure would certainly cause. The simplest way of raising a tax on tobacco would be by a special tax on the land on which it was grown, but that would not apply to Native States and cannot be worked in Bengal. A special establishment which would eat up the most part of the profits, while in all settled non-zamindari districts the terms of the settlements would prevent the imposition of such a tax. Independently of this, the taxation of land according to the crop grown would be a

This note is submitted with reference to the enquiry whether the attention of the Government of India has been called in the Revenue Department to tobacco as a possible source of revenue.

2. The occasion for this enquiry will appear from the notes of His Excellency the Governor and the Hon'ble Sir Henry Stokes to which reference is made in that office-note. It arose in this wise—

In submitting the budget estimate of the Travancore State for the Malabar year 1069 (August 1893–94) Mr. Grigg, the Resident, after observing that the most important increases occurred under certain heads of revenue of which tobacco was one, remarked regarding the increase under this head as follows :—

"That under tobacco is very remarkable. I have never heard a rumour of complaint regarding this tax, and yet it comes to approximately As. 6–6 per head of the population and gives a revenue nearly double that of abkari and opium and is now 55 per cent of that of salt—a necessary of life. Offences against the law relating to its importation are, I believe, not numerous. The lucrativeness of this monopoly may well attract the attention of Indian financiers (paragraph 3 of his letter, dated 3rd August 1893, in Government Order, dated 20th October 1893, No. 712, Political).

On this His Excellency noted—

"We should call the attention of the Government of India to the statistics of the tobacco tax and to the Resident's remarks thereon."

On this note Sir Henry Stokes remarked as follows :—

"The attention of the Government of India has been often enough directed to tobacco as a possible source of revenue. The peculiar position of Travancore makes its experience of little or no value in the consideration of the question.

retrograde measure, injurious to the cultivator and certainly beneficial to no one but the karnam.

A licence fee might be imposed and would yield something. It would be a return to the moturfa abolished years ago, and would come very hard on the very poor classes who sell tobacco. I should be sorry to see it tried. Similar objections can be found to every other plan of levying a tobacco tax in this country. I don't think that the Government of India would care to take the question up. It was examined, on another and later occasion, I think, than any of those mentioned in the note, by Mr. Bazeet Colvin when additional Member of the Viceroy's Council, who wrote a long note on this and other projects of taxation, a copy of which I have somewhere—given me by Sir Auckland Colvin, when Finance Minister, who told me at the time that the idea had been finally abandoned—or to that effect. This was in 1886 when the times were almost as hard as they are now.

H. E. Stokes—7-3-94.

This note is very clear, and gives me a complete answer. It is very evident that we should *not* call the attention of India to Mr. Grigg's remarks on the revenue derived in Travancore from taxing tobacco.

I found myself like many others lured into the belief that a large revenue might be derived from taxing this article, and the same results achieved here as in almost every civilized country in the world. But on inquiry I find that not only has it been thoroughly looked into, but the experiment has been tried and has failed, and there is no doubt the peculiar circumstances of the country have rendered the success of the experiment almost impossible. And as Sir J. Strachey very forcibly puts in the incidence of a tax on tobacco would fall with far greater severity on those who now pay the bulk of the salt tax, and we would thereby be putting a crushing weight on those least able to bear the burden. I confess myself converted and withdraw from any further attempt to bring this question within the domains of practical politics—although I can imagine a municipality looking upon it as a fair object for local taxation but even then extremely difficult to work, as poor Madras can testify.

I suppose though that imported tobacco will pay its 5 per cent like other articles (except cotton goods !).

Wenlock—11-3-20.

Tobacco is not produced in the State : the revenue is derived from import duties, and the configuration of the country lends itself to the easy levy of these duties on the greater portion of the tobacco consumed, which comes from Ceylon. In this Presidency and probably in the rest of India, import duties would not produce any revenue worth having and would be prejudicial to the Cheroot industry (Tobacco imported consists mainly of cheroot covers from Java and Sumatra) : but I have no doubt that a considerable revenue might be got from licensees on the vend by others than the growers."

His Excellency wrote thereupon—

"Has this Government ever called their (India's) attention to it? Anyhow I do not think we could do any harm in pointing out what a large sum a little place like Travancore manages to get from the consumers of tobacco. It does not seem to me material how it is raised, whether by import duties or licences. The very significant fact remains that the consumers of tobacco in Travancore contribute yearly Rs. 10 lakhs to the State."

3. His Excellency's query whether this Government has ever called the attention of the Government of India to tobacco as a possible source of revenue has been referred to this department for information, in the office-note from the Chief Secretary.

4. It will be seen from the references put up—

(1) That this question has frequently been considered by the Government of India and has also formed the subject of correspondence between that Government and this and other Local Governments ;

(2) That the conclusion come to by the Government of India is that the idea of raising a large imperial revenue from tobacco must be abandoned ;

(3) That our Government has also expressed the opinion that no large provincial revenue can be obtained from tobacco ; and

(4) That the Government of India is not unaware of the fact that Travancore manages to derive a large revenue from this source.

5. A summary of the correspondence on the subject is subjoined as also a short account of the tobacco monopoly in the districts of Coimbatore, Malabar and Canara which was abolished in the year 1853.

6. The Blue-Book entitled "Papers regarding the Tobacco Monopoly in the Presidency of Fort St. George etc.", gives the main correspondence up to 1868. It will be seen from pages 25–74 of the book, that for 50 years from 1803 to 1853, tobacco was the subject of a Government monopoly in the districts of Canara, Malabar and Coimbatore (vide Regulations 7 and 8 of 1811 and Regulation 5 of 1831 at pages 1, 4 and 8 of the Blue-Book), that the gross annual revenue derived during the 10 years—1833–1843 was about Rs. 8 lakhs and the net revenue about Rs. 5¾ lakhs ; that the evils arising from this monopoly were so great that the attention of Government was frequently invited thereto by the officers concerned ; that in 1845, the Government after recording a succinct review of the correspondence on the subject (vide No. 2 at page 26) called for a report from the Board of Revenue "on the practicability of a modification of the monopoly which, whilst we shall secure a considerable revenue, shall yet divest the tax of some of its most injurious attributes, its heavy charge of collection and the inducement it held out to smuggling"). The Government added that if a beneficial modification was impracticable, the possibility of finding an available substitute should be investigated.

It cost 2¼ lakhs to collect 8 lakhs !

J.G.

In reply the Board furnished an exhaustive report on the subject and said—

"It is with much reluctance that they are induced to advise the surrender without an equivalent of so considerable a source of revenue as the (tobacco) monopoly and they must be understood as doing so only, because, after much anxious reflection on the subject, they have been led to the conclusion that between such surrender and the retention of the present system with all its evils, there is no practicable middle course.

After a careful consideration of the subject the Government declared—

"The crying evils of the tobacco monopoly continue daily to become more notorious and demand an immediate remedy. The Right Hon'ble the Governor in Council entertains the most decided conviction that, as the Board of Revenue has represented, there is no effectual remedy short of total abolition and the expunging of so objectionable a branch of revenue from the system of Indian Finance."

In accordance with this view application was made to the Court of Directors for sanction to abolish the tobacco monopoly and on such sanction being obtained, Act IV of 1853 was passed abolishing the monopoly—

Some of the evils of this system arose from its being confined to a limited area but the worst-springing from the fact that tobacco is produced almost everywhere and freely consumed by all classes so that any raising of the price gives rise to the worst sort of smuggling and is fatal to the peace of the country—will affect any system.

J.G.

7. The subject of a tobacco-tax was considered by the Government of India during the years 1859–68. A summary of the correspondence which then took place on the subject and of the views held thereon will be found in Sir John Strachy's minute dated 21st October 1865 printed as No. 97 at page 152 of the Blue-Book and in the Government of India's letter to the Secretary of State printed as No. 98 at page 155.

All methods of taxing tobacco were considered then.

J.G.

It will be seen therefrom that, when after the events of the year 1857, the state of the finances rendered it necessary to resort to new sources of revenue, a tax on tobacco was among other things very much discussed.

Four methods of deriving a revenue from this source had been suggested :—

(1) The suppression of the cultivation of the plant throughout India and the imposition of an import duty.

(2) The establishment of a monopoly of the cultivation and manufacture of tobacco similar to that now applied to opium.

(3) The imposition of a licence duty on the cultivation of the plant.

(4) The imposition of licence fees on all wholesale and retail dealers in the manufactured article.

Of these, the first and second methods were soon dismissed as impracticable.

The third plan was at first favoured by the Government of India but most Local Governments disapproved it. The main objections urged were: that to impose a special tax on the cultivation of tobacco would be a violation of the principles on which land assessments were usually made; that it would also be economically a mistake; that the suppression of its cultivation except under a licence would be difficult to enforce; that as the enforcement cannot be extended to Native States (even if it could be extended to zamindari and inam estates) the measure would have the effect of contracting the area of its cultivation in British territory and greatly stimulating its growth in Native States and it would be extremely difficult to prevent the smuggling of free tobacco from such States. The views of this Government are contained in Mr. Bourdillon's letter to the Government of India, dated 11th June 1859, printed as No. 90 at pages 120–128. In the first enclosure to this letter the inexpediency of taxing tobacco in any form is fully set forth by the Board of Revenue.

The Government of India thereupon turned to the fourth plan of licensing the *sale* of tobacco and accordingly inserted a provision to this effect in the Licensing Bill then under its consideration. (The Bill, which was finally passed as India Act 18 of 1861 and repealed by India Act 2 of 1862). But the reports received from Local Governments on the point were not encouraging. They all went to show that no system of licensing would bring in any large revenue.

The Government of India resolved therefore to abandon altogether the idea of raising a revenue from tobacco by Imperial Legislation and the clause in the Licensing Bill which related to tobacco was accordingly expunged.

8. But while arriving at this opinion as to the unsuitability of tobacco for Imperial taxation the Government of India also thought, judging from the reports received from Local Governments, that a considerable revenue might be derived by Local Governments if they were left each to carry out the system best suited to the circumstances of its province. Accordingly, and as it was thought that Imperial revenues might be relieved to a considerable extent by establishing a system of local taxation for local purposes, the Government of India addressed Local Governments on the subject of such taxation and named tobacco as one of the sources from which a revenue might be derived.

The reply of this Government to the above letter is printed at pages 157—162 of the Blue-Book. This Government merely reiterated the opinion it had expressed in its letter of 11th June 1859 (No. 90 at page 120) that there were insurmountable objections to the realization of a revenue from tobacco unless in the shape of a tax on the shops where tobacco was sold, i.e., a licence tax; and that the produce of such a tax would not be considerable.

9. The Government of India appears to have considered this question of a tobacco tax on subsequent occasions also and to have arrived at substantially the same opinion as before, as will appear from the letter to the Secretary of State printed as No. 98 at page 155.

10. In 1870 when the question of raising the rate of income-tax was under the consideration of the Government of India, a proposal was made by one of the members (Mr. Cowie) to tax tobacco. Sir John Strachy and Sir Richard Temple both spoke against the measure and His Excellency Lord Mayo said:—

"Now it is quite true that in many civilized countries tobacco is considered to be a very proper object for taxation but I must remind the Council that tobacco in India is really an absolute necessary of life and that if you put a tax upon the production of tobacco, you tax the two great necessaries of life in this country, viz., salt and tobacco, and I am not prepared even in the present state of our finances to advocate the imposition of a burden upon such a prime necessary of life as that is.

11. The question appears to have been discussed also during Lord Lytton's Viceroyalty and the same conclusion arrived at, namely, that no large revenue could be raised by taxing tobacco (vide pages 368-70 of Strachy's book on "The Finances and

Public Works of India" and page 554 of the volume of Legislative Council's Proceedings for 1877). The following extract from Strachey's book may be noted:

"Tobacco is almost universally consumed and is looked upon as almost a necessary of life. Whatever means were adopted the tax would only be largely productive if it fell ultimately on the classes which form the great mass of the community. It would be paid by the same classes which now pay the salt tax, and if it should become necessary to increase the burden which they already bear this object would be more easily and economically gained and with far less vexation to the people by increasing the existing tax upon salt than by imposing a new tax upon tobacco. That any increase in the rate of the salt-tax would be one of the greatest possible mistakes, unless in most exceptional circumstances and on the other hand that its present reduction * would be financially a most desirable measure, has been shown in another chapter (page 370).

* The duty was reduced from Rs. 2-8-0 to Rs. 2 in 1882. It was raised as follows in this Presidency:—

	Duty. Rs.	A.	P.
August 1859	1	0	0
April 1861	1	4	0
1861–62 to 1865–66	1	5	0
1866–67 to 1868–69	1	8	0
1869–70 to 1877–78	1	12	0
1878–79 to 1881–82	2	8	0
1882–83 to 1886–87	2	0	0
1886–87	2	8	0

12. That the Government of India knows that Travancore derives a large revenue from tobacco, may be inferred from the correspondence which took place in 1860–65 relative to the Interportal Trade convention with Travancore and Cochin and more especially from the correspondence embodied in Government Order dated 14th May 1868, No. 1338.

It will be seen from the latter correspondence that at the desire of the Viceroy (Sir John Lawrence) whose attention seems to have been drawn to certain remarks which appeared in the Travancore Administration Report for 1865–66, regarding the tobacco tax in that State the Hon'ble Mr. G. N. Taylor addressed the then Resident in Travancore and Cochin (Mr. Newill) for full particulars regarding the mode in which the tax was levied in that State and that complete information on the subject was furnished by the Resident and the then Diwan T. Madhava Rao.

This correspondence came before this Government, mainly on account of a minute recorded by the Hon'ble Mr. G. N. Taylor, in which he suggested that this Government might consider the expediency of imposing a moderate import duty or an excise wherever practicable—vide his minute printed in the Government Order.

The Diwan's Memorandum shows that during the flourishing period of the monopoly system (it was abolished in 1862–63, that is, ten years after the abolition of the Government monopoly in Malabar and Canara) the gross revenue from tobacco amounted to more than half the revenue from all other sources or more than one-third of the total revenue of the State while the revenue now amounts to about one-eighth of the total revenue.

13. From the administration report of the Travancore State for the year 1891–92, it appears that 12,295 † candies of tobacco valued at Rs. 26,77,723 were imported during that year and that a duty of Rs. 9,43,030 was collected thereon.

† Equal to 6,147,500 lb. or 8,065,520 lb. according as a 'candy' is 500 lb. or 656 lb. (which latter is the equivalent given in Madhava Rao's Memorandum—vide paragraph 10.

14. The following statement gives the statistics of the imports of tobacco into this Presidency by sea for the last three years:—

Tobacco—Imports—Sea-Borne ‡ Trade.

Years.	Foreign trade.		Coasting trade.		Total.	
——	Quantity in lb.	Value.	Quantity in lb.	Value.	Quantity in lb.	Value.
		Rs.		Rs.		Rs.
1890–91	446,477	2,06,021	218,915	33,563	665,392	2,39,584
1891–92	542,705	2,91,725	110,937	17,121	653,642	3,08,846
1892–93	915,719	3,37,980	135,775	27,107	1,051,494	3,65,087

‡ The rail-borne imports amount only to about 2,000 lb.

At the Travancore rate of duty the imports into this Presidency will bring in a gross revenue of a little over one lakh of rupees.

R.V.S.—1-3-94.

The foregoing account gives a clear and concise summary of all that has been written on this subject and shows that the feasibility of raising a revenue from tobacco has been most exhaustively debated and that the question has been considered in all its bearings. The situation is appropriately summed up by Sir John Strachey in paragraph 8 of his minute of the 21st October 1865 (page 154 of the Blue Book)—

"Tobacco has seemed at first sight a very promising subject of taxation to almost everyone who has thought upon the subject, but almost everyone had given up the scheme upon full consideration of the difficulties which surround it."

J.G.—3-3-94.

II

Mr. N. S. Brodie's Note dated 26th December 1915 (Secret D.O. No. A A-1, dated 11th January 1916).

Prior to 1910–11, *ad valorem* rates used to be charged on imported manufactured tobacco of all sorts at the rate of 5 per cent but this system was then abandoned and special quantitative rates introduced, presumably because of the difficulty of levying *ad valorem* rates. The rates introduced were about 33 per cent higher than those now in force which are—

	Rs.	A.	P.	
Unmanufactured tobacco	1	0	0	per lb.
Cigars	1	10	0	,,
Cigarettes weighing less than 3 lb. per thousand.	3	2	0	per thousand.
Cigarettes weighing 3 lb. or more per thousand.	1	4	0	per lb.
Manufactured, other sorts	1	2	0	,,

These rates are said to be approximately 36 per cent *ad valorem* on cigars and 33 per cent *ad valorem* on cigarettes though how this is arrived at I don't know, considering how much imported cigars and cigarettes vary in weight and value. The Government of India's first proposal is to raise these rates 'in approximately the same proportion, i.e., to a uniform 50 per cent *ad valorem*.' I presume this means that the duty on cigars is to be raised by about one-third and that on cigarettes by about half. Nothing is said about 'other sorts' which I suppose means principally pipe tobacco. Judging from Spencer's and Oakes' price lists the present rate seems to be from 28 to 41 per cent on the cheapest pipe tobacco and presumably this is also to be raised by about one-third. The rates will then read—

	Rs.	A.	P.	
Cigars	2	3	0	per lb.
Cigarettes	4	11	0	per thousand and
	1	14	0	per lb.
Other sorts	1	8	0	per lb.

I presume the Government of India does not intend to go back to *ad valorem* rates.

Effects of taxation introduced in 1910–11. Sea-Borne Trade Review of 1910–11, page 9.

2. The rates introduced in 1910–11 had the immediate effect of 'extensively curtailing the imports of foreign tobacco and they scarcely realized the revenue it was hoped they would bring in.' The total imports declined by 83 per cent in quantity and 52 per cent in value. Imports of leaf tobacco, *formerly duty free*, fell from 447,115 lb. to 63,267 lb. or by 86 per cent in quantity. Imports from Ceylon and the Straits Settlements practically ceased. [There used to be quite a large trade from the Jaffna and the northern Ceylon ports which supplied a great part of the tobacco used on the west coast of this Presidency.] Imports of cigarettes decreased 77 per cent in quantity and 48 per cent in value. The cheap American varieties were practically shut out, falling 94 per cent in value and the result was the foundation and development of the Indian cigarette industry which has probably taken their place. Exports of cigars to the United Kingdom fell by 72 per cent owing to the imposition of duty on wrapper tobacco. To avoid this, Messrs. Spencer & Co. removed their factory to Pondicherry.

Sea-Borne Trade Review of 1911–12.

3. In 1911–12, owing to the outcry from Ceylon and the leading local manufacturers of better class cigars, the rates were reduced by about 33 per cent to the present figures. Even this, however, failed to revive the import trade from Ceylon and the Straits Settlements which was completely and finally killed. Imports of leaf tobacco rose by 19,160 lb. but this was only a mere fraction of the fall of 383,848 lb. in 1910–11. The increase was confined to the higher grades required in the manufacture of cigars of good quality. Imports of cigarettes showed a further decline in quantity but an increase in value, the trade in cheap American cigarettes being completely extinguished. Exports of cigars to the United Kingdom declined another

7 per cent in value but exports to the Straits Settlements increased by 23 per cent and the whole export of cigars increased by 13 per cent in quantity and 9 per cent in value. The cigars exported to the Straits Sttlements and Federated Malay States appear to be made of purely Indian tobacco which pays no duty.

4. In 1912–13, there was a further decrease in imports of cigarettes by 15 per cent and a large factory was opened at Bangalore by the Peninsular Tobacco Company. Manufacture of cigars for export to the United Kingdom was permitted in bond and Messrs. Spencer & Co. returned from Pondicherry. The exports of these cigars rose by 46 per cent but of course the revenue did not profit by this.

Sea-Borne Trade Review of 1912–13.

There was a general increase both in imports and exports of tobacco in 1913–14 and some recovery in imports of cigarettes to a little above the figures of 1910–11. The export of high grade cigars to the United Kingdom rose to ·88 lakh against ·57 lakh in 1910–11.

Sea-Borne Trade Review of 1913–14.

However, the effect of the war was to send most of the principal figures lower than ever. Imports of raw tobacco fell to 70,573 lb. in 1914–15 and exports of high grade cigars to the United Kingdom fell to 33,434 lb. and to ·45 lakh in value (nearly 50 per cent), the lowest figure on record.

Effects of the war—Sea-Borne Trade Review, 1914–15.

5. The figures since the introduction of the new tariff are tabulated below :—

Annual value of the sea-borne trade and navigation of the Madras Presidency for 1914–15.

Foreign trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.						
1. Unmanufactured (total for Presidency).	LB. 447,115	LB. 63,267	LB. 82,427	LB. 90,458	LB. 110,458	LB. 70,573
2. Manufactured—						
(*a*) Cigars	11,099	1,049	937	830	1,107	3,368
(*b*) Cigarettes	319,275	72,139	65,410	55,217	78,616	78,429
(*c*) Other sorts	94,940	12,473	26,397	23,370	24,723	28,090
Exports.						
1. Unmanufactured (unaffected by tariff).	1,444,632	1,670,842	1,619,966	1,806,998	2,234,511	2,362,766
Of the above exported to Straits Settlements and Federated Malay States.	1,374,612	1,621,543	1,568,878	1,773,160	2,115,056	2,304,144
2. Manufactured—						
(*a*) Cigars	697,507	704,791	797,383	989,811	988,668	887,165
Of the above quantity exported to United Kingdom.	80,360	42,565	36,184	51,156	56,976	33,434
Straits Settlements and Federated Malay States (unaffected by tariff).	415,357	547,613	661,294	827,278	811,219	800,488
(*b*) Other sorts	4,196	4,515	9,010	8,513	9,363	8,885

Coasting trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.						
1. Unmanufactured	LB. 610,603	LB. 683,787	LB. 664,054	LB. 578,058	LB. 604,165	LB. 596,038
2. Manufactured	142,514	84,439	59,021	94,319	57,595	71,301
Of the above imported from Calcutta.	118,687	73,703	52,511	85,214	46,637	53,301
Exports.						
1. Unmanufactured	7,721,625	7,535,386	6,870,154	6,536,820	6,928,569	5,168,826
Of the above exported to Burma ..	6,926,830	6,474,041	6,149,974	6,133,770	6,521,676	4,579,130
2. Manufactured—						
(*a*) Cigars	347,507	314,933	410,526	419,710	349,618	275,018
Of the above exported to Burma ..	194,493	204,649	292,004	320,781	251,706	177,844
Of the above exported to Bengal ..	101,866	73,206	76,815	61,785	63,117	65,373
(*b*) Cigarettes	..	..	2,877	4,200	26,471	64,599
(*c*) Other sorts	35,726	43,920	37,620	39,906	33,407	77,190

6. The net result of the introduction of the heavier tobacco duties in 1910–11 has, therefore, been to kill the import trade in raw tobacco from Ceylon and the Straits Settlements and in cigarettes from America and to lay the foundations of a cigarette manufacturing industry in India from Indian leaf. The trade in high grade cigars exported to the United Kingdom has suffered very heavily, despite permission to manufacture export in bond. The fall between 1909–10 and 1913–14 (when this industry reached its highest point after the imposition of duties and before the outbreak of war) was about 29 per cent. This shows what an effect even a slight rise in the cost of such a thing as tobacco has on consumption as it was undoubtedly the increased cost (and that only of the wrapper) in 1910–11 that gave the trade this set back. The wrapper is only a minute fraction of the weight of the cigar and if the duty on whole cigars is only equal to an *ad valorem* rate of 36 per cent the duty on a cigar whose wrapper alone pays duty must be nearer 1 or 2 per cent. Since the concession of manufacture in bond has been granted these cigars pay no duty and it is presumed that this concession will be continued so that any enhancement of rates will not affect them.

7. *Rail-borne trade*, 1914–15.—

Imports from other Presidencies and Native States.

	LB.
1. Unmanufactured	2,051,959
Of which imported from Mysore	1,344,550
2. Manufactured—	
(*a*) Cigars	13,330
(*b*) Other sorts—probably cigarettes	1,497,517
Of which imported from Mysore	1,294,272

Exports to other Presidencies and Native States.

1. Unmanufactured	24,729,076
Of which exported to—	
Mysore	8,181,339
Calcutta	5,282,496
Nzam's Territory	4,242,157
2. Manufactured—	
(*a*) Cigars	503,013
(*b*) Other sorts	392,750

Internal trade between various parts of the Presidency.

1. Unmanufactured	53,774,208
2. Manufactured—	
(*a*) Cigars	1,061,815
(*b*) Other sorts—probably cigarettes, bidies and snuff ...	1,074,651

8. From these figures it appears that by far the greatest part of the Delta tobacco is exported in the manufactured condition and made up locally. The trade in manufactured tobacco is comparatively small, which agrees with my information that there are no manufactories of any size. A fairly large quantity of manufactured cigars is exported by rail from the Central districts (i.e., Trichinopoly, Salem and Coimbatore) to Negapatam but this no doubt is included also in the exports by sea to the Straits Settlements.

Cigars.

9. In the Secretariat note of 1911 the total outturn of cigars was estimated by Mr. Innes at about 2,500,000 lb; i.e.:—

	1909–10.
	LB.
Foreign exports	697,507
Coasting trade exports	347,507
Rail-borne exports	451,164
Do. internal trade	971,208
Total ...	2,467,386

The corresponding figures for 1914–15 are—

	LB.
Foreign exports	887,165
Coasting trade exports	275,018
Rail-borne exports	503,013
Do. internal trade	1,061,815
Total ...	2,727,001

Allowing for the disturbance of trade caused by the war, the export trade and rail-borne traffic in cigars may, therefore, be taken at about 2,750,000 lb. but this is probably an excess estimate of the quantity actually manufactured since the rail-borne traffic probably includes the greater part of the foreign exports and possibly a good deal of the coasting trade exports also.

Cigarettes.

10. The Indian cigarette industry has practically grown up since the Secretariat notes of 1911 were written. Foreign imports of the better class cigarettes have remained nearly stationary since 1911–11 at about 70,000 lb. Comparing the figures of 1909–10 with those of 1910–12 when the full effect of the tariff duties had had time to operate, 253,865 lb. of cheap American cigarettes appear to have been displaced. These have no doubt been replaced by Indian cigarettes and there has probably been a large increase in consumption in addition.

The export trade in cigarettes in 1914–15 appears to have been somewhat as follows:—

	LB.
Foreign exports	8,885*
Coasting trade exports	61,599
Rail-borne exports	392,750*
Do. internal trade	1,074,651*
Total ...	1,537,885

In the absence of figures for bidies, snuff, etc., it is not easy, however, to say how much of these 15 lakhs of pounds represent cigarettes and still less how much represents cigarettes manufactured in the Presidency. My inquiries in Vizagapatam show that none of the cigarettes there consumed (and the consumption is very large) are manufactured in this Presidency. The great bulk come from Calcutta and a good many from the Peninsular Tobacco Company, Bangalore. Similarly in Madras, the bulk of the cigarettes come from Bangalore or Bowringpet, both in Mysore territory and not subject to British excise. It will be seen from paragraph 7 above that 1,294,272 lb. of 'other sorts' including (no doubt mostly) cigarettes are imported from Mysore. Probably the greater number of these are shown in 'rail-borne internal trade' and exports of the Presidency over again. I should put the actual number manufactured in the Presidency at not more than 250,000 lb.

11. The following are principal Indian Cigaratte factories shown in the Lawrence Asylum Press Almanack, page 1438:—

(1) A.G.M. & Sons, Coimbatore.

(2) K.G.A., Coimbatore.

(3) McDowell & Co., Madras.

I have never seen any cigarettes from the first two factories and they seem to be very small and merely supply the local market. McDowell & Co. employ about 25 persons and some small hand machines. Pappadapoulos Brothers make Egyptian cigarettes but import Egyptian tobacco which already pays duty. Besides these there are the two large factories in Mysore—

4. The Peninsular Tobacco Company, Cleveland town, Bangalore, and

5. The Oriental Tobacco Manufacturing Company, Bowringpet.

*Includes, however, pipe tobacco, bidies, snuff, etc.

Both these are run on American lines and employ a large number of workmen and power-driven machinery, but as already remarked they are not subject to British excise.

Outturn of tobacco.

12. According to the 'Season and crop report' for 1914–15 the total area cultivated with tobacco in the Presidency was 227,182 acres, the 'normal' area being 203,230 acres. I learn from Chadwick that 800 lb. of dried leaf per acre is a fair average crop as taken by Castlestuart Stuart in 1910. The total outturn was therefore about 182,000,000 lb. of which we have only accounted for about $3\frac{1}{2}$ millions at most in the manufactured form. This outturn was spread over 24 districts, the area being over 10,000 acres in seven, Vizagapatam (29,115), Godavari (13,099), Guntur (78,560), Kistna (13,022), Kurnool (18,769), Coimbatore (26,001) and Madura (11,172). These figures show little change since 1908–09.

About 90,000,000 are exported in unmanufactured form.

Tobacco industry.

13. The census report for 1911 groups manufacturers of tobacco, opium and ganja together under Order 12, Group 66. The number of manufacturers of opium and ganja must be almost negligible and the total number of workers and dependents is shown to be 12,333. Under Order 33, Group 122, sellers of tobacco, opium, ganja, etc., are said to be 65,733 (workers 25,883, dependents 39,850). The total number of persons dependent on the tobacco trade is therefore about 78,066 against 75,000 in 1901. It is not possible to compare the figures of the other industries referred to in Mr. Castlestuart Stuart's demi-official of 5th November 1910 as the classification has been altered. Betel leaf and arecanut sellers are now grouped with vegetable and fruit sellers. It may be noted however that the number of persons engaged in the manufacture of tobacco is about as many as bakers and biscuit makers (12,970) whilst the number of sellers of tobacco is not much less than the number of sellers of milk, ghee, butter, poultry, eggs, etc. (80,981).

Present proposals criticised.

14. These figures show that there has been comparatively little change in the general position since 1910–11 and the arguments against any form of taxation of Indian grown tobacco remain as strong as they were then. The present proposals of the Government of India may now be examined in detail. The first is, as far as I understand it, to raise the quantitative rates of duty on imported cigars and cigarettes (and perhaps also on other manufactured tobacco) to the figures shown in paragraph 1 above. The quantity of imported cigars is now very small and was only 3,368 lb. in 1914–15. Assuming that the enhanced duty has no effect on consumption, the increase of revenue from this source will be only Rs. 1,824*. But judging from the effect of the enhancement of duty in 1910–11 it will probably be much less. The duty on imported cigarettes (78,429 lb. in 1914–15) was about Rs. 80,000 and the enhancement of the duty by one-half may give Rs. 40,000, though here also a heavy fall in consumption may be confidently looked for. The increase of duty on 'other sorts', i.e., probably pipe tobacco, snuff, etc. (which may be contemplated) by one-third would yield perhaps Rs. 10,742. Altogether, the maximum increase of revenue that may be looked for from this proposal cannot, therefore, be more than Rs. 60,000 and the burden will fall heavily on the poorly paid European and Eurasian assistants in shops, business firms, Railway Companies, etc., who are by far the largest consumers of imported cigarettes. However this increased revenue can no doubt be obtained without administrative difficulty or expense.

(*a*) First proposal.

*Present duty Rs. 5,473 one-third enhancement Rs. 1,824.

(*b*) Second proposal.

15. The second proposal is to levy an excise duty on cigarettes of Indian manufacture. The large factory referred to by the Government of India is probably that in Bengal, I think at Monghyr. It is proposed to differentiate bidies from cigarettes by the use of cigarette paper. This may be accepted. It is proposed that

the taxation should take the form of a quantitative duty equivalent to an *ad valorem* duty of about 15 per cent. A further point is whether the taxation should be restricted to factories equipped with power-driven machinery. If this qualification is accepted the question is a simple one for there are no such cigarette factories in this Presidency. Assuming, however, that all cigarette factories are to be taxed my inquiries show that cigarettes of Indian manufacture vary considerably in price. The cheapest are sold retail at prices varying from Rs. 1–4–6 per 500 or Rs. 2–6–0 per 1,000 to Rs. 2–12–0 per 500 or Rs. 5–2–0 per 1,000. These cigarettes both weigh almost exactly $2\frac{1}{2}$ lb. per 1,000, the cheaper ones a little more. The manufacturer's price to the trade is no doubt considerably less as these cigarettes have to be imported to Vizagapatam and there is the retailer's profit to be considered. The excise duty will of course have to be fixed with regard to the wholesale price at the factory. I should say Rs. 1–12–0 per 1,000 is probably an outside price for the cheapest cigarettes. This means $28/2\frac{1}{2}=11\frac{1}{5}$, say 11 annas a lb. or as they weigh rather more than $2\frac{1}{2}$ lb. per 1,000, say 10 annas a lb. 15 per cent on 10 annas is one and a half annas per lb. I have estimated the total production of cigarettes in this Presidency at not more than 250,000 lb. and the duty on this would be Rs. 23,437. It is impossible to say without a full inquiry what the number of cigarette factories is but they are certainly very small and probably average not more than 10,000 lb. of cigarettes each per annum. Putting the number at 25 scattered all over the Presidency, not less than 25 Sub-Inspectors on Rs. 40 per mensem would be required to supervise them. The cost of these would be Rs. 12,000 not allowing for contingent expenses such as weighing machines, etc. The net proceeds of the tax would therefore be somewhere about Rs. 10,000, even supposing that the duty had no effect on consumption which is extremely improbable. Moreover as Indian cigarettes vary considerably in price though not so much as cheroots, the duty would press most unfairly on the cheapest brands and on the poorest class of the population which consumes them.

Watch cigarettes—Peninsular Tobacco Company, Bangalore, Rs. 1-4-6.
Ruler cigarettes—Imperial Tobacco Company, Calcutta, Rs. 2–12–0 per 500.

16. The third proposal is to levy a similar quantitative excise duty equivalent to an *ad valorem* tax of 15 per cent on cigars of Indian manufacture. As already pointed out in 1911 this problem absolutely bristles with administrative difficulties. In the first place it is not clear whether bidies are to be included. It is possible to distinguish bidies from cigarettes but the difference between them and the poorest kind of cheroots is almost infinitesimal. Both are rolled in leaves, sometimes tobacco leaves sometimes not. The manufacture of bidies is admittedly a cottage industry carried on in every village and hamlet. However according to the Asylum Press Almanack one tobacco factory at least professes to make bidies. The vast bulk of the Indian cheroots are also made as a cottage industry as is evident from the fact that out of 182 millions of pounds of tobacco grown only about $3\frac{1}{2}$ millions ($4\frac{1}{2}$ at the outside) appear in the trade returns as manufactured. Possibly bidies could be excluded by excepting cheroots, etc., weighing less than as many pounds to the 1,000. My experiments show that the commonest bidies weigh about $1\frac{1}{4}$ lb. per 1,000, so that if manufactured cheroots weighing less than $1\frac{1}{2}$ lb. per 1,000 were excluded this might meet the case. However this would undoubtedly stimulate the consumption of bidies which I understand to be the most deleterious form of smoking. Bidies are sold at 12 annas a 1,000 wholesale in Madras, that is at about $9\frac{3}{5}$ annas per lb. The manufacturer's price may be less so that probably 9 annas per lb. would be a safe figure and the duty, if any, ought to be much the same as for cigarettes or a little less, say 1 anna 4 pies per lb.

(c) Third proposal.

Bidies.

17. Ordinary cheroots of the commonest kind seem to weigh about $3\frac{3}{4}$ lb. per 1,000 and cost Rs. 1–12–0 per 1,000 retail but both weight and price vary enormously. Better class cheroots which, however, are still largely consumed by the poorer classes weigh 20 lb. per 1,000 and cost Rupees 12–8–0. Assuming that the rates to the trade are somewhat less we may estimate the first kind at 6 annas a lb. and the second at 10 annas a lb. The duty ought to be fixed at 15 per cent on the cheapest

Cigars.

kind at 6 annas a lb. The duty would then be 11 pies but for convenience of reckoning might be fixed at one anna.

It is quite impossible to estimate with any accuracy the output of Indian manufactured cigars. The figures in paragraph 9 no doubt afford some guide. I should imagine 2,000,000 lb. to be a fair estimate. The duty on this at 1 anna per lb. would be Rs. 1,25,000. Against this has to be set the cost of establishment which would be enormous. It is not possible at present to form any idea of what this would be. Presumably the only way to ensure the collection of the duty would be to place each factory in charge of an officer who would have to weigh the quantity of raw tobacco received and the quantity finally passed out on payment of duty, seeing that none illicitly passed out and keeping accounts on the same lines as officers in charge of distilleries. The test of a factory would be I suppose that the proprietor sold the manufactured produce, for practically every householder buys a few leaves of tobacco now and again and rolls them up into cheroots for private consumption. Even excluding these individuals, there appear to be about 26,000 persons describing themselves as tobacco sellers in the census returns, excluding 2,000 partially agriculturist. This agrees with what I expected, being an average of about one for every village in the Presidency. In some places there are no doubt several and in others none, but it would be quite impossible to do much in the way of concentration without causing much hardship. The formation of central storehouses appears, therefore, to be impossible and practically every shop will have to have a properly locked storehouse for the cheroots manufactured which adds to the expense. The ordinary staff of the Salt and Abkari Department could not possibly undertake this enormous addition to its work. Assuming that one Sub-Inspector could efficiently supervise on the average 25 factories (which I take to be impossible with the shops scattered as at present) it would require a staff of 1,000 Sub-Inspectors to supervise the work in the Presidency. The opportunities for fraud would be so great that I fear even then the force would be demoralized. Certainly a great many of the Sub-Inspectors would have to be paid more than the lowest grade of Rs. 40 a month. Assuming that the average pay is Rs. 60, this establishment alone would cost Rs. 60,000 per month or Rs. 7,20,000 per annum or about six times the estimated proceeds of the tax. It seems hardly worth while to discuss the matter further. A complete staff of peons, inspectors, Assistant Commissioners and Deputy Commissioners would also be necessary to supervise such an establishment and it would be quite impossible for me to undertake so large an addition to my work. After all there would be no possibility of guarding against fraud as there would be nothing to distinguish between illicit and licit tobacco. As far as I can see no tax less than Re. 1 per lb. would do more than pay for the cost of collection and this of course would be ruinous having regard to the cost of the article.

18. In conclusion I can see nothing in favour of the tax or any possibility of working it. A tax on Indian cheroots made in power-driven factories might be possible. There are only two, viz.: Spencer's at Dindigul and Oakes & Co. at Guindy—employing 700 persons between them. But it seems very hard to discriminate against them, even if the tax was only one anna a lb. and anything more would probably drive them out of the Indian market altogether. I cannot say what the output of these two factories is, but excluding the amount manufactured in bond for Europe I doubt if it exceeds 500,000 lb. and the duty at one anna per lb. would yield only Rs. 31,250.

19. Another possible course would be to put an export duty on manufactured tobacco. In that case I should exclude cigars exported to the United Kingdom which have to pay heavy and enhanced duties there and have already sufferred by the tariff. There are not the same administrative objections to an export duty, at all events on exports by sea, as the establishment exists and evasion would be practically impossible. Exports by sea to foreign countries, excluding the United Kingdom, amounted to 853,731 lb. in 1914–15 and exports to other provinces to 275,018 lb. Total 1,128,749 lb. A duty of one anna per lb. might bring in Rs. 62,500 without any extra cost and as the exported cigars at all events to the Straits Settlements are of fairly good quality a duty of even 2 annas a lb. might not ruin the trade and bring in about one and quarter lakhs. Still the amount is so small that I see no use in upsetting the trade at all for so very little result.

N. S. Brodie—26–12–15.

III

Demi-official from L. Davidson, Esq., I.C.S., to N. S. Brodie, Esq., I.C.S., dated 4th July 1916, No. 39–S. (Secret No. 183 A, dated 18th December 1916.)

I am desired to refer to your note of the 26th December 1915, on the subject of imposing an excise on locally manufactured cigars and cigarettes. The Government of India are disposed to agree that the taxation of locally-made cigars is not likely to prove of practical value. As regards cigarettes, however, they are unable to abandon the possibility of revenue from an article which is not only a luxury but also, to some extent, a harmful luxury; and they have asked this Government to consider the question at greater leisure.

2. Your note, referred to above, gives an approximate estimate of the total outturn of cigarettes in the Presidency, the number of factories and the prevailing wholesale prices. I am to ask whether you cannot now quietly obtain more precise information as to the number and location of factories, the met hods of manufacture, the outturn and the prices obtained. Collectors could possibly procure the information under the guise of income-tax or statistical inquiries without exciting attention.

3. The calculations in your note are based on the assumption that the excise to be imposed would be equivalent to an *ad valorem* tax of about 15 per cent, as was then suggested by the Government of India. I am to ask you now further to consider the effect of taxation on the industry and to favour Government with your opinion as to the maximum which could safely be imposed without seriously crippling the trade.

4. The Government of India lay stress on the strictly confidential nature of this further reference, but say 'there is no objection to consulting any officer of Government whose advice would be of special value.'

Demi-official from N. S. Brodie, Esq., I.C.S., to L. Davidson, Esq., I.C.S., dated Ennore, 12th November 1916.

With reference to your demi-official No. 39-S., dated 4th July 1916, I have now made further inquiries into the subject of the production and sale of cigarettes in this Presidency both personally and through Collectors. I cannot say that I have elicited much additional information and the remarks which I made in my note of the 26th December 1915 continue to hold good. It appears, however, that I was wrong in stating that there were no cigarette factories in the Presidency equipped with power-driven machinery as it was found on further inspection that McDowell's factory in Moor street, Madras, had some cutting machines worked by an oil-engine recently set up.

2. The estimate of outturn may very well remain at 250,000 lb. The only details I have been able to get are from the Universal Tobacco Company in Madras which is believed to turn out about 30 lakhs of cigarettes per mensem and from McDowell's factory, also in Madras, which is believed to turn out about 20 lakhs. McDowell's factory does not use Indian tobacco exclusively and some of the brands contain imported tobacco to the extent, it is said, of 25 per cent on the whole. I have tested numerous brands from all parts of the Presidency and find that as a rule they weigh about $2\frac{1}{2}$ lb. per 1,000, a little more or less. This gives the total Madras production about 150,000 lb. per annum. Allowing for the imported tobacco used in McDowell's factory the quantity of Indian cigarettes is about 135,000 lb. The only other factories appear to be Oakes & Co.'s factory at Guindy, a new factory started by Barry & Co. in Cocanada just recently and one or two small factories in Coimbatore. There was a factory at Guntur but it seems to have failed after working a few months. The Collector of Coimbatore has not yet replied to my letter on the subject but I made some inquiries in the course of my last tour and find that there are one and probably two factories in Coimbatore but they use imported tobacco for their cigarettes as does Pappadopoulos in Madras. Allowing for all these factories I should say 115,000 lb. per annum was a very liberal estimate, making 250,000 for the Presidency.

3. Retail prices seem to vary very considerably but on the whole I see no reason to modify my original calculations. The cheapest cigarettes are sold in packets of 5 or

6 and a slightly more expensive lot in packets of 10. The dealers' profit seems to be about eight annas a thousand and the trade discount about 20 per cent. Some cigarettes* are sold as cheaply as Re. 1 per 1,000 wholesale or allowing for the trade discount about thirteen annas per 1,000. This is less than half the price I estimated for the cheapest cigarettes in my last note (Rs. 1–12–0). I doubt if there are many of this brand sold, but there are numerous other brands at Re. 1–4–0, Re. 1–6–0 and Rs. 1–8–0 sold by McDowell & Co. However all other information tends to confirm the view that the cheapest cigarettes are sold at Rs. 2 to Rs. 2–12–0 by the wholesale dealers and consequently must cost somewhere about Rs. 1–12–0 per 1,000 from the manufacturers. These cheap cigarettes are manufactured in this Presidency by McDowell & Co., and the Universal Tobacco Company only. Those turned out by Oakes & Co., and the new factory started by Barry & Co., at Cocanada are much more expensive and work out at Rs. 11 to Rs. 14 per 1,000.

* By the Universal Tobacco Company, 1/6, Patters Road, Royapetta—'Bazaar' brand.

4. The method of manufacture is probably the same everywhere. The tobacco selected has all the main nibs cut out and the leaves are then laid one above the other to a considerable depth. They are then cut into small pieces by a cutting machine, the tabacco rolled in cagarette paper, gummed and cut into lengths. As far as I know the cutting and gumming, etc., machines are all worked by hand except in McDowell's factory above referred to.

5. In this connexion I should, however, bring to notice one or two facts which I have ascertained in the course of my inquiries. It is a common practice I understand for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale especially at the various shandies and markets in the Presidency. This is common in Malabar, Coimbatore and the Nilgiris at all events and probably elsewhere. Most Collectors have, however, reported that cigarette papers are not commonly sold in the bazaars. I believe the practice of individual consumers rolling their own cigarettes is not common at present though it is said to have been customary in Salem before the shop-made cigarettes became so cheap. It would be clearly impossible to levy an excise duty on cigarettes made by hawkers or private individuals and it may be expected that the practice would be much more largely resorted to if a duty were imposed on the manufactured article. This might perhaps be met by imposing a customs duty on cigarette paper which would have to be determined in accordance with the duty imposed on cigarettes, such customs duty to be refunded on paper actually used by the wholesale manufacturers. It seems that cigarette paper was formerly imported mostly from Austria and Germany—at present it is obtained from France.

6. As regards the duty to be imposed I find it difficult to express an opinion. The heavy rates imposed in 1910–11 practically killed the cheap American cigarettes but then the enhancement of rates was probably more than 100 per cent of the value so that this result was quite intelligible. My inquiries show that my estimate of the cost of collection was much too large. One Sub-Inspector would, I think, be required for each factory but as there seem to be only four or possibly five factories the cost would be only about Rs. 2,400 per annum. As observed in my previous note, a duty of one and a half annas per pound represents 15 per cent of the value of the cheap cigarette. This amounts to 3 annas 9 pies per 1,000 and could hardly affect the retail price at all. The usual retail price per packet of 10 cigarettes seems to be about 4 pies. A duty of 8 annas 4 pies per 1,000 should raise the retail price by one pie and this would probably not seriously affect the trade though even one pie is a consideration in a country like India. I do not think we could safely raise the duty beyond Re. 1 per 1,000 which would raise the retail price about 2 pies or 50 per cent. This would be 6·4 annas per pound and roughly about 60 per cent of the value. Although cheap cigarettes do not seem to vary much in weight I would prefer to levy the duty by the pound rather than by the number as being the only fair way of assessing it. A duty of $6\frac{1}{2}$ annas per pound would, if the production remained at 250,000 lb., yield Rs. 1,01,562$\frac{1}{2}$ but if the consumption fell, as it probably would, to about 200,000 lb. the tax would yield Rs. 81,250. As far as this Presidency is concerned, the result would, therefore, be insignificant, but, no doubt, the revenue

from the whole of India would be very considerable and I cannot see any serious objection to the proposal except that it would greatly encourage the smoking of bidies and press rather hardly on the poorest class of the population who smoke cheap cigarettes at present and regard them as a great luxury.

Demi-official from F. J. RICHARDS, Esq., I.C.S., to LEY, Esq., I.C.S., dated the 18th December 1916, No. 75-S.

I am directed to reply to Mr. Low's Confidential demi-official letter No. 4493, dated 14th June 1916, on the subject of the expediency of imposing an excise on cigarettes manufactured in India from indigenous tobacco.

2. In the first place, I am to point out that the correspondence of 1910, to which reference is made in the first paragraph of Mr. Low's letter, did not turn on the present question, for at that time there was no manufacture of cigarettes from indigenous tobacco in this Presidency. It is stated that the question of an excise on manufacture was then dropped because the local cigarette industry was in its infancy and it was considered that the imposition of an excise would deal it a death-blow. So far as this Presidency is concerned, the position is virtually unaltered; for, as stated in Mr. Butterworth's demi-official letter No. A.A.-1, dated 11th January 1916, the local output of cigarettes does not exceed some 250,000 lb. annually. This estimate has been confirmed by subsequent enquiries, though the number of factories to be taken into account is found to be smaller than was thought to be the case. There are probably not more than 5 or 6, of which the two largest are those owned by Messrs. McDowell & Co., and the Universal Tobacco Company both in Madras City. The former has recently been equipped with an oil-engine for driving its cutting machines. The average wholesale price for the cheapest class of ciagarettes quoted in Mr. Butterworth's letter, viz. Rs. 1-12-0 per 1,000, may be taken as correct. These cheap cigarettes are manufactured only by Messrs. McDowell & Co. and the Universal Tobacco Company. Those turned out by Messrs. Oakes & Co., at Guindy and by Messrs. Barry & Co., at Cocanada are much more expensive, costing from Rs. 11 to Rs. 14 per 1,000.

3. The maximum rate of duty which is considered compatible with the survival of the industry is Re. 1 per 1,000 or approximately $6\frac{1}{2}$ annas per lb. This duty would if the production remained 250,000 lb. yield a revenue of a little over a lakh. The imposition of such a tax, however, is almost certain to preclude any expansion of the industry and would very probably strangle that which already exists; for it would either drive the masses to revert to *bidi* smoking or compel the manufacturers to transfer their factories to French territory or to Native States. I may here point out that the Director-General of Commercial Intelligence has incorrectly assumed that the tax realisable from the Peninsular Tobacco Company's factory in the Civil and Military Station, Bangalore, would be credited to Imperial revenues. By the terms of rendition, the Mysore Government is entitled to the whole of the surplus revenue of the Assigned Tract, after the cost of the administration of the tract is defrayed. This fact seriously affects the estimate formed of the probable receipts from the tax.

4. Another factor to be taken into consideration is the practice, common in several districts of this Presidency, for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale, especially at local markets. Individual consumers do not usually roll their own cigarettes, though it is said to have been customary for them to do so in Salem before the shop-made cigarettes became so cheap. It would obviously be impossible to levy an excise duty on cigarettes made by hawkers or private individuals; and it may be expected that the practice would be much more largely resorted to, if a duty were imposed on the manufactured article. Cigarette paper was formerly imported from Germany and Austria; now France is the chief source of supply. A customs duty might be imposed on it, such duty to be refunded on paper actually used by the wholesale manufacturers; but this expedient would not be free from difficulties and would almost certainly result in the use of a local substitute.

5. In these circumstances, I am to say that the Government of Madras are entirely opposed to the proposal. They can suggest no alternative scheme for internal taxation of tobacco, apart from those already rejected.

IV

Letter from C. R. WATKINS, Esq., C.I.E., Officiating Collector of Customs, Madras, to the Under Secretary to Government, Finance Department, dated 1st May 1925, No. L. Dis. Nil.

I forward herewith a statement showing the foreign imports into, and exports from, the Madras Presidency of tobacco since the year 1920-21.

2. The rates of customs duty at present in force are given below:—

Name of article.	Per	Tariff valuation.	Duty.
Cigars	.....	Ad valorem.	75 per cent.
Cigarettes of value.—Not exceeding Rs. 10-8-0 per thousand.	Thousand ...	.....	Rs. 7.
Exceeding Rs. 10-8-0 per thousand ...	Do.	.....	,, 10-8-0.
Tobacco, unmanufactured	Lb. ...	.....	,, 1.
All other sorts of tobacco manufactured	,, ...	.....	,, 2-4-0.

ENCLOSURE.

Foreign imports and exports of 'Tobacco' at the Presidency of Madras for the past five years ending 1924-25.

	1920-21.		1921-22.		1922-23.		1923-24.		1924-25.	
	Quantity.	Value.	Quantity	Value.	Quantity.	Value.	Quantity.	Value.	Quantity.	Value.
FOREIGN IMPORTS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.
Tobacco—Unmanufactured ..	77,507	1,45,703	489,693	13,17,036	742,412	14,07,436	3,105,459	34,57,277	3,485,871	29,29,162
Cigars	12,815	43,430	701	2,922	81	238	94	156	215	473
Cigarettes	500,267	16,39,198	186,750	9,40,779	278,384	12,34,116	296,516	13,54,712	1,86,952	8,34,717
Tobacco for pipes and cigarettes	304	1,296	5,293	54,393	22,524	1,19,720	18,155	97,606	½	3
Other sorts	28,058	1,46,309	9,590	39,508	852	3,891	12,402	40,892	20,564	1,06,279
Total ..	618,951	19,75,936	692,027	23,54,638	1,044,253	27,65,401	3,432,626	49,50,643	3,693,602	38,70,634
FOREIGN EXPORTS.										
Tobacco—Unmanufactured ..	3,118,784	13,57,807	4,650,985	16,84,266	4,258,743	17,68,621	9,953,877	37,65,684	14,366,170	42,49,345
Cigars	75,540	1,04,792	94,905	1,17,671	99,244	1,32,490	1,11,541	1,20,174	88,199	1,25,560
Cigarettes	..	..	129	615	31,230	30,049	1,574	1,492	72,086	81,746
Other sorts	34,166	27,373	48,237	46,322	45,300	44,918	110,903	1,03,645	99,555	49,769
Total ..	3,228,490	14,89,972	4,794,256	18,48,874	4,434,517	19,76,078	10,177,895	39,90,995	14,626,010	45,06,420

V

Statement showing the area under cultivation of tobacco in the Madras Presidency in 1923–24.

			ACS.				ACS.
Ganjam	...	...	3,299	Salem	...	...	3,737
Vizagapatam	...	...	48,285	Coimbatore	...	...	25,544
Godavari	...	...	11,591	Trichinopoly	...	...	4,032
Kistna	...	...	13,301	Tanjore	...	...	2,223
Guntur	...	...	64,481	Madura	...	...	7,400
Kurnool	...	...	11,542	Ramnad	...	...	3,889
Bellary	...	...	2,658	Tinnevelly	...	...	1,048
Anantapur	...	...	4,785	Malabar	...	...	17
Cuddapah	...	...	1,868	South Kanara	...	...	1,623
Nellore	...	...	2,625	The Nilgiris	...	...	72
Chingleput	...	...	62				
South Arcot	...	...	2,985			Total	219,841
Chittoor	...	...	595				
North Arcot	...	...	2,179				

CONFIDENTIAL.

TAXATION ON TOBACCO.

I

Notes to G.O. Mis. No. 1993, *dated* 21*st May* 1894.

The question is whether we should take the success of Travancore in levying a revenue from tobacco as a reason for calling the attention of the Government of India to the possibility of levying a revenue for tobacco in our territories. I doubt if we have sufficient ground for doing so and whether such a suggestion would be well received. Travancore is exceptionally situated, so that it has been possible to abolish all growth of tobacco there and levy a revenue by import duties, and the Government of India know all about this. Such a system would be impossible in our territory where tobacco is grown almost everywhere and consumed by almost everybody, and where larger Native States abound. The possibility of levying a revenue on tobacco in our territory, in this or any other way, has been repeatedly discussed and decided against after full communication between all the Governments, so that any suggestion for us on the subject would amount to an insinuation that the discussion had not been complete. The only way in which, as far as I can see, a large revenue could be realized for tobacco would be by establishing monopoly of manufacture and sale. Though this was hardly possible in former days, I believe it would be possible in these days of improved communications and police, but the initial expenditure on warehouses, etc., would be too heavy for a time of financial pressure and the larger preventive establishments which would be necessary and extend through almost every village would result in oppression which would be so widespread and so frequently exercised that it would be eminently dangerous.

G. Garstin—7-3-93.

No doubt a tobacco monopoly *could* be worked but it would be a gigantic undertaking, and so very costly (especially in Bengal, where Government has no rural agency at all) that it would not, in my opinion, bring in a net return worth the imitation, the measure would certainly cause. The simplest way of raising a tax on tobacco would be by a special tax on the land on which it was grown, but that would not apply to Native States and cannot be worked in Bengal. A special establishment which would eat up the most part of the profits, while in all settled non-zamindari districts the terms of the settlements would prevent the imposition of such a tax. Independently of this, the taxation of land according to the crop grown would be a

This note is submitted with reference to the enquiry whether the attention of the Government of India has been called in the Revenue Department to tobacco as a possible source of revenue.

2. The occasion for this enquiry will appear from the notes of His Excellency the Governor and the Hon'ble Sir Henry Stokes to which reference is made in that office-note. It arose in this wise—

In submitting the budget estimate of the Travancore State for the Malabar year 1069 (August 1893–94) Mr. Grigg, the Resident, after observing that the most important increases occurred under certain heads of revenue of which tobacco was one, remarked regarding the increase under this head as follows :—

"That under tobacco is very remarkable. I have never heard a rumour of complaint regarding this tax, and yet it comes to approximately As. 6–6 per head of the population and gives a revenue nearly double that of abkari and opium and is now 55 per cent of that of salt—a necessary of life. Offences against the law relating to its importation are, I believe, not numerous. The lucrativeness of this monopoly may well attract the attention of Indian financiers (paragraph 3 of his letter, dated 3rd August 1893, in Government Order, dated 20th October 1893, No. 712, Political).

On this His Excellency noted—

"We should call the attention of the Government of India to the statistics of the tobacco tax and to the Resident's remarks thereon."

On this note Sir Henry Stokes remarked as follows :—

"The attention of the Government of India has been often enough directed to tobacco as a possible source of revenue. The peculiar position of Travancore makes its experience of little or no value in the consideration of the question.

retrograde measure, injurious to the cultivator and certainly beneficial to no one but the karnam.

A licence fee might be imposed and would yield something. It would be a return to the moturfa abolished years ago, and would come very hard on the very poor classes who sell tobacco. I should be sorry to see it tried. Similar objections can be found to every other plan of levying a tobacco tax in this country. I don't think that the Government of India would care to take the question up. It was examined, on another and later occasion, I think, than any of those mentioned in the note, by Mr. Bazeet Colvin when additional Member of the Viceroy's Council, who wrote a long note on this and other projects of taxation, a copy of which I have somewhere—given me by Sir Auckland Colvin, when Finance Minister, who told me at the time that the idea had been finally abandoned—or to that effect. This was in 1886 when the times were almost as hard as they are now.

H. E. STOKES—7-3-94.

This note is very clear, and gives me a complete answer. It is very evident that we should *not* call the attention of India to Mr. Grigg's remarks on the revenue derived in Travancore from taxing tobacco.

I found myself like many others lured into the belief that a large revenue might be derived from taxing this article, and the same results achieved here as in almost every civilized country in the world. But on inquiry I find that not only has it been thoroughly looked into, but the experiment has been tried and has failed, and there is no doubt the peculiar circumstances of the country have rendered the success of the experiment almost impossible. And as Sir J. Strachey very forcibly puts in the incidence of a tax on tobacco would fall with far greater severity on those who now pay the bulk of the salt tax, and we would thereby be putting a crushing weight on those least able to bear the burden. I confess myself converted and withdraw from any further attempt to bring this question within the domains of practical politics—although I can imagine a municipality looking upon it as a fair object for local taxation but even then extremely difficult to work, as poor Madras can testify.

I suppose though that imported tobacco will pay its 5 per cent like other articles (except cotton goods !).

WENLOCK—11-3-20.

Tobacco is not produced in the State : the revenue is derived from import duties, and the configuration of the country lends itself to the easy levy of these duties on the greater portion of the tobacco consumed, which comes from Ceylon. In this Presidency and probably in the rest of India, import duties would not produce any revenue worth having and would be prejudicial to the Cheroot industry (Tobacco imported consists mainly of cheroot covers from Java and Sumatra): but I have no doubt that a considerable revenue might be got from licensees on the vend by others than the growers."

His Excellency wrote thereupon—

"Has this Government ever called their (India's) attention to it? Anyhow I do not think we could do any harm in pointing out what a large sum a little place like Travancore manages to get from the consumers of tobacco. It does not seem to me material how it is raised, whether by import duties or licences. The very significant fact remains that the consumers of tobacco in Travancore contribute yearly Rs. 10 lakhs to the State."

3. His Excellency's query whether this Government has ever called the attention of the Government of India to tobacco as a possible source of revenue has been referred to this department for information, in the office-note from the Chief Secretary.

4. It will be seen from the references put up—

(1) That this question has frequently been considered by the Government of India and has also formed the subject of correspondence between that Government and this and other Local Governments;

(2) That the conclusion come to by the Government of India is that the idea of raising a large imperial revenue from tobacco must be abandoned;

(3) That our Government has also expressed the opinion that no large provincial revenue can be obtained from tobacco; and

(4) That the Government of India is not unaware of the fact that Travancore manages to derive a large revenue from this source.

5. A summary of the correspondence on the subject is subjoined as also a short account of the tobacco monopoly in the districts of Coimbatore, Malabar and Canara which was abolished in the year 1853.

6. The Blue-Book entitled "Papers regarding the Tobacco Monopoly in the Presidency of Fort St. George etc.", gives the main correspondence up to 1868. It will be seen from pages 25–74 of the book, that for 50 years from 1803 to 1853, tobacco was the subject of a Government monopoly in the districts of Canara, Malabar and Coimbatore (vide Regulations 7 and 8 of 1811 and Regulation 5 of 1831 at pages 1, 4 and 8 of the Blue-Book), that the gross annual revenue derived during the 10 years—1833–1843 was about Rs. 8 lakhs and the net revenue about Rs. 5¾ lakhs; that the evils arising from this monopoly were so great that the attention of Government was frequently invited thereto by the officers concerned; that in 1845, the Government after recording a succinct review of the correspondence on the subject (vide No. 2 at page 26) called for a report from the Board of Revenue "on the practicability of a modification of the monopoly which, whilst we shall secure a considerable revenue, shall yet divest the tax of some of its most injurious attributes, its heavy charge of collection and the inducement it held out to smuggling"). The Government added that if a beneficial modification was impracticable, the possibility of finding an available substitute should be investigated.

It cost 2¼ lakhs to collect 8 lakhs!

J.G.

In reply the Board furnished an exhaustive report on the subject and said—

"It is with much reluctance that they are induced to advise the surrender without an equivalent of so considerable a source of revenue as the (tobacco) monopoly and they must be understood as doing so only, because, after much anxious reflection on the subject, they have been led to the conclusion that between such surrender and the retention of the present system with all its evils, there is no practicable middle course.

After a careful consideration of the subject the Government declared—

"The crying evils of the tobacco monopoly continue daily to become more notorious and demand an immediate remedy. The Right Hon'ble the Governor in Council entertains the most decided conviction that, as the Board of Revenue has represented, there is no effectual remedy short of total abolition and the expunging of so objectionable a branch of revenue from the system of Indian Finance."

Some of the evils of this system arose from its being confined to a limited area but the worst-springing from the fact that tobacco is produced almost everywhere and freely consumed by all classes so that any raising of the price gives rise to the worst sort of smuggling and is fatal to the peace of the country—will affect any system.

J.G.

In accordance with this view application was made to the Court of Directors for sanction to abolish the tobacco monopoly and on such sanction being obtained, Act IV of 1853 was passed abolishing the monopoly—

7. The subject of a tobacco-tax was considered by the Government of India during the years 1859–68. A summary of the correspondence which then took place on the subject and of the views held thereon will be found in Sir John Strachy's minute dated 21st October 1865 printed as No. 97 at page 152 of the Blue-Book and in the Government of India's letter to the Secretary of State printed as No. 98 at page 155.

All methods of taxing tobacco were considered then.

J.G.

It will be seen therefrom that, when after the events of the year 1857, the state of the finances rendered it necessary to resort to new sources of revenue, a tax on tobacco was among other things very much discussed.

Four methods of deriving a revenue from this source had been suggested :—

(1) The suppression of the cultivation of the plant throughout India and the imposition of an import duty.

(2) The establishment of a monopoly of the cultivation and manufacture of tobacco similar to that now applied to opium.

(3) The imposition of a licence duty on the cultivation of the plant.

(4) The imposition of licence fees on all wholesale and retail dealers in the manufactured article.

Of these, the first and second methods were soon dismissed as impracticable.

The third plan was at first favoured by the Government of India but most Local Governments disapproved it. The main objections urged were: that to impose a special tax on the cultivation of tobacco would be a violation of the principles on which land assessments were usually made; that it would also be economically a mistake; that the suppression of its cultivation except under a licence would be difficult to enforce; that as the enforcement cannot be extended to Native States (even if it could be extended to zamindari and inam estates) the measure would have the effect of contracting the area of its cultivation in British territory and greatly stimulating its growth in Native States and it would be extremely difficult to prevent the smuggling of free tobacco from such States. The views of this Government are contained in Mr. Bourdillon's letter to the Government of India, dated 11th June 1859, printed as No. 90 at pages 120–128. In the first enclosure to this letter the inexpediency of taxing tobacco in any form is fully set forth by the Board of Revenue.

The Government of India thereupon turned to the fourth plan of licensing the *sale* of tobacco and accordingly inserted a provision to this effect in the Licensing Bill then under its consideration. (The Bill, which was finally passed as India Act 18 of 1861 and repealed by India Act 2 of 1862). But the reports received from Local Governments on the point were not encouraging. They all went to show that no system of licensing would bring in any large revenue.

The Government of India resolved therefore to abandon altogether the idea of raising a revenue from tobacco by Imperial Legislation and the clause in the Licensing Bill which related to tobacco was accordingly expunged.

8. But while arriving at this opinion as to the unsuitability of tobacco for Imperial taxation the Government of India also thought, judging from the reports received from Local Governments, that a considerable revenue might be derived by Local Governments if they were left each to carry out the system best suited to the circumstances of its province. Accordingly, and as it was thought that Imperial revenues might be relieved to a considerable extent by establishing a system of local taxation for local purposes, the Government of India addressed Local Governments on the subject of such taxation and named tobacco as one of the sources from which a revenue might be derived.

The reply of this Government to the above letter is printed at pages 157—162 of the Blue-Book. This Government merely reiterated the opinion it had expressed in its letter of 11th June 1859 (No. 90 at page 120) that there were insurmountable objections to the realization of a revenue from tobacco unless in the shape of a tax on the shops where tobacco was sold, i.e., a licence tax; and that the produce of such a tax would not be considerable.

9. The Government of India appears to have considered this question of a tobacco tax on subsequent occasions also and to have arrived at substantially the same opinion as before, as will appear from the letter to the Secretary of State printed as No. 98 at page 155.

10. In 1870 when the question of raising the rate of income-tax was under the consideration of the Government of India, a proposal was made by one of the members (Mr. Cowie) to tax tobacco. Sir John Strachy and Sir Richard Temple both spoke against the measure and His Excellency Lord Mayo said:—

"Now it is quite true that in many civilized countries tobacco is considered to be a very proper object for taxation but I must remind the Council that tobacco in India is really an absolute necessary of life and that if you put a tax upon the production of tobacco, you tax the two great necessaries of life in this country, viz., salt and tobacco, and I am not prepared even in the present state of our finances to advocate the imposition of a burden upon such a prime necessary of life as that is.

11. The question appears to have been discussed also during Lord Lytton's Viceroyalty and the same conclusion arrived at, namely, that no large revenue could be raised by taxing tobacco (vide pages 368-70 of Strachy's book on "The Finances and

Public Works of India" and page 554 of the volume of Legislative Council's Proceedings for 1877). The following extract from Strachey's book may be noted:

"Tobacco is almost universally consumed and is looked upon as almost a necessary of life. Whatever means were adopted the tax would only be largely productive if it fell ultimately on the classes which form the great mass of the community. It would be paid by the same classes which now pay the salt tax, and if it should become necessary to increase the burden which they already bear this object would be more easily and economically gained and with far less vexation to the people by increasing the existing tax upon salt than by imposing a new tax upon tobacco. That any increase in the rate of the salt-tax would be one of the greatest possible mistakes, unless in most exceptional circumstances and on the other hand that its present reduction * would be financially a most desirable measure, has been shown in another chapter (page 370).

* The duty was reduced from Rs. 2-8-0 to Rs. 2 in 1882. It was raised as follows in this Presidency:—

	Duty. Rs.	A.	P.
August 1859	1	0	0
April 1861	1	4	0
1861–62 to 1865–66	1	5	0
1866–67 to 1868–69	1	8	0
1869–70 to 1877–78	1	12	0
1878–79 to 1881–82	2	8	0
1882–83 to 1886–87	2	0	0
1886–87	2	8	0

12. That the Government of India knows that Travancore derives a large revenue from tobacco, may be inferred from the correspondence which took place in 1860–65 relative to the Interportal Trade convention with Travancore and Cochin and more especially from the correspondence embodied in Government Order dated 14th May 1868, No. 1338.

It will be seen from the latter correspondence that at the desire of the Viceroy (Sir John Lawrence) whose attention seems to have been drawn to certain remarks which appeared in the Travancore Administration Report for 1865–66, regarding the tobacco tax in that State the Hon'ble Mr. G. N. Taylor addressed the then Resident in Travancore and Cochin (Mr. Newill) for full particulars regarding the mode in which the tax was levied in that State and that complete information on the subject was furnished by the Resident and the then Diwan T. Madhava Rao.

This correspondence came before this Government, mainly on account of a minute recorded by the Hon'ble Mr. G. N. Taylor, in which he suggested that this Government might consider the expediency of imposing a moderate import duty or an excise wherever practicable—vide his minute printed in the Government Order.

The Diwan's Memorandum shows that during the flourishing period of the monopoly system (it was abolished in 1862–63, that is, ten years after the abolition of the Government monopoly in Malabar and Canara) the gross revenue from tobacco amounted to more than half the revenue from all other sources or more than one-third of the total revenue of the State while the revenue now amounts to about one-eighth of the total revenue.

13. From the administration report of the Travancore State for the year 1891–92, it appears that 12,295 † candies of tobacco valued at Rs. 26,77,723 were imported during that year and that a duty of Rs. 9,43,030 was collected thereon.

† Equal to 6,147,500 lb. or 8,065,520 lb. according as a 'candy' is 500 lb. or 656 lb. (which latter is the equivalent given in Madhava Rao's Memorandum—vide paragraph 10.

14. The following statement gives the statistics of the imports of tobacco into this Presidency by sea for the last three years:—

Tobacco—Imports—Sea-Borne ‡ Trade.

Years.	Foreign trade.		Coasting trade.		Total.	
——	Quantity in lb.	Value.	Quantity in lb.	Value.	Quantity in lb.	Value.
		Rs.		Rs.		Rs.
1890–91	446,477	2,06,021	218,915	33,563	665,392	2,39,584
1891–92	542,705	2,91,725	110,937	17,121	653,642	3,08,846
1892–93	915,719	3,37,980	135,775	27,107	1,051,494	3,65,087

‡ The rail-borne imports amount only to about 2,000 lb.

At the Travancore rate of duty the imports into this Presidency will bring in a gross revenue of a little over one lakh of rupees.

R.V.S.—1-3-94.

The foregoing account gives a clear and concise summary of all that has been written on this subject and shows that the feasibility of raising a revenue from tobacco has been most exhaustively debated and that the question has been considered in all its bearings. The situation is appropriately summed up by Sir John Strachey in paragraph 8 of his minute of the 21st October 1865 (page 154 of the Blue Book)—

"Tobacco has seemed at first sight a very promising subject of taxation to almost everyone who has thought upon the subject, but almost everyone had given up the scheme upon full consideration of the difficulties which surround it."

J.G.—3-3-94.

II

Mr. N. S. BRODIE'S NOTE DATED 26th DECEMBER 1915 (SECRET D.O. No. A A-1, DATED 11th JANUARY 1916).

Prior to 1910–11, *ad valorem* rates used to be charged on imported manufactured tobacco of all sorts at the rate of 5 per cent but this system was then abandoned and special quantitative rates introduced, presumably because of the difficulty of levying *ad valorem* rates. The rates introduced were about 33 per cent higher than those now in force which are—

	Rs.	A.	P.	
Unmanufactured tobacco	1	0	0	per lb.
Cigars	1	10	0	„
Cigarettes weighing less than 3 lb. per thousand.	3	2	0	per thousand.
Cigarettes weighing 3 lb. or more per thousand.	1	4	0	per lb.
Manufactured, other sorts	1	2	0	„

These rates are said to be approximately 36 per cent *ad valorem* on cigars and 33 per cent *ad valorem* on cigarettes though how this is arrived at I don't know, considering how much imported cigars and cigarettes vary in weight and value. The Government of India's first proposal is to raise these rates 'in approximately the same proportion, i.e., to a uniform 50 per cent *ad valorem*.' I presume this means that the duty on cigars is to be raised by about one-third and that on cigarettes by about half. Nothing is said about 'other sorts' which I suppose means principally pipe tobacco. Judging from Spencer's and Oakes' price lists the present rate seems to be from 28 to 41 per cent on the cheapest pipe tobacco and presumably this is also to be raised by about one-third. The rates will then read—

	Rs.	A.	P.	
Cigars	2	3	0	per lb.
Cigarettes	4	11	0	per thousand and
	1	14	0	per lb.
Other sorts	1	8	0	per lb.

I presume the Government of India does not intend to go back to *ad valorem* rates.

2. The rates introduced in 1910–11 had the immediate effect of 'extensively curtailing the imports of foreign tobacco and they scarcely realized the revenue it was hoped they would bring in.' The total imports declined by 83 per cent in quantity and 52 per cent in value. Imports of leaf tobacco, *formerly duty free*, fell from 447,115 lb. to 63,267 lb. or by 86 per cent in quantity. Imports from Ceylon and the Straits Settlements practically ceased. [There used to be quite a large trade from the Jaffna and the northern Ceylon ports which supplied a great part of the tobacco used on the west coast of this Presidency.] Imports of cigarettes decreased 77 per cent in quantity and 48 per cent in value. The cheap American varieties were practically shut out, falling 94 per cent in value and the result was the foundation and development of the Indian cigarette industry which has probably taken their place. Exports of cigars to the United Kingdom fell by 72 per cent owing to the imposition of duty on wrapper tobacco. To avoid this, Messrs. Spencer & Co. removed their factory to Pondicherry.

Effects of taxation introduced in 1910–11. Sea-Borne Trade Review of 1910–11, page 9.

3. In 1911–12, owing to the outcry from Ceylon and the leading local manufacturers of better class cigars, the rates were reduced by about 33 per cent to the present figures. Even this, however, failed to revive the import trade from Ceylon and the Straits Settlements which was completely and finally killed. Imports of leaf tobacco rose by 19,160 lb. but this was only a mere fraction of the fall of 383,848 lb. in 1910–11. The increase was confined to the higher grades required in the manufacture of cigars of good quality. Imports of cigarettes showed a further decline in quantity but an increase in value, the trade in cheap American cigarettes being completely extinguished. Exports of cigars to the United Kingdom declined another

Sea-Borne Trade Review of 1911–12.

7 per cent in value but exports to the Straits Settlements increased by 23 per cent and the whole export of cigars increased by 13 per cent in quantity and 9 per cent in value. The cigars exported to the Straits Ssttlements and Federated Malay States appear to be made of purely Indian tobacco which pays no duty.

Sea-Borne Trade Review of 1912–13.

4. In 1912–13, there was a further decrease in imports of cigarettes by 15 per cent and a large factory was opened at Bangalore by the Peninsular Tobacco Company. Manufacture of cigars for export to the United Kingdom was permitted in bond and Messrs. Spencer & Co returned from Pondicherry. The exports of these cigars rose by 46 per cent but of course the revenue did not profit by this.

Sea-Borne Trade Review of 1913–14.

There was a general increase both in imports and exports of tobacco in 1913–14 and some recovery in imports of cigarettes to a little above the figures of 1910–11. The export of high grade cigars to the United Kingdom rose to ·88 lakh against ·57 lakh in 1910–11.

Effects of the war—Sea-Borne Trade Review, 1914–15.

However, the effect of the war was to send most of the principal figures lower than ever. Imports of raw tobacco fell to 70,573 lb. in 1914–15 and exports of high grade cigars to the United Kingdom fell to 33,434 lb. and to ·45 lakh in value (nearly 50 per cent), the lowest figure on record.

5. The figures since the introduction of the new tariff are tabulated below :—

Annual value of the sea-borne trade and navigation of the Madras Presidency for 1914–15.

Foreign trade.

——	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.						
1. Unmanufactured (total for Presidency).	LB. 447,115	LB. 63,267	LB. 82,427	LB. 90,458	LB. 110,458	LB. 70,573
2. Manufactured—						
(*a*) Cigars	11,099	1,049	937	830	1,107	3,368
(*b*) Cigarettes	319,275	72,139	65,410	55,217	78,616	78,429
(*c*) Other sorts	94,940	12,473	26,397	23,370	24,723	28,090
Exports.						
1. Unmanufactured (unaffected by tariff).	1,444,632	1,670,842	1,619,966	1,806,998	2,234,511	2,362,766
Of the above exported to Straits Settlements and Federated Malay States.	1,374,612	1,621,543	1,568,878	1,773,160	2,115,056	2,304,144
2. Manufactured—						
(*a*) Cigars	697,507	704,791	797,383	989,811	988,668	887,165
Of the above quantity exported to United Kingdom.	80,360	42,565	36,184	51,156	56,976	33,434
Straits Settlements and Federated Malay States (unaffected by tariff).	415,357	547,613	661,294	827,278	811,219	800,488
(*b*) Other sorts	4,196	4,515	9,010	8,513	9,363	8,885

Coasting trade.

——	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.						
1. Unmanufactured	LB. 610,603	LB. 683,787	LB. 664,054	LB. 578,058	LB. 604,165	LB. 596,038
2. Manufactured	142,514	84,439	59,021	94,319	57,595	71,301
Of the above imported from Calcutta.	118,687	73,703	52,511	85,214	46,637	53,301
Exports.						
1. Unmanufactured	7,721,625	7,535,386	6,870,154	6,536,820	6,928,569	5,168,826
Of the above exported to Burma ..	6,926,830	6,474,041	6,149,974	6,133,770	6,521,676	4,579,130
2. Manufactured—						
(*a*) Cigars	347,507	314,933	410,526	419,710	349,618	275,018
Of the above exported to Burma ..	194,493	204,649	292,004	320,781	251,706	177,844
Of the above exported to Bengal ..	101,866	73,206	76,815	61,785	63,117	65,373
(*b*) Cigarettes	...	...	2,877	4,200	26,471	61,599
(*c*) Other sorts	35,726	43,920	37,620	39,906	33,407	77,190

6. The net result of the introduction of the heavier tobacco duties in 1910–11 has, therefore, been to kill the import trade in raw tobacco from Ceylon and the Straits Settlements and in cigarettes from America and to lay the foundations of a cigarette manufacturing industry in India from Indian leaf. The trade in high grade cigars exported to the United Kingdom has suffered very heavily, despite permission to manufacture export in bond. The fall between 1909–10 and 1913–14 (when this industry reached its highest point after the imposition of duties and before the outbreak of war) was about 29 per cent. This shows what an effect even a slight rise in the cost of such a thing as tobacco has on consumption as it was undoubtedly the increased cost (and that only of the wrapper) in 1910–11 that gave the trade this set back. The wrapper is only a minute fraction of the weight of the cigar and if the duty on whole cigars is only equal to an *ad valorem* rate of 36 per cent the duty on a cigar whose wrapper alone pays duty must be nearer 1 or 2 per cent. Since the concession of manufacture in bond has been granted these cigars pay no duty and it is presumed that this concession will be continued so that any enhancement of rates will not affect them.

7. *Rail-borne trade*, 1914–15.—

Imports from other Presidencies and Native States.

	LB.
1. Unmanufactured	2,051,959
Of which imported from Mysore	1,344,550
2. Manufactured—	
(*c*) Cigars	13,330
(*b*) Other sorts—probably cigarettes	1,497,517
Of which imported from Mysore	1,294,272

Exports to other Presidencies and Native States.

1. Unmanufactured	24,729,076
Of which exported to—	
Mysore	8,181,339
Calcutta	5,282,496
Nzam's Territory	4,242,157
2. Manufactured—	
(*a*) Cigars	503,013
(*b*) Other sorts	392,750

Internal trade between various parts of the Presidency.

1. Unmanufactured	53,774,208
2. Manufactured—	
(*a*) Cigars	1,061,815
(*b*) Other sorts—probably cigarettes, bidies and snuff ...	1,074,651

Cigars.

8. From these figures it appears that by far the greatest part of the Delta tobacco is exported in the manufactured condition and made up locally. The trade in manufactured tobacco is comparatively small, which agrees with my information that there are no manufactories of any size. A fairly large quantity of manufactured cigars is exported by rail from the Central districts (i.e., Trichinopoly, Salem and Coimbatore) to Negapatam but this no doubt is included also in the exports by sea to the Straits Settlements.

9. In the Secretariat note of 1911 the total outturn of cigars was estimated by Mr. Innes at about 2,500,000 lb; i.e.:—

	1909–10.
	LB.
Foreign exports	697,507
Coasting trade exports	347,507
Rail-borne exports	451,164
Do. internal trade	971,208
Total ...	2,467,386

The corresponding figures for 1914–15 are—

	LB.
Foreign exports	887,165
Coasting trade exports	275,018
Rail-borne exports	503,013
Do. internal trade	1,061,815
Total ...	2,727,001

Allowing for the disturbance of trade caused by the war, the export trade and rail-borne traffic in cigars may, therefore, be taken at about 2,750,000 lb. but this is probably an excess estimate of the quantity actually manufactured since the rail-borne traffic probably includes the greater part of the foreign exports and possibly a good deal of the coasting trade exports also.

Cigarettes.

10. The Indian cigarette industry has practically grown up since the Secretariat notes of 1911 were written. Foreign imports of the better class cigarettes have remained nearly stationary since 1911–11 at about 70,000 lb. Comparing the figures of 1909–10 with those of 1910–12 when the full effect of the tariff duties had had time to operate, 253,865 lb. of cheap American cigarettes appear to have been displaced. These have no doubt been replaced by Indian cigarettes and there has probably been a large increase in consumption in addition.

The export trade in cigarettes in 1914–15 appears to have been somewhat as follows:—

	LB.
Foreign exports	8,885*
Coasting trade exports	61,599
Rail-borne exports	392,750*
Do. internal trade	1,074,651*
Total ...	1,537,885

In the absence of figures for bidies, snuff, etc., it is not easy, however, to say how much of these 15 lakhs of pounds represent cigarettes and still less how much represents cigarettes manufactured in the Presidency. My inquiries in Vizagapatam show that none of the cigarettes there consumed (and the consumption is very large) are manufactured in this Presidency. The great bulk come from Calcutta and a good many from the Peninsular Tobacco Company, Bangalore. Similarly in Madras, the bulk of the cigarettes come from Bangalore or Bowringpet, both in Mysore territory and not subject to British excise. It will be seen from paragraph 7 above that 1,294,272 lb. of 'other sorts' including (no doubt mostly) cigarettes are imported from Mysore. Probably the greater number of these are shown in 'rail-borne internal trade' and exports of the Presidency over again. I should put the actual number manufactured in the Presidency at not more than 250,000 lb.

11. The following are principal Indian Cigaratte factories shown in the Lawrence Asylum Press Almanack, page 1438:—

(1) A.G.M. & Sons, Coimbatore.

(2) K.G.A., Coimbatore.

(3) McDowell & Co., Madras.

I have never seen any cigarettes from the first two factories and they seem to be very small and merely supply the local market. McDowell & Co. employ about 25 persons and some small hand machines. Pappadapoulos Brothers make Egyptian cigarettes but import Egyptian tobacco which already pays duty. Besides these there are the two large factories in Mysore—

4. The Peninsular Tobacco Company, Cleveland town, Bangalore, and

5. The Oriental Tobacco Manufacturing Company, Bowringpet.

*Includes, however, pipe tobacco, bidies, snuff, etc.

Both these are run on American lines and employ a large number of workmen and power-driven machinery, but as already remarked they are not subject to British excise.

Outturn of tobacco.

12. According to the 'Season and crop report' for 1914–15 the total area cultivated with tobacco in the Presidency was 227,182 acres, the 'normal' area being 203,230 acres. I learn from Chadwick that 800 lb. of dried leaf per acre is a fair average crop as taken by Castlestuart Stuart in 1910. The total outturn was therefore about 182,000,000 lb. of which we have only accounted for about 3½ millions at most in the manufactured form. This outturn was spread over 24 districts, the area being over 10,000 acres in seven, Vizagapatam (29,115), Godavari (13,099), Guntur (78,560), Kistna (13,022), Kurnool (18,769), Coimbatore (26,001) and Madura (11,172). These figures show little change since 1908–09.

About 90,000,000 are exported in unmanufactured form.

Tobacco industry.

13. The census report for 1911 groups manufacturers of tobacco, opium and ganja together under Order 12, Group 66. The number of manufacturers of opium and ganja must be almost negligible and the total number of workers and dependents is shown to be 12,333. Under Order 33, Group 122, sellers of tobacco, opium, ganja, etc., are said to be 65,733 (workers 25,883, dependents 39,850). The total number of persons dependent on the tobacco trade is therefore about 78,066 against 75,000 in 1901. It is not possible to compare the figures of the other industries referred to in Mr. Castlestuart Stuart's demi-official of 5th November 1910 as the classification has been altered. Betel leaf and arecanut sellers are now grouped with vegetable and fruit sellers. It may be noted however that the number of persons engaged in the manufacture of tobacco is about as many as bakers and biscuit makers (12,970) whilst the number of sellers of tobacco is not much less than the number of sellers of milk, ghee, butter, poultry, eggs, etc. (80,981).

Present proposals criticised.

14. These figures show that there has been comparatively little change in the general position since 1910–11 and the arguments against any form of taxation of Indian grown tobacco remain as strong as they were then. The present proposals of the Government of India may now be examined in detail. The first is, as far as I understand it, to raise the quantitative rates of duty on imported cigars and cigarettes (and perhaps also on other manufactured tobacco) to the figures shown in paragraph 1 above. The quantity of imported cigars is now very small and was only 3,368 lb. in 1914–15. Assuming that the enhanced duty has no effect on consumption, the increase of revenue from this source will be only Rs. 1,824*. But judging from the effect of the enhancement of duty in 1910–11 it will probably be much less. The duty on imported cigarettes (78,429 lb. in 1914–15) was about Rs. 80,000 and the enhancement of the duty by one-half may give Rs. 40,000, though here also a heavy fall in consumption may be confidently looked for. The increase of duty on 'other sorts', i.e., probably pipe tobacco, snuff, etc. (which may be contemplated) by one-third would yield perhaps Rs. 10,742. Altogether, the maximum increase of revenue that may be looked for from this proposal cannot, therefore, be more than Rs. 60,000 and the burden will fall heavily on the poorly paid European and Eurasian assistants in shops, business firms, Railway Companies, etc., who are by far the largest consumers of imported cigarettes. However this increased revenue can no doubt be obtained without administrative difficulty or expense.

(a) First proposal.

*Present duty Rs. 5,473 one-third enhancement Rs. 1,824.

15. The second proposal is to levy an excise duty on cigarettes of Indian manufacture. The large factory referred to by the Government of India is probably that in Bengal, I think at Monghyr. It is proposed to differentiate bidies from cigarettes by the use of cigarette paper. This may be accepted. It is proposed that

(b) Second proposal.

the taxation should take the form of a quantitative duty equivalent to an *ad valorem* duty of about 15 per cent. A further point is whether the taxation should be restricted to factories equipped with power-driven machinery. If this qualification is accepted the question is a simple one for there are no such cigarette factories in this Presidency. Assuming, however, that all cigarette factories are to be taxed my inquiries show that cigarettes of Indian manufacture vary considerably in price. The cheapest are sold retail at prices varying from Rs. 1–4–6 per 500 or Rs. 2–6–0 per 1,000 to Rs. 2–12–0 per 500 or Rs. 5–2–0 per 1,000. These cigarettes both weigh almost exactly $2\frac{1}{2}$ lb. per 1,000, the cheaper ones a little more. The manufacturer's price to the trade is no doubt considerably less as these cigarettes have to be imported to Vizagapatam and there is the retailer's profit to be considered. The excise duty will of course have to be fixed with regard to the wholesale price at the factory. I should say Rs. 1–12–0 per 1,000 is probably an outside price for the cheapest cigarettes. This means $28/2\frac{1}{2}=11\frac{1}{5}$, say 11 annas a lb. or as they weigh rather more than $2\frac{1}{2}$ lb. per 1,000, say 10 annas a lb. 15 per cent on 10 annas is one and a half annas per lb. I have estimated the total production of cigarettes in this Presidency at not more than 250,000 lb. and the duty on this would be Rs. 23,437. It is impossible to say without a full inquiry what the number of cigarette factories is but they are certainly very small and probably average not more than 10,000 lb. of cigarettes each per annum. Putting the number at 25 scattered all over the Presidency, not less than 25 Sub-Inspectors on Rs. 40 per mensem would be required to supervise them. The cost of these would be Rs. 12,000 not allowing for contingent expenses such as weighing machines, etc. The net proceeds of the tax would therefore be somewhere about Rs. 10,000, even supposing that the duty had no effect on consumption which is extremely improbable. Moreover as Indian cigarettes vary considerably in price though not so much as cheroots, the duty would press most unfairly on the cheapest brands and on the poorest class of the population which consumes them.

Watch cigarettes—Peninsular Tobacco Company, Bangalore, Rs. 1-4-6.
Ruler cigarettes—Imperial Tobacco Company, Calcutta, Rs. 2–12–0 per 500.

16. The third proposal is to levy a similar quantitative excise duty equivalent to an *ad valorem* tax of 15 per cent on cigars of Indian manufacture. As already pointed out in 1911 this problem absolutely bristles with administrative difficulties. In the first place it is not clear whether bidies are to be included. It is possible to distinguish bidies from cigarettes but the difference between them and the poorest kind of cheroots is almost infinitesimal. Both are rolled in leaves, sometimes tobacco leaves sometimes not. The manufacture of bidies is admittedly a cottage industry carried on in every village and hamlet. However according to the Asylum Press Almanack one tobacco factory at least professes to make bidies. The vast bulk of the Indian cheroots are also made as a cottage industry as is evident from the fact that out of 182 millions of pounds of tobacco grown only about $3\frac{1}{2}$ millions ($4\frac{1}{2}$ at the outside) appear in the trade returns as manufactured. Possibly bidies could be excluded by excepting cheroots, etc., weighing less than as many pounds to the 1,000. My experiments show that the commonest bidies weigh about $1\frac{1}{4}$ lb. per 1,000, so that if manufactured cheroots weighing less than $1\frac{1}{2}$ lb. per 1,000 were excluded this might meet the case. However this would undoubtedly stimulate the consumption of bidies which I understand to be the most deleterious form of smoking. Bidies are sold at 12 annas a 1,000 wholesale in Madras, that is at about $9\frac{3}{5}$ annas per lb. The manufacturer's price may be less so that probably 9 annas per lb. would be a safe figure and the duty, if any, ought to be much the same as for cigarettes or a little less, say 1 anna 4 pies per lb.

(c) Third proposal.

Bidies.

A

17. Ordinary cheroots of the commonest kind seem to weigh about $3\frac{3}{4}$ lb. per 1,000 and cost Rs. 1–12–0 per 1,000 retail but both weight and price vary enormously. Better class cheroots which, however, are still largely consumed by the poorer classes weigh 20 lb. per 1,000 and cost Rupees 12–8–0. Assuming that the rates to the trade are somewhat less we may estimate the first kind at 6 annas a lb. and the second at 10 annas a lb. The duty ought to be fixed at 15 per cent on the cheapest

Cigars.

kind at 6 annas a lb. The duty would then be 11 pies but for convenience of reckoning might be fixed at one anna.

It is quite impossible to estimate with any accuracy the output of Indian manufactured cigars. The figures in paragraph 9 no doubt afford some guide. I should imagine 2,000,000 lb. to be a fair estimate. The duty on this at 1 anna per lb. would be Rs. 1,25,000. Against this has to be set the cost of establishment which would be enormous. It is not possible at present to form any idea of what this would be. Presumably the only way to ensure the collection of the duty would be to place each factory in charge of an officer who would have to weigh the quantity of raw tobacco received and the quantity finally passed out on payment of duty, seeing that none illicitly passed out and keeping accounts on the same lines as officers in charge of distilleries. The test of a factory would be I suppose that the proprietor sold the manufactured produce, for practically every householder buys a few leaves of tobacco now and again and rolls them up into cheroots for private consumption. Even excluding these individuals, there appear to be about 26,000 persons describing themselves as tobacco sellers in the census returns, excluding 2,000 partially agriculturist. This agrees with what I expected, being an average of about one for every village in the Presidency. In some places there are no doubt several and in others none, but it would be quite impossible to do much in the way of concentration without causing much hardship. The formation of central storehouses appears, therefore, to be impossible and practically every shop will have to have a properly locked storehouse for the cheroots manufactured which adds to the expense. The ordinary staff of the Salt and Abkari Department could not possibly undertake this enormous addition to its work. Assuming that one Sub-Inspector could efficiently supervise on the average 25 factories (which I take to be impossible with the shops scattered as at present) it would require a staff of 1,000 Sub-Inspectors to supervise the work in the Presidency. The opportunities for fraud would be so great that I fear even then the force would be demoralized. Certainly a great many of the Sub-Inspectors would have to be paid more than the lowest grade of Rs. 40 a month. Assuming that the average pay is Rs. 60, this establishment alone would cost Rs. 60,000 per month or Rs. 7,20,000 per annum or about six times the estimated proceeds of the tax. It seems hardly worth while to discuss the matter further. A complete staff of peons, inspectors, Assistant Commissioners and Deputy Commissioners would also be necessary to supervise such an establishment and it would be quite impossible for me to undertake so large an addition to my work. After all there would be no possibility of guarding against fraud as there would be nothing to distinguish between illicit and licit tobacco. As far as I can see no tax less than Re. 1 per lb. would do more than pay for the cost of collection and this of course would be ruinous having regard to the cost of the article.

18. In conclusion I can see nothing in favour of the tax or any possibility of working it. A tax on Indian cheroots made in power-driven factories might be possible. There are only two, viz.: Spencer's at Dindigul and Oakes & Co. at Guindy—employing 700 persons between them. But it seems very hard to discriminate against them, even if the tax was only one anna a lb. and anything more would probably drive them out of the Indian market altogether. I cannot say what the output of these two factories is, but excluding the amount manufactured in bond for Europe I doubt if it exceeds 500,000 lb. and the duty at one anna per lb. would yield only Rs. 31,250.

19. Another possible course would be to put an export duty on manufactured tobacco. In that case I should exclude cigars exported to the United Kingdom which have to pay heavy and enhanced duties there and have already sufferred by the tariff. There are not the same administrative objections to an export duty, at all events on exports by sea, as the establishment exists and evasion would be practically impossible. Exports by sea to foreign countries, excluding the United Kingdom, amounted to 853,731 lb. in 1914–15 and exports to other provinces to 275,018 lb. Total 1,128,749 lb. A duty of one anna per lb. might bring in Rs. 62,500 without any extra cost and as the exported cigars at all events to the Straits Settlements are of fairly good quality a duty of even 2 annas a lb. might not ruin the trade and bring in about one and quarter lakhs. Still the amount is so small that I see no use in upsetting the trade at all for so very little result.

N. S. Brodie—26–12–15.

III

Demi-official from L. Davidson, Esq., I.C.S., to N. S. Brodie, Esq., I.C.S., dated 4th July 1916, No. 39-S. (Secret No. 183 A, dated 18th December 1916.)

I am desired to refer to your note of the 26th December 1915, on the subject of imposing an excise on locally manufactured cigars and cigarettes. The Government of India are disposed to agree that the taxation of locally-made cigars is not likely to prove of practical value. As regards cigarettes, however, they are unable to abandon the possibility of revenue from an article which is not only a luxury but also, to some extent, a harmful luxury; and they have asked this Government to consider the question at greater leisure.

2. Your note, referred to above, gives an approximate estimate of the total outturn of cigarettes in the Presidency, the number of factories and the prevailing wholesale prices. I am to ask whether you cannot now quietly obtain more precise information as to the number and location of factories, the met hods of manufacture, the outturn and the prices obtained. Collectors could possibly procure the information under the guise of income-tax or statistical inquiries without exciting attention.

3. The calculations in your note are based on the assumption that the excise to be imposed would be equivalent to an *ad valorem* tax of about 15 per cent, as was then suggested by the Government of India. I am to ask you now further to consider the effect of taxation on the industry and to favour Government with your opinion as to the maximum which could safely be imposed without seriously crippling the trade.

4. The Government of India lay stress on the strictly confidential nature of this further reference, but say 'there is no objection to consulting any officer of Government whose advice would be of special value.'

Demi-official from N. S. Brodie, Esq., I.C.S., to L. Davidson, Esq., I.C.S., dated Ennore, 12th November 1916.

With reference to your demi-official No. 39-S., dated 4th July 1916, I have now made further inquiries into the subject of the production and sale of cigarettes in this Presidency both personally and through Collectors. I cannot say that I have elicited much additional information and the remarks which I made in my note of the 26th December 1915 continue to hold good. It appears, however, that I was wrong in stating that there were no cigarette factories in the Presidency equipped with power-driven machinery as it was found on further inspection that McDowell's factory in Moor street, Madras, had some cutting machines worked by an oil-engine recently set up.

2. The estimate of outturn may very well remain at 250,000 lb. The only details I have been able to get are from the Universal Tobacco Company in Madras which is believed to turn out about 30 lakhs of cigarettes per mensem and from McDowell's factory, also in Madras, which is believed to turn out about 20 lakhs. McDowell's factory does not use Indian tobacco exclusively and some of the brands contain imported tobacco to the extent, it is said, of 25 per cent on the whole. I have tested numerous brands from all parts of the Presidency and find that as a rule they weigh about 2½ lb. per 1,000, a little more or less. This gives the total Madras production about 150,000 lb. per annum. Allowing for the imported tobacco used in McDowell's factory the quantity of Indian cigarettes is about 135,000 lb. The only other factories appear to be Oakes & Co.'s factory at Guindy, a new factory started by Barry & Co. in Cocanada just recently and one or two small factories in Coimbatore. There was a factory at Guntur but it seems to have failed after working a few months. The Collector of Coimbatore has not yet replied to my letter on the subject but I made some inquiries in the course of my last tour and find that there are one and probably two factories in Coimbatore but they use imported tobacco for their cigarettes as does Pappadopoulos in Madras. Allowing for all these factories I should say 115,000 lb. per annum was a very liberal estimate, making 250,000 for the Presidency.

3. Retail prices seem to vary very considerably but on the whole I see no reason to modify my original calculations. The cheapest cigarettes are sold in packets of 5 or

6 and a slightly more expensive lot in packets of 10. The dealers' profit seems to be about eight annas a thousand and the trade discount about 20 per cent. Some cigarettes* are sold as cheaply as Re. 1 per 1,000 wholesale or allowing for the trade discount about thirteen annas per 1,000. This is less than half the price I estimated for the cheapest cigarettes in my last note (Rs. 1-12-0). I doubt if there are many of this brand sold, but there are numerous other brands at Re. 1-4-0, Re. 1-6-0 and Rs. 1-8-0 sold by McDowell & Co. However all other information tends to confirm the view that the cheapest cigarettes are sold at Rs. 2 to Rs. 2-12-0 by the wholesale dealers and consequently must cost somewhere about Rs. 1-12-0 per 1,000 from the manufacturers. These cheap cigarettes are manufactured in this Presidency by McDowell & Co., and the Universal Tobacco Company only. Those turned out by Oakes & Co., and the new factory started by Barry & Co., at Cocanada are much more expensive and work out at Rs. 11 to Rs. 14 per 1,000.

*By the Universal Tobacco Company, 1/6, Patters Road, Royapetta—'Bazaar' brand.

4. The method of manufacture is probably the same everywhere. The tobacco selected has all the main nibs cut out and the leaves are then laid one above the other to a considerable depth. They are then cut into small pieces by a cutting machine, the tabacco rolled in cagarette paper, gummed and cut into lengths. As far as I know the cutting and gumming, etc., machines are all worked by hand except in McDowell's factory above referred to.

5. In this connexion I should, however, bring to notice one or two facts which I have ascertained in the course of my inquiries. It is a common practice I understand for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale especially at the various shandies and markets in the Presidency. This is common in Malabar, Coimbatore and the Nilgiris at all events and probably elsewhere. Most Collectors have, however, reported that cigarette papers are not commonly sold in the bazaars. I believe the practice of individual consumers rolling their own cigarettes is not common at present though it is said to have been customary in Salem before the shop-made cigarettes became so cheap. It would be clearly impossible to levy an excise duty on cigarettes made by hawkers or private individuals and it may be expected that the practice would be much more largely resorted to if a duty were imposed on the manufactured article. This might perhaps be met by imposing a customs duty on cigarette paper which would have to be determined in accordance with the duty imposed on cigarettes, such customs duty to be refunded on paper actually used by the wholesale manufacturers. It seems that cigarette paper was formerly imported mostly from Austria and Germany—at present it is obtained from France.

6. As regards the duty to be imposed I find it difficult to express an opinion. The heavy rates imposed in 1910-11 practically killed the cheap American cigarettes but then the enhancement of rates was probably more than 100 per cent of the value so that this result was quite intelligible. My inquiries show that my estimate of the cost of collection was much too large. One Sub-Inspector would, I think, be required for each factory but as there seem to be only four or possibly five factories the cost would be only about Rs. 2,400 per annum. As observed in my previous note, a duty of one and a half annas per pound represents 15 per cent of the value of the cheap cigarette. This amounts to 3 annas 9 pies per 1,000 and could hardly affect the retail price at all. The usual retail price per packet of 10 cigarettes seems to be about 4 pies. A duty of 8 annas 4 pies per 1,000 should raise the retail price by one pie and this would probably not seriously affect the trade though even one pie is a consideration in a country like India. I do not think we could safely raise the duty beyond Re. 1 per 1,000 which would raise the retail price about 2 pies or 50 per cent. This would be 6·4 annas per pound and roughly about 60 per cent of the value. Although cheap cigarettes do not seem to vary much in weight I would prefer to levy the duty by the pound rather than by the number as being the only fair way of assessing it. A duty of 6½ annas per pound would, if the production remained at 250,000 lb., yield Rs. 1,01,562½ but if the consumption fell, as it probably would, to about 200,000 lb. the tax would yield Rs. 81,250. As far as this Presidency is concerned, the result would, therefore, be insignificant, but, no doubt, the revenue

from the whole of India would be very considerable and I cannot see any serious objection to the proposal except that it would greatly encourage the smoking of bidies and press rather hardly on the poorest class of the population who smoke cheap cigarettes at present and regard them as a great luxury.

Demi-official from F. J. RICHARDS, Esq., I.C.S., to LEY, Esq., I.C.S., dated the 18th December 1916, No. 75–S.

I am directed to reply to Mr. Low's Confidential demi-official letter No. 4493, dated 14th June 1916, on the subject of the expediency of imposing an excise on cigarettes manufactured in India from indigenous tobacco.

2. In the first place, I am to point out that the correspondence of 1910, to which reference is made in the first paragraph of Mr. Low's letter, did not turn on the present question, for at that time there was no manufacture of cigarettes from indigenous tobacco in this Presidency. It is stated that the question of an excise on manufacture was then dropped because the local cigarette industry was in its infancy and it was considered that the imposition of an excise would deal it a death-blow. So far as this Presidency is concerned, the position is virtually unaltered; for, as stated in Mr. Butterworth's demi-official letter No. A.A.-1, dated 11th January 1916, the local output of cigarettes does not exceed some 250,000 lb. annually. This estimate has been confirmed by subsequent enquiries, though the number of factories to be taken into account is found to be smaller than was thought to be the case. There are probably not more than 5 or 6, of which the two largest are those owned by Messrs. McDowell & Co., and the Universal Tobacco Company both in Madras City. The former has recently been equipped with an oil-engine for driving its cutting machines. The average wholesale price for the cheapest class of ciagarettes quoted in Mr. Butterworth's letter, viz. Rs. 1-12-0 per 1,000, may be taken as correct. These cheap cigarettes are manufactured only by Messrs. McDowell & Co. and the Universal Tobacco Company. Those turned out by Messrs. Oakes & Co., at Guindy and by Messrs. Barry & Co., at Cocanada are much more expensive, costing from Rs. 11 to Rs. 14 per 1,000.

3. The maximum rate of duty which is considered compatible with the survival of the industry is Re. 1 per 1,000 or approximately $6\frac{1}{2}$ annas per lb. This duty would if the production remained 250,000 lb. yield a revenue of a little over a lakh. The imposition of such a tax, however, is almost certain to preclude any expansion of the industry and would very probably strangle that which already exists; for it would either drive the masses to revert to *bidi* smoking or compel the manufacturers to transfer their factories to French territory or to Native States. I may here point out that the Director-General of Commercial Intelligence has incorrectly assumed that the tax realisable from the Peninsular Tobacco Company's factory in the Civil and Military Station, Bangalore, would be credited to Imperial revenues. By the terms of rendition, the Mysore Government is entitled to the whole of the surplus revenue of the Assigned Tract, after the cost of the administration of the tract is defrayed. This fact seriously affects the estimate formed of the probable receipts from the tax.

4. Another factor to be taken into consideration is the practice, common in several districts of this Presidency, for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale, especially at local markets. Individual consumers do not usually roll their own cigarettes, though it is said to have been customary for them to do so in Salem before the shop-made cigarettes became so cheap. It would obviously be impossible to levy an excise duty on cigarettes made by hawkers or private individuals; and it may be expected that the practice would be much more largely resorted to, if a duty were imposed on the manufactured article. Cigarette paper was formerly imported from Germany and Austria; now France is the chief source of supply. A customs duty might be imposed on it, such duty to be refunded on paper actually used by the wholesale manufacturers; but this expedient would not be free from difficulties and would almost certainly result in the use of a local substitute.

5. In these circumstances, I am to say that the Government of Madras are entirely opposed to the proposal. They can suggest no alternative scheme for internal taxation of tobacco, apart from those already rejected.

IV

Letter from C. R. WATKINS, Esq., C.I.E., Officiating Collector of Customs, Madras, to the Under Secretary to Government, Finance Department, dated 1st May 1925, No. L. Dis. Nil.

I forward herewith a statement showing the foreign imports into, and exports from, the Madras Presidency of tobacco since the year 1920–21.

2. The rates of customs duty at present in force are given below:—

Name of article.	Per	Tariff valuation.	Duty.
Cigars	.....	Ad valorem.	75 per cent.
Cigarettes of value.—Not exceeding Rs. 10-8-0 per thousand.	Thousand ...	.....	Rs. 7.
Exceeding Rs. 10–8–0 per thousand ...	Do.	.....	,, 10–8–0.
Tobacco, unmanufactured	Lb. ...	.....	,, 1.
All other sorts of tobacco manufactured	,, ...	.....	,, 2–4–0.

ENCLOSURE.

Foreign imports and exports of 'Tobacco' at the Presidency of Madras for the past five years ending 1924–25.

	1920–21.		1921–22.		1922–23.		1923–24.		1924–25.	
	Quantity.	Value.	Quantity	Value.	Quantity.	Value.	Quantity.	Value.	Quantity.	Value.
	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.
FOREIGN IMPORTS.										
Tobacco—Unmanufactured ..	77,507	1,45,703	489,693	13,17,036	742,412	14,07,436	3,105,459	34,57,277	3,485,871	29,29,162
Cigars	12,815	43,430	701	2,922	81	238	94	156	215	473
Cigarettes	500,267	16,39,198	186,750	9,40,779	278,384	12,34,116	296,516	13,54,712	1,86,952	8,34,717
Tobacco for pipes and cigarettes	304	1,296	5,293	54,393	22,524	1,19,720	18,155	97,606	$\frac{1}{2}$	3
Other sorts	28,058	1,46,309	9,590	39,508	852	3,891	12,402	40,892	20,564	1,06,279
Total ..	618,951	19,75,936	692,027	23,54,638	1,044,253	27,65,401	3,432,626	49,50,643	3,693,602	38,70,634
FOREIGN EXPORTS.										
Tobacco—Unmanufactured ..	3,118,784	13,57,807	4,650,985	16,84,266	4,258,743	17,68,621	9,953,877	37,65,684	14,366,170	42,49,345
Cigars	75,540	1,04,792	94,905	1,17,671	99,244	1,32,490	1,11,541	1,20,174	88,199	1,25,560
Cigarettes	..	..	129	615	31,230	30,049	1,574	1,492	72,086	81,746
Other sorts	34,166	27,373	48,237	46,322	45,300	44,918	110,903	1,03,645	99,555	49,769
Total ..	3,228,490	14,89,972	4,794,256	18,48,874	4,434,517	19,76,078	10,177,895	39,90,995	14,626,010	45,06,420

V

Statement showing the area under cultivation of tobacco in the Madras Presidency in 1923–24.

	ACS.		ACS.
Ganjam	3,299	Salem	3,737
Vizagapatam	48,285	Coimbatore	25,544
Godavari	11,591	Trichinopoly	4,032
Kistna	13,301	Tanjore	2,223
Guntur	64,481	Madura	7,400
Kurnool	11,542	Ramnad	3,889
Bellary	2,658	Tinnevelly	1,048
Anantapur	4,785	Malabar	17
Cuddapah	1,868	South Kanara	1,623
Nellore	2,625	The Nilgiris	72
Chingleput	62		
South Arcot	2,985	Total ...	219,841
Chittoor	595		
North Arcot	2,179		

CONFIDENTIAL.

TAXATION ON TOBACCO.

I

Notes to G.O. Mis. No. 1993, *dated* 21*st May* 1894.

The question is whether we should take the success of Travancore in levying a revenue from tobacco as a reason for calling the attention of the Government of India to the possibility of levying a revenue for tobacco in our territories. I doubt if we have sufficient ground for doing so and whether such a suggestion would be well received. Travancore is exceptionally situated, so that it has been possible to abolish all growth of tobacco there and levy a revenue by import duties, and the Government of India know all about this. Such a system would be impossible in our territory where tobacco is grown almost everywhere and consumed by almost everybody, and where larger Native States abound. The possibility of levying a revenue on tobacco in our territory, in this or any other way, has been repeatedly discussed and decided against after full communication between all the Governments, so that any suggestion for us on the subject would amount to an insinuation that the discussion had not been complete. The only way in which, as far as I can see, a large revenue could be realized for tobacco would be by establishing monopoly of manufacture and sale. Though this was hardly possible in former days, I believe it would be possible in these days of improved communications and police, but the initial expenditure on warehouses, etc., would be too heavy for a time of financial pressure and the larger preventive establishments which would be necessary and extend through almost every village would result in oppression which would be so widespread and so frequently exercised that it would be eminently dangerous.

G. GARSTIN—7-3-93.

No doubt a tobacco monopoly *could* be worked but it would be a gigantic undertaking, and so very costly (especially in Bengal, where Government has no rural agency at all) that it would not, in my opinion, bring in a net return worth the imitation, the measure would certainly cause. The simplest way of raising a tax on tobacco would be by a special tax on the land on which it was grown, but that would not apply to Native States and cannot be worked in Bengal. A special establishment which would eat up the most part of the profits, while in all settled non-zamindari districts the terms of the settlements would prevent the imposition of such a tax. Independently of this, the taxation of land according to the crop grown would be a

This note is submitted with reference to the enquiry whether the attention of the Government of India has been called in the Revenue Department to tobacco as a possible source of revenue.

2. The occasion for this enquiry will appear from the notes of His Excellency the Governor and the Hon'ble Sir Henry Stokes to which reference is made in that office-note. It arose in this wise—

In submitting the budget estimate of the Travancore State for the Malabar year 1069 (August 1893–94) Mr. Grigg, the Resident, after observing that the most important increases occurred under certain heads of revenue of which tobacco was one, remarked regarding the increase under this head as follows :—

"That under tobacco is very remarkable. I have never heard a rumour of complaint regarding this tax, and yet it comes to approximately As. 6–6 per head of the population and gives a revenue nearly double that of abkari and opium and is now 55 per cent of that of salt—a necessary of life. Offences against the law relating to its importation are, I believe, not numerous. The lucrativeness of this monopoly may well attract the attention of Indian financiers (paragraph 3 of his letter, dated 3rd August 1893, in Government Order, dated 20th October 1893, No. 712, Political).

On this His Excellency noted—

"We should call the attention of the Government of India to the statistics of the tobacco tax and to the Resident's remarks thereon."

On this note Sir Henry Stokes remarked as follows :—

"The attention of the Government of India has been often enough directed to tobacco as a possible source of revenue. The peculiar position of Travancore makes its experience of little or no value in the consideration of the question.

retrograde measure, injurious to the cultivator and certainly beneficial to no one but the karnam.

A licence fee might be imposed and would yield something. It would be a return to the moturfa abolished years ago, and would come very hard on the very poor classes who sell tobacco. I should be sorry to see it tried. Similar objections can be found to every other plan of levying a tobacco tax in this country. I don't think that the Government of India would care to take the question up. It was examined, on another and later occasion, I think, than any of those mentioned in the note, by Mr. Bazeet Colvin when additional Member of the Viceroy's Council, who wrote a long note on this and other projects of taxation, a copy of which I have somewhere—given me by Sir Auckland Colvin, when Finance Minister, who told me at the time that the idea had been finally abandoned—or to that effect. This was in 1886 when the times were almost as hard as they are now.

H. E. Stokes—7-3-94.

This note is very clear, and gives me a complete answer. It is very evident that we should *not* call the attention of India to Mr. Grigg's remarks on the revenue derived in Travancore from taxing tobacco.

I found myself like many others lured into the belief that a large revenue might be derived from taxing this article, and the same results achieved here as in almost every civilized country in the world. But on inquiry I find that not only has it been thoroughly looked into, but the experiment has been tried and has failed, and there is no doubt the peculiar circumstances of the country have rendered the success of the experiment almost impossible. And as Sir J. Strachey very forcibly puts in the incidence of a tax on tobacco would fall with far greater severity on those who now pay the bulk of the salt tax, and we would thereby be putting a crushing weight on those least able to bear the burden. I confess myself converted and withdraw from any further attempt to bring this question within the domains of practical politics—although I can imagine a municipality looking upon it as a fair object for local taxation but even then extremely difficult to work, as poor Madras can testify.

I suppose though that imported tobacco will pay its 5 per cent like other articles (except cotton goods !).

Wenlock—11-3-20.

Tobacco is not produced in the State : the revenue is derived from import duties, and the configuration of the country lends itself to the easy levy of these duties on the greater portion of the tobacco consumed, which comes from Ceylon. In this Presidency and probably in the rest of India, import duties would not produce any revenue worth having and would be prejudicial to the Cheroot industry (Tobacco imported consists mainly of cheroot covers from Java and Sumatra) : but I have no doubt that a considerable revenue might be got from licensees on the vend by others than the growers."

His Excellency wrote thereupon—

"Has this Government ever called their (India's) attention to it? Anyhow I do not think we could do any harm in pointing out what a large sum a little place like Travancore manages to get from the consumers of tobacco. It does not seem to me material how it is raised, whether by import duties or licences. The very significant fact remains that the consumers of tobacco in Travancore contribute yearly Rs. 10 lakhs to the State."

3. His Excellency's query whether this Government has ever called the attention of the Government of India to tobacco as a possible source of revenue has been referred to this department for information, in the office-note from the Chief Secretary.

4. It will be seen from the references put up—

(1) That this question has frequently been considered by the Government of India and has also formed the subject of correspondence between that Government and this and other Local Governments ;

(2) That the conclusion come to by the Government of India is that the idea of raising a large imperial revenue from tobacco must be abandoned ;

(3) That our Government has also expressed the opinion that no large provincial revenue can be obtained from tobacco ; and

(4) That the Government of India is not unaware of the fact that Travancore manages to derive a large revenue from this source.

5. A summary of the correspondence on the subject is subjoined as also a short account of the tobacco monopoly in the districts of Coimbatore, Malabar and Canara which was abolished in the year 1853.

6. The Blue-Book entitled "Papers regarding the Tobacco Monopoly in the Presidency of Fort St. George etc.", gives the main correspondence up to 1868. It will be seen from pages 25–74 of the book, that for 50 years from 1803 to 1853, tobacco was the subject of a Government monopoly in the districts of Canara, Malabar and Coimbatore (vide Regulations 7 and 8 of 1811 and Regulation 5 of 1831 at pages 1, 4 and 8 of the Blue-Book), that the gross annual revenue derived during the 10 years—1833–1843 was about Rs. 8 lakhs and the net revenue about Rs. $5\frac{3}{4}$ lakhs ; that the evils arising from this monopoly were so great that the attention of Government was frequently invited thereto by the officers concerned ; that in 1845, the Government after recording a succinct review of the correspondence on the subject (vide No. 2 at page 26) called for a report from the Board of Revenue "on the practicability of a modification of the monopoly which, whilst we shall secure a considerable revenue, shall yet divest the tax of some of its most injurious attributes, its heavy charge of collection and the inducement it held out to smuggling"). The Government added that if a beneficial modification was impracticable, the possibility of finding an available substitute should be investigated.

It cost $2\frac{1}{4}$ lakhs to collect 8 lakhs !

J.G.

In reply the Board furnished an exhaustive report on the subject and said—

"It is with much reluctance that they are induced to advise the surrender without an equivalent of so considerable a source of revenue as the (tobacco) monopoly and they must be understood as doing so only, because, after much anxious reflection on the subject, they have been led to the conclusion that between such surrender and the retention of the present system with all its evils, there is no practicable middle course.

After a careful consideration of the subject the Government declared—

"The crying evils of the tobacco monopoly continue daily to become more notorious and demand an immediate remedy. The Right Hon'ble the Governor in Council entertains the most decided conviction that, as the Board of Revenue has represented, there is no effectual remedy short of total abolition and the expunging of so objectionable a branch of revenue from the system of Indian Finance."

Some of the evils of this system arose from its being confined to a limited area but the worst-springing from the fact that tobacco is produced almost everywhere and freely consumed by all classes so that any raising of the price gives rise to the worst sort of smuggling and is fatal to the peace of the country—will affect any system.

J.G.

In accordance with this view application was made to the Court of Directors for sanction to abolish the tobacco monopoly and on such sanction being obtained, Act IV of 1853 was passed abolishing the monopoly—

7. The subject of a tobacco-tax was considered by the Government of India during the years 1859–68. A summary of the correspondence which then took place on the subject and of the views held thereon will be found in Sir John Strachy's minute dated 21st October 1865 printed as No. 97 at page 152 of the Blue-Book and in the Government of India's letter to the Secretary of State printed as No. 98 at page 155.

All methods of taxing tobacco were considered then.

J.G.

It will be seen therefrom that, when after the events of the year 1857, the state of the finances rendered it necessary to resort to new sources of revenue, a tax on tobacco was among other things very much discussed.

Four methods of deriving a revenue from this source had been suggested :—

(1) The suppression of the cultivation of the plant throughout India and the imposition of an import duty.

(2) The establishment of a monopoly of the cultivation and manufacture of tobacco similar to that now applied to opium.

(3) The imposition of a licence duty on the cultivation of the plant.

(4) The imposition of licence fees on all wholesale and retail dealers in the manufactured article.

Of these, the first and second methods were soon dismissed as impracticable.

The third plan was at first favoured by the Government of India but most Local Governments disapproved it. The main objections urged were: that to impose a special tax on the cultivation of tobacco would be a violation of the principles on which land assessments were usually made; that it would also be economically a mistake; that the suppression of its cultivation except under a licence would be difficult to enforce; that as the enforcement cannot be extended to Native States (even if it could be extended to zamindari and inam estates) the measure would have the effect of contracting the area of its cultivation in British territory and greatly stimulating its growth in Native States and it would be extremely difficult to prevent the smuggling of free tobacco from such States. The views of this Government are contained in Mr. Bourdillon's letter to the Government of India, dated 11th June 1859, printed as No. 90 at pages 120–128. In the first enclosure to this letter the inexpediency of taxing tobacco in any form is fully set forth by the Board of Revenue.

The Government of India thereupon turned to the fourth plan of licensing the *sale* of tobacco and accordingly inserted a provision to this effect in the Licensing Bill then under its consideration. (The Bill, which was finally passed as India Act 18 of 1861 and repealed by India Act 2 of 1862). But the reports received from Local Governments on the point were not encouraging. They all went to show that no system of licensing would bring in any large revenue.

The Government of India resolved therefore to abandon altogether the idea of raising a revenue from tobacco by Imperial Legislation and the clause in the Licensing Bill which related to tobacco was accordingly expunged.

8. But while arriving at this opinion as to the unsuitability of tobacco for Imperial taxation the Government of India also thought, judging from the reports received from Local Governments, that a considerable revenue might be derived by Local Governments if they were left each to carry out the system best suited to the circumstances of its province. Accordingly, and as it was thought that Imperial revenues might be relieved to a considerable extent by establishing a system of local taxation for local purposes, the Government of India addressed Local Governments on the subject of such taxation and named tobacco as one of the sources from which a revenue might be derived.

The reply of this Government to the above letter is printed at pages 157—162 of the Blue-Book. This Government merely reiterated the opinion it had expressed in its letter of 11th June 1859 (No. 90 at page 120) that there were insurmountable objections to the realization of a revenue from tobacco unless in the shape of a tax on the shops where tobacco was sold, i.e., a licence tax; and that the produce of such a tax would not be considerable.

9. The Government of India appears to have considered this question of a tobacco tax on subsequent occasions also and to have arrived at substantially the same opinion as before, as will appear from the letter to the Secretary of State printed as No. 98 at page 155.

10. In 1870 when the question of raising the rate of income-tax was under the consideration of the Government of India, a proposal was made by one of the members (Mr. Cowie) to tax tobacco. Sir John Strachy and Sir Richard Temple both spoke against the measure and His Excellency Lord Mayo said:—

"Now it is quite true that in many civilized countries tobacco is considered to be a very proper object for taxation but I must remind the Council that tobacco in India is really an absolute necessary of life and that if you put a tax upon the production of tobacco, you tax the two great necessaries of life in this country, viz., salt and tobacco, and I am not prepared even in the present state of our finances to advocate the imposition of a burden upon such a prime necessary of life as that is.

11. The question appears to have been discussed also during Lord Lytton's Viceroyalty and the same conclusion arrived at, namely, that no large revenue could be raised by taxing tobacco (vide pages 368-70 of Strachy's book on "The Finances and

Public Works of India" and page 554 of the volume of Legislative Council's Proceedings for 1877). The following extract from Strachey's book may be noted:

"Tobacco is almost universally consumed and is looked upon as almost a necessary of life. Whatever means were adopted the tax would only be largely productive if it fell ultimately on the classes which form the great mass of the community. It would be paid by the same classes which now pay the salt tax, and if it should become necessary to increase the burden which they already bear this object would be more easily and economically gained and with far less vexation to the people by increasing the existing tax upon salt than by imposing a new tax upon tobacco. That any increase in the rate of the salt-tax would be one of the greatest possible mistakes, unless in most exceptional circumstances and on the other hand that its present reduction * would be financially a most desirable measure, has been shown in another chapter (page 370).

* The duty was reduced from Rs. 2-8-0 to Rs. 2 in 1882. It was raised as follows in this Presidency:—

	Duty.		
	RS.	A.	P.
August 1859	1	0	0
April 1861	1	4	0
1861-62 to 1865-66	1	5	0
1866-67 to 1868-69	1	8	0
1869-70 to 1877-78	1	12	0
1878-79 to 1881-82	2	8	0
1882-83 to 1886-87	2	0	0
1886-87	2	8	0

12. That the Government of India knows that Travancore derives a large revenue from tobacco, may be inferred from the correspondence which took place in 1860–65 relative to the Interportal Trade convention with Travancore and Cochin and more especially from the correspondence embodied in Government Order dated 14th May 1868, No. 1338.

It will be seen from the latter correspondence that at the desire of the Viceroy (Sir John Lawrence) whose attention seems to have been drawn to certain remarks which appeared in the Travancore Administration Report for 1865–66, regarding the tobacco tax in that State the Hon'ble Mr. G. N. Taylor addressed the then Resident in Travancore and Cochin (Mr. Newill) for full particulars regarding the mode in which the tax was levied in that State and that complete information on the subject was furnished by the Resident and the then Diwan T. Madhava Rao.

This correspondence came before this Government, mainly on account of a minute recorded by the Hon'ble Mr. G. N. Taylor, in which he suggested that this Government might consider the expediency of imposing a moderate import duty or an excise wherever practicable—vide his minute printed in the Government Order.

The Diwan's Memorandum shows that during the flourishing period of the monopoly system (it was abolished in 1862–63, that is, ten years after the abolition of the Government monopoly in Malabar and Canara) the gross revenue from tobacco amounted to more than half the revenue from all other sources or more than one-third of the total revenue of the State while the revenue now amounts to about one-eighth of the total revenue.

13. From the administration report of the Travancore State for the year 1891–92, it appears that 12,295 † candies of tobacco valued at Rs. 26,77,723 were imported during that year and that a duty of Rs. 9,43,030 was collected thereon.

† Equal to 6,147,500 lb. or 8,065,520 lb. according as a 'candy' is 500 lb. or 656 lb. (which latter is the equivalent given in Madhava Rao's Memorandum—vide paragraph 10.

14. The following statement gives the statistics of the imports of tobacco into this Presidency by sea for the last three years:—

Tobacco—Imports—Sea-Borne ‡ Trade.

Years.	Foreign trade.		Coasting trade.		Total.	
——	Quantity in lb.	Value.	Quantity in lb.	Value.	Quantity in lb.	Value.
		RS.		RS.		RS.
1890-91	446,477	2,06,021	218,915	33,563	665,392	2,39,584
1891-92	542,705	2,91,725	110,937	17,121	653,642	3,08,846
1892-93	915,719	3,37,980	135,775	27,107	1,051,494	3,65,087

‡ The rail-borne imports amount only to about 2,000 lb.

At the Travancore rate of duty the imports into this Presidency will bring in a gross revenue of a little over one lakh of rupees.

R.V.S.—1-3-94.

The foregoing account gives a clear and concise summary of all that has been written on this subject and shows that the feasibility of raising a revenue from tobacco has been most exhaustively debated and that the question has been considered in all its bearings. The situation is appropriately summed up by Sir John Strachey in paragraph 8 of his minute of the 21st October 1865 (page 154 of the Blue Book)—

"Tobacco has seemed at first sight a very promising subject of taxation to almost everyone who has thought upon the subject, but almost everyone had given up the scheme upon full consideration of the difficulties which surround it."

J.G.—3-3-94.

II

Mr. N. S. Brodie's Note dated 26th December 1915 (Secret D.O. No. A A-1, dated 11th January 1916).

Prior to 1910–11, *ad valorem* rates used to be charged on imported manufactured tobacco of all sorts at the rate of 5 per cent but this system was then abandoned and special quantitative rates introduced, presumably because of the difficulty of levying *ad valorem* rates. The rates introduced were about 33 per cent higher than those now in force which are—

	Rs.	A.	P.	
Unmanufactured tobacco	1	0	0	per lb.
Cigars	1	10	0	,,
Cigarettes weighing less than 3 lb. per thousand.	3	2	0	per thousand.
Cigarettes weighing 3 lb. or more per thousand.	1	4	0	per lb.
Manufactured, other sorts	1	2	0	,,

These rates are said to be approximately 36 per cent *ad valorem* on cigars and 33 per cent *ad valorem* on cigarettes though how this is arrived at I don't know, considering how much imported cigars and cigarettes vary in weight and value. The Government of India's first proposal is to raise these rates 'in approximately the same proportion, i.e., to a uniform 50 per cent *ad valorem*.' I presume this means that the duty on cigars is to be raised by about one-third and that on cigarettes by about half. Nothing is said about 'other sorts' which I suppose means principally pipe tobacco. Judging from Spencer's and Oakes' price lists the present rate seems to be from 28 to 41 per cent on the cheapest pipe tobacco and presumably this is also to be raised by about one-third. The rates will then read—

	Rs.	A.	P.	
Cigars	2	3	0	per lb.
Cigarettes	4	11	0	per thousand and
	1	14	0	per lb.
Other sorts	1	8	0	per lb.

I presume the Government of India does not intend to go back to *ad valorem* rates.

2. The rates introduced in 1910–11 had the immediate effect of 'extensively curtailing the imports of foreign tobacco and they scarcely realized the revenue it was hoped they would bring in.' The total imports declined by 83 per cent in quantity and 52 per cent in value. Imports of leaf tobacco, *formerly duty free*, fell from 447,115 lb. to 63,267 lb. or by 86 per cent in quantity. Imports from Ceylon and the Straits Settlements practically ceased. [There used to be quite a large trade from the Jaffna and the northern Ceylon ports which supplied a great part of the tobacco used on the west coast of this Presidency.] Imports of cigarettes decreased 77 per cent in quantity and 48 per cent in value. The cheap American varieties were practically shut out, falling 94 per cent in value and the result was the foundation and development of the Indian cigarette industry which has probably taken their place. Exports of cigars to the United Kingdom fell by 72 per cent owing to the imposition of duty on wrapper tobacco. To avoid this, Messrs. Spencer & Co. removed their factory to Pondicherry.

Effects of taxation introduced in 1910–11. Sea-Borne Trade Review of 1910–11, page 9.

3. In 1911–12, owing to the outcry from Ceylon and the leading local manufacturers of better class cigars, the rates were reduced by about 33 per cent to the present figures. Even this, however, failed to revive the import trade from Ceylon and the Straits Settlements which was completely and finally killed. Imports of leaf tobacco rose by 19,160 lb. but this was only a mere fraction of the fall of 383,848 lb. in 1910–11. The increase was confined to the higher grades required in the manufacture of cigars of good quality. Imports of cigarettes showed a further decline in quantity but an increase in value, the trade in cheap American cigarettes being completely extinguished. Exports of cigars to the United Kingdom declined another

Sea-Borne Trade Review of 1911–12.

7 per cent in value but exports to the Straits Settlements increased by 23 per cent and the whole export of cigars increased by 13 per cent in quantity and 9 per cent in value. The cigars exported to the Straits Ssttlements and Federated Malay States appear to be made of purely Indian tobacco which pays no duty.

Sea-Borne Trade Review of 1912–13.

4. In 1912–13, there was a further decrease in imports of cigarettes by 15 per cent and a large factory was opened at Bangalore by the Peninsular Tobacco Company. Manufacture of cigars for export to the United Kingdom was permitted in bond and Messrs. Spencer & Co returned from Pondicherry. The exports of these cigars rose by 46 per cent but of course the revenue did not profit by this.

Sea-Borne Trade Review of 1913–14.

There was a general increase both in imports and exports of tobacco in 1913–14 and some recovery in imports of cigarettes to a little above the figures of 1910–11. The export of high grade cigars to the United Kingdom rose to ·88 lakh against ·57 lakh in 1910–11.

Effects of the war—Sea-Borne Trade Review, 1914–15.

However, the effect of the war was to send most of the principal figures lower than ever. Imports of raw tobacco fell to 70,573 lb. in 1914–15 and exports of high grade cigars to the United Kingdom fell to 33,434 lb. and to ·45 lakh in value (nearly 50 per cent), the lowest figure on record.

5. The figures since the introduction of the new tariff are tabulated below :—

Annual value of the sea-borne trade and navigation of the Madras Presidency for 1914–15.

Foreign trade.

——	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.						
1. Unmanufactured (total for Presidency).	LB. 447,115	LB. 63,267	LB. 82,427	LB. 90,458	LB. 110,458	LB. 70,573
2. Manufactured—						
(*a*) Cigars	11,099	1,049	937	830	1,107	3,368
(*b*) Cigarettes	319,275	72,139	65,410	55,217	78,616	78,429
(*c*) Other sorts	94,940	12,473	26,397	23,370	24,723	28,090
Exports.						
1. Unmanufactured (unaffected by tariff).	1,444,632	1,670,842	1,619,966	1,806,998	2,234,511	2,362,766
Of the above exported to Straits Settlements and Federated Malay States.	1,374,612	1,621,543	1,568,878	1,773,160	2,115,056	2,304,144
2. Manufactured—						
(*a*) Cigars	697,507	704,791	797,383	989,811	988,668	887,165
Of the above quantity exported to United Kingdom.	80,360	42,565	36,184	51,156	56,976	33,434
Straits Settlements and Federated Malay States (unaffected by tariff).	415,357	547,613	661,294	827,278	811,219	800,488
(*b*) Other sorts	4,196	4,515	9,010	8,513	9,363	8,885

Coasting trade.

——	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.						
1. Unmanufactured	LB. 610,603	LB. 683,787	LB. 664,054	LB. 578,058	LB. 604,165	LB. 596,038
2. Manufactured	142,514	84,439	59,021	94,319	57,595	71,301
Of the above imported from Calcutta.	118,687	73,703	52,511	85,214	46,637	53,301
Exports.						
1. Unmanufactured	7,721,625	7,535,386	6,870,154	6,536,820	6,928,569	5,168,826
Of the above exported to Burma ..	6,926,830	6,474,041	6,149,974	6,133,770	6,521,676	4,579,130
2. Manufactured—						
(*a*) Cigars	347,507	314,933	410,526	419,710	349,618	275,018
Of the above exported to Burma ..	194,493	204,649	292,004	320,781	251,706	177,844
Of the above exported to Bengal ..	101,866	73,206	76,815	61,785	63,117	65,373
(*b*) Cigarettes	..	..	2,877	4,200	26,471	61,599
(*c*) Other sorts	35,726	43,920	37,620	39,906	33,407	77,190

6. The net result of the introduction of the heavier tobacco duties in 1910–11 has, therefore, been to kill the import trade in raw tobacco from Ceylon and the Straits Settlements and in cigarettes from America and to lay the foundations of a cigarette manufacturing industry in India from Indian leaf. The trade in high grade cigars exported to the United Kingdom has suffered very heavily, despite permission to manufacture export in bond. The fall between 1909–10 and 1913–14 (when this industry reached its highest point after the imposition of duties and before the outbreak of war) was about 29 per cent. This shows what an effect even a slight rise in the cost of such a thing as tobacco has on consumption as it was undoubtedly the increased cost (and that only of the wrapper) in 1910–11 that gave the trade this set back. The wrapper is only a minute fraction of the weight of the cigar and if the duty on whole cigars is only equal to an *ad valorem* rate of 36 per cent the duty on a cigar whose wrapper alone pays duty must be nearer 1 or 2 per cent. Since the concession of manufacture in bond has been granted these cigars pay no duty and it is presumed that this concession will be continued so that any enhancement of rates will not affect them.

7. *Rail-borne trade*, 1914–15.—

Imports from other Presidencies and Native States.

	LB.
1. Unmanufactured	2,051,959
Of which imported from Mysore	1,344,550
2. Manufactured—	
(*a*) Cigars	13,330
(*b*) Other sorts—probably cigarettes	1,497,517
Of which imported from Mysore	1,294,272

Exports to other Presidencies and Native States.

1. Unmanufactured	24,729,076
Of which exported to—	
Mysore	8,181,339
Calcutta	5,282,496
Nzam's Territory	4,242,157
2. Manufactured—	
(*a*) Cigars	503,013
(*b*) Other sorts	392,750

Internal trade between various parts of the Presidency.

1. Unmanufactured	53,774,208
2. Manufactured—	
(*a*) Cigars	1,061,815
(*b*) Other sorts—probably cigarettes, bidies and snuff ...	1,074,651

Cigars.

8. From these figures it appears that by far the greatest part of the Delta tobacco is exported in the manufactured condition and made up locally. The trade in manufactured tobacco is comparatively small, which agrees with my information that there are no manufactories of any size. A fairly large quantity of manufactured cigars is exported by rail from the Central districts (i.e., Trichinopoly, Salem and Coimbatore) to Negapatam but this no doubt is included also in the exports by sea to the Straits Settlements.

9. In the Secretariat note of 1911 the total outturn of cigars was estimated by Mr. Innes at about 2,500,000 lb; i.e.:—

	1909–10. LB.
Foreign exports	697,507
Coasting trade exports	347,507
Rail-borne exports	451,164
Do. internal trade	971,208
Total ...	2,467,386

The corresponding figures for 1914–15 are—

	LB.
Foreign exports	887,165
Coasting trade exports	275,018
Rail-borne exports	503,013
Do. internal trade	1,061,815
Total ...	2,727,001

Allowing for the disturbance of trade caused by the war, the export trade and rail-borne traffic in cigars may, therefore, be taken at about 2,750,000 lb. but this is probably an excess estimate of the quantity actually manufactured since the rail-borne traffic probably includes the greater part of the foreign exports and possibly a good deal of the coasting trade exports also.

Cigarettes.

10. The Indian cigarette industry has practically grown up since the Secretariat notes of 1911 were written. Foreign imports of the better class cigarettes have remained nearly stationary since 1911–11 at about 70,000 lb. Comparing the figures of 1909–10 with those of 1910–12 when the full effect of the tariff duties had had time to operate, 253,865 lb. of cheap American cigarettes appear to have been displaced. These have no doubt been replaced by Indian cigarettes and there has probably been a large increase in consumption in addition.

The export trade in cigarettes in 1914–15 appears to have been somewhat as follows:—

	LB.
Foreign exports	8,885 *
Coasting trade exports	61,599
Rail-borne exports	392,750 *
Do. internal trade	1,074,651 *
Total ...	1,537,885

In the absence of figures for bidies, snuff, etc., it is not easy, however, to say how much of these 15 lakhs of pounds represent cigarettes and still less how much represents cigarettes manufactured in the Presidency. My inquiries in Vizagapatam show that none of the cigarettes there consumed (and the consumption is very large) are manufactured in this Presidency. The great bulk come from Calcutta and a good many from the Peninsular Tobacco Company, Bangalore. Similarly in Madras, the bulk of the cigarettes come from Bangalore or Bowringpet, both in Mysore territory and not subject to British excise. It will be seen from paragraph 7 above that 1,294,272 lb. of 'other sorts' including (no doubt mostly) cigarettes are imported from Mysore. Probably the greater number of these are shown in 'rail-borne internal trade' and exports of the Presidency over again. I should put the actual number manufactured in the Presidency at not more than 250,000 lb.

11. The following are principal Indian Cigaratte factories shown in the Lawrence Asylum Press Almanack, page 1438:—

(1) A.G.M. & Sons, Coimbatore.

(2) K.G.A., Coimbatore.

(3) McDowell & Co., Madras.

I have never seen any cigarettes from the first two factories and they seem to be very small and merely supply the local market. McDowell & Co. employ about 25 persons and some small hand machines. Pappadapoulos Brothers make Egyptian cigarettes but import Egyptian tobacco which already pays duty. Besides these there are the two large factories in Mysore—

4. The Peninsular Tobacco Company, Cleveland town, Bangalore, and

5. The Oriental Tobacco Manufacturing Company, Bowringpet.

*Includes, however, pipe tobacco, bidies, snuff, etc.

Both these are run on American lines and employ a large number of workmen and power-driven machinery, but as already remarked they are not subject to British excise.

Outturn of tobacco.

12. According to the 'Season and crop report' for 1914–15 the total area culivated with tobacco in the Presidency was 227,182 acres, the 'normal' area being 203,230 acres. I learn from Chadwick that 800 lb. of dried leaf per acre is a fair average crop as taken by Castlestuart Stuart in 1910. The total outturn was therefore about 182,000,000 lb. of which we have only accounted for about 3½ millions at most in the manufactured form. This outturn was spread over 24 districts, the area being over 10,000 acres in seven, Vizagapatam (29,115), Godavari (13,099), Guntur (78,560), Kistna (13,022), Kurnool (18,769), Coimbatore (26,001) and Madura (11,172). These figures show little change since 1908-09.

About 90,000,000 are exported in unmanufactured form.

Tobacco industry.

13. The census report for 1911 groups manufacturers of tobacco, opium and ganja together under Order 12, Group 66. The number of manufacturers of opium and ganja must be almost negligible and the total number of workers and dependents is shown to be 12,338. Under Order 33, Group 122, sellers of tobacco, opium, ganja, etc., are said to be 65,733 (workers 25,883, dependents 39,850). The total number of persons dependent on the tobacco trade is therefore about 78,066 against 75,000 in 1901. It is not possible to compare the figures of the other industries referred to in Mr. Castlestuart Stuart's demi-official of 5th November 1910 as the classification has been altered. Betel leaf and arecanut sellers are now grouped with vegetable and fruit sellers. It may be noted however that the number of persons engaged in the manufacture of tobacco is about as many as bakers and biscuit makers (12,970) whilst the number of sellers of tobacco is not much less than the number of sellers of milk, ghee, butter, poultry, eggs, etc. (80,981).

Present proposals criticised.

14. These figures show that there has been comparatively little change in the general position since 1910–11 and the arguments against any form of taxation of Indian grown tobacco remain as strong as they were then. The present proposals of the Government of India may now be examined in detail. The first is, as far as I understand it, to raise the quantitative rates of duty on imported cigars and cigarettes (and perhaps also on other manufactured tobacco) to the figures shown in paragraph 1 above. The quantity of imported cigars is now very small and was only 3,368 lb. in 1914–15. Assuming that the enhanced duty has no effect on consumption, the increase of revenue from this source will be only Rs. 1,824*. But judging from the effect of the enhancement of duty in 1910–11 it will probably be much less. The duty on imported cigarettes (78,429 lb. in 1914–15) was about Rs. 80,000 and the enhancement of the duty by one-half may give Rs. 40,000, though here also a heavy fall in consumption may be confidently looked for. The increase of duty on 'other sorts', i.e., probably pipe tobacco, snuff, etc. (which may be contemplated) by one-third would yield perhaps Rs. 10,742. Altogether, the maximum increase of revenue that may be looked for from this proposal cannot, therefore, be more than Rs. 60,000 and the burden will fall heavily on the poorly paid European and Eurasian assistants in shops, business firms, Railway Companies, etc., who are by far the largest consumers of imported cigarettes. However this increased revenue can no doubt be obtained without administrative difficulty or expense.

(*a*) First proposal.

*Present duty Rs. 5,473 one-third enhancement Rs. 1,824.

(*b*) Second proposal.

15. The second proposal is to levy an excise duty on cigarettes of Indian manufacture. The large factory referred to by the Government of India is probably that in Bengal, I think at Monghyr. It is proposed to differentiate bidies from cigarettes by the use of cigarette paper. This may be accepted. It is proposed that

the taxation should take the form of a quantitative duty equivalent to an *ad valorem* duty of about 15 per cent. A further point is whether the taxation should be restricted to factories equipped with power-driven machinery. If this qualification is accepted the question is a simple one for there are no such cigarette factories in this Presidency. Assuming, however, that all cigarette factories are to be taxed my inquiries show that cigarettes of Indian manufacture vary considerably in price. The cheapest are sold retail at prices varying from Rs. 1–4–6 per 500 or Rs. 2–6–0 per 1,000 to Rs. 2–12–0 per 500 or Rs. 5–2–0 per 1,000. These cigarettes both weigh almost exactly $2\frac{1}{2}$ lb. per 1,000, the cheaper ones a little more. The manufacturer's price to the trade is no doubt considerably less as these cigarettes have to be imported to Vizagapatam and there is the retailer's profit to be considered. The excise duty will of course have to be fixed with regard to the wholesale price at the factory. I should say Rs. 1–12–0 per 1,000 is probably an outside price for the cheapest cigarettes. This means $28/2\frac{1}{2}=11\frac{1}{5}$, say 11 annas a lb. or as they weigh rather more than $2\frac{1}{2}$ lb. per 1,000, say 10 annas a lb. 15 per cent on 10 annas is one and a half annas per lb. I have estimated the total production of cigarettes in this Presidency at not more than 250,000 lb. and the duty on this would be Rs. 23,437. It is impossible to say without a full inquiry what the number of cigarette factories is but they are certainly very small and probably average not more than 10,000 lb. of cigarettes each per annum. Putting the number at 25 scattered all over the Presidency, not less than 25 Sub-Inspectors on Rs. 40 per mensem would be required to supervise them. The cost of these would be Rs. 12,000 not allowing for contingent expenses such as weighing machines, etc. The net proceeds of the tax would therefore be somewhere about Rs. 10,000, even supposing that the duty had no effect on consumption which is extremely improbable. Moreover as Indian cigarettes vary considerably in price though not so much as cheroots, the duty would press most unfairly on the cheapest brands and on the poorest class of the population which consumes them.

Watch cigarettes—Peninsular Tobacco Company, Bangalore, Rs. 1-4-6.
Ruler cigarettes—Imperial Tobacco Company, Calcutta, Rs. 2-12-0 per 500.

16. The third proposal is to levy a similar quantitative excise duty equivalent to

(*c*) Third proposal.

an *ad valorem* tax of 15 per cent on cigars of Indian manufacture. As already pointed out in 1911 this problem absolutely bristles with administrative difficulties. In the first place it is not clear whether bidies are to be included. It is possible to distinguish bidies from cigarettes but the difference between them and the poorest kind of cheroots is almost infinitesimal. Both are rolled in leaves, sometimes tobacco leaves sometimes not. The manufacture of bidies is admittedly a cottage industry carried on in every village and hamlet. However according to the Asylum Press Almanack one tobacco factory at least professes to make bidies. The vast bulk of the Indian cheroots are also made as a cottage industry as is evident from the fact that out of 182 millions of pounds of tobacco grown only about $3\frac{1}{2}$ millions ($4\frac{1}{2}$ at the outside) appear in the trade returns as manufactured. Possibly bidies could be excluded by excepting

Bidies.

cheroots, etc., weighing less than as many pounds to the 1,000. My experiments show that the commonest bidies weigh about $1\frac{1}{4}$ lb. per 1,000, so that if manufactured cheroots weighing less than $1\frac{1}{2}$ lb. per 1,000 were excluded this might meet the case. However this would undoubtedly stimulate the consumption of bidies which I understand to be the most deleterious form of smoking. Bidies are sold at 12 annas a 1,000 wholesale in Madras, that is at about $9\frac{3}{5}$ annas per lb. The manufacturer's price may be less so that probably 9 annas per lb. would be a safe figure and the duty, if any, ought to be much the same as for cigarettes or a little less, say 1 anna 4 pies per lb.

A

17. Ordinary cheroots of the commonest kind seem to weigh about $3\frac{3}{4}$ lb. per 1,000 and cost Rs. 1–12–0 per 1,000 retail but both weight and price vary enormously. Better class cheroots which, however, are still largely consumed by the poorer classes

Cigars.

weigh 20 lb. per 1,000 and cost Rupees 12–8–0. Assuming that the rates to the trade are somewhat less we may estimate the first kind at 6 annas a lb. and the second at 10 annas a lb. The duty ought to be fixed at 15 per cent on the cheapest

kind at 6 annas a lb. The duty would then be 11 pies but for convenience of reckoning might be fixed at one anna.

It is quite impossible to estimate with any accuracy the output of Indian manufactured cigars. The figures in paragraph 9 no doubt afford some guide. I should imagine 2,000,000 lb. to be a fair estimate. The duty on this at 1 anna per lb. would be Rs. 1,25,000. Against this has to be set the cost of establishment which would be enormous. It is not possible at present to form any idea of what this would be. Presumably the only way to ensure the collection of the duty would be to place each factory in charge of an officer who would have to weigh the quantity of raw tobacco received and the quantity finally passed out on payment of duty, seeing that none illicitly passed out and keeping accounts on the same lines as officers in charge of distilleries. The test of a factory would be I suppose that the proprietor sold the manufactured produce, for practically every householder buys a few leaves of tobacco now and again and rolls them up into cheroots for private consumption. Even excluding these individuals, there appear to be about 26,000 persons describing themselves as tobacco sellers in the census returns, excluding 2,000 partially agriculturist. This agrees with what I expected, being an average of about one for every village in the Presidency. In some places there are no doubt several and in others none, but it would be quite impossible to do much in the way of concentration without causing much hardship. The formation of central storehouses appears, therefore, to be impossible and practically every shop will have to have a properly locked storehouse for the cheroots manufactured which adds to the expense. The ordinary staff of the Salt and Abkari Department could not possibly undertake this enormous addition to its work. Assuming that one Sub-Inspector could efficiently supervise on the average 25 factories (which I take to be impossible with the shops scattered as at present) it would require a staff of 1,000 Sub-Inspectors to supervise the work in the Presidency. The opportunities for fraud would be so great that I fear even then the force would be demoralized. Certainly a great many of the Sub-Inspectors would have to be paid more than the lowest grade of Rs. 40 a month. Assuming that the average pay is Rs. 60, this establishment alone would cost Rs. 60,000 per month or Rs. 7,20,000 per annum or about six times the estimated proceeds of the tax. It seems hardly worth while to discuss the matter further. A complete staff of peons, inspectors, Assistant Commissioners and Deputy Commissioners would also be necessary to supervise such an establishment and it would be quite impossible for me to undertake so large an addition to my work. After all there would be no possibility of guarding against fraud as there would be nothing to distinguish between illicit and licit tobacco. As far as I can see no tax less than Re. 1 per lb. would do more than pay for the cost of collection and this of course would be ruinous having regard to the cost of the article.

18. In conclusion I can see nothing in favour of the tax or any possibility of working it. A tax on Indian cheroots made in power-driven factories might be possible. There are only two, viz.: Spencer's at Dindigul and Oakes & Co. at Guindy—employing 700 persons between them. But it seems very hard to discriminate against them, even if the tax was only one anna a lb. and anything more would probably drive them out of the Indian market altogether. I cannot say what the output of these two factories is, but excluding the amount manufactured in bond for Europe I doubt if it exceeds 500,000 lb. and the duty at one anna per lb. would yield only Rs. 31,250.

19. Another possible course would be to put an export duty on manufactured tobacco. In that case I should exclude cigars exported to the United Kingdom which have to pay heavy and enhanced duties there and have already sufferred by the tariff. There are not the same administrative objections to an export duty, at all events on exports by sea, as the establishment exists and evasion would be practically impossible. Exports by sea to foreign countries, excluding the United Kingdom, amounted to 853,731 lb. in 1914–15 and exports to other provinces to 275,018 lb. Total 1,128,749 lb. A duty of one anna per lb. might bring in Rs. 62,500 without any extra cost and as the exported cigars at all events to the Straits Settlements are of fairly good quality a duty of even 2 annas a lb. might not ruin the trade and bring in about one and quarter lakhs. Still the amount is so small that I see no use in upsetting the trade at all for so very little result.

N. S. Brodie—26–12–15.

III

Demi-official from L. DAVIDSON, Esq., I.C.S., to N. S. BRODIE, Esq., I.C.S., dated 4th July 1916, No. 39–S. (Secret No. 183 A, dated 18th December 1916.)

I am desired to refer to your note of the 26th December 1915, on the subject of imposing an excise on locally manufactured cigars and cigarettes. The Government of India are disposed to agree that the taxation of locally-made cigars is not likely to prove of practical value. As regards cigarettes, however, they are unable to abandon the possibility of revenue from an article which is not only a luxury but also, to some extent, a harmful luxury; and they have asked this Government to consider the question at greater leisure.

2. Your note, referred to above, gives an approximate estimate of the total outturn of cigarettes in the Presidency, the number of factories and the prevailing wholesale prices. I am to ask whether you cannot now quietly obtain more precise information as to the number and location of factories, the met hods of manufacture, the outturn and the prices obtained. Collectors could possibly procure the information under the guise of income-tax or statistical inquiries without exciting attention.

3. The calculations in your note are based on the assumption that the excise to be imposed would be equivalent to an *ad valorem* tax of about 15 per cent, as was then suggested by the Government of India. I am to ask you now further to consider the effect of taxation on the industry and to favour Government with your opinion as to the maximum which could safely be imposed without seriously crippling the trade.

4. The Government of India lay stress on the strictly confidential nature of this further reference, but say 'there is no objection to consulting any officer of Government whose advice would be of special value.'

Demi-official from N. S. BRODIE, Esq., I.C.S., to L. DAVIDSON, Esq., I.C.S., dated Ennore, 12th November 1916.

With reference to your demi-official No. 39-S., dated 4th July 1916, I have now made further inquiries into the subject of the production and sale of cigarettes in this Presidency both personally and through Collectors. I cannot say that I have elicited much additional information and the remarks which I made in my note of the 26th December 1915 continue to hold good. It appears, however, that I was wrong in stating that there were no cigarette factories in the Presidency equipped with power-driven machinery as it was found on further inspection that McDowell's factory in Moor street, Madras, had some cutting machines worked by an oil-engine recently set up.

2. The estimate of outturn may very well remain at 250,000 lb. The only details I have been able to get are from the Universal Tobacco Company in Madras which is believed to turn out about 30 lakhs of cigarettes per mensem and from McDowell's factory, also in Madras, which is believed to turn out about 20 lakhs. McDowell's factory does not use Indian tobacco exclusively and some of the brands contain imported tobacco to the extent, it is said, of 25 per cent on the whole. I have tested numerous brands from all parts of the Presidency and find that as a rule they weigh about 2½ lb. per 1,000, a little more or less. This gives the total Madras production about 150,000 lb. per annum. Allowing for the imported tobacco used in McDowell's factory the quantity of Indian cigarettes is about 135,000 lb. The only other factories appear to be Oakes & Co.'s factory at Guindy, a new factory started by Barry & Co. in Cocanada just recently and one or two small factories in Coimbatore. There was a factory at Guntur but it seems to have failed after working a few months. The Collector of Coimbatore has not yet replied to my letter on the subject but I made some inquiries in the course of my last tour and find that there are one and probably two factories in Coimbatore but they use imported tobacco for their cigarettes as does Pappadopoulos in Madras. Allowing for all these factories I should say 115,000 lb. per annum was a very liberal estimate, making 250,000 for the Presidency.

3. Retail prices seem to vary very considerably but on the whole I see no reason to modify my original calculations. The cheapest cigarettes are sold in packets of 5 or

6 and a slightly more expensive lot in packets of 10. The dealers' profit seems to be about eight annas a thousand and the trade discount about 20 per cent. Some cigarettes* are sold as cheaply as Re. 1 per 1,000 wholesale or allowing for the trade discount about thirteen annas per 1,000. This is less than half the price I estimated for the cheapest cigarettes in my last note (Rs. 1–12–0). I doubt if there are many of this brand sold, but there are numerous other brands at Re. 1–4–0, Re. 1–6–0 and Rs. 1–8–0 sold by McDowell & Co. However all other information tends to confirm the view that the cheapest cigarettes are sold at Rs. 2 to Rs. 2–12–0 by the wholesale dealers and consequently must cost somewhere about Rs. 1–12–0 per 1,000 from the manufacturers. These cheap cigarettes are manufactured in this Presidency by McDowell & Co., and the Universal Tobacco Company only. Those turned out by Oakes & Co., and the new factory started by Barry & Co., at Cocanada are much more expensive and work out at Rs. 11 to Rs. 14 per 1,000.

* By the Universal Tobacco Company, 1/6, Patters Road, Royapetta—'Bazaar' brand.

4. The method of manufacture is probably the same everywhere. The tobacco selected has all the main nibs cut out and the leaves are then laid one above the other to a considerable depth. They are then cut into small pieces by a cutting machine, the tabacco rolled in cagarette paper, gummed and cut into lengths. As far as I know the cutting and gumming, etc., machines are all worked by hand except in McDowell's factory above referred to.

5. In this connexion I should, however, bring to notice one or two facts which I have ascertained in the course of my inquiries. It is a common practice I understand for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale especially at the various shandies and markets in the Presidency. This is common in Malabar, Coimbatore and the Nilgiris at all events and probably elsewhere. Most Collectors have, however, reported that cigarette papers are not commonly sold in the bazaars. I believe the practice of individual consumers rolling their own cigarettes is not common at present though it is said to have been customary in Salem before the shop-made cigarettes became so cheap. It would be clearly impossible to levy an excise duty on cigarettes made by hawkers or private individuals and it may be expected that the practice would be much more largely resorted to if a duty were imposed on the manufactured article. This might perhaps be met by imposing a customs duty on cigarette paper which would have to be determined in accordance with the duty imposed on cigarettes, such customs duty to be refunded on paper actually used by the wholesale manufacturers. It seems that cigarette paper was formerly imported mostly from Austria and Germany—at present it is obtained from France.

6. As regards the duty to be imposed I find it difficult to express an opinion. The heavy rates imposed in 1910–11 practically killed the cheap American cigarettes but then the enhancement of rates was probably more than 100 per cent of the value so that this result was quite intelligible. My inquiries show that my estimate of the cost of collection was much too large. One Sub-Inspector would, I think, be required for each factory but as there seem to be only four or possibly five factories the cost would be only about Rs. 2,400 per annum. As observed in my previous note, a duty of one and a half annas per pound represents 15 per cent of the value of the cheap cigarette. This amounts to 3 annas 9 pies per 1,000 and could hardly affect the retail price at all. The usual retail price per packet of 10 cigarettes seems to be about 4 pies. A duty of 8 annas 4 pies per 1,000 should raise the retail price by one pie and this would probably not seriously affect the trade though even one pie is a consideration in a country like India. I do not think we could safely raise the duty beyond Re. 1 per 1,000 which would raise the retail price about 2 pies or 50 per cent. This would be 6·4 annas per pound and roughly about 60 per cent of the value. Although cheap cigarettes do not seem to vary much in weight I would prefer to levy the duty by the pound rather than by the number as being the only fair way of assessing it. A duty of 6½ annas per pound would, if the production remained at 250,000 lb., yield Rs. 1,01,562½ but if the consumption fell, as it probably would, to about 200,000 lb. the tax would yield Rs. 81,250. As far as this Presidency is concerned, the result would, therefore, be insignificant, but, no doubt, the revenue

from the whole of India would be very considerable and I cannot see any serious objection to the proposal except that it would greatly encourage the smoking of bidies and press rather hardly on the poorest class of the population who smoke cheap cigarettes at present and regard them as a great luxury.

Demi-official from F. J. RICHARDS, Esq., I.C.S., to LEY, Esq., I.C.S., dated the 18th December 1916, No. 75-S.

I am directed to reply to Mr. Low's Confidential demi-official letter No. 4493, dated 14th June 1916, on the subject of the expediency of imposing an excise on cigarettes manufactured in India from indigenous tobacco.

2. In the first place, I am to point out that the correspondence of 1910, to which reference is made in the first paragraph of Mr. Low's letter, did not turn on the present question, for at that time there was no manufacture of cigarettes from indigenous tobacco in this Presidency. It is stated that the question of an excise on manufacture was then dropped because the local cigarette industry was in its infancy and it was considered that the imposition of an excise would deal it a death-blow. So far as this Presidency is concerned, the position is virtually unaltered; for, as stated in Mr. Butterworth's demi-official letter No. A.A.-1, dated 11th January 1916, the local output of cigarettes does not exceed some 250,000 lb. annually. This estimate has been confirmed by subsequent enquiries, though the number of factories to be taken into account is found to be smaller than was thought to be the case. There are probably not more than 5 or 6, of which the two largest are those owned by Messrs. McDowell & Co., and the Universal Tobacco Company both in Madras City. The former has recently been equipped with an oil-engine for driving its cutting machines. The average wholesale price for the cheapest class of ciagarettes quoted in Mr. Butterworth's letter, viz. Rs. 1-12-0 per 1,000, may be taken as correct. These cheap cigarettes are manufactured only by Messrs. McDowell & Co. and the Universal Tobacco Company. Those turned out by Messrs. Oakes & Co., at Guindy and by Messrs. Barry & Co., at Cocanada are much more expensive, costing from Rs. 11 to Rs. 14 per 1,000.

3. The maximum rate of duty which is considered compatible with the survival of the industry is Re. 1 per 1,000 or approximately $6\frac{1}{2}$ annas per lb. This duty would if the production remained 250,000 lb. yield a revenue of a little over a lakh. The imposition of such a tax, however, is almost certain to preclude any expansion of the industry and would very probably strangle that which already exists; for it would either drive the masses to revert to *bidi* smoking or compel the manufacturers to transfer their factories to French territory or to Native States. I may here point out that the Director-General of Commercial Intelligence has incorrectly assumed that the tax realisable from the Peninsular Tobacco Company's factory in the Civil and Military Station, Bangalore, would be credited to Imperial revenues. By the terms of rendition, the Mysore Government is entitled to the whole of the surplus revenue of the Assigned Tract, after the cost of the administration of the tract is defrayed. This fact seriously affects the estimate formed of the probable receipts from the tax.

4. Another factor to be taken into consideration is the practice, common in several districts of this Presidency, for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale, especially at local markets. Individual consumers do not usually roll their own cigarettes, though it is said to have been customary for them to do so in Salem before the shop-made cigarettes became so cheap. It would obviously be impossible to levy an excise duty on cigarettes made by hawkers or private individuals; and it may be expected that the practice would be much more largely resorted to, if a duty were imposed on the manufactured article. Cigarette paper was formerly imported from Germany and Austria; now France is the chief source of supply. A customs duty might be imposed on it, such duty to be refunded on paper actually used by the wholesale manufacturers; but this expedient would not be free from difficulties and would almost certainly result in the use of a local substitute.

5. In these circumstances, I am to say that the Government of Madras are entirely opposed to the proposal. They can suggest no alternative scheme for internal taxation of tobacco, apart from those already rejected.

IV

Letter from C. R. WATKINS, Esq., C.I.E., Officiating Collector of Customs, Madras, to the Under Secretary to Government, Finance Department, dated 1st May 1925, No. L. Dis. Nil.

I forward herewith a statement showing the foreign imports into, and exports from, the Madras Presidency of tobacco since the year 1920-21.

2. The rates of customs duty at present in force are given below:—

Name of article.	Per	Tariff valuation.	Duty.
Cigars	.....	Ad valorem.	75 per cent.
Cigarettes of value.—Not exceeding Rs. 10-8-0 per thousand.	Thousand ...	.....	Rs. 7.
Exceeding Rs. 10-8-0 per thousand ...	Do.	.....	,, 10-8-0.
Tobacco, unmanufactured	Lb. ...	.....	,, 1.
All other sorts of tobacco manufactured	,, ...	.....	,, 2-4-0.

ENCLOSURE.

Foreign imports and exports of 'Tobacco' at the Presidency of Madras for the past five years ending 1924-25.

	1920-21.		1921-22.		1922-23.		1923-24.		1924-25.	
	Quantity.	Value.	Quantity	Value.	Quantity.	Value.	Quantity.	Value.	Quantity.	Value.
FOREIGN IMPORTS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.
Tobacco—Unmanufactured ..	77,507	1,45,703	489,693	13,17,036	742,412	14,07,436	3,105,459	34,57,277	3,485,871	29,29,162
Cigars	12,815	43,430	701	2,922	81	238	94	156	215	473
Cigarettes	500,267	16,39,198	186,750	9,40,779	278,384	12,34,116	296,516	13,54,712	1,86,952	8,34,717
Tobacco for pipes and cigarettes	304	1,296	5,293	54,393	22,524	1,19,720	18,155	97,606	½	3
Other sorts	28,058	1,46,309	9,590	39,508	852	3,891	12,402	40,892	20,564	1,06,279
Total ..	618,951	19,75,936	692,027	23,54,638	1,044,253	27,65,401	3,432,626	49,50,643	3,693,602	38,70,634
FOREIGN EXPORTS.										
Tobacco—Unmanufactured ..	3,118,784	13,57,807	4,650,985	16,84,266	4,258,743	17,68,621	9,953,877	37,65,684	14,366,170	42,49,345
Cigars	75,540	1,04,792	94,905	1,17,671	99,244	1,32,490	1,11,541	1,20,174	88,199	1,25,560
Cigarettes	..	..	129	615	31,230	30,049	1,574	1,492	72,086	81,746
Other sorts	34,166	27,373	48,237	46,322	45,300	44,918	110,903	1,03,645	99,555	49,769
Total ..	3,228,490	14,89,972	4,794,256	18,48,874	4,434,517	19,76,078	10,177,895	39,90,995	14,626,010	45,06,420

V

Statement showing the area under cultivation of tobacco in the Madras Presidency in 1923–24.

	ACS.		ACS.
Ganjam	3,299	Salem	3,737
Vizagapatam	48,285	Coimbatore	25,544
Godavari	11,591	Trichinopoly	4,032
Kistna	13,301	Tanjore	2,223
Guntur	64,481	Madura	7,400
Kurnool	11,542	Ramnad	3,889
Bellary	2,658	Tinnevelly	1,048
Anantapur	4,785	Malabar	17
Cuddapah	1,868	South Kanara	1,623
Nellore	2,625	The Nilgiris	72
Chingleput	62	Total ...	219,841
South Arcot	2,985		
Chittoor	595		
North Arcot	2,179		

CONFIDENTIAL.

TAXATION ON TOBACCO.

I

Notes to G.O. Mis. No. 1993, *dated* 21*st May* 1894.

The question is whether we should take the success of Travancore in levying a revenue from tobacco as a reason for calling the attention of the Government of India to the possibility of levying a revenue for tobacco in our territories. I doubt if we have sufficient ground for doing so and whether such a suggestion would be well received. Travancore is exceptionally situated, so that it has been possible to abolish all growth of tobacco there and levy a revenue by import duties, and the Government of India know all about this. Such a system would be impossible in our territory where tobacco is grown almost everywhere and consumed by almost everybody, and where larger Native States abound. The possibility of levying a revenue on tobacco in our territory, in this or any other way, has been repeatedly discussed and decided against after full communication between all the Governments, so that any suggestion for us on the subject would amount to an insinuation that the discussion had not been complete. The only way in which, as far as I can see, a large revenue could be realized for tobacco would be by establishing monopoly of manufacture and sale. Though this was hardly possible in former days, I believe it would be possible in these days of improved communications and police, but the initial expenditure on warehouses, etc., would be too heavy for a time of financial pressure and the larger preventive establishments which would be necessary and extend through almost every village would result in oppression which would be so widespread and so frequently exercised that it would be eminently dangerous.

G. GARSTIN—7-3-93.

No doubt a tobacco monopoly *could* be worked but it would be a gigantic undertaking, and so very costly (especially in Bengal, where Government has no rural agency at all) that it would not, in my opinion, bring in a net return worth the imitation, the measure would certainly cause. The simplest way of raising a tax on tobacco would be by a special tax on the land on which it was grown, but that would not apply to Native States and cannot be worked in Bengal. A special establishment which would eat up the most part of the profits, while in all settled non-zamindari districts the terms of the settlements would prevent the imposition of such a tax. Independently of this, the taxation of land according to the crop grown would be a

This note is submitted with reference to the enquiry whether the attention of the Government of India has been called in the Revenue Department to tobacco as a possible source of revenue.

2. The occasion for this enquiry will appear from the notes of His Excellency the Governor and the Hon'ble Sir Henry Stokes to which reference is made in that office-note. It arose in this wise—

In submitting the budget estimate of the Travancore State for the Malabar year 1069 (August 1893–94) Mr. Grigg, the Resident, after observing that the most important increases occurred under certain heads of revenue of which tobacco was one, remarked regarding the increase under this head as follows:—

"That under tobacco is very remarkable. I have never heard a rumour of complaint regarding this tax, and yet it comes to approximately As. 6–6 per head of the population and gives a revenue nearly double that of abkari and opium and is now 55 per cent of that of salt—a necessary of life. Offences against the law relating to its importation are, I believe, not numerous. The lucrativeness of this monopoly may well attract the attention of Indian financiers (paragraph 3 of his letter, dated 3rd August 1893, in Government Order, dated 20th October 1893, No. 712, Political).

On this His Excellency noted—

"We should call the attention of the Government of India to the statistics of the tobacco tax and to the Resident's remarks thereon."

On this note Sir Henry Stokes remarked as follows:—

"The attention of the Government of India has been often enough directed to tobacco as a possible source of revenue. The peculiar position of Travancore makes its experience of little or no value in the consideration of the question.

retrograde measure, injurious to the cultivator and certainly beneficial to no one but the karnam.

A licence fee might be imposed and would yield something. It would be a return to the moturfa abolished years ago, and would come very hard on the very poor classes who sell tobacco. I should be sorry to see it tried. Similar objections can be found to every other plan of levying a tobacco tax in this country. I don't think that the Government of India would care to take the question up. It was examined, on another and later occasion, I think, than any of those mentioned in the note, by Mr. Bazeet Colvin when additional Member of the Viceroy's Council, who wrote a long note on this and other projects of taxation, a copy of which I have somewhere—given me by Sir Auckland Colvin, when Finance Minister, who told me at the time that the idea had been finally abandoned—or to that effect. This was in 1886 when the times were almost as hard as they are now.

H. E. Stokes—7-3-94.

This note is very clear, and gives me a complete answer. It is very evident that we should *not* call the attention of India to Mr. Grigg's remarks on the revenue derived in Travancore from taxing tobacco.

I found myself like many others lured into the belief that a large revenue might be derived from taxing this article, and the same results achieved here as in almost every civilized country in the world. But on inquiry I find that not only has it been thoroughly looked into, but the experiment has been tried and has failed, and there is no doubt the peculiar circumstances of the country have rendered the success of the experiment almost impossible. And as Sir J. Strachey very forcibly puts in the incidence of a tax on tobacco would fall with far greater severity on those who now pay the bulk of the salt tax, and we would thereby be putting a crushing weight on those least able to bear the burden. I confess myself converted and withdraw from any further attempt to bring this question within the domains of practical politics—although I can imagine a municipality looking upon it as a fair object for local taxation but even then extremely difficult to work, as poor Madras can testify.

I suppose though that imported tobacco will pay its 5 per cent like other articles (except cotton goods !).

Wenlock—11-3-20.

Tobacco is not produced in the State : the revenue is derived from import duties, and the configuration of the country lends itself to the easy levy of these duties on the greater portion of the tobacco consumed, which comes from Ceylon. In this Presidency and probably in the rest of India, import duties would not produce any revenue worth having and would be prejudicial to the Cheroot industry (Tobacco imported consists mainly of cheroot covers from Java and Sumatra): but I have no doubt that a considerable revenue might be got from licensees on the vend by others than the growers."

His Excellency wrote thereupon—

"Has this Government ever called their (India's) attention to it? Anyhow I do not think we could do any harm in pointing out what a large sum a little place like Travancore manages to get from the consumers of tobacco. It does not seem to me material how it is raised, whether by import duties or licences. The very significant fact remains that the consumers of tobacco in Travancore contribute yearly Rs. 10 lakhs to the State."

3. His Excellency's query whether this Government has ever called the attention of the Government of India to tobacco as a possible source of revenue has been referred to this department for information, in the office-note from the Chief Secretary.

4. It will be seen from the references put up—

(1) That this question has frequently been considered by the Government of India and has also formed the subject of correspondence between that Government and this and other Local Governments;

(2) That the conclusion come to by the Government of India is that the idea of raising a large imperial revenue from tobacco must be abandoned;

(3) That our Government has also expressed the opinion that no large provincial revenue can be obtained from tobacco; and

(4) That the Government of India is not unaware of the fact that Travancore manages to derive a large revenue from this source.

5. A summary of the correspondence on the subject is subjoined as also a short account of the tobacco monopoly in the districts of Coimbatore, Malabar and Canara which was abolished in the year 1853.

6. The Blue-Book entitled "Papers regarding the Tobacco Monopoly in the Presidency of Fort St. George etc.", gives the main correspondence up to 1868. It will be seen from pages 25–74 of the book, that for 50 years from 1803 to 1853, tobacco was the subject of a Government monopoly in the districts of Canara, Malabar and Coimbatore (vide Regulations 7 and 8 of 1811 and Regulation 5 of 1831 at pages 1, 4 and 8 of the Blue-Book), that the gross annual revenue derived during the 10 years—1833–1843 was about Rs. 8 lakhs and the net revenue about Rs. $5\frac{3}{4}$ lakhs; that the evils arising from this monopoly were so great that the attention of Government was frequently invited thereto by the officers concerned; that in 1845, the Government after recording a succinct review of the correspondence on the subject (vide No. 2 at page 26) called for a report from the Board of Revenue "on the practicability of a modification of the monopoly which, whilst we shall secure a considerable revenue, shall yet divest the tax of some of its most injurious attributes, its heavy charge of collection and the inducement it held out to smuggling"). The Government added that if a beneficial modification was impracticable, the possibility of finding an available substitute should be investigated.

It cost $2\frac{1}{4}$ lakhs to collect 8 lakhs !

J.G.

In reply the Board furnished an exhaustive report on the subject and said—

"It is with much reluctance that they are induced to advise the surrender without an equivalent of so considerable a source of revenue as the (tobacco) monopoly and they must be understood as doing so only, because, after much anxious reflection on the subject, they have been led to the conclusion that between such surrender and the retention of the present system with all its evils, there is no practicable middle course.

After a careful consideration of the subject the Government declared—

"The crying evils of the tobacco monopoly continue daily to become more notorious and demand an immediate remedy. The Right Hon'ble the Governor in Council entertains the most decided conviction that, as the Board of Revenue has represented, there is no effectual remedy short of total abolition and the expunging of so objectionable a branch of revenue from the system of Indian Finance."

Some of the evils of this system arose from its being confined to a limited area but the worst-springing from the fact that tobacco is produced almost everywhere and freely consumed by all classes so that any raising of the price gives rise to the worst sort of smuggling and is fatal to the peace of the country—will affect any system.

J.G.

In accordance with this view application was made to the Court of Directors for sanction to abolish the tobacco monopoly and on such sanction being obtained, Act IV of 1853 was passed abolishing the monopoly—

7. The subject of a tobacco-tax was considered by the Government of India during the years 1859–68. A summary of the correspondence which then took place on the subject and of the views held thereon will be found in Sir John Strachy's minute dated 21st October 1865 printed as No. 97 at page 152 of the Blue-Book and in the Government of India's letter to the Secretary of State printed as No. 98 at page 155.

All methods of taxing tobacco were considered then.

J.G.

It will be seen therefrom that, when after the events of the year 1857, the state of the finances rendered it necessary to resort to new sources of revenue, a tax on tobacco was among other things very much discussed.

Four methods of deriving a revenue from this source had been suggested :—

(1) The suppression of the cultivation of the plant throughout India and the imposition of an import duty.

(2) The establishment of a monopoly of the cultivation and manufacture of tobacco similar to that now applied to opium.

(3) The imposition of a licence duty on the cultivation of the plant.

(4) The imposition of licence fees on all wholesale and retail dealers in the manufactured article.

Of these, the first and second methods were soon dismissed as impracticable.

The third plan was at first favoured by the Government of India but most Local Governments disapproved it. The main objections urged were: that to impose a special tax on the cultivation of tobacco would be a violation of the principles on which land assessments were usually made; that it would also be economically a mistake; that the suppression of its cultivation except under a licence would be difficult to enforce; that as the enforcement cannot be extended to Native States (even if it could be extended to zamindari and inam estates) the measure would have the effect of contracting the area of its cultivation in British territory and greatly stimulating its growth in Native States and it would be extremely difficult to prevent the smuggling of free tobacco from such States. The views of this Government are contained in Mr. Bourdillon's letter to the Government of India, dated 11th June 1859, printed as No. 90 at pages 120–128. In the first enclosure to this letter the inexpediency of taxing tobacco in any form is fully set forth by the Board of Revenue.

The Government of India thereupon turned to the fourth plan of licensing the *sale* of tobacco and accordingly inserted a provision to this effect in the Licensing Bill then under its consideration. (The Bill, which was finally passed as India Act 18 of 1861 and repealed by India Act 2 of 1862). But the reports received from Local Governments on the point were not encouraging. They all went to show that no system of licensing would bring in any large revenue.

The Government of India resolved therefore to abandon altogether the idea of raising a revenue from tobacco by Imperial Legislation and the clause in the Licensing Bill which related to tobacco was accordingly expunged.

8. But while arriving at this opinion as to the unsuitability of tobacco for Imperial taxation the Government of India also thought, judging from the reports received from Local Governments, that a considerable revenue might be derived by Local Governments if they were left each to carry out the system best suited to the circumstances of its province. Accordingly, and as it was thought that Imperial revenues might be relieved to a considerable extent by establishing a system of local taxation for local purposes, the Government of India addressed Local Governments on the subject of such taxation and named tobacco as one of the sources from which a revenue might be derived.

The reply of this Government to the above letter is printed at pages 157—162 of the Blue-Book. This Government merely reiterated the opinion it had expressed in its letter of 11th June 1859 (No. 90 at page 120) that there were insurmountable objections to the realization of a revenue from tobacco unless in the shape of a tax on the shops where tobacco was sold, i.e., a licence tax; and that the produce of such a tax would not be considerable.

9. The Government of India appears to have considered this question of a tobacco tax on subsequent occasions also and to have arrived at substantially the same opinion as before, as will appear from the letter to the Secretary of State printed as No. 98 at page 155.

10. In 1870 when the question of raising the rate of income-tax was under the consideration of the Government of India, a proposal was made by one of the members (Mr. Cowie) to tax tobacco. Sir John Strachy and Sir Richard Temple both spoke against the measure and His Excellency Lord Mayo said:—

"Now it is quite true that in many civilized countries tobacco is considered to be a very proper object for taxation but I must remind the Council that tobacco in India is really an absolute necessary of life and that if you put a tax upon the production of tobacco, you tax the two great necessaries of life in this country, viz., salt and tobacco, and I am not prepared even in the present state of our finances to advocate the imposition of a burden upon such a prime necessary of life as that is.

11. The question appears to have been discussed also during Lord Lytton's Viceroyalty and the same conclusion arrived at, namely, that no large revenue could be raised by taxing tobacco (vide pages 368-70 of Strachy's book on "The Finances and

Public Works of India" and page 554 of the volume of Legislative Council's Proceedings for 1877). The following extract from Strachey's book may be noted:

"Tobacco is almost universally consumed and is looked upon as almost a necessary of life. Whatever means were adopted the tax would only be largely productive if it fell ultimately on the classes which form the great mass of the community. It would be paid by the same classes which now pay the salt tax, and if it should become necessary to increase the burden which they already bear this object would be more easily and economically gained and with far less vexation to the people by increasing the existing tax upon salt than by imposing a new tax upon tobacco. That any increase in the rate of the salt-tax would be one of the greatest possible mistakes, unless in most exceptional circumstances and on the other hand that its present reduction * would be financially a most desirable measure, has been shown in another chapter (page 370).

* The duty was reduced from Rs. 2-8-0 to Rs. 2 in 1882. It was raised as follows in this Presidency:—

	Duty. RS.	A.	P.
August 1859	1	0	0
April 1861	1	4	0
1861–62 to 1865–66	1	5	0
1866–67 to 1868–69	1	8	0
1869–70 to 1877–78	1	12	0
1878–79 to 1881–82	2	8	0
1882–83 to 1886–87	2	0	0
1886–87	2	8	0

12. That the Government of India knows that Travancore derives a large revenue from tobacco, may be inferred from the correspondence which took place in 1860–65 relative to the Interportal Trade convention with Travancore and Cochin and more especially from the correspondence embodied in Government Order dated 14th May 1868, No. 1338.

It will be seen from the latter correspondence that at the desire of the Viceroy (Sir John Lawrence) whose attention seems to have been drawn to certain remarks which appeared in the Travancore Administration Report for 1865–66, regarding the tobacco tax in that State the Hon'ble Mr. G. N. Taylor addressed the then Resident in Travancore and Cochin (Mr. Newill) for full particulars regarding the mode in which the tax was levied in that State and that complete information on the subject was furnished by the Resident and the then Diwan T. Madhava Rao.

This correspondence came before this Government, mainly on account of a minute recorded by the Hon'ble Mr. G. N. Taylor, in which he suggested that this Government might consider the expediency of imposing a moderate import duty or an excise wherever practicable—vide his minute printed in the Government Order.

The Diwan's Memorandum shows that during the flourishing period of the monopoly system (it was abolished in 1862–63, that is, ten years after the abolition of the Government monopoly in Malabar and Canara) the gross revenue from tobacco amounted to more than half the revenue from all other sources or more than one-third of the total revenue of the State while the revenue now amounts to about one-eighth of the total revenue.

13. From the administration report of the Travancore State for the year 1891–92, it appears that 12,295 † candies of tobacco valued at Rs. 26,77,723 were imported during that year and that a duty of Rs. 9,43,030 was collected thereon.

† Equal to 6,147,500 lb. or 8,065,520 lb. according as a 'candy' is 500 lb. or 656 lb. (which latter is the equivalent given in Madhava Rao's Memorandum—vide paragraph 10.

14. The following statement gives the statistics of the imports of tobacco into this Presidency by sea for the last three years:—

Tobacco—Imports—Sea-Borne ‡ Trade.

Years.	Foreign trade.		Coasting trade.		Total.	
——	Quantity in lb.	Value.	Quantity in lb.	Value.	Quantity in lb.	Value.
		RS.		RS.		RS.
1890–91	446,477	2,06,021	218,915	33,563	665,392	2,39,584
1891–92	542,705	2,91,725	110,937	17,121	653,642	3,08,846
1892–93	915,719	3,37,980	135,775	27,107	1,051,494	3,65,087

‡ The rail-borne imports amount only to about 2,000 lb.

At the Travancore rate of duty the imports into this Presidency will bring in a gross revenue of a little over one lakh of rupees.

R.V.S.—1-3-94.

The foregoing account gives a clear and concise summary of all that has been written on this subject and shows that the feasibility of raising a revenue from tobacco has been most exhaustively debated and that the question has been considered in all its bearings. The situation is appropriately summed up by Sir John Strachey in paragraph 8 of his minute of the 21st October 1865 (page 154 of the Blue Book)—

"Tobacco has seemed at first sight a very promising subject of taxation to almost everyone who has thought upon the subject, but almost everyone had given up the scheme upon full consideration of the difficulties which surround it."

J.G.—3-3-94.

II

Mr. N. S. Brodie's Note dated 26th December 1915 (Secret D.O. No. A A-1, dated 11th January 1916).

Prior to 1910–11, *ad valorem* rates used to be charged on imported manufactured tobacco of all sorts at the rate of 5 per cent but this system was then abandoned and special quantitative rates introduced, presumably because of the difficulty of levying *ad valorem* rates. The rates introduced were about 33 per cent higher than those now in force which are—

	Rs.	A.	P.	
Unmanufactured tobacco	1	0	0	per lb.
Cigars	1	10	0	,,
Cigarettes weighing less than 3 lb. per thousand.	3	2	0	per thousand.
Cigarettes weighing 3 lb. or more per thousand.	1	4	0	per lb.
Manufactured, other sorts	1	2	0	,,

These rates are said to be approximately 36 per cent *ad valorem* on cigars and 33 per cent *ad valorem* on cigarettes though how this is arrived at I don't know, considering how much imported cigars and cigarettes vary in weight and value. The Government of India's first proposal is to raise these rates 'in approximately the same proportion, i.e., to a uniform 50 per cent *ad valorem*.' I presume this means that the duty on cigars is to be raised by about one-third and that on cigarettes by about half. Nothing is said about 'other sorts' which I suppose means principally pipe tobacco. Judging from Spencer's and Oakes' price lists the present rate seems to be from 28 to 41 per cent on the cheapest pipe tobacco and presumably this is also to be raised by about one-third. The rates will then read—

	Rs.	A.	P.	
Cigars	2	3	0	per lb.
Cigarettes	4	11	0	per thousand and
	1	14	0	per lb.
Other sorts	1	8	0	per lb.

I presume the Government of India does not intend to go back to *ad valorem* rates.

Effects of taxation introduced in 1910–11. Sea-Borne Trade Review of 1910–11, page 9.

2. The rates introduced in 1910–11 had the immediate effect of 'extensively curtailing the imports of foreign tobacco and they scarcely realized the revenue it was hoped they would bring in.' The total imports declined by 83 per cent in quantity and 52 per cent in value. Imports of leaf tobacco, *formerly duty free*, fell from 447,115 lb. to 63,267 lb. or by 86 per cent in quantity. Imports from Ceylon and the Straits Settlements practically ceased. [There used to be quite a large trade from the Jaffna and the northern Ceylon ports which supplied a great part of the tobacco used on the west coast of this Presidency.] Imports of cigarettes decreased 77 per cent in quantity and 48 per cent in value. The cheap American varieties were practically shut out, falling 94 per cent in value and the result was the foundation and development of the Indian cigarette industry which has probably taken their place. Exports of cigars to the United Kingdom fell by 72 per cent owing to the imposition of duty on wrapper tobacco. To avoid this, Messrs. Spencer & Co. removed their factory to Pondicherry.

Sea-Borne Trade Review of 1911–12.

3. In 1911–12, owing to the outcry from Ceylon and the leading local manufacturers of better class cigars, the rates were reduced by about 33 per cent to the present figures. Even this, however, failed to revive the import trade from Ceylon and the Straits Settlements which was completely and finally killed. Imports of leaf tobacco rose by 19,160 lb. but this was only a mere fraction of the fall of 383,848 lb. in 1910–11. The increase was confined to the higher grades required in the manufacture of cigars of good quality. Imports of cigarettes showed a further decline in quantity but an increase in value, the trade in cheap American cigarettes being completely extinguished. Exports of cigars to the United Kingdom declined another

7 per cent in value but exports to the Straits Settlements increased by 23 per cent and the whole export of cigars increased by 13 per cent in quantity and 9 per cent in value. The cigars exported to the Straits Sttlements and Federated Malay States appear to be made of purely Indian tobacco which pays no duty.

Sea-Borne Trade Review of 1912–13.

4. In 1912–13, there was a further decrease in imports of cigarettes by 15 per cent and a large factory was opened at Bangalore by the Peninsular Tobacco Company. Manufacture of cigars for export to the United Kingdom was permitted in bond and Messrs. Spencer & Co returned from Pondicherry. The exports of these cigars rose by 46 per cent but of course the revenue did not profit by this.

Sea-Borne Trade Review of 1913–14.

There was a general increase both in imports and exports of tobacco in 1913–14 and some recovery in imports of cigarettes to a little above the figures of 1910–11. The export of high grade cigars to the United Kingdom rose to ·88 lakh against ·57 lakh in 1910–11.

Effects of the war—Sea-Borne Trade Review, 1914–15.

However, the effect of the war was to send most of the principal figures lower than ever. Imports of raw tobacco fell to 70,573 lb. in 1914–15 and exports of high grade cigars to the United Kingdom fell to 33,434 lb. and to ·45 lakh in value (nearly 50 per cent), the lowest figure on record.

5. The figures since the introduction of the new tariff are tabulated below :—

Annual value of the sea-borne trade and navigation of the Madras Presidency for 1914–15.

Foreign trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.						
1. Unmanufactured (total for Presidency).	LB. 447,115	LB. 63,267	LB. 82,427	LB. 90,458	LB. 110,458	LB. 70,573
2. Manufactured—						
(*a*) Cigars	11,099	1,049	937	830	1,107	3,368
(*b*) Cigarettes	319,275	72,139	65,410	55,217	78,616	78,429
(*c*) Other sorts	94,940	12,473	26,397	23,370	24,723	28,090
Exports.						
1. Unmanufactured (unaffected by tariff).	1,444,632	1,670,842	1,619,966	1,806,998	2,234,511	2,362,766
Of the above exported to Straits Settlements and Federated Malay States.	1,374,612	1,621,543	1,568,878	1,773,160	2,115,056	2,304,144
2. Manufactured—						
(*a*) Cigars	697,507	704,791	797,383	989,811	988,668	887,165
Of the above quantity exported to United Kingdom.	80,360	42,565	36,184	51,156	56,976	33,434
Straits Settlements and Federated Malay States (unaffected by tariff).	415,357	547,613	661,294	827,278	811,219	800,488
(*b*) Other sorts	4,196	4,515	9,010	8,513	9,363	8,885

Coasting trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.						
1. Unmanufactured	LB. 610,603	LB. 683,787	LB. 664,054	LB. 578,058	LB. 604,165	LB. 596,038
2. Manufactured	142,514	84,439	59,021	94,319	57,595	71,301
Of the above imported from Calcutta.	118,687	73,703	52,511	85,214	46,637	53,301
Exports.						
1. Unmanufactured	7,721,625	7,535,386	6,870,154	6,536,820	6,928,569	5,168,826
Of the above exported to Burma ..	6,926,830	6,474,041	6,149,974	6,133,770	6,521,676	4,579,130
2. Manufactured—						
(*a*) Cigars	347,507	314,933	410,526	419,710	349,618	275,018
Of the above exported to Burma ..	194,493	204,649	292,004	320,781	251,706	177,844
Of the above exported to Bengal ..	101,866	73,206	76,815	61,785	63,117	65,373
(*b*) Cigarettes	..	..	2,877	4,200	26,471	64,599
(*c*) Other sorts	35,726	43,920	37,620	39,906	33,407	77,190

6. The net result of the introduction of the heavier tobacco duties in 1910–11 has, therefore, been to kill the import trade in raw tobacco from Ceylon and the Straits Settlements and in cigarettes from America and to lay the foundations of a cigarette manufacturing industry in India from Indian leaf. The trade in high grade cigars exported to the United Kingdom has suffered very heavily, despite permission to manufacture export in bond. The fall between 1909–10 and 1913–14 (when this industry reached its highest point after the imposition of duties and before the outbreak of war) was about 29 per cent. This shows what an effect even a slight rise in the cost of such a thing as tobacco has on consumption as it was undoubtedly the increased cost (and that only of the wrapper) in 1910–11 that gave the trade this set back. The wrapper is only a minute fraction of the weight of the cigar and if the duty on whole cigars is only equal to an *ad valorem* rate of 36 per cent the duty on a cigar whose wrapper alone pays duty must be nearer 1 or 2 per cent. Since the concession of manufacture in bond has been granted these cigars pay no duty and it is presumed that this concession will be continued so that any enhancement of rates will not affect them.

7. *Rail-borne trade*, 1914–15.—

Imports from other Presidencies and Native States.

	LB.
1. Unmanufactured	2,051,959
Of which imported from Mysore	1,344,550
2. Manufactured—	
(*a*) Cigars	13,330
(*b*) Other sorts—probably cigarettes	1,497,517
Of which imported from Mysore	1,294,272

Exports to other Presidencies and Native States.

1. Unmanufactured	24,729,076
Of which exported to—	
Mysore	8,181,339
Calcutta	5,282,496
Nzam's Territory	4,242,157
2. Manufactured—	
(*a*) Cigars	503,013
(*b*) Other sorts	392,750

Internal trade between various parts of the Presidency.

1. Unmanufactured	53,774,208
2. Manufactured—	
(*a*) Cigars	1,061,815
(*b*) Other sorts—probably cigarettes, bidies and snuff ...	1,074,651

Cigars.

8. From these figures it appears that by far the greatest part of the Delta tobacco is exported in the manufactured condition and made up locally. The trade in manufactured tobacco is comparatively small, which agrees with my information that there are no manufactories of any size. A fairly large quantity of manufactured cigars is exported by rail from the Central districts (i.e., Trichinopoly, Salem and Coimbatore) to Negapatam but this no doubt is included also in the exports by sea to the Straits Settlements.

9. In the Secretariat note of 1911 the total outturn of cigars was estimated by Mr. Innes at about 2,500,000 lb; i.e.:—

	1909–10. LB.
Foreign exports	697,507
Coasting trade exports	347,507
Rail-borne exports	451,164
Do. internal trade	971,208
Total ...	2,467,386

The corresponding figures for 1914–15 are—

	LB.
Foreign exports	887,165
Coasting trade exports	275,018
Rail-borne exports	503,013
Do. internal trade	1,061,815
Total ...	2,727,001

Allowing for the disturbance of trade caused by the war, the export trade and rail-borne traffic in cigars may, therefore, be taken at about 2,750,000 lb. but this is probably an excess estimate of the quantity actually manufactured since the rail-borne traffic probably includes the greater part of the foreign exports and possibly a good deal of the coasting trade exports also.

Cigarettes.

10. The Indian cigarette industry has practically grown up since the Secretariat notes of 1911 were written. Foreign imports of the better class cigarettes have remained nearly stationary since 1911–11 at about 70,000 lb. Comparing the figures of 1909–10 with those of 1910–12 when the full effect of the tariff duties had had time to operate, 253,865 lb. of cheap American cigarettes appear to have been displaced. These have no doubt been replaced by Indian cigarettes and there has probably been a large increase in consumption in addition.

The export trade in cigarettes in 1914–15 appears to have been somewhat as follows:—

	LB.
Foreign exports	8,885*
Coasting trade exports	61,599
Rail-borne exports	392,750*
Do. internal trade	1,074,651*
Total ...	1,537,885

In the absence of figures for bidies, snuff, etc., it is not easy, however, to say how much of these 15 lakhs of pounds represent cigarettes and still less how much represents cigarettes manufactured in the Presidency. My inquiries in Vizagapatam show that none of the cigarettes there consumed (and the consumption is very large) are manufactured in this Presidency. The great bulk come from Calcutta and a good many from the Peninsular Tobacco Company, Bangalore. Similarly in Madras, the bulk of the cigarettes come from Bangalore or Bowringpet, both in Mysore territory and not subject to British excise. It will be seen from paragraph 7 above that 1,294,272 lb. of 'other sorts' including (no doubt mostly) cigarettes are imported from Mysore. Probably the greater number of these are shown in 'rail-borne internal trade' and exports of the Presidency over again. I should put the actual number manufactured in the Presidency at not more than 250,000 lb.

11. The following are principal Indian Cigaratte factories shown in the Lawrence Asylum Press Almanack, page 1438:—

(1) A.G.M. & Sons, Coimbatore.

(2) K.G.A., Coimbatore.

(3) McDowell & Co., Madras.

I have never seen any cigarettes from the first two factories and they seem to be very small and merely supply the local market. McDowell & Co. employ about 25 persons and some small hand machines. Pappadapoulos Brothers make Egyptian cigarettes but import Egyptian tobacco which already pays duty. Besides these there are the two large factories in Mysore—

4. The Peninsular Tobacco Company, Cleveland town, Bangalore, and

5. The Oriental Tobacco Manufacturing Company, Bowringpet.

*Includes, however, pipe tobacco, bidies, snuff, etc.

Both these are run on American lines and employ a large number of workmen and power-driven machinery, but as already remarked they are not subject to British excise.

Outturn of tobacco.

12. According to the 'Season and crop report' for 1914–15 the total area cultivated with tobacco in the Presidency was 227,182 acres, the 'normal' area being 203,230 acres. I learn from Chadwick that 800 lb. of dried leaf per acre is a fair average crop as taken by Castlestuart Stuart in 1910. The total outturn was therefore about 182,000,000 lb. of which we have only accounted for about 3½ millions at most in the manufactured form. This outturn was spread over 24 districts, the area being over 10,000 acres in seven, Vizagapatam (29,115), Godavari (13,099), Guntur (78,560), Kistna (13,022), Kurnool (18,769), Coimbatore (26,001) and Madura (11,172). These figures show little change since 1908–09.

About 90,000,000 are exported in unmanufactured form.

Tobacco industry.

13. The census report for 1911 groups manufacturers of tobacco, opium and ganja together under Order 12, Group 66. The number of manufacturers of opium and ganja must be almost negligible and the total number of workers and dependents is shown to be 12,333. Under Order 33, Group 122, sellers of tobacco, opium, ganja, etc., are said to be 65,733 (workers 25,883, dependents 39,850).* The total number of persons dependent on the tobacco trade is therefore about 78,066 against 75,000 in 1901. It is not possible to compare the figures of the other industries referred to in Mr. Castlestuart Stuart's demi-official of 5th November 1910 as the classification has been altered. Betel leaf and arecanut sellers are now grouped with vegetable and fruit sellers. It may be noted however that the number of persons engaged in the manufacture of tobacco is about as many as bakers and biscuit makers (12,970) whilst the number of sellers of tobacco is not much less than the number of sellers of milk, ghee, butter, poultry, eggs, etc. (80,981).

Present proposals criticised.

14. These figures show that there has been comparatively little change in the general position since 1910–11 and the arguments against any form of taxation of Indian grown tobacco remain as strong as they were then. The present proposals of the Government of India may now be examined in detail. The first is, as far as I understand it, to raise the quantitative rates of duty on imported cigars and cigarettes (and perhaps also on other manufactured tobacco) to the figures shown in paragraph 1 above. The quantity of imported cigars is now very small and was only 3,368 lb. in 1914–15. Assuming that the enhanced duty has no effect on consumption, the increase of revenue from this source will be only Rs. 1,824*. But judging from the effect of the enhancement of duty in 1910–11 it will probably be much less. The duty on imported cigarettes (78,429 lb. in 1914–15) was about Rs. 80,000 and the enhancement of the duty by one-half may give Rs. 40,000, though here also a heavy fall in consumption may be confidently looked for. The increase of duty on 'other sorts', i.e., probably pipe tobacco, snuff, etc. (which may be contemplated) by one-third would yield perhaps Rs. 10,742. Altogether, the maximum increase of revenue that may be looked for from this proposal cannot, therefore, be more than Rs. 60,000 and the burden will fall heavily on the poorly paid European and Eurasian assistants in shops, business firms, Railway Companies, etc., who are by far the largest consumers of imported cigarettes. However this increased revenue can no doubt be obtained without administrative difficulty or expense.

(a) First proposal.

*Present duty Rs. 5,473 one-third enhancement Rs. 1,824.

(b) Second proposal.

15. The second proposal is to levy an excise duty on cigarettes of Indian manufacture. The large factory referred to by the Government of India is probably that in Bengal, I think at Monghyr. It is proposed to differentiate bidies from cigarettes by the use of cigarette paper. This may be accepted. It is proposed that

the taxation should take the form of a quantitative duty equivalent to an *ad valorem* duty of about 15 per cent. A further point is whether the taxation should be restricted to factories equipped with power-driven machinery. If this qualification is accepted the question is a simple one for there are no such cigarette factories in this Presidency. Assuming, however, that all cigarette factories are to be taxed my inquiries show that cigarettes of Indian manufacture vary considerably in price. The cheapest are sold retail at prices varying from Rs. 1–4–6 per 500 or Rs. 2–6–0 per 1,000 to Rs. 2–12–0 per 500 or Rs. 5–2–0 per 1,000. These cigarettes both weigh almost exactly $2\frac{1}{2}$ lb. per 1,000, the cheaper ones a little more. The manufacturer's price to the trade is no doubt considerably less as these cigarettes have to be imported to Vizagapatam and there is the retailer's profit to be considered. The excise duty will of course have to be fixed with regard to the wholesale price at the factory. I should say Rs. 1–12–0 per 1,000 is probably an outside price for the cheapest cigarettes. This means $28/2\frac{1}{2}=11\frac{1}{5}$, say 11 annas a lb. or as they weigh rather more than $2\frac{1}{2}$ lb. per 1,000, say 10 annas a lb. 15 per cent on 10 annas is one and a half annas per lb. I have estimated the total production of cigarettes in this Presidency at not more than 250,000 lb. and the duty on this would be Rs. 23,437. It is impossible to say without a full inquiry what the number of cigarette factories is but they are certainly very small and probably average not more than 10,000 lb. of cigarettes each per annum. Putting the number at 25 scattered all over the Presidency, not less than 25 Sub-Inspectors on Rs. 40 per mensem would be required to supervise them. The cost of these would be Rs. 12,000 not allowing for contingent expenses such as weighing machines, etc. The net proceeds of the tax would therefore be somewhere about Rs. 10,000, even supposing that the duty had no effect on consumption which is extremely improbable. Moreover as Indian cigarettes vary considerably in price though not so much as cheroots, the duty would press most unfairly on the cheapest brands and on the poorest class of the population which consumes them.

Watch cigarettes—Peninsular Tobacco Company, Bangalore, Rs. 1-4-6.
Ruler cigarettes—Imperial Tobacco Company, Calcutta, Rs. 2-12-0 per 500.

16. The third proposal is to levy a similar quantitative excise duty equivalent to an *ad valorem* tax of 15 per cent on cigars of Indian manufacture. As already pointed out in 1911 this problem absolutely bristles with administrative difficulties. In the first place it is not clear whether bidies are to be included. It is possible to distinguish bidies from cigarettes but the difference between them and the poorest kind of cheroots is almost infinitesimal. Both are rolled in leaves, sometimes tobacco leaves sometimes not. The manufacture of bidies is admittedly a cottage industry carried on in every village and hamlet. However according to the Asylum Press Almanack one tobacco factory at least professes to make bidies. The vast bulk of the Indian cheroots are also made as a cottage industry as is evident from the fact that out of 182 millions of pounds of tobacco grown only about $3\frac{1}{2}$ millions ($4\frac{1}{2}$ at the outside) appear in the trade returns as manufactured. Possibly bidies could be excluded by excepting cheroots, etc., weighing less than as many pounds to the 1,000. My experiments show that the commonest bidies weigh about $1\frac{1}{4}$ lb. per 1,000, so that if manufactured cheroots weighing less than $1\frac{1}{2}$ lb. per 1,000 were excluded this might meet the case. However this would undoubtedly stimulate the consumption of bidies which I understand to be the most deleterious form of smoking. Bidies are sold at 12 annas a 1,000 wholesale in Madras, that is at about $9\frac{3}{5}$ annas per lb. The manufacturer's price may be less so that probably 9 annas per lb. would be a safe figure and the duty, if any, ought to be much the same as for cigarettes or a little less, say 1 anna 4 pies per lb.

(c) Third proposal.

Bidies.

A

17. Ordinary cheroots of the commonest kind seem to weigh about $3\frac{3}{4}$ lb. per 1,000 and cost Rs. 1–12–0 per 1,000 retail but both weight and price vary enormously. Better class cheroots which, however, are still largely consumed by the poorer classes weigh 20 lb. per 1,000 and cost Rupees 12–8–0. Assuming that the rates to the trade are somewhat less we may estimate the first kind at 6 annas a lb. and the second at 10 annas a lb. The duty ought to be fixed at 15 per cent on the cheapest

Cigars.

kind at 6 annas a lb. The duty would then be 11 pies but for convenience of reckoning might be fixed at one anna.

It is quite impossible to estimate with any accuracy the output of Indian manufactured cigars. The figures in paragraph 9 no doubt afford some guide. I should imagine 2,000,000 lb. to be a fair estimate. The duty on this at 1 anna per lb. would be Rs. 1,25,000. Against this has to be set the cost of establishment which would be enormous. It is not possible at present to form any idea of what this would be. Presumably the only way to ensure the collection of the duty would be to place each factory in charge of an officer who would have to weigh the quantity of raw tobacco received and the quantity finally passed out on payment of duty, seeing that none illicitly passed out and keeping accounts on the same lines as officers in charge of distilleries. The test of a factory would be I suppose that the proprietor sold the manufactured produce, for practically every householder buys a few leaves of tobacco now and again and rolls them up into cheroots for private consumption. Even excluding these individuals, there appear to be about 26,000 persons describing themselves as tobacco sellers in the census returns, excluding 2,000 partially agriculturist. This agrees with what I expected, being an average of about one for every village in the Presidency. In some places there are no doubt several and in others none, but it would be quite impossible to do much in the way of concentration without causing much hardship. The formation of central storehouses appears, therefore, to be impossible and practically every shop will have to have a properly locked storehouse for the cheroots manufactured which adds to the expense. The ordinary staff of the Salt and Abkari Department could not possibly undertake this enormous addition to its work. Assuming that one Sub-Inspector could efficiently supervise on the average 25 factories (which I take to be impossible with the shops scattered as at present) it would require a staff of 1,000 Sub-Inspectors to supervise the work in the Presidency. The opportunities for fraud would be so great that I fear even then the force would be demoralized. Certainly a great many of the Sub-Inspectors would have to be paid more than the lowest grade of Rs. 40 a month. Assuming that the average pay is Rs. 60, this establishment alone would cost Rs. 60,000 per month or Rs. 7,20,000 per annum or about six times the estimated proceeds of the tax. It seems hardly worth while to discuss the matter further. A complete staff of peons, inspectors, Assistant Commissioners and Deputy Commissioners would also be necessary to supervise such an establishment and it would be quite impossible for me to undertake so large an addition to my work. After all there would be no possibility of guarding against fraud as there would be nothing to distinguish between illicit and licit tobacco. As far as I can see no tax less than Re. 1 per lb. would do more than pay for the cost of collection and this of course would be ruinous having regard to the cost of the article.

18. In conclusion I can see nothing in favour of the tax or any possibility of working it. A tax on Indian cheroots made in power-driven factories might be possible. There are only two, viz.: Spencer's at Dindigul and Oakes & Co. at Guindy—employing 700 persons between them. But it seems very hard to discriminate against them, even if the tax was only one anna a lb. and anything more would probably drive them out of the Indian market altogether. I cannot say what the output of these two factories is, but excluding the amount manufactured in bond for Europe I doubt if it exceeds 500,000 lb. and the duty at one anna per lb. would yield only Rs. 31,250.

19. Another possible course would be to put an export duty on manufactured tobacco. In that case I should exclude cigars exported to the United Kingdom which have to pay heavy and enhanced duties there and have already sufferred by the tariff. There are not the same administrative objections to an export duty, at all events on exports by sea, as the establishment exists and evasion would be practically impossible. Exports by sea to foreign countries, excluding the United Kingdom, amounted to 853,731 lb. in 1914–15 and exports to other provinces to 275,018 lb. Total 1,128,749 lb. A duty of one anna per lb. might bring in Rs. 62,500 without any extra cost and as the exported cigars at all events to the Straits Settlements are of fairly good quality a duty of even 2 annas a lb. might not ruin the trade and bring in about one and quarter lakhs. Still the amount is so small that I see no use in upsetting the trade at all for so very little result.

N. S. Brodie—26–12–15.

III

Demi-official from L. DAVIDSON, Esq., I.C.S., to N. S. BRODIE, Esq., I.C.S., dated 4th July 1916, No. 39-S. (Secret No. 183 A, dated 18th December 1916.)

I am desired to refer to your note of the 26th December 1915, on the subject of imposing an excise on locally manufactured cigars and cigarettes. The Government of India are disposed to agree that the taxation of locally-made cigars is not likely to prove of practical value. As regards cigarettes, however, they are unable to abandon the possibility of revenue from an article which is not only a luxury but also, to some extent, a harmful luxury; and they have asked this Government to consider the question at greater leisure.

2. Your note, referred to above, gives an approximate estimate of the total outturn of cigarettes in the Presidency, the number of factories and the prevailing wholesale prices. I am to ask whether you cannot now quietly obtain more precise information as to the number and location of factories, the met hods of manufacture, the outturn and the prices obtained. Collectors could possibly procure the information under the guise of income-tax or statistical inquiries without exciting attention.

3. The calculations in your note are based on the assumption that the excise to be imposed would be equivalent to an *ad valorem* tax of about 15 per cent, as was then suggested by the Government of India. I am to ask you now further to consider the effect of taxation on the industry and to favour Government with your opinion as to the maximum which could safely be imposed without seriously crippling the trade.

4. The Government of India lay stress on the strictly confidential nature of this further reference, but say 'there is no objection to consulting any officer of Government whose advice would be of special value.'

Demi-official from N. S. BRODIE, Esq., I.C.S., to L. DAVIDSON, Esq., I.C.S., dated Ennore, 12th November 1916.

With reference to your demi-official No. 39-S., dated 4th July 1916, I have now made further inquiries into the subject of the production and sale of cigarettes in this Presidency both personally and through Collectors. I cannot say that I have elicited much additional information and the remarks which I made in my note of the 26th December 1915 continue to hold good. It appears, however, that I was wrong in stating that there were no cigarette factories in the Presidency equipped with power-driven machinery as it was found on further inspection that McDowell's factory in Moor street, Madras, had some cutting machines worked by an oil-engine recently set up.

2. The estimate of outturn may very well remain at 250,000 lb. The only details I have been able to get are from the Universal Tobacco Company in Madras which is believed to turn out about 30 lakhs of cigarettes per mensem and from McDowell's factory, also in Madras, which is believed to turn out about 20 lakhs. McDowell's factory does not use Indian tobacco exclusively and some of the brands contain imported tobacco to the extent, it is said, of 25 per cent on the whole. I have tested numerous brands from all parts of the Presidency and find that as a rule they weigh about 2½ lb. per 1,000, a little more or less. This gives the total Madras production about 150,000 lb. per annum. Allowing for the imported tobacco used in McDowell's factory the quantity of Indian cigarettes is about 135,000 lb. The only other factories appear to be Oakes & Co.'s factory at Guindy, a new factory started by Barry & Co. in Cocanada just recently and one or two small factories in Coimbatore. There was a factory at Guntur but it seems to have failed after working a few months. The Collector of Coimbatore has not yet replied to my letter on the subject but I made some inquiries in the course of my last tour and find that there are one and probably two factories in Coimbatore but they use imported tobacco for their cigarettes as does Pappadopoulos in Madras. Allowing for all these factories I should say 115,000 lb. per annum was a very liberal estimate, making 250,000 for the Presidency.

3. Retail prices seem to vary very considerably but on the whole I see no reason to modify my original calculations. The cheapest cigarettes are sold in packets of 5 or

6 and a slightly more expensive lot in packets of 10. The dealers' profit seems to be about eight annas a thousand and the trade discount about 20 per cent. Some cigarettes* are sold as cheaply as Re. 1 per 1,000 wholesale or allowing for the trade discount about thirteen annas per 1,000. This is less than half the price I estimated for the cheapest cigarettes in my last note (Rs. 1-12-0). I doubt if there are many of this brand sold, but there are numerous other brands at Re. 1-4-0, Re. 1-6-0 and Rs. 1-8-0 sold by McDowell & Co. However all other information tends to confirm the view that the cheapest cigarettes are sold at Rs. 2 to Rs. 2-12-0 by the wholesale dealers and consequently must cost somewhere about Rs. 1-12-0 per 1,000 from the manufacturers. These cheap cigarettes are manufactured in this Presidency by McDowell & Co., and the Universal Tobacco Company only. Those turned out by Oakes & Co., and the new factory started by Barry & Co., at Cocanada are much more expensive and work out at Rs. 11 to Rs. 14 per 1,000.

* By the Universal Tobacco Company, 1/6, Patters Road, Royapetta—'Bazaar' brand.

4. The method of manufacture is probably the same everywhere. The tobacco selected has all the main nibs cut out and the leaves are then laid one above the other to a considerable depth. They are then cut into small pieces by a cutting machine, the tabacco rolled in cagarette paper, gummed and cut into lengths. As far as I know the cutting and gumming, etc., machines are all worked by hand except in McDowell's factory above referred to.

5. In this connexion I should, however, bring to notice one or two facts which I have ascertained in the course of my inquiries. It is a common practice I understand for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale especially at the various shandies and markets in the Presidency. This is common in Malabar, Coimbatore and the Nilgiris at all events and probably elsewhere. Most Collectors have, however, reported that cigarette papers are not commonly sold in the bazaars. I believe the practice of individual consumers rolling their own cigarettes is not common at present though it is said to have been customary in Salem before the shop-made cigarettes became so cheap. It would be clearly impossible to levy an excise duty on cigarettes made by hawkers or private individuals and it may be expected that the practice would be much more largely resorted to if a duty were imposed on the manufactured article. This might perhaps be met by imposing a customs duty on cigarette paper which would have to be determined in accordance with the duty imposed on cigarettes, such customs duty to be refunded on paper actually used by the wholesale manufacturers. It seems that cigarette paper was formerly imported mostly from Austria and Germany—at present it is obtained from France.

6. As regards the duty to be imposed I find it difficult to express an opinion. The heavy rates imposed in 1910-11 practically killed the cheap American cigarettes but then the enhancement of rates was probably more than 100 per cent of the value so that this result was quite intelligible. My inquiries show that my estimate of the cost of collection was much too large. One Sub-Inspector would, I think, be required for each factory but as there seem to be only four or possibly five factories the cost would be only about Rs. 2,400 per annum. As observed in my previous note, a duty of one and a half annas per pound represents 15 per cent of the value of the cheap cigarette. This amounts to 3 annas 9 pies per 1,000 and could hardly affect the retail price at all. The usual retail price per packet of 10 cigarettes seems to be about 4 pies. A duty of 8 annas 4 pies per 1,000 should raise the retail price by one pie and this would probably not seriously affect the trade though even one pie is a consideration in a country like India. I do not think we could safely raise the duty beyond Re. 1 per 1,000 which would raise the retail price about 2 pies or 50 per cent. This would be 6·4 annas per pound and roughly about 60 per cent of the value. Although cheap cigarettes do not seem to vary much in weight I would prefer to levy the duty by the pound rather than by the number as being the only fair way of assessing it. A duty of 6½ annas per pound would, if the production remained at 250,000 lb., yield Rs. 1,01,562½ but if the consumption fell, as it probably would, to about 200,000 lb. the tax would yield Rs. 81,250. As far as this Presidency is concerned, the result would, therefore, be insignificant, but, no doubt, the revenue

from the whole of India would be very considerable and I cannot see any serious objection to the proposal except that it would greatly encourage the smoking of bidies and press rather hardly on the poorest class of the population who smoke cheap cigarettes at present and regard them as a great luxury.

Demi-official from F. J. RICHARDS, Esq., I.C.S., to LEY, Esq., I.C.S., dated the 18th December 1916, No. 75-S.

I am directed to reply to Mr. Low's Confidential demi-official letter No. 4493, dated 14th June 1916, on the subject of the expediency of imposing an excise on cigarettes manufactured in India from indigenous tobacco.

2. In the first place, I am to point out that the correspondence of 1910, to which reference is made in the first paragraph of Mr. Low's letter, did not turn on the present question, for at that time there was no manufacture of cigarettes from indigenous tobacco in this Presidency. It is stated that the question of an excise on manufacture was then dropped because the local cigarette industry was in its infancy and it was considered that the imposition of an excise would deal it a death-blow. So far as this Presidency is concerned, the position is virtually unaltered; for, as stated in Mr. Butterworth's demi-official letter No. A.A.-1, dated 11th January 1916, the local output of cigarettes does not exceed some 250,000 lb. annually. This estimate has been confirmed by subsequent enquiries, though the number of factories to be taken into account is found to be smaller than was thought to be the case. There are probably not more than 5 or 6, of which the two largest are those owned by Messrs. McDowell & Co., and the Universal Tobacco Company both in Madras City. The former has recently been equipped with an oil-engine for driving its cutting machines. The average wholesale price for the cheapest class of ciagarettes quoted in Mr. Butterworth's letter, viz. Rs. 1-12-0 per 1,000, may be taken as correct. These cheap cigarettes are manufactured only by Messrs. McDowell & Co. and the Universal Tobacco Company. Those turned out by Messrs. Oakes & Co., at Guindy and by Messrs. Barry & Co., at Cocanada are much more expensive, costing from Rs. 11 to Rs. 14 per 1,000.

3. The maximum rate of duty which is considered compatible with the survival of the industry is Re. 1 per 1,000 or approximately $6\frac{1}{2}$ annas per lb. This duty would if the production remained 250,000 lb. yield a revenue of a little over a lakh. The imposition of such a tax, however, is almost certain to preclude any expansion of the industry and would very probably strangle that which already exists; for it would either drive the masses to revert to *bidi* smoking or compel the manufacturers to transfer their factories to French territory or to Native States. I may here point out that the Director-General of Commercial Intelligence has incorrectly assumed that the tax realisable from the Peninsular Tobacco Company's factory in the Civil and Military Station, Bangalore, would be credited to Imperial revenues. By the terms of rendition, the Mysore Government is entitled to the whole of the surplus revenue of the Assigned Tract, after the cost of the administration of the tract is defrayed. This fact seriously affects the estimate formed of the probable receipts from the tax.

4. Another factor to be taken into consideration is the practice, common in several districts of this Presidency, for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale, especially at local markets. Individual consumers do not usually roll their own cigarettes, though it is said to have been customary for them to do so in Salem before the shop-made cigarettes became so cheap. It would obviously be impossible to levy an excise duty on cigarettes made by hawkers or private individuals; and it may be expected that the practice would be much more largely resorted to, if a duty were imposed on the manufactured article. Cigarette paper was formerly imported from Germany and Austria; now France is the chief source of supply. A customs duty might be imposed on it, such duty to be refunded on paper actually used by the wholesale manufacturers; but this expedient would not be free from difficulties and would almost certainly result in the use of a local substitute.

5. In these circumstances, I am to say that the Government of Madras are entirely opposed to the proposal. They can suggest no alternative scheme for internal taxation of tobacco, apart from those already rejected.

IV

Letter from C. R. WATKINS, Esq., C.I.E., Officiating Collector of Customs, Madras, to the Under Secretary to Government, Finance Department, dated 1st May 1925, No. L. Dis. Nil.

I forward herewith a statement showing the foreign imports into, and exports from, the Madras Presidency of tobacco since the year 1920-21.

2. The rates of customs duty at present in force are given below:—

Name of article.	Per	Tariff valuation.	Duty.
Cigars	.....	Ad valorem.	75 per cent.
Cigarettes of value.—Not exceeding Rs. 10-8-0 per thousand.	Thousand ...	.....	Rs. 7.
Exceeding Rs. 10-8-0 per thousand ...	Do.	.....	,, 10-8-0.
Tobacco, unmanufactured	Lb. ...	.....	,, 1.
All other sorts of tobacco manufactured	,, ...	.....	,, 2-4-0.

ENCLOSURE.

Foreign imports and exports of 'Tobacco' at the Presidency of Madras for the past five years ending 1924-25.

	1920-21.		1921-22.		1922-23.		1923-24.		1924-25.	
	Quantity.	Value.	Quantity	Value.	Quantity.	Value.	Quantity.	Value.	Quantity.	Value.
FOREIGN IMPORTS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.
Tobacco—Unmanufactured ..	77,507	1,45,703	489,693	13,17,036	742,412	14,07,436	3,105,459	34,57,277	3,485,871	29,29,162
Cigars	12,815	43,430	701	2,922	81	238	94	156	215	473
Cigarettes	500,267	16,39,198	186,750	9,40,779	278,384	12,34,116	296,516	13,54,712	1,86,952	8,34,717
Tobacco for pipes and cigarettes	304	1,296	5,293	54,393	22,524	1,19,720	18,155	97,606	½	3
Other sorts	28,058	1,46,309	9,590	39,508	852	3,891	12,402	40,892	20,564	1,06,279
Total ..	618,951	19,75,936	692,027	23,54,638	1,044,253	27,65,401	3,432,626	49,50,643	3,693,602	38,70,634
FOREIGN EXPORTS.										
Tobacco—Unmanufactured ..	3,118,784	13,57,807	4,650,985	16,84,266	4,258,743	17,68,621	9,953,877	37,65,684	14,366,170	42,49,345
Cigars	75,540	1,04,792	94,905	1,17,671	99,244	1,32,490	1,11,541	1,20,174	88,199	1,25,560
Cigarettes	..	..	129	615	31,230	30,049	1,574	1,492	72,086	81,746
Other sorts	34,166	27,373	48,237	46,322	45,300	44,918	110,903	1,03,645	99,555	49,769
Total ..	3,228,490	14,89,972	4,794,256	18,48,874	4,434,517	19,76,078	10,177,895	39,90,995	14,626,010	45,06,420

V

Statement showing the area under cultivation of tobacco in the Madras Presidency in 1923–24.

	Acs.		Acs.
Ganjam	3,299	Salem	3,737
Vizagapatam	48,285	Coimbatore	25,544
Godavari	11,591	Trichinopoly	4,032
Kistna	13,301	Tanjore	2,223
Guntur	64,481	Madura	7,400
Kurnool	11,542	Ramnad	3,889
Bellary	2,658	Tinnevelly	1,048
Anantapur	4,785	Malabar	17
Cuddapah	1,868	South Kanara	1,623
Nellore	2,625	The Nilgiris	72
Chingleput	62		
South Arcot	2,985	Total ...	219,841
Chittoor	595		
North Arcot	2,179		

CONFIDENTIAL.

TAXATION ON TOBACCO.

I

Notes to G.O. Mis. No. 1993, *dated* 21*st May* 1894.

The question is whether we should take the success of Travancore in levying a revenue from tobacco as a reason for calling the attention of the Government of India to the possibility of levying a revenue for tobacco in our territories. I doubt if we have sufficient ground for doing so and whether such a suggestion would be well received. Travancore is exceptionally situated, so that it has been possible to abolish all growth of tobacco there and levy a revenue by import duties, and the Government of India know all about this. Such a system would be impossible in our territory where tobacco is grown almost everywhere and consumed by almost everybody, and where larger Native States abound. The possibility of levying a revenue on tobacco in our territory, in this or any other way, has been repeatedly discussed and decided against after full communication between all the Governments, so that any suggestion for us on the subject would amount to an insinuation that the discussion had not been complete. The only way in which, as far as I can see, a large revenue could be realized for tobacco would be by establishing monopoly of manufacture and sale. Though this was hardly possible in former days, I believe it would be possible in these days of improved communications and police, but the initial expenditure on warehouses, etc., would be too heavy for a time of financial pressure and the larger preventive establishments which would be necessary and extend through almost every village would result in oppression which would be so widespread and so frequently exercised that it would be eminently dangerous.

G. Garstin—7-3-93.

No doubt a tobacco monopoly *could* be worked but it would be a gigantic undertaking, and so very costly (especially in Bengal, where Government has no rural agency at all) that it would not, in my opinion, bring in a net return worth the imitation, the measure would certainly cause. The simplest way of raising a tax on tobacco would be by a special tax on the land on which it was grown, but that would not apply to Native States and cannot be worked in Bengal. A special establishment which would eat up the most part of the profits, while in all settled non-zamindari districts the terms of the settlements would prevent the imposition of such a tax. Independently of this, the taxation of land according to the crop grown would be a

This note is submitted with reference to the enquiry whether the attention of the Government of India has been called in the Revenue Department to tobacco as a possible source of revenue.

2. The occasion for this enquiry will appear from the notes of His Excellency the Governor and the Hon'ble Sir Henry Stokes to which reference is made in that office-note. It arose in this wise—

In submitting the budget estimate of the Travancore State for the Malabar year 1069 (August 1893–94) Mr. Grigg, the Resident, after observing that the most important increases occurred under certain heads of revenue of which tobacco was one, remarked regarding the increase under this head as follows:—

"That under tobacco is very remarkable. I have never heard a rumour of complaint regarding this tax, and yet it comes to approximately As. 6–6 per head of the population and gives a revenue nearly double that of abkari and opium and is now 55 per cent of that of salt—a necessary of life. Offences against the law relating to its importation are, I believe, not numerous. The lucrativeness of this monopoly may well attract the attention of Indian financiers (paragraph 3 of his letter, dated 3rd August 1893, in Government Order, dated 20th October 1893, No. 712, Political).

On this His Excellency noted—

"We should call the attention of the Government of India to the statistics of the tobacco tax and to the Resident's remarks thereon."

On this note Sir Henry Stokes remarked as follows:—

"The attention of the Government of India has been often enough directed to tobacco as a possible source of revenue. The peculiar position of Travancore makes its experience of little or no value in the consideration of the question.

retrograde measure, injurious to the cultivator and certainly beneficial to no one but the karnam.

A licence fee might be imposed and would yield something. It would be a return to the moturfa abolished years ago, and would come very hard on the very poor classes who sell tobacco. I should be sorry to see it tried. Similar objections can be found to every other plan of levying a tobacco tax in this country. I don't think that the Government of India would care to take the question up. It was examined, on another and later occasion, I think, than any of those mentioned in the note, by Mr. Bazeet Colvin when additional Member of the Viceroy's Council, who wrote a long note on this and other projects of taxation, a copy of which I have somewhere—given me by Sir Auckland Colvin, when Finance Minister, who told me at the time that the idea had been finally abandoned—or to that effect. This was in 1886 when the times were almost as hard as they are now.

H. E. Stokes—7-3-94.

This note is very clear, and gives me a complete answer. It is very evident that we should *not* call the attention of India to Mr. Grigg's remarks on the revenue derived in Travancore from taxing tobacco.

I found myself like many others lured into the belief that a large revenue might be derived from taxing this article, and the same results achieved here as in almost every civilized country in the world. But on inquiry I find that not only has it been thoroughly looked into, but the experiment has been tried and has failed, and there is no doubt the peculiar circumstances of the country have rendered the success of the experiment almost impossible. And as Sir J. Strachey very forcibly puts in the incidence of a tax on tobacco would fall with far greater severity on those who now pay the bulk of the salt tax, and we would thereby be putting a crushing weight on those least able to bear the burden. I confess myself converted and withdraw from any further attempt to bring this question within the domains of practical politics—although I can imagine a municipality looking upon it as a fair object for local taxation but even then extremely difficult to work, as poor Madras can testify.

I suppose though that imported tobacco will pay its 5 per cent like other articles (except cotton goods !).

Wenlock—11-3-20.

Tobacco is not produced in the State : the revenue is derived from import duties, and the configuration of the country lends itself to the easy levy of these duties on the greater portion of the tobacco consumed, which comes from Ceylon. In this Presidency and probably in the rest of India, import duties would not produce any revenue worth having and would be prejudicial to the Cheroot industry (Tobacco imported consists mainly of cheroot covers from Java and Sumatra) : but I have no doubt that a considerable revenue might be got from licensees on the vend by others than the growers."

His Excellency wrote thereupon—

"Has this Government ever called their (India's) attention to it? Anyhow I do not think we could do any harm in pointing out what a large sum a little place like Travancore manages to get from the consumers of tobacco. It does not seem to me material how it is raised, whether by import duties or licences. The very significant fact remains that the consumers of tobacco in Travancore contribute yearly Rs. 10 lakhs to the State."

3. His Excellency's query whether this Government has ever called the attention of the Government of India to tobacco as a possible source of revenue has been referred to this department for information, in the office-note from the Chief Secretary.

4. It will be seen from the references put up—

(1) That this question has frequently been considered by the Government of India and has also formed the subject of correspondence between that Government and this and other Local Governments ;

(2) That the conclusion come to by the Government of India is that the idea of raising a large imperial revenue from tobacco must be abandoned ;

(3) That our Government has also expressed the opinion that no large provincial revenue can be obtained from tobacco ; and

(4) That the Government of India is not unaware of the fact that Travancore manages to derive a large revenue from this source.

5. A summary of the correspondence on the subject is subjoined as also a short account of the tobacco monopoly in the districts of Coimbatore, Malabar and Canara which was abolished in the year 1853.

6. The Blue-Book entitled "Papers regarding the Tobacco Monopoly in the Presidency of Fort St. George etc.", gives the main correspondence up to 1868. It will be seen from pages 25–74 of the book, that for 50 years from 1803 to 1853, tobacco was the subject of a Government monopoly in the districts of Canara, Malabar and Coimbatore (vide Regulations 7 and 8 of 1811 and Regulation 5 of 1831 at pages 1, 4 and 8 of the Blue-Book), that the gross annual revenue derived during the 10 years—1833–1843 was about Rs. 8 lakhs and the net revenue about Rs. 5¾ lakhs ; that the evils arising from this monopoly were so great that the attention of Government was frequently invited thereto by the officers concerned ; that in 1845, the Government after recording a succinct review of the correspondence on the subject (vide No. 2 at page 26) called for a report from the Board of Revenue "on the practicability of a modification of the monopoly which, whilst we shall secure a considerable revenue, shall yet divest the tax of some of its most injurious attributes, its heavy charge of collection and the inducement it held out to smuggling"). The Government added that if a beneficial modification was impracticable, the possibility of finding an available substitute should be investigated.

It cost 2¼ lakhs to collect 8 lakhs !

J.G.

In reply the Board furnished an exhaustive report on the subject and said—

"It is with much reluctance that they are induced to advise the surrender without an equivalent of so considerable a source of revenue as the (tobacco) monopoly and they must be understood as doing so only, because, after much anxious reflection on the subject, they have been led to the conclusion that between such surrender and the retention of the present system with all its evils, there is no practicable middle course.

After a careful consideration of the subject the Government declared—

"The crying evils of the tobacco monopoly continue daily to become more notorious and demand an immediate remedy. The Right Hon'ble the Governor in Council entertains the most decided conviction that, as the Board of Revenue has represented, there is no effectual remedy short of total abolition and the expunging of so objectionable a branch of revenue from the system of Indian Finance."

Some of the evils of this system arose from its being confined to a limited area but the worst-springing from the fact that tobacco is produced almost everywhere and freely consumed by all classes so that any raising of the price gives rise to the worst sort of smuggling and is fatal to the peace of the country—will affect any system.

J.G.

In accordance with this view application was made to the Court of Directors for sanction to abolish the tobacco monopoly and on such sanction being obtained, Act IV of 1853 was passed abolishing the monopoly—

7. The subject of a tobacco-tax was considered by the Government of India during the years 1859–68. A summary of the correspondence which then took place on the subject and of the views held thereon will be found in Sir John Strachy's minute dated 21st October 1865 printed as No. 97 at page 152 of the Blue-Book and in the Government of India's letter to the Secretary of State printed as No. 98 at page 155.

All methods of taxing tobacco were considered then.

J.G.

It will be seen therefrom that, when after the events of the year 1857, the state of the finances rendered it necessary to resort to new sources of revenue, a tax on tobacco was among other things very much discussed.

Four methods of deriving a revenue from this source had been suggested :—

(1) The suppression of the cultivation of the plant throughout India and the imposition of an import duty.

(2) The establishment of a monopoly of the cultivation and manufacture of tobacco similar to that now applied to opium.

(3) The imposition of a licence duty on the cultivation of the plant.

(4) The imposition of licence fees on all wholesale and retail dealers in the manufactured article.

Of these, the first and second methods were soon dismissed as impracticable.

The third plan was at first favoured by the Government of India but most Local Governments disapproved it. The main objections urged were: that to impose a special tax on the cultivation of tobacco would be a violation of the principles on which land assessments were usually made; that it would also be economically a mistake; that the suppression of its cultivation except under a licence would be difficult to enforce; that as the enforcement cannot be extended to Native States (even if it could be extended to zamindari and inam estates) the measure would have the effect of contracting the area of its cultivation in British territory and greatly stimulating its growth in Native States and it would be extremely difficult to prevent the smuggling of free tobacco from such States. The views of this Government are contained in Mr. Bourdillon's letter to the Government of India, dated 11th June 1859, printed as No. 90 at pages 120–128. In the first enclosure to this letter the inexpediency of taxing tobacco in any form is fully set forth by the Board of Revenue.

The Government of India thereupon turned to the fourth plan of licensing the *sale* of tobacco and accordingly inserted a provision to this effect in the Licensing Bill then under its consideration. (The Bill, which was finally passed as India Act 18 of 1861 and repealed by India Act 2 of 1862). But the reports received from Local Governments on the point were not encouraging. They all went to show that no system of licensing would bring in any large revenue.

The Government of India resolved therefore to abandon altogether the idea of raising a revenue from tobacco by Imperial Legislation and the clause in the Licensing Bill which related to tobacco was accordingly expunged.

8. But while arriving at this opinion as to the unsuitability of tobacco for Imperial taxation the Government of India also thought, judging from the reports received from Local Governments, that a considerable revenue might be derived by Local Governments if they were left each to carry out the system best suited to the circumstances of its province. Accordingly, and as it was thought that Imperial revenues might be relieved to a considerable extent by establishing a system of local taxation for local purposes, the Government of India addressed Local Governments on the subject of such taxation and named tobacco as one of the sources from which a revenue might be derived.

The reply of this Government to the above letter is printed at pages 157—162 of the Blue-Book. This Government merely reiterated the opinion it had expressed in its letter of 11th June 1859 (No. 90 at page 120) that there were insurmountable objections to the realization of a revenue from tobacco unless in the shape of a tax on the shops where tobacco was sold, i.e., a licence tax; and that the produce of such a tax would not be considerable.

9. The Government of India appears to have considered this question of a tobacco tax on subsequent occasions also and to have arrived at substantially the same opinion as before, as will appear from the letter to the Secretary of State printed as No. 98 at page 155.

10. In 1870 when the question of raising the rate of income-tax was under the consideration of the Government of India, a proposal was made by one of the members (Mr. Cowie) to tax tobacco. Sir John Strachy and Sir Richard Temple both spoke against the measure and His Excellency Lord Mayo said:—

"Now it is quite true that in many civilized countries tobacco is considered to be a very proper object for taxation but I must remind the Council that tobacco in India is really an absolute necessary of life and that if you put a tax upon the production of tobacco, you tax the two great necessaries of life in this country, viz., salt and tobacco, and I am not prepared even in the present state of our finances to advocate the imposition of a burden upon such a prime necessary of life as that is.

11. The question appears to have been discussed also during Lord Lytton's Viceroyalty and the same conclusion arrived at, namely, that no large revenue could be raised by taxing tobacco (vide pages 368-70 of Strachy's book on "The Finances and

Public Works of India" and page 554 of the volume of Legislative Council's Proceedings for 1877). The following extract from Strachey's book may be noted:

"Tobacco is almost universally consumed and is looked upon as almost a necessary of life. Whatever means were adopted the tax would only be largely productive if it fell ultimately on the classes which form the great mass of the community. It would be paid by the same classes which now pay the salt tax, and if it should become necessary to increase the burden which they already bear this object would be more easily and economically gained and with far less vexation to the people by increasing the existing tax upon salt than by imposing a new tax upon tobacco. That any increase in the rate of the salt-tax would be one of the greatest possible mistakes, unless in most exceptional circumstances and on the other hand that its present reduction * would be financially a most desirable measure, has been shown in another chapter (page 370).

* The duty was reduced from Rs. 2-8-0 to Rs. 2 in 1882. It was raised as follows in this Presidency:—

	Duty. Rs.	A.	P.
August 1859	1	0	0
April 1861	1	4	0
1861–62 to 1865–66	1	5	0
1866–67 to 1868–69	1	8	0
1869–70 to 1877–78	1	12	0
1878–79 to 1881–82	2	8	0
1882–83 to 1886–87	2	0	0
1886–87	2	8	0

12. That the Government of India knows that Travancore derives a large revenue from tobacco, may be inferred from the correspondence which took place in 1860–65 relative to the Interportal Trade convention with Travancore and Cochin and more especially from the correspondence embodied in Government Order dated 14th May 1868, No. 1338.

It will be seen from the latter correspondence that at the desire of the Viceroy (Sir John Lawrence) whose attention seems to have been drawn to certain remarks which appeared in the Travancore Administration Report for 1865–66, regarding the tobacco tax in that State the Hon'ble Mr. G. N. Taylor addressed the then Resident in Travancore and Cochin (Mr. Newill) for full particulars regarding the mode in which the tax was levied in that State and that complete information on the subject was furnished by the Resident and the then Diwan T. Madhava Rao.

This correspondence came before this Government, mainly on account of a minute recorded by the Hon'ble Mr. G. N. Taylor, in which he suggested that this Government might consider the expediency of imposing a moderate import duty or an excise wherever practicable—vide his minute printed in the Government Order.

The Diwan's Memorandum shows that during the flourishing period of the monopoly system (it was abolished in 1862–63, that is, ten years after the abolition of the Government monopoly in Malabar and Canara) the gross revenue from tobacco amounted to more than half the revenue from all other sources or more than one-third of the total revenue of the State while the revenue now amounts to about one-eighth of the total revenue.

13. From the administration report of the Travancore State for the year 1891–92, it appears that 12,295 † candies of tobacco valued at Rs. 26,77,723 were imported during that year and that a duty of Rs. 9,43,030 was collected thereon.

† Equal to 6,147,500 lb. or 8,065,520 lb. according as a 'candy' is 500 lb. or 656 lb. (which latter is the equivalent given in Madhava Rao's Memorandum—vide paragraph 10.

14. The following statement gives the statistics of the imports of tobacco into this Presidency by sea for the last three years:—

Tobacco—Imports—Sea-Borne ‡ Trade.

Years.	Foreign trade.		Coasting trade.		Total.	
	Quantity in lb.	Value.	Quantity in lb.	Value.	Quantity in lb.	Value.
		Rs.		Rs.		Rs.
1890–91	446,477	2,06,021	218,915	33,563	665,392	2,39,584
1891–92	542,705	2,91,725	110,937	17,121	653,642	3,08,846
1892–93	915,719	3,37,980	135,775	27,107	1,051,494	3,65,087

‡ The rail-borne imports amount only to about 2,000 lb.

At the Travancore rate of duty the imports into this Presidency will bring in a gross revenue of a little over one lakh of rupees.

R.V.S.—1-3-94.

The foregoing account gives a clear and concise summary of all that has been written on this subject and shows that the feasibility of raising a revenue from tobacco has been most exhaustively debated and that the question has been considered in all its bearings. The situation is appropriately summed up by Sir John Strachey in paragraph 8 of his minute of the 21st October 1865 (page 154 of the Blue Book)—

"Tobacco has seemed at first sight a very promising subject of taxation to almost everyone who has thought upon the subject, but almost everyone had given up the scheme upon full consideration of the difficulties which surround it."

J.G.—3-3-94.

II

Mr. N. S. BRODIE'S NOTE DATED 26th DECEMBER 1915 (SECRET D.O. No. A A-1, DATED 11th JANUARY 1916).

Prior to 1910–11, *ad valorem* rates used to be charged on imported manufactured tobacco of all sorts at the rate of 5 per cent but this system was then abandoned and special quantitative rates introduced, presumably because of the difficulty of levying *ad valorem* rates. The rates introduced were about 33 per cent higher than those now in force which are—

	Rs.	A.	P.	
Unmanufactured tobacco	1	0	0	per lb.
Cigars	1	10	0	"
Cigarettes weighing less than 3 lb. per thousand.	3	2	0	per thousand.
Cigarettes weighing 3 lb. or more per thousand.	1	4	0	per lb.
Manufactured, other sorts	1	2	0	"

These rates are said to be approximately 36 per cent *ad valorem* on cigars and 33 per cent *ad valorem* on cigarettes though how this is arrived at I don't know, considering how much imported cigars and cigarettes vary in weight and value. The Government of India's first proposal is to raise these rates 'in approximately the same proportion, i.e., to a uniform 50 per cent *ad valorem*.' I presume this means that the duty on cigars is to be raised by about one-third and that on cigarettes by about half. Nothing is said about 'other sorts' which I suppose means principally pipe tobacco. Judging from Spencer's and Oakes' price lists the present rate seems to be from 28 to 41 per cent on the cheapest pipe tobacco and presumably this is also to be raised by about one-third. The rates will then read—

	Rs.	A.	P.	
Cigars	2	3	0	per lb.
Cigarettes	4	11	0	per thousand and
	1	14	0	per lb.
Other sorts	1	8	0	per lb.

I presume the Government of India does not intend to go back to *ad valorem* rates.

Effects of taxation introduced in 1910–11. Sea-Borne Trade Review of 1910–11, page 9.

2. The rates introduced in 1910–11 had the immediate effect of 'extensively curtailing the imports of foreign tobacco and they scarcely realized the revenue it was hoped they would bring in.' The total imports declined by 83 per cent in quantity and 52 per cent in value. Imports of leaf tobacco, *formerly duty free*, fell from 447,115 lb. to 63,267 lb. or by 86 per cent in quantity. Imports from Ceylon and the Straits Settlements practically ceased. [There used to be quite a large trade from the Jaffna and the northern Ceylon ports which supplied a great part of the tobacco used on the west coast of this Presidency.] Imports of cigarettes decreased 77 per cent in quantity and 48 per cent in value. The cheap American varieties were practically shut out, falling 94 per cent in value and the result was the foundation and development of the Indian cigarette industry which has probably taken their place. Exports of cigars to the United Kingdom fell by 72 per cent owing to the imposition of duty on wrapper tobacco. To avoid this, Messrs. Spencer & Co. removed their factory to Pondicherry.

Sea-Borne Trade Review of 1911–12.

3. In 1911–12, owing to the outcry from Ceylon and the leading local manufacturers of better class cigars, the rates were reduced by about 33 per cent to the present figures. Even this, however, failed to revive the import trade from Ceylon and the Straits Settlements which was completely and finally killed. Imports of leaf tobacco rose by 19,160 lb. but this was only a mere fraction of the fall of 383,848 lb. in 1910–11. The increase was confined to the higher grades required in the manufacture of cigars of good quality. Imports of cigarettes showed a further decline in quantity but an increase in value, the trade in cheap American cigarettes being completely extinguished. Exports of cigars to the United Kingdom declined another

7 per cent in value but exports to the Straits Settlements increased by 23 per cent and the whole export of cigars increased by 13 per cent in quantity and 9 per cent in value. The cigars exported to the Straits Ssttlements and Federated Malay States appear to be made of purely Indian tobacco which pays no duty.

4. In 1912–13, there was a further decrease in imports of cigarettes by 15 per cent and a large factory was opened at Bangalore by the Peninsular Tobacco Company. Manufacture of cigars for export to the United Kingdom was permitted in bond and Messrs. Spencer & Co. returned from Pondicherry. The exports of these cigars rose by 46 per cent but of course the revenue did not profit by this.

Sea-Borne Trade Review of 1912–13.

There was a general increase both in imports and exports of tobacco in 1913–14 and some recovery in imports of cigarettes to a little above the figures of 1910–11. The export of high grade cigars to the United Kingdom rose to ·88 lakh against ·57 lakh in 1910–11.

Sea-Borne Trade Review of 1913–14.

However, the effect of the war was to send most of the principal figures lower than ever. Imports of raw tobacco fell to 70,573 lb. in 1914–15 and exports of high grade cigars to the United Kingdom fell to 33,434 lb. and to ·45 lakh in value (nearly 50 per cent), the lowest figure on record.

Effects of the war—Sea-Borne Trade Review, 1914–15.

5. The figures since the introduction of the new tariff are tabulated below :—

Annual value of the sea-borne trade and navigation of the Madras Presidency for 1914–15.

Foreign trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.						
1. Unmanufactured (total for Presidency).	LB. 447,115	LB. 63,267	LB. 82,427	LB. 90,458	LB. 110,458	LB. 70,573
2. Manufactured—						
(*a*) Cigars	11,099	1,049	937	830	1,107	3,368
(*b*) Cigarettes	319,275	72,139	65,410	55,217	78,616	78,429
(*c*) Other sorts	94,940	12,473	26,397	23,370	24,723	28,090
Exports.						
1. Unmanufactured (unaffected by tariff).	1,444,632	1,670,842	1,619,966	1,806,998	2,234,511	2,362,766
Of the above exported to Straits Settlements and Federated Malay States.	1,374,612	1,621,543	1,568,878	1,773,160	2,115,056	2,304,144
2. Manufactured—						
(*a*) Cigars	697,507	704,791	797,383	989,811	988,668	887,165
Of the above quantity exported to United Kingdom.	80,360	42,565	36,184	51,156	56,976	33,434
Straits Settlements and Federated Malay States (unaffected by tariff).	415,357	547,613	661,294	827,278	811,219	800,488
(*b*) Other sorts	4,196	4,515	9,010	8,513	9,363	8,885

Coasting trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.						
1. Unmanufactured	LB. 610,603	LB. 683,787	LB. 664,054	LB. 578,058	LB. 604,165	LB. 596,038
2. Manufactured	142,514	84,439	59,021	94,319	57,595	71,301
Of the above imported from Calcutta.	118,687	73,703	52,511	85,214	46,637	53,301
Exports.						
1. Unmanufactured	7,721,625	7,535,386	6,870,154	6,536,820	6,928,569	5,168,826
Of the above exported to Burma ..	6,926,830	6,474,041	6,149,974	6,133,770	6,521,676	4,579,130
2. Manufactured—						
(*a*) Cigars	347,507	314,933	410,526	419,710	349,618	275,018
Of the above exported to Burma ..	194,493	204,649	292,004	320,781	251,706	177,844
Of the above exported to Bengal ..	101,866	73,206	76,815	61,785	63,117	65,373
(*b*) Cigarettes	..	..	2,877	4,200	26,471	61,599
(*c*) Other sorts	35,726	43,920	37,620	39,906	33,407	77,190

6. The net result of the introduction of the heavier tobacco duties in 1910–11 has, therefore, been to kill the import trade in raw tobacco from Ceylon and the Straits Settlements and in cigarettes from America and to lay the foundations of a cigarette manufacturing industry in India from Indian leaf. The trade in high grade cigars exported to the United Kingdom has suffered very heavily, despite permission to manufacture export in bond. The fall between 1909–10 and 1913–14 (when this industry reached its highest point after the imposition of duties and before the outbreak of war) was about 29 per cent. This shows what an effect even a slight rise in the cost of such a thing as tobacco has on consumption as it was undoubtedly the increased cost (and that only of the wrapper) in 1910–11 that gave the trade this set back. The wrapper is only a minute fraction of the weight of the cigar and if the duty on whole cigars is only equal to an *ad valorem* rate of 36 per cent the duty on a cigar whose wrapper alone pays duty must be nearer 1 or 2 per cent. Since the concession of manufacture in bond has been granted these cigars pay no duty and it is presumed that this concession will be continued so that any enhancement of rates will not affect them.

7. *Rail-borne trade*, 1914–15.—

Imports from other Presidencies and Native States.

	LB.
1. Unmanufactured	2,051,959
Of which imported from Mysore	1,344,550
2. Manufactured—	
(*a*) Cigars	13,330
(*b*) Other sorts—probably cigarettes	1,497,517
Of which imported from Mysore	1,294,272

Exports to other Presidencies and Native States.

1. Unmanufactured	24,729,076
Of which exported to—	
Mysore	8,181,339
Calcutta	5,282,496
Nzam's Territory	4,242,157
2. Manufactured—	
(*a*) Cigars	503,013
(*b*) Other sorts	392,750

Internal trade between various parts of the Presidency.

1. Unmanufactured	53,774,208
2. Manufactured—	
(*a*) Cigars	1,061,815
(*b*) Other sorts—probably cigarettes, bidies and snuff ...	1,074,651

8. From these figures it appears that by far the greatest part of the Delta tobacco is exported in the manufactured condition and made up locally. The trade in manufactured tobacco is comparatively small, which agrees with my information that there are no manufactories of any size. A fairly large quantity of manufactured cigars is exported by rail from the Central districts (i.e., Trichinopoly, Salem and Coimbatore) to Negapatam but this no doubt is included also in the exports by sea to the Straits Settlements.

Cigars.

9. In the Secretariat note of 1911 the total outturn of cigars was estimated by Mr. Innes at about 2,500,000 lb; i.e.:—

	1909–10.
	LB.
Foreign exports	697,507
Coasting trade exports	347,507
Rail-borne exports	451,164
Do. internal trade	971,208
Total ...	2,467,386

The corresponding figures for 1914–15 are—

	LB.
Foreign exports	887,165
Coasting trade exports	275,018
Rail-borne exports	503,013
Do. internal trade	1,061,815
Total ...	2,727,001

Allowing for the disturbance of trade caused by the war, the export trade and rail-borne traffic in cigars may, therefore, be taken at about 2,750,000 lb. but this is probably an excess estimate of the quantity actually manufactured since the rail-borne traffic probably includes the greater part of the foreign exports and possibly a good deal of the coasting trade exports also.

Cigarettes.

10. The Indian cigarette industry has practically grown up since the Secretariat notes of 1911 were written. Foreign imports of the better class cigarettes have remained nearly stationary since 1911–11 at about 70,000 lb. Comparing the figures of 1909–10 with those of 1910–12 when the full effect of the tariff duties had had time to operate, 253,865 lb. of cheap American cigarettes appear to have been displaced. These have no doubt been replaced by Indian cigarettes and there has probably been a large increase in consumption in addition.

The export trade in cigarettes in 1914–15 appears to have been somewhat as follows:—

	LB.
Foreign exports	8,885*
Coasting trade exports	61,599
Rail-borne exports	392,750*
Do. internal trade	1,074,651*
Total ...	1,537,885

In the absence of figures for bidies, snuff, etc., it is not easy, however, to say how much of these 15 lakhs of pounds represent cigarettes and still less how much represents cigarettes manufactured in the Presidency. My inquiries in Vizagapatam show that none of the cigarettes there consumed (and the consumption is very large) are manufactured in this Presidency. The great bulk come from Calcutta and a good many from the Peninsular Tobacco Company, Bangalore. Similarly in Madras, the bulk of the cigarettes come from Bangalore or Bowringpet, both in Mysore territory and not subject to British excise. It will be seen from paragraph 7 above that 1,294,272 lb. of 'other sorts' including (no doubt mostly) cigarettes are imported from Mysore. Probably the greater number of these are shown in 'rail-borne internal trade' and exports of the Presidency over again. I should put the actual number manufactured in the Presidency at not more than 250,000 lb.

11. The following are principal Indian Cigaratte factories shown in the Lawrence Asylum Press Almanack, page 1438:—

(1) A.G.M. & Sons, Coimbatore.

(2) K.G.A., Coimbatore.

(3) McDowell & Co., Madras.

I have never seen any cigarettes from the first two factories and they seem to be very small and merely supply the local market. McDowell & Co. employ about 25 persons and some small hand machines. Pappadapoulos Brothers make Egyptian cigarettes but import Egyptian tobacco which already pays duty. Besides these there are the two large factories in Mysore—

4. The Peninsular Tobacco Company, Cleveland town, Bangalore, and

5. The Oriental Tobacco Manufacturing Company, Bowringpet.

*Includes, however, pipe tobacco, bidies, snuff, etc.

Both these are run on American lines and employ a large number of workmen and power-driven machinery, but as already remarked they are not subject to British excise.

Outturn of tobacco.

12. According to the 'Season and crop report' for 1914–15 the total area cultivated with tobacco in the Presidency was 227,182 acres, the 'normal' area being 203,230 acres. I learn from Chadwick that 800 lb. of dried leaf per acre is a fair average crop as taken by Castlestuart Stuart in 1910. The total outturn was therefore about 182,000,000 lb. of which we have only accounted for about $3\frac{1}{2}$ millions at most in the manufactured form. This outturn was spread over 24 districts, the area being over 10,000 acres in seven, Vizagapatam (29,115), Godavari (13,099), Guntur (78,560), Kistna (13,022), Kurnool (18,769), Coimbatore (26,001) and Madura (11,172). These figures show little change since 1908–09.

About 90,000,000 are exported in unmanufactured form.

Tobacco industry.

13. The census report for 1911 groups manufacturers of tobacco, opium and ganja together under Order 12, Group 66. The number of manufacturers of opium and ganja must be almost negligible and the total number of workers and dependents is shown to be 12,333. Under Order 33, Group 122, sellers of tobacco, opium, ganja, etc., are said to be 65,733 (workers 25,883, dependents 39,850). The total number of persons dependent on the tobacco trade is therefore about 78,066 against 75,000 in 1901. It is not possible to compare the figures of the other industries referred to in Mr. Castlestuart Stuart's demi-official of 5th November 1910 as the classification has been altered. Betel leaf and arecanut sellers are now grouped with vegetable and fruit sellers. It may be noted however that the number of persons engaged in the manufacture of tobacco is about as many as bakers and biscuit makers (12,970) whilst the number of sellers of tobacco is not much less than the number of sellers of milk, ghee, butter, poultry, eggs, etc. (80,981).

Present proposals criticised.

14. These figures show that there has been comparatively little change in the general position since 1910–11 and the arguments against any form of taxation of Indian grown tobacco remain as strong as they were then. The present proposals of the Government of India may now be examined in detail. The first is, as far as I understand it, to raise the quantitative rates of duty on imported cigars and cigarettes (and perhaps also on other manufactured tobacco) to the figures shown in paragraph 1 above. The quantity of imported cigars is now very small and was only 3,368 lb. in 1914–15. Assuming that the enhanced duty has no effect on consumption, the increase of revenue from this source will be only Rs. 1,824*. But judging from the effect of the enhancement of duty in 1910–11 it will probably be much less. The duty on imported cigarettes (78,429 lb. in 1914–15) was about Rs. 80,000 and the enhancement of the duty by one-half may give Rs. 40,000, though here also a heavy fall in consumption may be confidently looked for. The increase of duty on 'other sorts', i.e., probably pipe tobacco, snuff, etc. (which may be contemplated) by one-third would yield perhaps Rs. 10,742. Altogether, the maximum increase of revenue that may be looked for from this proposal cannot, therefore, be more than Rs. 60,000 and the burden will fall heavily on the poorly paid European and Eurasian assistants in shops, business firms, Railway Companies, etc., who are by far the largest consumers of imported cigarettes. However this increased revenue can no doubt be obtained without administrative difficulty or expense.

(a) First proposal.

*Present duty Rs. 5,473 one-third enhancement Rs. 1,824.

(b) Second proposal.

15. The second proposal is to levy an excise duty on cigarettes of Indian manufacture. The large factory referred to by the Government of India is probably that in Bengal, I think at Monghyr. It is proposed to differentiate bidies from cigarettes by the use of cigarette paper. This may be accepted. It is proposed that

the taxation should take the form of a quantitative duty equivalent to an *ad valorem* duty of about 15 per cent. A further point is whether the taxation should be restricted to factories equipped with power-driven machinery. If this qualification is accepted the question is a simple one for there are no such cigarette factories in this Presidency. Assuming, however, that all cigarette factories are to be taxed my inquiries show that cigarettes of Indian manufacture vary considerably in price. The cheapest are sold retail at prices varying from Rs. 1–4–6 per 500 or Rs. 2–6–0 per 1,000 to Rs. 2–12–0 per 500 or Rs. 5–2–0 per 1,000. These cigarettes both weigh almost exactly $2\frac{1}{2}$ lb. per 1,000, the cheaper ones a little more. The manufacturer's price to the trade is no doubt considerably less as these cigarettes have to be imported to Vizagapatam and there is the retailer's profit to be considered. The excise duty will of course have to be fixed with regard to the wholesale price at the factory. I should say Rs. 1–12–0 per 1,000 is probably an outside price for the cheapest cigarettes. This means $28/2\frac{1}{2}=11\frac{1}{5}$, say 11 annas a lb. or as they weigh rather more than $2\frac{1}{2}$ lb. per 1,000, say 10 annas a lb. 15 per cent on 10 annas is one and a half annas per lb. I have estimated the total production of cigarettes in this Presidency at not more than 250,000 lb. and the duty on this would be Rs. 23,437. It is impossible to say without a full inquiry what the number of cigarette factories is but they are certainly very small and probably average not more than 10,000 lb. of cigarettes each per annum. Putting the number at 25 scattered all over the Presidency, not less than 25 Sub-Inspectors on Rs. 40 per mensem would be required to supervise them. The cost of these would be Rs. 12,000 not allowing for contingent expenses such as weighing machines, etc. The net proceeds of the tax would therefore be somewhere about Rs. 10,000, even supposing that the duty had no effect on consumption which is extremely improbable. Moreover as Indian cigarettes vary considerably in price though not so much as cheroots, the duty would press most unfairly on the cheapest brands and on the poorest class of the population which consumes them.

Watch cigarettes—Peninsular Tobacco Company, Bangalore, Rs. 1-4-6.
Ruler cigarettes—Imperial Tobacco Company, Calcutta, Rs. 2–12–0 per 500.

16. The third proposal is to levy a similar quantitative excise duty equivalent to an *ad valorem* tax of 15 per cent on cigars of Indian manufacture. As already pointed out in 1911 this problem absolutely bristles with administrative difficulties. In the first place it is not clear whether bidies are to be included. It is possible to distinguish bidies from cigarettes but the difference between them and the poorest kind of cheroots is almost infinitesimal. Both are rolled in leaves, sometimes tobacco leaves sometimes not. The manufacture of bidies is admittedly a cottage industry carried on in every village and hamlet. However according to the Asylum Press Almanack one tobacco factory at least professes to make bidies. The vast bulk of the Indian cheroots are also made as a cottage industry as is evident from the fact that out of 182 millions of pounds of tobacco grown only about $3\frac{1}{2}$ millions ($4\frac{1}{2}$ at the outside) appear in the trade returns as manufactured. Possibly bidies could be excluded by excepting cheroots, etc., weighing less than as many pounds to the 1,000. My experiments show that the commonest bidies weigh about $1\frac{1}{4}$ lb. per 1,000, so that if manufactured cheroots weighing less than $1\frac{1}{2}$ lb. per 1,000 were excluded this might meet the case. However this would undoubtedly stimulate the consumption of bidies which I understand to be the most deleterious form of smoking. Bidies are sold at 12 annas a 1,000 wholesale in Madras, that is at about $9\frac{3}{5}$ annas per lb. The manufacturer's price may be less so that probably 9 annas per lb. would be a safe figure and the duty, if any, ought to be much the same as for cigarettes or a little less, say 1 anna 4 pies per lb.

(c) Third proposal.

Bidies.

A

17. Ordinary cheroots of the commonest kind seem to weigh about $3\frac{3}{4}$ lb. per 1,000 and cost Rs. 1–12–0 per 1,000 retail but both weight and price vary enormously. Better class cheroots which, however, are still largely consumed by the poorer classes weigh 20 lb. per 1,000 and cost Rupees 12–8–0. Assuming that the rates to the trade are somewhat less we may estimate the first kind at 6 annas a lb. and the second at 10 annas a lb. The duty ought to be fixed at 15 per cent on the cheapest

Cigars.

kind at 6 annas a lb. The duty would then be 11 pies but for convenience of reckoning might be fixed at one anna.

It is quite impossible to estimate with any accuracy the output of Indian manufactured cigars. The figures in paragraph 9 no doubt afford some guide. I should imagine 2,000,000 lb. to be a fair estimate. The duty on this at 1 anna per lb. would be Rs. 1,25,000. Against this has to be set the cost of establishment which would be enormous. It is not possible at present to form any idea of what this would be. Presumably the only way to ensure the collection of the duty would be to place each factory in charge of an officer who would have to weigh the quantity of raw tobacco received and the quantity finally passed out on payment of duty, seeing that none illicitly passed out and keeping accounts on the same lines as officers in charge of distilleries. The test of a factory would be I suppose that the proprietor sold the manufactured produce, for practically every householder buys a few leaves of tobacco now and again and rolls them up into cheroots for private consumption. Even excluding these individuals, there appear to be about 26,000 persons describing themselves as tobacco sellers in the census returns, excluding 2,000 partially agriculturist. This agrees with what I expected, being an average of about one for every village in the Presidency. In some places there are no doubt several and in others none, but it would be quite impossible to do much in the way of concentration without causing much hardship. The formation of central storehouses appears, therefore, to be impossible and practically every shop will have to have a properly locked storehouse for the cheroots manufactured which adds to the expense. The ordinary staff of the Salt and Abkari Department could not possibly undertake this enormous addition to its work. Assuming that one Sub-Inspector could efficiently supervise on the average 25 factories (which I take to be impossible with the shops scattered as at present) it would require a staff of 1,000 Sub-Inspectors to supervise the work in the Presidency. The opportunities for fraud would be so great that I fear even then the force would be demoralized. Certainly a great many of the Sub-Inspectors would have to be paid more than the lowest grade of Rs. 40 a month. Assuming that the average pay is Rs. 60, this establishment alone would cost Rs. 60,000 per month or Rs. 7,20,000 per annum or about six times the estimated proceeds of the tax. It seems hardly worth while to discuss the matter further. A complete staff of peons, inspectors, Assistant Commissioners and Deputy Commissioners would also be necessary to supervise such an establishment and it would be quite impossible for me to undertake so large an addition to my work. After all there would be no possibility of guarding against fraud as there would be nothing to distinguish between illicit and licit tobacco. As far as I can see no tax less than Re. 1 per lb. would do more than pay for the cost of collection and this of course would be ruinous having regard to the cost of the article.

18. In conclusion I can see nothing in favour of the tax or any possibility of working it. A tax on Indian cheroots made in power-driven factories might be possible. There are only two, viz.: Spencer's at Dindigul and Oakes & Co. at Guindy—employing 700 persons between them. But it seems very hard to discriminate against them, even if the tax was only one anna a lb. and anything more would probably drive them out of the Indian market altogether. I cannot say what the output of these two factories is, but excluding the amount manufactured in bond for Europe I doubt if it exceeds 500,000 lb. and the duty at one anna per lb. would yield only Rs. 31,250.

19. Another possible course would be to put an export duty on manufactured tobacco. In that case I should exclude cigars exported to the United Kingdom which have to pay heavy and enhanced duties there and have already sufferred by the tariff. There are not the same administrative objections to an export duty, at all events on exports by sea, as the establishment exists and evasion would be practically impossible. Exports by sea to foreign countries, excluding the United Kingdom, amounted to 853,731 lb. in 1914–15 and exports to other provinces to 275,018 lb. Total 1,128,749 lb. A duty of one anna per lb. might bring in Rs. 62,500 without any extra cost and as the exported cigars at all events to the Straits Settlements are of fairly good quality a duty of even 2 annas a lb. might not ruin the trade and bring in about one and quarter lakhs. Still the amount is so small that I see no use in upsetting the trade at all for so very little result.

N. S. Brodie—26–12–15.

III

Demi-official from L. Davidson, Esq., I.C.S., to N. S. Brodie, Esq., I.C.S., dated 4th July 1916, No. 39-S. (Secret No. 183 A, dated 18th December 1916.)

I am desired to refer to your note of the 26th December 1915, on the subject of imposing an excise on locally manufactured cigars and cigarettes. The Government of India are disposed to agree that the taxation of locally-made cigars is not likely to prove of practical value. As regards cigarettes, however, they are unable to abandon the possibility of revenue from an article which is not only a luxury but also, to some extent, a harmful luxury; and they have asked this Government to consider the question at greater leisure.

2. Your note, referred to above, gives an approximate estimate of the total outturn of cigarettes in the Presidency, the number of factories and the prevailing wholesale prices. I am to ask whether you cannot now quietly obtain more precise information as to the number and location of factories, the met hods of manufacture, the outturn and the prices obtained. Collectors could possibly procure the information under the guise of income-tax or statistical inquiries without exciting attention.

3. The calculations in your note are based on the assumption that the excise to be imposed would be equivalent to an *ad valorem* tax of about 15 per cent, as was then suggested by the Government of India. I am to ask you now further to consider the effect of taxation on the industry and to favour Government with your opinion as to the maximum which could safely be imposed without seriously crippling the trade.

4. The Government of India lay stress on the strictly confidential nature of this further reference, but say 'there is no objection to consulting any officer of Government whose advice would be of special value.'

Demi-official from N. S. Brodie, Esq., I.C.S., to L. Davidson, Esq., I.C.S., dated Ennore, 12th November 1916.

With reference to your demi-official No. 39-S., dated 4th July 1916, I have now made further inquiries into the subject of the production and sale of cigarettes in this Presidency both personally and through Collectors. I cannot say that I have elicited much additional information and the remarks which I made in my note of the 26th December 1915 continue to hold good. It appears, however, that I was wrong in stating that there were no cigarette factories in the Presidency equipped with power-driven machinery as it was found on further inspection that McDowell's factory in Moor street, Madras, had some cutting machines worked by an oil-engine recently set up.

2. The estimate of outturn may very well remain at 250,000 lb. The only details I have been able to get are from the Universal Tobacco Company in Madras which is believed to turn out about 30 lakhs of cigarettes per mensem and from McDowell's factory, also in Madras, which is believed to turn out about 20 lakhs. McDowell's factory does not use Indian tobacco exclusively and some of the brands contain imported tobacco to the extent, it is said, of 25 per cent on the whole. I have tested numerous brands from all parts of the Presidency and find that as a rule they weigh about 2½ lb. per 1,000, a little more or less. This gives the total Madras production about 150,000 lb. per annum. Allowing for the imported tobacco used in McDowell's factory the quantity of Indian cigarettes is about 135,000 lb. The only other factories appear to be Oakes & Co.'s factory at Guindy, a new factory started by Barry & Co. in Cocanada just recently and one or two small factories in Coimbatore. There was a factory at Guntur but it seems to have failed after working a few months. The Collector of Coimbatore has not yet replied to my letter on the subject but I made some inquiries in the course of my last tour and find that there are one and probably two factories in Coimbatore but they use imported tobacco for their cigarettes as does Pappadopoulos in Madras. Allowing for all these factories I should say 115,000 lb. per annum was a very liberal estimate, making 250,000 for the Presidency.

3. Retail prices seem to vary very considerably but on the whole I see no reason to modify my original calculations. The cheapest cigarettes are sold in packets of 5 or

6 and a slightly more expensive lot in packets of 10. The dealers' profit seems to be about eight annas a thousand and the trade discount about 20 per cent. Some cigarettes* are sold as cheaply as Re. 1 per 1,000 wholesale or allowing for the trade discount about thirteen annas per 1,000. This is less than half the price I estimated for the cheapest cigarettes in my last note (Rs. 1-12-0). I doubt if there are many of this brand sold, but there are numerous other brands at Re. 1-4-0, Re. 1-6-0 and Rs. 1-8-0 sold by McDowell & Co. However all other information tends to confirm the view that the cheapest cigarettes are sold at Rs. 2 to Rs. 2-12-0 by the wholesale dealers and consequently must cost somewhere about Rs. 1-12-0 per 1,000 from the manufacturers. These cheap cigarettes are manufactured in this Presidency by McDowell & Co., and the Universal Tobacco Company only. Those turned out by Oakes & Co., and the new factory started by Barry & Co., at Cocanada are much more expensive and work out at Rs. 11 to Rs. 14 per 1,000.

*By the Universal Tobacco Company, 1/6, Patters Road, Royapetta—'Bazaar' brand.

4. The method of manufacture is probably the same everywhere. The tobacco selected has all the main nibs cut out and the leaves are then laid one above the other to a considerable depth. They are then cut into small pieces by a cutting machine, the tabacco rolled in cagarette paper, gummed and cut into lengths. As far as I know the cutting and gumming, etc., machines are all worked by hand except in McDowell's factory above referred to.

5. In this connexion I should, however, bring to notice one or two facts which I have ascertained in the course of my inquiries. It is a common practice I understand for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale especially at the various shandies and markets in the Presidency. This is common in Malabar, Coimbatore and the Nilgiris at all events and probably elsewhere. Most Collectors have, however, reported that cigarette papers are not commonly sold in the bazaars. I believe the practice of individual consumers rolling their own cigarettes is not common at present though it is said to have been customary in Salem before the shop-made cigarettes became so cheap. It would be clearly impossible to levy an excise duty on cigarettes made by hawkers or private individuals and it may be expected that the practice would be much more largely resorted to if a duty were imposed on the manufactured article. This might perhaps be met by imposing a customs duty on cigarette paper which would have to be determined in accordance with the duty imposed on cigarettes, such customs duty to be refunded on paper actually used by the wholesale manufacturers. It seems that cigarette paper was formerly imported mostly from Austria and Germany—at present it is obtained from France.

6. As regards the duty to be imposed I find it difficult to express an opinion. The heavy rates imposed in 1910-11 practically killed the cheap American cigarettes but then the enhancement of rates was probably more than 100 per cent of the value so that this result was quite intelligible. My inquiries show that my estimate of the cost of collection was much too large. One Sub-Inspector would, I think, be required for each factory but as there seem to be only four or possibly five factories the cost would be only about Rs. 2,400 per annum. As observed in my previous note, a duty of one and a half annas per pound represents 15 per cent of the value of the cheap cigarette. This amounts to 3 annas 9 pies per 1,000 and could hardly affect the retail price at all. The usual retail price per packet of 10 cigarettes seems to be about 4 pies. A duty of 8 annas 4 pies per 1,000 should raise the retail price by one pie and this would probably not seriously affect the trade though even one pie is a consideration in a country like India. I do not think we could safely raise the duty beyond Re. 1 per 1,000 which would raise the retail price about 2 pies or 50 per cent. This would be 6·4 annas per pound and roughly about 60 per cent of the value. Although cheap cigarettes do not seem to vary much in weight I would prefer to levy the duty by the pound rather than by the number as being the only fair way of assessing it. A duty of 6½ annas per pound would, if the production remained at 250,000 lb., yield Rs. 1,01,562½ but if the consumption fell, as it probably would, to about 200,000 lb. the tax would yield Rs. 81,250. As far as this Presidency is concerned, the result would, therefore, be insignificant, but, no doubt, the revenue

from the whole of India would be very considerable and I cannot see any serious objection to the proposal except that it would greatly encourage the smoking of bidies and press rather hardly on the poorest class of the population who smoke cheap cigarettes at present and regard them as a great luxury.

Demi-official from F. J. Richards, Esq., I.C.S., to Ley, Esq., I.C.S., dated the 18th December 1916, No. 75-S.

I am directed to reply to Mr. Low's Confidential demi-official letter No. 4493, dated 14th June 1916, on the subject of the expediency of imposing an excise on cigarettes manufactured in India from indigenous tobacco.

2. In the first place, I am to point out that the correspondence of 1910, to which reference is made in the first paragraph of Mr. Low's letter, did not turn on the present question, for at that time there was no manufacture of cigarettes from indigenous tobacco in this Presidency. It is stated that the question of an excise on manufacture was then dropped because the local cigarette industry was in its infancy and it was considered that the imposition of an excise would deal it a death-blow. So far as this Presidency is concerned, the position is virtually unaltered; for, as stated in Mr. Butterworth's demi-official letter No. A.A.-1, dated 11th January 1916, the local output of cigarettes does not exceed some 250,000 lb. annually. This estimate has been confirmed by subsequent enquiries, though the number of factories to be taken into account is found to be smaller than was thought to be the case. There are probably not more than 5 or 6, of which the two largest are those owned by Messrs. McDowell & Co., and the Universal Tobacco Company both in Madras City. The former has recently been equipped with an oil-engine for driving its cutting machines. The average wholesale price for the cheapest class of cigarettes quoted in Mr. Butterworth's letter, viz. Rs. 1-12-0 per 1,000, may be taken as correct. These cheap cigarettes are manufactured only by Messrs. McDowell & Co. and the Universal Tobacco Company. Those turned out by Messrs. Oakes & Co., at Guindy and by Messrs. Barry & Co., at Cocanada are much more expensive, costing from Rs. 11 to Rs. 14 per 1,000.

3. The maximum rate of duty which is considered compatible with the survival of the industry is Re. 1 per 1,000 or approximately $6\frac{1}{2}$ annas per lb. This duty would if the production remained 250,000 lb. yield a revenue of a little over a lakh. The imposition of such a tax, however, is almost certain to preclude any expansion of the industry and would very probably strangle that which already exists; for it would either drive the masses to revert to *bidi* smoking or compel the manufacturers to transfer their factories to French territory or to Native States. I may here point out that the Director-General of Commercial Intelligence has incorrectly assumed that the tax realisable from the Peninsular Tobacco Company's factory in the Civil and Military Station, Bangalore, would be credited to Imperial revenues. By the terms of rendition, the Mysore Government is entitled to the whole of the surplus revenue of the Assigned Tract, after the cost of the administration of the tract is defrayed. This fact seriously affects the estimate formed of the probable receipts from the tax.

4. Another factor to be taken into consideration is the practice, common in several districts of this Presidency, for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale, especially at local markets. Individual consumers do not usually roll their own cigarettes, though it is said to have been customary for them to do so in Salem before the shop-made cigarettes became so cheap. It would obviously be impossible to levy an excise duty on cigarettes made by hawkers or private individuals; and it may be expected that the practice would be much more largely resorted to, if a duty were imposed on the manufactured article. Cigarette paper was formerly imported from Germany and Austria; now France is the chief source of supply. A customs duty might be imposed on it, such duty to be refunded on paper actually used by the wholesale manufacturers; but this expedient would not be free from difficulties and would almost certainly result in the use of a local substitute.

5. In these circumstances, I am to say that the Government of Madras are entirely opposed to the proposal. They can suggest no alternative scheme for internal taxation of tobacco, apart from those already rejected.

IV

Letter from C. R. Watkins, Esq., C.I.E., Officiating Collector of Customs, Madras, to the Under Secretary to Government, Finance Department, dated 1st May 1925, No. L. Dis. Nil.

I forward herewith a statement showing the foreign imports into, and exports from, the Madras Presidency of tobacco since the year 1920-21.

2. The rates of customs duty at present in force are given below:—

Name of article.	Per	Tariff valuation.	Duty.
Cigars	.....	Ad valorem.	75 per cent.
Cigarettes of value.—Not exceeding Rs. 10-8-0 per thousand.	Thousand ...	.....	Rs. 7.
Exceeding Rs. 10-8-0 per thousand ...	Do.	.....	,, 10-8-0.
Tobacco, unmanufactured	Lb. ...	.....	,, 1.
All other sorts of tobacco manufactured	,, ...	.....	,, 2-4-0.

Enclosure.

Foreign imports and exports of 'Tobacco' at the Presidency of Madras for the past five years ending 1924-25.

	1920-21.		1921-22.		1922-23.		1923-24.		1924-25.	
	Quantity.	Value.	Quantity	Value.	Quantity.	Value.	Quantity.	Value.	Quantity.	Value.
Foreign imports.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.
Tobacco—Unmanufactured ..	77,507	1,45,703	489,693	13,17,036	742,412	14,07,436	3,105,459	34,57,277	3,485,871	29,29,162
Cigars	12,815	43,430	701	2,922	278,384	12,34,116	296,516	13,54,712	1,86,952	8,34,717
Cigarettes	500,267	16,39,198	186,750	9,40,779	22,524	1,19,720	18,155	97,606	½	3
Tobacco for pipes and cigarettes	304	1,296	5,293	54,393	852	3,891	12,402	40,892	20,564	1,06,279
Other sorts	28,058	1,46,309	9,590	39,508						
Total ..	618,951	19,75,936	692,027	23,54,638	1,044,253	27,65,401	3,432,626	49,50,643	3,693,602	38,70,634
Foreign exports.										
Tobacco—Unmanufactured ..	3,118,784	13,57,807	4,650,985	16,84,266	4,258,743	17,68,621	9,953,877	37,65,684	14,366,170	42,49,345
Cigars	75,540	1,04,792	94,905	1,17,671	99,244	1,32,490	1,11,541	1,20,174	88,199	1,25,560
Cigarettes	..	..	129	615	31,230	30,049	1,574	1,492	72,086	81,746
Other sorts	34,166	27,373	48,237	46,322	45,300	44,918	110,903	1,03,645	99,555	49,769
Total ..	3,228,490	14,89,972	4,794,256	18,48,874	4,434,517	19,76,078	10,177,895	39,90,995	14,626,010	45,06,420

V

Statement showing the area under cultivation of tobacco in the Madras Presidency in 1923–24.

	Acs.		Acs.
Ganjam	3,299	Salem	3,737
Vizagapatam	48,285	Coimbatore	25,544
Godavari	11,591	Trichinopoly	4,032
Kistna	13,301	Tanjore	2,223
Guntur	64,481	Madura	7,400
Kurnool	11,542	Ramnad	3,889
Bellary	2,658	Tinnevelly	1,048
Anantapur	4,785	Malabar	17
Cuddapah	1,868	South Kanara	1,623
Nellore	2,625	The Nilgiris	72
Chingleput	62		
South Arcot	2,985	Total ...	219,841
Chittoor	595		
North Arcot	2,179		

Revenue Dept

CONFIDENTIAL.

TAXATION ON TOBACCO.

I

Notes to G.O. Mis. No. 1993, *dated* 21*st May* 1894.

The question is whether we should take the success of Travancore in levying a revenue from tobacco as a reason for calling the attention of the Government of India to the possibility of levying a revenue for tobacco in our territories. I doubt if we have sufficient ground for doing so and whether such a suggestion would be well received. Travancore is exceptionally situated, so that it has been possible to abolish all growth of tobacco there and levy a revenue by import duties, and the Government of India know all about this. Such a system would be impossible in our territory where tobacco is grown almost everywhere and consumed by almost everybody, and where larger Native States abound. The possibility of levying a revenue on tobacco in our territory, in this or any other way, has been repeatedly discussed and decided against after full communication between all the Governments, so that any suggestion for us on the subject would amount to an insinuation that the discussion had not been complete. The only way in which, as far as I can see, a large revenue could be realized for tobacco would be by establishing monopoly of manufacture and sale. Though this was hardly possible in former days, I believe it would be possible in these days of improved communications and police, but the initial expenditure on warehouses, etc., would be too heavy for a time of financial pressure and the larger preventive establishments which would be necessary and extend through almost every village would result in oppression which would be so widespread and so frequently exercised that it would be eminently dangerous.

G. Garstin—7-3-93.

No doubt a tobacco monopoly *could* be worked but it would be a gigantic undertaking, and so very costly (especially in Bengal, where Government has no rural agency at all) that it would not, in my opinion, bring in a net return worth the imitation, the measure would certainly cause. The simplest way of raising a tax on tobacco would be by a special tax on the land on which it was grown, but that would not apply to Native States and cannot be worked in Bengal. A special establishment which would eat up the most part of the profits, while in all settled non-zamindari districts the terms of the settlements would prevent the imposition of such a tax. Independently of this, the taxation of land according to the crop grown would be a

This note is submitted with reference to the enquiry whether the attention of the Government of India has been called in the Revenue Department to tobacco as a possible source of revenue.

2. The occasion for this enquiry will appear from the notes of His Excellency the Governor and the Hon'ble Sir Henry Stokes to which reference is made in that office-note. It arose in this wise—

In submitting the budget estimate of the Travancore State for the Malabar year 1069 (August 1893–94) Mr. Grigg, the Resident, after observing that the most important increases occurred under certain heads of revenue of which tobacco was one, remarked regarding the increase under this head as follows :—

"That under tobacco is very remarkable. I have never heard a rumour of complaint regarding this tax, and yet it comes to approximately As. 6–6 per head of the population and gives a revenue nearly double that of abkari and opium and is now 55 per cent of that of salt—a necessary of life. Offences against the law relating to its importation are, I believe, not numerous. The lucrativeness of this monopoly may well attract the attention of Indian financiers (paragraph 3 of his letter, dated 3rd August 1893, in Government Order, dated 20th October 1893, No. 712, Political).

On this His Excellency noted—

"We should call the attention of the Government of India to the statistics of the tobacco tax and to the Resident's remarks thereon."

On this note Sir Henry Stokes remarked as follows :—

"The attention of the Government of India has been often enough directed to tobacco as a possible source of revenue. The peculiar position of Travancore makes its experience of little or no value in the consideration of the question.

retrograde measure, injurious to the cultivator and certainly beneficial to no one but the karnam.

A licence fee might be imposed and would yield something. It would be a return to the moturfa abolished years ago, and would come very hard on the very poor classes who sell tobacco. I should be sorry to see it tried. Similar objections can be found to every other plan of levying a tobacco tax in this country. I don't think that the Government of India would care to take the question up. It was examined, on another and later occasion, I think, than any of those mentioned in the note, by Mr. Bazeet Colvin when additional Member of the Viceroy's Council, who wrote a long note on this and other projects of taxation, a copy of which I have somewhere—given me by Sir Auckland Colvin, when Finance Minister, who told me at the time that the idea had been finally abandoned—or to that effect. This was in 1886 when the times were almost as hard as they are now.

H. E. Stokes—7-3-94.

This note is very clear, and gives me a complete answer. It is very evident that we should *not* call the attention of India to Mr. Grigg's remarks on the revenue derived in Travancore from taxing tobacco.

I found myself like many others lured into the belief that a large revenue might be derived from taxing this article, and the same results achieved here as in almost every civilized country in the world. But on inquiry I find that not only has it been thoroughly looked into, but the experiment has been tried and has failed, and there is no doubt the peculiar circumstances of the country have rendered the success of the experiment almost impossible. And as Sir J. Strachey very forcibly puts in the incidence of a tax on tobacco would fall with far greater severity on those who now pay the bulk of the salt tax, and we would thereby be putting a crushing weight on those least able to bear the burden. I confess myself converted and withdraw from any further attempt to bring this question within the domains of practical politics—although I can imagine a municipality looking upon it as a fair object for local taxation but even then extremely difficult to work, as poor Madras can testify.

I suppose though that imported tobacco will pay its 5 per cent like other articles (except cotton goods !).

Wenlock—11-3-20.

Tobacco is not produced in the State : the revenue is derived from import duties, and the configuration of the country lends itself to the easy levy of these duties on the greater portion of the tobacco consumed, which comes from Ceylon. In this Presidency and probably in the rest of India, import duties would not produce any revenue worth having and would be prejudicial to the Cheroot industry (Tobacco imported consists mainly of cheroot covers from Java and Sumatra) : but I have no doubt that a considerable revenue might be got from licensees on the vend by others than the growers."

His Excellency wrote thereupon—

"Has this Government ever called their (India's) attention to it? Anyhow I do not think we could do any harm in pointing out what a large sum a little place like Travancore manages to get from the consumers of tobacco. It does not seem to me material how it is raised, whether by import duties or licences. The very significant fact remains that the consumers of tobacco in Travancore contribute yearly Rs. 10 lakhs to the State."

3. His Excellency's query whether this Government has ever called the attention of the Government of India to tobacco as a possible source of revenue has been referred to this department for information, in the office-note from the Chief Secretary.

4. It will be seen from the references put up—

(1) That this question has frequently been considered by the Government of India and has also formed the subject of correspondence between that Government and this and other Local Governments ;

(2) That the conclusion come to by the Government of India is that the idea of raising a large imperial revenue from tobacco must be abandoned ;

(3) That our Government has also expressed the opinion that no large provincial revenue can be obtained from tobacco ; and

(4) That the Government of India is not unaware of the fact that Travancore manages to derive a large revenue from this source.

5. A summary of the correspondence on the subject is subjoined as also a short account of the tobacco monopoly in the districts of Coimbatore, Malabar and Canara which was abolished in the year 1853.

6. The Blue-Book entitled "Papers regarding the Tobacco Monopoly in the Presidency of Fort St. George etc.", gives the main correspondence up to 1868. It will be seen from pages 25–74 of the book, that for 50 years from 1803 to 1853, tobacco was the subject of a Government monopoly in the districts of Canara, Malabar and Coimbatore (vide Regulations 7 and 8 of 1811 and Regulation 5 of 1831 at pages 1, 4 and 8 of the Blue-Book), that the gross annual revenue derived during the 10 years—1833–1843 was about Rs. 8 lakhs and the net revenue about Rs. 5¾ lakhs ; that the evils arising from this monopoly were so great that the attention of Government was frequently invited thereto by the officers concerned ; that in 1845, the Government after recording a succinct review of the correspondence on the subject (vide No. 2 at page 26) called for a report from the Board of Revenue "on the practicability of a modification of the monopoly which, whilst we shall secure a considerable revenue, shall yet divest the tax of some of its most injurious attributes, its heavy charge of collection and the inducement it held out to smuggling"). The Government added that if a beneficial modification was impracticable, the possibility of finding an available substitute should be investigated.

It cost 2¼ lakhs to collect 8 lakhs !

J.G.

In reply the Board furnished an exhaustive report on the subject and said—

"It is with much reluctance that they are induced to advise the surrender without an equivalent of so considerable a source of revenue as the (tobacco) monopoly and they must be understood as doing so only, because, after much anxious reflection on the subject, they have been led to the conclusion that between such surrender and the retention of the present system with all its evils, there is no practicable middle course.

After a careful consideration of the subject the Government declared—

"The crying evils of the tobacco monopoly continue daily to become more notorious and demand an immediate remedy. The Right Hon'ble the Governor in Council entertains the most decided conviction that, as the Board of Revenue has represented, there is no effectual remedy short of total abolition and the expunging of so objectionable a branch of revenue from the system of Indian Finance."

In accordance with this view application was made to the Court of Directors for sanction to abolish the tobacco monopoly and on such sanction being obtained, Act IV of 1853 was passed abolishing the monopoly—

Some of the evils of this system arose from its being confined to a limited area but the worst-springing from the fact that tobacco is produced almost everywhere and freely consumed by all classes so that any raising of the price gives rise to the worst sort of smuggling and is fatal to the peace of the country—will affect any system.

J.G.

7. The subject of a tobacco-tax was considered by the Government of India during the years 1859–68. A summary of the correspondence which then took place on the subject and of the views held thereon will be found in Sir John Strachy's minute dated 21st October 1865 printed as No. 97 at page 152 of the Blue-Book and in the Government of India's letter to the Secretary of State printed as No. 98 at page 155.

All methods of taxing tobacco were considered then.

J.G.

It will be seen therefrom that, when after the events of the year 1857, the state of the finances rendered it necessary to resort to new sources of revenue, a tax on tobacco was among other things very much discussed.

Four methods of deriving a revenue from this source had been suggested :—

(1) The suppression of the cultivation of the plant throughout India and the imposition of an import duty.

(2) The establishment of a monopoly of the cultivation and manufacture of tobacco similar to that now applied to opium.

(3) The imposition of a licence duty on the cultivation of the plant.

(4) The imposition of licence fees on all wholesale and retail dealers in the manufactured article.

Of these, the first and second methods were soon dismissed as impracticable.

The third plan was at first favoured by the Government of India but most Local Governments disapproved it. The main objections urged were: that to impose a special tax on the cultivation of tobacco would be a violation of the principles on which land assessments were usually made; that it would also be economically a mistake; that the suppression of its cultivation except under a licence would be difficult to enforce; that as the enforcement cannot be extended to Native States (even if it could be extended to zamindari and inam estates) the measure would have the effect of contracting the area of its cultivation in British territory and greatly stimulating its growth in Native States and it would be extremely difficult to prevent the smuggling of free tobacco from such States. The views of this Government are contained in Mr. Bourdillon's letter to the Government of India, dated 11th June 1859, printed as No. 90 at pages 120–128. In the first enclosure to this letter the inexpediency of taxing tobacco in any form is fully set forth by the Board of Revenue.

The Government of India thereupon turned to the fourth plan of licensing the *sale* of tobacco and accordingly inserted a provision to this effect in the Licensing Bill then under its consideration. (The Bill, which was finally passed as India Act 18 of 1861 and repealed by India Act 2 of 1862). But the reports received from Local Governments on the point were not encouraging. They all went to show that no system of licensing would bring in any large revenue.

The Government of India resolved therefore to abandon altogether the idea of raising a revenue from tobacco by Imperial Legislation and the clause in the Licensing Bill which related to tobacco was accordingly expunged.

8. But while arriving at this opinion as to the unsuitability of tobacco for Imperial taxation the Government of India also thought, judging from the reports received from Local Governments, that a considerable revenue might be derived by Local Governments if they were left each to carry out the system best suited to the circumstances of its province. Accordingly, and as it was thought that Imperial revenues might be relieved to a considerable extent by establishing a system of local taxation for local purposes, the Government of India addressed Local Governments on the subject of such taxation and named tobacco as one of the sources from which a revenue might be derived.

The reply of this Government to the above letter is printed at pages 157—162 of the Blue-Book. This Government merely reiterated the opinion it had expressed in its letter of 11th June 1859 (No. 90 at page 120) that there were insurmountable objections to the realization of a revenue from tobacco unless in the shape of a tax on the shops where tobacco was sold, i.e., a licence tax; and that the produce of such a tax would not be considerable.

9. The Government of India appears to have considered this question of a tobacco tax on subsequent occasions also and to have arrived at substantially the same opinion as before, as will appear from the letter to the Secretary of State printed as No. 98 at page 155.

10. In 1870 when the question of raising the rate of income-tax was under the consideration of the Government of India, a proposal was made by one of the members (Mr. Cowie) to tax tobacco. Sir John Strachy and Sir Richard Temple both spoke against the measure and His Excellency Lord Mayo said:—

"Now it is quite true that in many civilized countries tobacco is considered to be a very proper object for taxation but I must remind the Council that tobacco in India is really an absolute necessary of life and that if you put a tax upon the production of tobacco, you tax the two great necessaries of life in this country, viz., salt and tobacco, and I am not prepared even in the present state of our finances to advocate the imposition of a burden upon such a prime necessary of life as that is.

11. The question appears to have been discussed also during Lord Lytton's Viceroyalty and the same conclusion arrived at, namely, that no large revenue could be raised by taxing tobacco (vide pages 368-70 of Strachy's book on "The Finances and

Public Works of India" and page 554 of the volume of Legislative Council's Proceedings for 1877). The following extract from Strachey's book may be noted:

"Tobacco is almost universally consumed and is looked upon as almost a necessary of life. Whatever means were adopted the tax would only be largely productive if it fell ultimately on the classes which form the great mass of the community. It would be paid by the same classes which now pay the salt tax, and if it should become necessary to increase the burden which they already bear this object would be more easily and economically gained and with far less vexation to the people by increasing the existing tax upon salt than by imposing a new tax upon tobacco. That any increase in the rate of the salt-tax would be one of the greatest possible mistakes, unless in most exceptional circumstances and on the other hand that its present reduction * would be financially a most desirable measure, has been shown in another chapter (page 370).

* The duty was reduced from Rs. 2-8-0 to Rs. 2 in 1882. It was raised as follows in this Presidency:—

	Duty. RS.	A.	P.
August 1859	1	0	0
April 1861	1	4	0
1861–62 to 1865–66	1	5	0
1866–67 to 1868–69	1	8	0
1869–70 to 1877–78	1	12	0
1878–79 to 1881–82	2	8	0
1882–83 to 1886–87	2	0	0
1886–87	2	8	0

12. That the Government of India knows that Travancore derives a large revenue from tobacco, may be inferred from the correspondence which took place in 1860–65 relative to the Interportal Trade convention with Travancore and Cochin and more especially from the correspondence embodied in Government Order dated 14th May 1868, No. 1338.

It will be seen from the latter correspondence that at the desire of the Viceroy (Sir John Lawrence) whose attention seems to have been drawn to certain remarks which appeared in the Travancore Administration Report for 1865–66, regarding the tobacco tax in that State the Hon'ble Mr. G. N. Taylor addressed the then Resident in Travancore and Cochin (Mr. Newill) for full particulars regarding the mode in which the tax was levied in that State and that complete information on the subject was furnished by the Resident and the then Diwan T. Madhava Rao.

This correspondence came before this Government, mainly on account of a minute recorded by the Hon'ble Mr. G. N. Taylor, in which he suggested that this Government might consider the expediency of imposing a moderate import duty or an excise wherever practicable—vide his minute printed in the Government Order.

The Diwan's Memorandum shows that during the flourishing period of the monopoly system (it was abolished in 1862–63, that is, ten years after the abolition of the Government monopoly in Malabar and Canara) the gross revenue from tobacco amounted to more than half the revenue from all other sources or more than one-third of the total revenue of the State while the revenue now amounts to about one-eighth of the total revenue.

13. From the administration report of the Travancore State for the year 1891–92, it appears that 12,295 † candies of tobacco valued at Rs. 26,77,723 were imported during that year and that a duty of Rs. 9,43,030 was collected thereon.

† Equal to 6,147,500 lb. or 8,065,520 lb. according as a 'candy' is 500 lb. or 656 lb. (which latter is the equivalent given in Madhava Rao's Memorandum—vide paragraph 10.

14. The following statement gives the statistics of the imports of tobacco into this Presidency by sea for the last three years:—

Tobacco—Imports—Sea-Borne ‡ Trade.

Years.	Foreign trade.		Coasting trade.		Total.	
——	Quantity in lb.	Value.	Quantity in lb.	Value.	Quantity in lb.	Value.
		RS.		RS.		RS.
1890–91	446,477	2,06,021	218,915	33,563	665,392	2,39,584
1891–92	542,705	2,91,725	110,937	17,121	653,642	3,08,846
1892–93	915,719	3,37,980	135,775	27,107	1,051,494	3,65,087

‡ The rail-borne imports amount only to about 2,000 lb.

At the Travancore rate of duty the imports into this Presidency will bring in a gross revenue of a little over one lakh of rupees.

R.V.S.—1-3-94.

The foregoing account gives a clear and concise summary of all that has been written on this subject and shows that the feasibility of raising a revenue from tobacco has been most exhaustively debated and that the question has been considered in all its bearings. The situation is appropriately summed up by Sir John Strachey in paragraph 8 of his minute of the 21st October 1865 (page 154 of the Blue Book)—

"Tobacco has seemed at first sight a very promising subject of taxation to almost everyone who has thought upon the subject, but almost everyone had given up the scheme upon full consideration of the difficulties which surround it."

J.G.—3-3-94.

II

Mr. N. S. BRODIE'S NOTE DATED 26th DECEMBER 1915 (SECRET D.O. No. A A-1, DATED 11th JANUARY 1916).

Prior to 1910–11, *ad valorem* rates used to be charged on imported manufactured tobacco of all sorts at the rate of 5 per cent but this system was then abandoned and special quantitative rates introduced, presumably because of the difficulty of levying *ad valorem* rates. The rates introduced were about 33 per cent higher than those now in force which are—

	Rs.	A.	P.	
Unmanufactured tobacco	1	0	0	per lb.
Cigars	1	10	0	"
Cigarettes weighing less than 3 lb. per thousand.	3	2	0	per thousand.
Cigarettes weighing 3 lb. or more per thousand.	1	4	0	per lb.
Manufactured, other sorts	1	2	0	"

These rates are said to be approximately 36 per cent *ad valorem* on cigars and 33 per cent *ad valorem* on cigarettes though how this is arrived at I don't know, considering how much imported cigars and cigarettes vary in weight and value. The Government of India's first proposal is to raise these rates 'in approximately the same proportion, i.e., to a uniform 50 per cent *ad valorem*.' I presume this means that the duty on cigars is to be raised by about one-third and that on cigarettes by about half. Nothing is said about 'other sorts' which I suppose means principally pipe tobacco. Judging from Spencer's and Oakes' price lists the present rate seems to be from 28 to 41 per cent on the cheapest pipe tobacco and presumably this is also to be raised by about one-third. The rates will then read—

	Rs.	A.	P.	
Cigars	2	3	0	per lb.
Cigarettes	4	11	0	per thousand and
	1	14	0	per lb.
Other sorts	1	8	0	per lb.

I presume the Government of India does not intend to go back to *ad valorem* rates.

Effects of taxation introduced in 1910–11. Sea-Borne Trade Review of 1910–11, page 9.

2. The rates introduced in 1910–11 had the immediate effect of 'extensively curtailing the imports of foreign tobacco and they scarcely realized the revenue it was hoped they would bring in.' The total imports declined by 83 per cent in quantity and 52 per cent in value. Imports of leaf tobacco, *formerly duty free*, fell from 447,115 lb. to 63,267 lb. or by 86 per cent in quantity. Imports from Ceylon and the Straits Settlements practically ceased. [There used to be quite a large trade from the Jaffna and the northern Ceylon ports which supplied a great part of the tobacco used on the west coast of this Presidency.] Imports of cigarettes decreased 77 per cent in quantity and 48 per cent in value. The cheap American varieties were practically shut out, falling 94 per cent in value and the result was the foundation and development of the Indian cigarette industry which has probably taken their place. Exports of cigars to the United Kingdom fell by 72 per cent owing to the imposition of duty on wrapper tobacco. To avoid this, Messrs. Spencer & Co. removed their factory to Pondicherry.

Sea-Borne Trade Review of 1911–12.

3. In 1911–12, owing to the outcry from Ceylon and the leading local manufacturers of better class cigars, the rates were reduced by about 33 per cent to the present figures. Even this, however, failed to revive the import trade from Ceylon and the Straits Settlements which was completely and finally killed. Imports of leaf tobacco rose by 19,160 lb. but this was only a mere fraction of the fall of 383,848 lb. in 1910–11. The increase was confined to the higher grades required in the manufacture of cigars of good quality. Imports of cigarettes showed a further decline in quantity but an increase in value, the trade in cheap American cigarettes being completely extinguished. Exports of cigars to the United Kingdom declined another

7 per cent in value but exports to the Straits Settlements increased by 23 per cent and the whole export of cigars increased by 13 per cent in quantity and 9 per cent in value. The cigars exported to the Straits Ssttlements and Federated Malay States appear to be made of purely Indian tobacco which pays no duty.

Sea-Borne Trade Review of 1912–13.

4. In 1912–13, there was a further decrease in imports of cigarettes by 15 per cent and a large factory was opened at Bangalore by the Peninsular Tobacco Company. Manufacture of cigars for export to the United Kingdom was permitted in bond and Messrs. Spencer & Co returned from Pondicherry. The exports of these cigars rose by 46 per cent but of course the revenue did not profit by this.

Sea-Borne Trade Review of 1913–14.

There was a general increase both in imports and exports of tobacco in 1913–14 and some recovery in imports of cigarettes to a little above the figures of 1910–11. The export of high grade cigars to the United Kingdom rose to ·88 lakh against ·57 lakh in 1910–11.

Effects of the war—Sea-Borne Trade Review, 1914–15.

However, the effect of the war was to send most of the principal figures lower than ever. Imports of raw tobacco fell to 70,573 lb. in 1914–15 and exports of high grade cigars to the United Kingdom fell to 33,434 lb. and to ·45 lakh in value (nearly 50 per cent), the lowest figure on record.

5. The figures since the introduction of the new tariff are tabulated below :—

Annual value of the sea-borne trade and navigation of the Madras Presidency for 1914–15.

Foreign trade.

——	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.	LB.	LB.	LB.	LB.	LB.	LB.
1. Unmanufactured (total for Presidency).	447,115	63,267	82,427	90,458	110,458	70,573
2. Manufactured—						
(*a*) Cigars	11,099	1,049	937	830	1,107	3,368
(*b*) Cigarettes	319,275	72,139	65,410	55,217	78,616	78,429
(*c*) Other sorts	94,940	12,473	26,397	23,370	24,723	28,090
Exports.						
1. Unmanufactured (unaffected by tariff).	1,444,632	1,670,842	1,619,966	1,806,998	2,234,511	2,362,766
Of the above exported to Straits Settlements and Federated Malay States.	1,374,612	1,621,543	1,568,878	1,773,160	2,115,056	2,304,144
2. Manufactured—						
(*a*) Cigars	697,507	704,791	797,383	989,811	988,668	887,165
Of the above quantity exported to United Kingdom.	80,360	42,565	36,184	51,156	56,976	33,434
Straits Settlements and Federated Malay States (unaffected by tariff).	415,357	547,613	661,294	827,278	811,219	800,488
(*b*) Other sorts	4,196	4,515	9,010	8,513	9,363	8,885

Coasting trade.

——	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.	LB.	LB.	LB.	LB.	LB.	LB.
1. Unmanufactured	610,603	683,787	664,054	578,058	604,165	596,038
2. Manufactured	142,514	84,439	59,021	94,319	57,595	71,301
Of the above imported from Calcutta.	118,687	73,703	52,511	85,214	46,537	53,301
Exports.						
1. Unmanufactured	7,721,625	7,535,386	6,870,154	6,536,820	6,928,569	5,168,826
Of the above exported to Burma ..	6,926,830	6,474,041	6,149,974	6,133,770	6,521,676	4,579,130
2. Manufactured—						
(*a*) Cigars	347,507	314,933	410,526	419,710	349,618	275,018
Of the above exported to Burma ..	194,493	204,649	292,004	320,781	251,706	177,844
Of the above exported to Bengal ..	101,866	73,206	76,815	61,785	63,117	65,373
(*b*) Cigarettes	..	..	2,877	4,200	26,471	61,599
(*c*) Other sorts	35,726	43,920	37,620	39,906	33,407	77,190

6. The net result of the introduction of the heavier tobacco duties in 1910–11 has, therefore, been to kill the import trade in raw tobacco from Ceylon and the Straits Settlements and in cigarettes from America and to lay the foundations of a cigarette manufacturing industry in India from Indian leaf. The trade in high grade cigars exported to the United Kingdom has suffered very heavily, despite permission to manufacture export in bond. The fall between 1909–10 and 1913–14 (when this industry reached its highest point after the imposition of duties and before the outbreak of war) was about 29 per cent. This shows what an effect even a slight rise in the cost of such a thing as tobacco has on consumption as it was undoubtedly the increased cost (and that only of the wrapper) in 1910–11 that gave the trade this set back. The wrapper is only a minute fraction of the weight of the cigar and if the duty on whole cigars is only equal to an *ad valorem* rate of 36 per cent the duty on a cigar whose wrapper alone pays duty must be nearer 1 or 2 per cent. Since the concession of manufacture in bond has been granted these cigars pay no duty and it is presumed that this concession will be continued so that any enhancement of rates will not affect them.

7. *Rail-borne trade*, 1914–15.—

Imports from other Presidencies and Native States.

	LB.
1. Unmanufactured	2,051,959
Of which imported from Mysore	1,344,550
2. Manufactured—	
(*a*) Cigars	13,330
(*b*) Other sorts—probably cigarettes	1,497,517
Of which imported from Mysore	1,294,272

Exports to other Presidencies and Native States.

1. Unmanufactured	24,729,076
Of which exported to—	
Mysore	8,181,339
Calcutta	5,282,496
Nzam's Territory	4,242,157
2. Manufactured—	
(*a*) Cigars	503,013
(*b*) Other sorts	392,750

Internal trade between various parts of the Presidency.

1. Unmanufactured	53,774,208
2. Manufactured—	
(*a*) Cigars	1,061,815
(*b*) Other sorts—probably cigarettes, bidies and snuff ...	1,074,651

Cigars.

8. From these figures it appears that by far the greatest part of the Delta tobacco is exported in the manufactured condition and made up locally. The trade in manufactured tobacco is comparatively small, which agrees with my information that there are no manufactories of any size. A fairly large quantity of manufactured cigars is exported by rail from the Central districts (i.e., Trichinopoly, Salem and Coimbatore) to Negapatam but this no doubt is included also in the exports by sea to the Straits Settlements.

9. In the Secretariat note of 1911 the total outturn of cigars was estimated by Mr. Innes at about 2,500,000 lb; i.e.:—

	1909–10.
	LB.
Foreign exports	697,507
Coasting trade exports	347,507
Rail-borne exports	451,164
Do. internal trade	971,208
Total ...	2,467,386

The corresponding figures for 1914–15 are—

	LB.
Foreign exports	887,165
Coasting trade exports	275,018
Rail-borne exports	503,013
Do. internal trade	1,061,815
Total ...	2,727,001

Allowing for the disturbance of trade caused by the war, the export trade and rail-borne traffic in cigars may, therefore, be taken at about 2,750,000 lb. but this is probably an excess estimate of the quantity actually manufactured since the rail-borne traffic probably includes the greater part of the foreign exports and possibly a good deal of the coasting trade exports also.

Cigarettes.

10. The Indian cigarette industry has practically grown up since the Secretariat notes of 1911 were written. Foreign imports of the better class cigarettes have remained nearly stationary since 1911–11 at about 70,000 lb. Comparing the figures of 1909–10 with those of 1910–12 when the full effect of the tariff duties had had time to operate, 253,865 lb. of cheap American cigarettes appear to have been displaced. These have no doubt been replaced by Indian cigarettes and there has probably been a large increase in consumption in addition.

The export trade in cigarettes in 1914–15 appears to have been somewhat as follows:—

	LB.
Foreign exports	8,885*
Coasting trade exports	61,599
Rail-borne exports	392,750*
Do. internal trade	1,074,651*
Total ...	1,537,885

In the absence of figures for bidies, snuff, etc., it is not easy, however, to say how much of these 15 lakhs of pounds represent cigarettes and still less how much represents cigarettes manufactured in the Presidency. My inquiries in Vizagapatam show that none of the cigarettes there consumed (and the consumption is very large) are manufactured in this Presidency. The great bulk come from Calcutta and a good many from the Peninsular Tobacco Company, Bangalore. Similarly in Madras, the bulk of the cigarettes come from Bangalore or Bowringpet, both in Mysore territory and not subject to British excise. It will be seen from paragraph 7 above that 1,294,272 lb. of 'other sorts' including (no doubt mostly) cigarettes are imported from Mysore. Probably the greater number of these are shown in 'rail-borne internal trade' and exports of the Presidency over again. I should put the actual number manufactured in the Presidency at not more than 250,000 lb.

11. The following are principal Indian Cigaratte factories shown in the Lawrence Asylum Press Almanack, page 1438:—

(1) A.G.M. & Sons, Coimbatore.

(2) K.G.A., Coimbatore.

(3) McDowell & Co., Madras.

I have never seen any cigarettes from the first two factories and they seem to be very small and merely supply the local market. McDowell & Co. employ about 25 persons and some small hand machines. Pappadapoulos Brothers make Egyptian cigarettes but import Egyptian tobacco which already pays duty. Besides these there are the two large factories in Mysore—

4. The Peninsular Tobacco Company, Cleveland town, Bangalore, and

5. The Oriental Tobacco Manufacturing Company, Bowringpet.

*Includes, however, pipe tobacco, bidies, snuff, etc.

Both these are run on American lines and employ a large number of workmen and power-driven machinery, but as already remarked they are not subject to British excise.

Outturn of tobacco.

12. According to the 'Season and crop report' for 1914–15 the total area cultivated with tobacco in the Presidency was 227,182 acres, the 'normal' area being 203,230 acres. I learn from Chadwick that 800 lb. of dried leaf per acre is a fair average crop as taken by Castlestuart Stuart in 1910. The total outturn was therefore about 182,000,000 lb. of which we have only accounted for about $3\frac{1}{2}$ millions at most in the manufactured form. This outturn was spread over 24 districts, the area being over 10,000 acres in seven, Vizagapatam (29,115), Godavari (13,099), Guntur (78,560), Kistna (13,022), Kurnool (18,769), Coimbatore (26,001) and Madura (11,172). These figures show little change since 1908–09.

About 90,000,000 are exported in unmanufactured form.

Tobacco industry.

13. The census report for 1911 groups manufacturers of tobacco, opium and ganja together under Order 12, Group 66. The number of manufacturers of opium and ganja must be almost negligible and the total number of workers and dependents is shown to be 12,333. Under Order 33, Group 122, sellers of tobacco, opium, ganja, etc., are said to be 65,733 (workers 25,883, dependents 39,850). The total number of persons dependent on the tobacco trade is therefore about 78,066 against 75,000 in 1901. It is not possible to compare the figures of the other industries referred to in Mr. Castlestuart Stuart's demi-official of 5th November 1910 as the classification has been altered. Betel leaf and arecanut sellers are now grouped with vegetable and fruit sellers. It may be noted however that the number of persons engaged in the manufacture of tobacco is about as many as bakers and biscuit makers (12,970) whilst the number of sellers of tobacco is not much less than the number of sellers of milk, ghee, butter, poultry, eggs, etc. (80,981).

Present proposals criticised.

14. These figures show that there has been comparatively little change in the general position since 1910–11 and the arguments against any form of taxation of Indian grown tobacco remain as strong as they were then. The present proposals of the Government of India may now be examined in detail. The first is, as far as I understand it, to raise the quantitative rates of duty on imported cigars and cigarettes (and perhaps also on other manufactured tobacco) to the figures shown in paragraph 1 above. The quantity of imported cigars is now very small and was only 3,368 lb. in 1914–15. Assuming that the enhanced duty has no effect on consumption, the increase of revenue from this source will be only Rs. 1,824*. But judging from the effect of the enhancement of duty in 1910–11 it will probably be much less. The duty on imported cigarettes (78,429 lb. in 1914–15) was about Rs. 80,000 and the enhancement of the duty by one-half may give Rs. 40,000, though here also a heavy fall in consumption may be confidently looked for. The increase of duty on 'other sorts', i.e., probably pipe tobacco, snuff, etc. (which may be contemplated) by one-third would yield perhaps Rs. 10,742. Altogether, the maximum increase of revenue that may be looked for from this proposal cannot, therefore, be more than Rs. 60,000 and the burden will fall heavily on the poorly paid European and Eurasian assistants in shops, business firms, Railway Companies, etc., who are by far the largest consumers of imported cigarettes. However this increased revenue can no doubt be obtained without administrative difficulty or expense.

(a) First proposal.

*Present duty Rs. 5,473 one-third enhancement Rs. 1,824.

(b) Second proposal.

15. The second proposal is to levy an excise duty on cigarettes of Indian manufacture. The large factory referred to by the Government of India is probably that in Bengal, I think at Monghyr. It is proposed to differentiate bidies from cigarettes by the use of cigarette paper. This may be accepted. It is proposed that

the taxation should take the form of a quantitative duty equivalent to an *ad valorem* duty of about 15 per cent. A further point is whether the taxation should be restricted to factories equipped with power-driven machinery. If this qualification is accepted the question is a simple one for there are no such cigarette factories in this Presidency. Assuming, however, that all cigarette factories are to be taxed my inquiries show that cigarettes of Indian manufacture vary considerably in price. The cheapest are sold retail at prices varying from Rs. 1–4–6 per 500 or Rs. 2–6–0 per 1,000 to Rs. 2–12–0 per 500 or Rs. 5–2–0 per 1,000. These cigarettes both weigh almost exactly $2\frac{1}{2}$ lb. per 1,000, the cheaper ones a little more. The manufacturer's price to the trade is no doubt considerably less as these cigarettes have to be imported to Vizagapatam and there is the retailer's profit to be considered. The excise duty will of course have to be fixed with regard to the wholesale price at the factory. I should say Rs. 1–12–0 per 1,000 is probably an outside price for the cheapest cigarettes. This means $28/2\frac{1}{2}=11\frac{1}{5}$, say 11 annas a lb. or as they weigh rather more than $2\frac{1}{2}$ lb. per 1,000, say 10 annas a lb. 15 per cent on 10 annas is one and a half annas per lb. I have estimated the total production of cigarettes in this Presidency at not more than 250,000 lb. and the duty on this would be Rs. 23,437. It is impossible to say without a full inquiry what the number of cigarette factories is but they are certainly very small and probably average not more than 10,000 lb. of cigarettes each per annum. Putting the number at 25 scattered all over the Presidency, not less than 25 Sub-Inspectors on Rs. 40 per mensem would be required to supervise them. The cost of these would be Rs. 12,000 not allowing for contingent expenses such as weighing machines, etc. The net proceeds of the tax would therefore be somewhere about Rs. 10,000, even supposing that the duty had no effect on consumption which is extremely improbable. Moreover as Indian cigarettes vary considerably in price though not so much as cheroots, the duty would press most unfairly on the cheapest brands and on the poorest class of the population which consumes them.

Watch cigarettes—Peninsular Tobacco Company, Bangalore, Rs. 1-4-6.
Ruler cigarettes—Imperial Tobacco Company, Calcutta, Rs. 2–12–0 per 500.

16. The third proposal is to levy a similar quantitative excise duty equivalent to an *ad valorem* tax of 15 per cent on cigars of Indian manufacture. As already pointed out in 1911 this problem absolutely bristles with administrative difficulties. In the first place it is not clear whether bidies are to be included. It is possible to distinguish bidies from cigarettes but the difference between them and the poorest kind of cheroots is almost infinitesimal. Both are rolled in leaves, sometimes tobacco leaves sometimes not. The manufacture of bidies is admittedly a cottage industry carried on in every village and hamlet. However according to the Asylum Press Almanack one tobacco factory at least professes to make bidies. The vast bulk of the Indian cheroots are also made as a cottage industry as is evident from the fact that out of 182 millions of pounds of tobacco grown only about $3\frac{1}{2}$ millions ($4\frac{1}{2}$ at the outside) appear in the trade returns as manufactured. Possibly bidies could be excluded by excepting cheroots, etc., weighing less than as many pounds to the 1,000. My experiments show that the commonest bidies weigh about $1\frac{1}{4}$ lb. per 1,000, so that if manufactured cheroots weighing less than $1\frac{1}{2}$ lb. per 1,000 were excluded this might meet the case. However this would undoubtedly stimulate the consumption of bidies which I understand to be the most deleterious form of smoking. Bidies are sold at 12 annas a 1,000 wholesale in Madras, that is at about $9\frac{3}{5}$ annas per lb. The manufacturer's price may be less so that probably 9 annas per lb. would be a safe figure and the duty, if any, ought to be much the same as for cigarettes or a little less, say 1 anna 4 pies per lb.

(c) Third proposal.

Bidies.

A

17. Ordinary cheroots of the commonest kind seem to weigh about $3\frac{3}{4}$ lb. per 1,000 and cost Rs. 1–12–0 per 1,000 retail but both weight and price vary enormously. Better class cheroots which, however, are still largely consumed by the poorer classes weigh 20 lb. per 1,000 and cost Rupees 12–8–0. Assuming that the rates to the trade are somewhat less we may estimate the first kind at 6 annas a lb. and the second at 10 annas a lb. The duty ought to be fixed at 15 per cent on the cheapest

Cigars.

kind at 6 annas a lb. The duty would then be 11 pies but for convenience of reckoning might be fixed at one anna.

It is quite impossible to estimate with any accuracy the output of Indian manufactured cigars. The figures in paragraph 9 no doubt afford some guide. I should imagine 2,000,000 lb. to be a fair estimate. The duty on this at 1 anna per lb. would be Rs. 1,25,000. Against this has to be set the cost of establishment which would be enormous. It is not possible at present to form any idea of what this would be. Presumably the only way to ensure the collection of the duty would be to place each factory in charge of an officer who would have to weigh the quantity of raw tobacco received and the quantity finally passed out on payment of duty, seeing that none illicitly passed out and keeping accounts on the same lines as officers in charge of distilleries. The test of a factory would be I suppose that the proprietor sold the manufactured produce, for practically every householder buys a few leaves of tobacco now and again and rolls them up into cheroots for private consumption. Even excluding these individuals, there appear to be about 26,000 persons describing themselves as tobacco sellers in the census returns, excluding 2,000 partially agriculturist. This agrees with what I expected, being an average of about one for every village in the Presidency. In some places there are no doubt several and in others none, but it would be quite impossible to do much in the way of concentration without causing much hardship. The formation of central storehouses appears, therefore, to be impossible and practically every shop will have to have a properly locked storehouse for the cheroots manufactured which adds to the expense. The ordinary staff of the Salt and Abkari Department could not possibly undertake this enormous addition to its work. Assuming that one Sub-Inspector could efficiently supervise on the average 25 factories (which I take to be impossible with the shops scattered as at present) it would require a staff of 1,000 Sub-Inspectors to supervise the work in the Presidency. The opportunities for fraud would be so great that I fear even then the force would be demoralized. Certainly a great many of the Sub-Inspectors would have to be paid more than the lowest grade of Rs. 40 a month. Assuming that the average pay is Rs. 60, this establishment alone would cost Rs. 60,000 per month or Rs. 7,20,000 per annum or about six times the estimated proceeds of the tax. It seems hardly worth while to discuss the matter further. A complete staff of peons, inspectors, Assistant Commissioners and Deputy Commissioners would also be necessary to supervise such an establishment and it would be quite impossible for me to undertake so large an addition to my work. After all there would be no possibility of guarding against fraud as there would be nothing to distinguish between illicit and licit tobacco. As far as I can see no tax less than Re. 1 per lb. would do more than pay for the cost of collection and this of course would be ruinous having regard to the cost of the article.

18. In conclusion I can see nothing in favour of the tax or any possibility of working it. A tax on Indian cheroots made in power-driven factories might be possible. There are only two, viz.: Spencer's at Dindigul and Oakes & Co. at Guindy—employing 700 persons between them. But it seems very hard to discriminate against them, even if the tax was only one anna a lb. and anything more would probably drive them out of the Indian market altogether. I cannot say what the output of these two factories is, but excluding the amount manufactured in bond for Europe I doubt if it exceeds 500,000 lb. and the duty at one anna per lb. would yield only Rs. 31,250.

19. Another possible course would be to put an export duty on manufactured tobacco. In that case I should exclude cigars exported to the United Kingdom which have to pay heavy and enhanced duties there and have already sufferred by the tariff. There are not the same administrative objections to an export duty, at all events on exports by sea, as the establishment exists and evasion would be practically impossible. Exports by sea to foreign countries, excluding the United Kingdom, amounted to 853,731 lb. in 1914–15 and exports to other provinces to 275,018 lb. Total 1,128,749 lb. A duty of one anna per lb. might bring in Rs. 62,500 without any extra cost and as the exported cigars at all events to the Straits Settlements are of fairly good quality a duty of even 2 annas a lb. might not ruin the trade and bring in about one and quarter lakhs. Still the amount is so small that I see no use in upsetting the trade at all for so very little result.

N. S. Brodie—26–12–15.

III

Demi-official from L. Davidson, Esq., I.C.S., to N. S. Brodie, Esq., I.C.S., dated 4th July 1916, No. 39-S. (Secret No. 183 A, dated 18th December 1916.)

I am desired to refer to your note of the 26th December 1915, on the subject of imposing an excise on locally manufactured cigars and cigarettes. The Government of India are disposed to agree that the taxation of locally-made cigars is not likely to prove of practical value. As regards cigarettes, however, they are unable to abandon the possibility of revenue from an article which is not only a luxury but also, to some extent, a harmful luxury; and they have asked this Government to consider the question at greater leisure.

2. Your note, referred to above, gives an approximate estimate of the total outturn of cigarettes in the Presidency, the number of factories and the prevailing wholesale prices. I am to ask whether you cannot now quietly obtain more precise information as to the number and location of factories, the met hods of manufacture, the outturn and the prices obtained. Collectors could possibly procure the information under the guise of income-tax or statistical inquiries without exciting attention.

3. The calculations in your note are based on the assumption that the excise to be imposed would be equivalent to an *ad valorem* tax of about 15 per cent, as was then suggested by the Government of India. I am to ask you now further to consider the effect of taxation on the industry and to favour Government with your opinion as to the maximum which could safely be imposed without seriously crippling the trade.

4. The Government of India lay stress on the strictly confidential nature of this further reference, but say 'there is no objection to consulting any officer of Government whose advice would be of special value.'

Demi-official from N. S. Brodie, Esq., I.C.S., to L. Davidson, Esq., I.C.S., dated Ennore, 12th November 1916.

With reference to your demi-official No. 39-S., dated 4th July 1916, I have now made further inquiries into the subject of the production and sale of cigarettes in this Presidency both personally and through Collectors. I cannot say that I have elicited much additional information and the remarks which I made in my note of the 26th December 1915 continue to hold good. It appears, however, that I was wrong in stating that there were no cigarette factories in the Presidency equipped with power-driven machinery as it was found on further inspection that McDowell's factory in Moor street, Madras, had some cutting machines worked by an oil-engine recently set up.

2. The estimate of outturn may very well remain at 250,000 lb. The only details I have been able to get are from the Universal Tobacco Company in Madras which is believed to turn out about 30 lakhs of cigarettes per mensem and from McDowell's factory, also in Madras, which is believed to turn out about 20 lakhs. McDowell's factory does not use Indian tobacco exclusively and some of the brands contain imported tobacco to the extent, it is said, of 25 per cent on the whole. I have tested numerous brands from all parts of the Presidency and find that as a rule they weigh about 2½ lb. per 1,000, a little more or less. This gives the total Madras production about 150,000 lb. per annum. Allowing for the imported tobacco used in McDowell's factory the quantity of Indian cigarettes is about 135,000 lb. The only other factories appear to be Oakes & Co.'s factory at Guindy, a new factory started by Barry & Co. in Cocanada just recently and one or two small factories in Coimbatore. There was a factory at Guntur but it seems to have failed after working a few months. The Collector of Coimbatore has not yet replied to my letter on the subject but I made some inquiries in the course of my last tour and find that there are one and probably two factories in Coimbatore but they use imported tobacco for their cigarettes as does Pappadopoulos in Madras. Allowing for all these factories I should say 115,000 lb. per annum was a very liberal estimate, making 250,000 for the Presidency.

3. Retail prices seem to vary very considerably but on the whole I see no reason to modify my original calculations. The cheapest cigarettes are sold in packets of 5 or

6 and a slightly more expensive lot in packets of 10. The dealers' profit seems to be about eight annas a thousand and the trade discount about 20 per cent. Some cigarettes* are sold as cheaply as Re. 1 per 1,000 wholesale or allowing for the trade discount about thirteen annas per 1,000. This is less than half the price I estimated for the cheapest cigarettes in my last note (Rs. 1-12-0). I doubt if there are many of this brand sold, but there are numerous other brands at Re. 1-4-0, Re. 1-6-0 and Rs. 1-8-0 sold by McDowell & Co. However all other information tends to confirm the view that the cheapest cigarettes are sold at Rs. 2 to Rs. 2-12-0 by the wholesale dealers and consequently must cost somewhere about Rs. 1-12-0 per 1,000 from the manufacturers. These cheap cigarettes are manufactured in this Presidency by McDowell & Co., and the Universal Tobacco Company only. Those turned out by Oakes & Co., and the new factory started by Barry & Co., at Cocanada are much more expensive and work out at Rs. 11 to Rs. 14 per 1,000.

* By the Universal Tobacco Company, 1/6, Patters Road, Royapetta—'Bazaar' brand.

4. The method of manufacture is probably the same everywhere. The tobacco selected has all the main nibs cut out and the leaves are then laid one above the other to a considerable depth. They are then cut into small pieces by a cutting machine, the tabacco rolled in cagarette paper, gummed and cut into lengths. As far as I know the cutting and gumming, etc., machines are all worked by hand except in McDowell's factory above referred to.

5. In this connexion I should, however, bring to notice one or two facts which I have ascertained in the course of my inquiries. It is a common practice I understand for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale especially at the various shandies and markets in the Presidency. This is common in Malabar, Coimbatore and the Nilgiris at all events and probably elsewhere. Most Collectors have, however, reported that cigarette papers are not commonly sold in the bazaars. I believe the practice of individual consumers rolling their own cigarettes is not common at present though it is said to have been customary in Salem before the shop-made cigarettes became so cheap. It would be clearly impossible to levy an excise duty on cigarettes made by hawkers or private individuals and it may be expected that the practice would be much more largely resorted to if a duty were imposed on the manufactured article. This might perhaps be met by imposing a customs duty on cigarette paper which would have to be determined in accordance with the duty imposed on cigarettes, such customs duty to be refunded on paper actually used by the wholesale manufacturers. It seems that cigarette paper was formerly imported mostly from Austria and Germany—at present it is obtained from France.

6. As regards the duty to be imposed I find it difficult to express an opinion. The heavy rates imposed in 1910-11 practically killed the cheap American cigarettes but then the enhancement of rates was probably more than 100 per cent of the value so that this result was quite intelligible. My inquiries show that my estimate of the cost of collection was much too large. One Sub-Inspector would, I think, be required for each factory but as there seem to be only four or possibly five factories the cost would be only about Rs. 2,400 per annum. As observed in my previous note, a duty of one and a half annas per pound represents 15 per cent of the value of the cheap cigarette. This amounts to 3 annas 9 pies per 1,000 and could hardly affect the retail price at all. The usual retail price per packet of 10 cigarettes seems to be about 4 pies. A duty of 8 annas 4 pies per 1,000 should raise the retail price by one pie and this would probably not seriously affect the trade though even one pie is a consideration in a country like India. I do not think we could safely raise the duty beyond Re. 1 per 1,000 which would raise the retail price about 2 pies or 50 per cent. This would be 6·4 annas per pound and roughly about 60 per cent of the value. Although cheap cigarettes do not seem to vary much in weight I would prefer to levy the duty by the pound rather than by the number as being the only fair way of assessing it. A duty of 6½ annas per pound would, if the production remained at 250,000 lb., yield Rs. 1,01,562½ but if the consumption fell, as it probably would, to about 200,000 lb. the tax would yield Rs. 81,250. As far as this Presidency is concerned, the result would, therefore, be insignificant, but, no doubt, the revenue

from the whole of India would be very considerable and I cannot see any serious objection to the proposal except that it would greatly encourage the smoking of bidies and press rather hardly on the poorest class of the population who smoke cheap cigarettes at present and regard them as a great luxury.

Demi-official from F. J. RICHARDS, Esq., I.C.S., to LEY, Esq., I.C.S., dated the 18th December 1916, No. 75-S.

I am directed to reply to Mr. Low's Confidential demi-official letter No. 4493, dated 14th June 1916, on the subject of the expediency of imposing an excise on cigarettes manufactured in India from indigenous tobacco.

2. In the first place, I am to point out that the correspondence of 1910, to which reference is made in the first paragraph of Mr. Low's letter, did not turn on the present question, for at that time there was no manufacture of cigarettes from indigenous tobacco in this Presidency. It is stated that the question of an excise on manufacture was then dropped because the local cigarette industry was in its infancy and it was considered that the imposition of an excise would deal it a death-blow. So far as this Presidency is concerned, the position is virtually unaltered; for, as stated in Mr. Butterworth's demi-official letter No. A.A.-1, dated 11th January 1916, the local output of cigarettes does not exceed some 250,000 lb. annually. This estimate has been confirmed by subsequent enquiries, though the number of factories to be taken into account is found to be smaller than was thought to be the case. There are probably not more than 5 or 6, of which the two largest are those owned by Messrs. McDowell & Co., and the Universal Tobacco Company both in Madras City. The former has recently been equipped with an oil-engine for driving its cutting machines. The average wholesale price for the cheapest class of ciagarettes quoted in Mr. Butterworth's letter, viz. Rs. 1-12-0 per 1,000, may be taken as correct. These cheap cigarettes are manufactured only by Messrs. McDowell & Co. and the Universal Tobacco Company. Those turned out by Messrs. Oakes & Co., at Guindy and by Messrs. Barry & Co., at Cocanada are much more expensive, costing from Rs. 11 to Rs. 14 per 1,000.

3. The maximum rate of duty which is considered compatible with the survival of the industry is Re. 1 per 1,000 or approximately $6\frac{1}{2}$ annas per lb. This duty would if the production remained 250,000 lb. yield a revenue of a little over a lakh. The imposition of such a tax, however, is almost certain to preclude any expansion of the industry and would very probably strangle that which already exists; for it would either drive the masses to revert to *bidi* smoking or compel the manufacturers to transfer their factories to French territory or to Native States. I may here point out that the Director-General of Commercial Intelligence has incorrectly assumed that the tax realisable from the Peninsular Tobacco Company's factory in the Civil and Military Station, Bangalore, would be credited to Imperial revenues. By the terms of rendition, the Mysore Government is entitled to the whole of the surplus revenue of the Assigned Tract, after the cost of the administration of the tract is defrayed. This fact seriously affects the estimate formed of the probable receipts from the tax.

4. Another factor to be taken into consideration is the practice, common in several districts of this Presidency, for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale, especially at local markets. Individual consumers do not usually roll their own cigarettes, though it is said to have been customary for them to do so in Salem before the shop-made cigarettes became so cheap. It would obviously be impossible to levy an excise duty on cigarettes made by hawkers or private individuals; and it may be expected that the practice would be much more largely resorted to, if a duty were imposed on the manufactured article. Cigarette paper was formerly imported from Germany and Austria; now France is the chief source of supply. A customs duty might be imposed on it, such duty to be refunded on paper actually used by the wholesale manufacturers; but this expedient would not be free from difficulties and would almost certainly result in the use of a local substitute.

5. In these circumstances, I am to say that the Government of Madras are entirely opposed to the proposal. They can suggest no alternative scheme for internal taxation of tobacco, apart from those already rejected.

IV

Letter from C. R. WATKINS, Esq., C.I.E., Officiating Collector of Customs, Madras, to the Under Secretary to Government, Finance Department, dated 1st May 1925, No. L. Dis. Nil.

I forward herewith a statement showing the foreign imports into, and exports from, the Madras Presidency of tobacco since the year 1920-21.

2. The rates of customs duty at present in force are given below:—

Name of article.	Per	Tariff valuation.	Duty.
Cigars	.....	Ad valorem.	75 per cent.
Cigarettes of value.—Not exceeding Rs. 10-8-0 per thousand.	Thousand ...	.....	Rs. 7.
Exceeding Rs. 10-8-0 per thousand ...	Do.	.....	,, 10-8-0.
Tobacco, unmanufactured	Lb. ...	.....	,, 1.
All other sorts of tobacco manufactured	,, ...	.....	,, 2-4-0.

ENCLOSURE.

Foreign imports and exports of 'Tobacco' at the Presidency of Madras for the past five years ending 1924-25.

	1920-21.		1921-22.		1922-23.		1923-24.		1924-25.	
	Quantity.	Value.	Quantity	Value.	Quantity.	Value.	Quantity.	Value.	Quantity.	Value.
FOREIGN IMPORTS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.
Tobacco—Unmanufactured ..	77,507	1,45,703	489,693	13,17,036	742,412	14,07,436	3,105,459	34,57,277	3,485,871	29,29,162
Cigars	12,815	43,430	701	2,922	81	238	94	156	215	473
Cigarettes	500,267	16,39,198	186,750	9,40,779	278,384	12,34,116	296,516	13,54,712	1,86,952	8,34,717
Tobacco for pipes and cigarettes	304	1,296	5,293	54,393	22,524	1,19,720	18,155	97,606	½	3
Other sorts	28,058	1,46,309	9,590	39,508	852	3,891	12,402	40,892	20,564	1,06,279
Total ..	618,951	19,75,936	692,027	23,54,638	1,044,253	27,65,401	3,432,626	49,50,643	3,693,602	38,70,634
FOREIGN EXPORTS.										
Tobacco—Unmanufactured ..	3,118,784	13,57,807	4,650,985	16,84,266	4,258,743	17,68,621	9,953,877	37,55,684	14,366,170	42,49,345
Cigars	75,540	1,04,792	94,905	1,17,671	99,244	1,32,490	1,11,541	1,20,174	88,199	1,25,560
Cigarettes	..	..	129	615	31,230	30,049	1,574	1,492	72,086	81,746
Other sorts	34,166	27,373	48,237	46,322	45,300	44,918	110,903	1,03,645	99,555	49,769
Total ..	3,228,490	14,89,972	4,794,256	18,48,874	4,434,517	19,76,078	10,177,895	39,90,995	14,626,010	45,06,420

24·11·25

V

Statement showing the area under cultivation of tobacco in the Madras Presidency in 1923–24.

	Acs.		Acs.
Ganjam	3,299	Salem	3,737
Vizagapatam	48,285	Coimbatore	25,544
Godavari	11,591	Trichinopoly	4,032
Kistna	13,301	Tanjore	2,223
Guntur	64,481	Madura	7,400
Kurnool	11,542	Ramnad	3,889
Bellary	2,658	Tinnevelly	1,048
Anantapur	4,785	Malabar	17
Cuddapah	1,868	South Kanara	1,623
Nellore	2,625	The Nilgiris	72
Chingleput	62		
South Arcot	2,985	Total ...	219,841
Chittoor	595		
North Arcot	2,179		

CONFIDENTIAL.

TAXATION ON TOBACCO.

I

Notes to G.O. Mis. No. 1993, *dated* 21*st May* 1894.

The question is whether we should take the success of Travancore in levying a revenue from tobacco as a reason for calling the attention of the Government of India to the possibility of levying a revenue for tobacco in our territories. I doubt if we have sufficient ground for doing so and whether such a suggestion would be well received. Travancore is exceptionally situated, so that it has been possible to abolish all growth of tobacco there and levy a revenue by import duties, and the Government of India know all about this. Such a system would be impossible in our territory where tobacco is grown almost everywhere and consumed by almost everybody, and where larger Native States abound. The possibility of levying a revenue on tobacco in our territory, in this or any other way, has been repeatedly discussed and decided against after full communication between all the Governments, so that any suggestion for us on the subject would amount to an insinuation that the discussion had not been complete. The only way in which, as far as I can see, a large revenue could be realized for tobacco would be by establishing monopoly of manufacture and sale. Though this was hardly possible in former days, I believe it would be possible in these days of improved communications and police, but the initial expenditure on warehouses, etc., would be too heavy for a time of financial pressure and the larger preventive establishments which would be necessary and extend through almost every village would result in oppression which would be so widespread and so frequently exercised that it would be eminently dangerous.

G. Garstin—7-3-93.

No doubt a tobacco monopoly *could* be worked but it would be a gigantic undertaking, and so very costly (especially in Bengal, where Government has no rural agency at all) that it would not, in my opinion, bring in a net return worth the imitation, the measure would certainly cause. The simplest way of raising a tax on tobacco would be by a special tax on the land on which it was grown, but that would not apply to Native States and cannot be worked in Bengal. A special establishment which would eat up the most part of the profits, while in all settled non-zamindari districts the terms of the settlements would prevent the imposition of such a tax. Independently of this, the taxation of land according to the crop grown would be a

This note is submitted with reference to the enquiry whether the attention of the Government of India has been called in the Revenue Department to tobacco as a possible source of revenue.

2. The occasion for this enquiry will appear from the notes of His Excellency the Governor and the Hon'ble Sir Henry Stokes to which reference is made in that office-note. It arose in this wise—

In submitting the budget estimate of the Travancore State for the Malabar year 1069 (August 1893–94) Mr. Grigg, the Resident, after observing that the most important increases occurred under certain heads of revenue of which tobacco was one, remarked regarding the increase under this head as follows :—

"That under tobacco is very remarkable. I have never heard a rumour of complaint regarding this tax, and yet it comes to approximately As. 6–6 per head of the population and gives a revenue nearly double that of abkari and opium and is now 55 per cent of that of salt—a necessary of life. Offences against the law relating to its importation are, I believe, not numerous. The lucrativeness of this monopoly may well attract the attention of Indian financiers (paragraph 3 of his letter, dated 3rd August 1893, in Government Order, dated 20th October 1893, No. 712, Political).

On this His Excellency noted—

"We should call the attention of the Government of India to the statistics of the tobacco tax and to the Resident's remarks thereon."

On this note Sir Henry Stokes remarked as follows :—

"The attention of the Government of India has been often enough directed to tobacco as a possible source of revenue. The peculiar position of Travancore makes its experience of little or no value in the consideration of the question.

retrograde measure, injurious to the cultivator and certainly beneficial to no one but the karnam.

A licence fee might be imposed and would yield something. It would be a return to the moturfa abolished years ago, and would come very hard on the very poor classes who sell tobacco. I should be sorry to see it tried. Similar objections can be found to every other plan of levying a tobacco tax in this country. I don't think that the Government of India would care to take the question up. It was examined, on another and later occasion, I think, than any of those mentioned in the note, by Mr. Bazeet Colvin when additional Member of the Viceroy's Council, who wrote a long note on this and other projects of taxation, a copy of which I have somewhere—given me by Sir Auckland Colvin, when Finance Minister, who told me at the time that the idea had been finally abandoned—or to that effect. This was in 1886 when the times were almost as hard as they are now.

H. E. Stokes—7-3-94.

This note is very clear, and gives me a complete answer. It is very evident that we should *not* call the attention of India to Mr. Grigg's remarks on the revenue derived in Travancore from taxing tobacco.

I found myself like many others lured into the belief that a large revenue might be derived from taxing this article, and the same results achieved here as in almost every civilized country in the world. But on inquiry I find that not only has it been thoroughly looked into, but the experiment has been tried and has failed, and there is no doubt the peculiar circumstances of the country have rendered the success of the experiment almost impossible. And as Sir J. Strachey very forcibly puts in the incidence of a tax on tobacco would fall with far greater severity on those who now pay the bulk of the salt tax, and we would thereby be putting a crushing weight on those least able to bear the burden. I confess myself converted and withdraw from any further attempt to bring this question within the domains of practical politics—although I can imagine a municipality looking upon it as a fair object for local taxation but even then extremely difficult to work, as poor Madras can testify.

I suppose though that imported tobacco will pay its 5 per cent like other articles (except cotton goods !).

Wenlock—11-3-20.

Tobacco is not produced in the State : the revenue is derived from import duties, and the configuration of the country lends itself to the easy levy of these duties on the greater portion of the tobacco consumed, which comes from Ceylon. In this Presidency and probably in the rest of India, import duties would not produce any revenue worth having and would be prejudicial to the Cheroot industry (Tobacco imported consists mainly of cheroot covers from Java and Sumatra) : but I have no doubt that a considerable revenue might be got from licensees on the vend by others than the growers."

His Excellency wrote thereupon—

"Has this Government ever called their (India's) attention to it? Anyhow I do not think we could do any harm in pointing out what a large sum a little place like Travancore manages to get from the consumers of tobacco. It does not seem to me material how it is raised, whether by import duties or licences. The very significant fact remains that the consumers of tobacco in Travancore contribute yearly Rs. 10 lakhs to the State."

3. His Excellency's query whether this Government has ever called the attention of the Government of India to tobacco as a possible source of revenue has been referred to this department for information, in the office-note from the Chief Secretary.

4. It will be seen from the references put up—

(1) That this question has frequently been considered by the Government of India and has also formed the subject of correspondence between that Government and this and other Local Governments ;

(2) That the conclusion come to by the Government of India is that the idea of raising a large imperial revenue from tobacco must be abandoned ;

(3) That our Government has also expressed the opinion that no large provincial revenue can be obtained from tobacco ; and

(4) That the Government of India is not unaware of the fact that Travancore manages to derive a large revenue from this source.

5. A summary of the correspondence on the subject is subjoined as also a short account of the tobacco monopoly in the districts of Coimbatore, Malabar and Canara which was abolished in the year 1853.

6. The Blue-Book entitled "Papers regarding the Tobacco Monopoly in the Presidency of Fort St. George etc.", gives the main correspondence up to 1868. It will be seen from pages 25–74 of the book, that for 50 years from 1803 to 1853, tobacco was the subject of a Government monopoly in the districts of Canara, Malabar and Coimbatore (vide Regulations 7 and 8 of 1811 and Regulation 5 of 1831 at pages 1, 4 and 8 of the Blue-Book), that the gross annual revenue derived during the 10 years—

It cost 2¼ lakhs to collect 8 lakhs !

J.G.

1833–1843 was about Rs. 8 lakhs and the net revenue about Rs. 5¾ lakhs ; that the evils arising from this monopoly were so great that the attention of Government was frequently invited thereto by the officers concerned ; that in 1845, the Government after recording a succinct review of the correspondence on the subject (vide No. 2 at page 26) called for a report from the Board of Revenue "on the practicability of a modification of the monopoly which, whilst we shall secure a considerable revenue, shall yet divest the tax of some of its most injurious attributes, its heavy charge of collection and the inducement it held out to smuggling"). The Government added that if a beneficial modification was impracticable, the possibility of finding an available substitute should be investigated.

In reply the Board furnished an exhaustive report on the subject and said—

"It is with much reluctance that they are induced to advise the surrender without an equivalent of so considerable a source of revenue as the (tobacco) monopoly and they must be understood as doing so only, because, after much anxious reflection on the subject, they have been led to the conclusion that between such surrender and the retention of the present system with all its evils, there is no practicable middle course.

After a careful consideration of the subject the Government declared—

"The crying evils of the tobacco monopoly continue daily to become more notorious and demand an immediate remedy. The Right Hon'ble the Governor in Council entertains the most decided conviction that, as the Board of Revenue has represented, there is no effectual remedy short of total abolition and the expunging of so objectionable a branch of revenue from the system of Indian Finance."

Some of the evils of this system arose from its being confined to a limited area but the worst-springing from the fact that tobacco is produced almost everywhere and freely consumed by all classes so that any raising of the price gives rise to the worst sort of smuggling and is fatal to the peace of the country—will affect any system.

J.G.

In accordance with this view application was made to the Court of Directors for sanction to abolish the tobacco monopoly and on such sanction being obtained, Act IV of 1853 was passed abolishing the monopoly—

7. The subject of a tobacco-tax was considered by the Government of India during the years 1859–68. A summary of the correspondence which then took place on the subject and of the views held thereon will be found in Sir John Strachy's minute dated 21st October 1865 printed as No. 97 at page 152 of the Blue-Book and in the Government of India's letter to the Secretary of State printed as No. 98 at page 155.

All methods of taxing tobacco were considered then.

J.G.

It will be seen therefrom that, when after the events of the year 1857, the state of the finances rendered it necessary to resort to new sources of revenue, a tax on tobacco was among other things very much discussed.

Four methods of deriving a revenue from this source had been suggested :—

(1) The suppression of the cultivation of the plant throughout India and the imposition of an import duty.

(2) The establishment of a monopoly of the cultivation and manufacture of tobacco similar to that now applied to opium.

(3) The imposition of a licence duty on the cultivation of the plant.

(4) The imposition of licence fees on all wholesale and retail dealers in the manufactured article.

Of these, the first and second methods were soon dismissed as impracticable.

The third plan was at first favoured by the Government of India but most Local Governments disapproved it. The main objections urged were: that to impose a special tax on the cultivation of tobacco would be a violation of the principles on which land assessments were usually made; that it would also be economically a mistake; that the suppression of its cultivation except under a licence would be difficult to enforce; that as the enforcement cannot be extended to Native States (even if it could be extended to zamindari and inam estates) the measure would have the effect of contracting the area of its cultivation in British territory and greatly stimulating its growth in Native States and it would be extremely difficult to prevent the smuggling of free tobacco from such States. The views of this Government are contained in Mr. Bourdillon's letter to the Government of India, dated 11th June 1859, printed as No. 90 at pages 120–128. In the first enclosure to this letter the inexpediency of taxing tobacco in any form is fully set forth by the Board of Revenue.

The Government of India thereupon turned to the fourth plan of licensing the *sale* of tobacco and accordingly inserted a provision to this effect in the Licensing Bill then under its consideration. (The Bill, which was finally passed as India Act 18 of 1861 and repealed by India Act 2 of 1862). But the reports received from Local Governments on the point were not encouraging. They all went to show that no system of licensing would bring in any large revenue.

The Government of India resolved therefore to abandon altogether the idea of raising a revenue from tobacco by Imperial Legislation and the clause in the Licensing Bill which related to tobacco was accordingly expunged.

8. But while arriving at this opinion as to the unsuitability of tobacco for Imperial taxation the Government of India also thought, judging from the reports received from Local Governments, that a considerable revenue might be derived by Local Governments if they were left each to carry out the system best suited to the circumstances of its province. Accordingly, and as it was thought that Imperial revenues might be relieved to a considerable extent by establishing a system of local taxation for local purposes, the Government of India addressed Local Governments on the subject of such taxation and named tobacco as one of the sources from which a revenue might be derived.

The reply of this Government to the above letter is printed at pages 157—162 of the Blue-Book. This Government merely reiterated the opinion it had expressed in its letter of 11th June 1859 (No. 90 at page 120) that there were insurmountable objections to the realization of a revenue from tobacco unless in the shape of a tax on the shops where tobacco was sold, i.e., a licence tax; and that the produce of such a tax would not be considerable.

9. The Government of India appears to have considered this question of a tobacco tax on subsequent occasions also and to have arrived at substantially the same opinion as before, as will appear from the letter to the Secretary of State printed as No. 98 at page 155.

10. In 1870 when the question of raising the rate of income-tax was under the consideration of the Government of India, a proposal was made by one of the members (Mr. Cowie) to tax tobacco. Sir John Strachy and Sir Richard Temple both spoke against the measure and His Excellency Lord Mayo said:—

"Now it is quite true that in many civilized countries tobacco is considered to be a very proper object for taxation but I must remind the Council that tobacco in India is really an absolute necessary of life and that if you put a tax upon the production of tobacco, you tax the two great necessaries of life in this country, viz., salt and tobacco, and I am not prepared even in the present state of our finances to advocate the imposition of a burden upon such a prime necessary of life as that is.

11. The question appears to have been discussed also during Lord Lytton's Viceroyalty and the same conclusion arrived at, namely, that no large revenue could be raised by taxing tobacco (vide pages 368-70 of Strachy's book on "The Finances and

Public Works of India" and page 554 of the volume of Legislative Council's Proceedings for 1877). The following extract from Strachey's book may be noted:

"Tobacco is almost universally consumed and is looked upon as almost a necessary of life. Whatever means were adopted the tax would only be largely productive if it fell ultimately on the classes which form the great mass of the community. It would be paid by the same classes which now pay the salt tax, and if it should become necessary to increase the burden which they already bear this object would be more easily and economically gained and with far less vexation to the people by increasing the existing tax upon salt than by imposing a new tax upon tobacco. That any increase in the rate of the salt-tax would be one of the greatest possible mistakes, unless in most exceptional circumstances and on the other hand that its present reduction * would be financially a most desirable measure, has been shown in another chapter (page 370).

* The duty was reduced from Rs. 2-8-0 to Rs. 2 in 1882. It was raised as follows in this Presidency:—

	Duty. Rs.	A.	P.
August 1859	1	0	0
April 1861	1	4	0
1861–62 to 1865–66	1	5	0
1866–67 to 1868–69	1	8	0
1869–70 to 1877–78	1	12	0
1878–79 to 1881–82	2	8	0
1882–83 to 1886–87	2	0	0
1886–87	2	8	0

12. That the Government of India knows that Travancore derives a large revenue from tobacco, may be inferred from the correspondence which took place in 1860–65 relative to the Interportal Trade convention with Travancore and Cochin and more especially from the correspondence embodied in Government Order dated 14th May 1868, No. 1338.

It will be seen from the latter correspondence that at the desire of the Viceroy (Sir John Lawrence) whose attention seems to have been drawn to certain remarks which appeared in the Travancore Administration Report for 1865–66, regarding the tobacco tax in that State the Hon'ble Mr. G. N. Taylor addressed the then Resident in Travancore and Cochin (Mr. Newill) for full particulars regarding the mode in which the tax was levied in that State and that complete information on the subject was furnished by the Resident and the then Diwan T. Madhava Rao.

This correspondence came before this Government, mainly on account of a minute recorded by the Hon'ble Mr. G. N. Taylor, in which he suggested that this Government might consider the expediency of imposing a moderate import duty or an excise wherever practicable—vide his minute printed in the Government Order.

The Diwan's Memorandum shows that during the flourishing period of the monopoly system (it was abolished in 1862–63, that is, ten years after the abolition of the Government monopoly in Malabar and Canara) the gross revenue from tobacco amounted to more than half the revenue from all other sources or more than one-third of the total revenue of the State while the revenue now amounts to about one-eighth of the total revenue.

13. From the administration report of the Travancore State for the year 1891–92, it appears that 12,295 † candies of tobacco valued at Rs. 26,77,723 were imported during that year and that a duty of Rs. 9,43,030 was collected thereon.

† Equal to 6,147,500 lb. or 8,065,520 lb. according as a 'candy' is 500 lb. or 656 lb. (which latter is the equivalent given in Madhava Rao's Memorandum—vide paragraph 10.

14. The following statement gives the statistics of the imports of tobacco into this Presidency by sea for the last three years:—

Tobacco—Imports—Sea-Borne ‡ Trade.

Years.	Foreign trade.		Coasting trade.		Total.	
	Quantity in lb.	Value.	Quantity in lb.	Value.	Quantity in lb.	Value.
		Rs.		Rs.		Rs.
1890–91	446,477	2,06,021	218,915	33,563	665,392	2,39,584
1891–92	542,705	2,91,725	110,937	17,121	653,642	3,08,846
1892–93	915,719	3,37,980	135,775	27,107	1,051,494	3,65,087

‡ The rail-borne imports amount only to about 2,000 lb.

At the Travancore rate of duty the imports into this Presidency will bring in a gross revenue of a little over one lakh of rupees.

. R.V.S.—1-3-94.

The foregoing account gives a clear and concise summary of all that has been written on this subject and shows that the feasibility of raising a revenue from tobacco has been most exhaustively debated and that the question has been considered in all its bearings. The situation is appropriately summed up by Sir John Strachey in paragraph 8 of his minute of the 21st October 1865 (page 154 of the Blue Book)—

"Tobacco has seemed at first sight a very promising subject of taxation to almost everyone who has thought upon the subject, but almost everyone had given up the scheme upon full consideration of the difficulties which surround it."

J.G.—3-3-94.

II

Mr. N. S. BRODIE'S NOTE DATED 26th DECEMBER 1915 (SECRET D.O. No. A A-1, DATED 11th JANUARY 1916).

Prior to 1910–11, *ad valorem* rates used to be charged on imported manufactured tobacco of all sorts at the rate of 5 per cent but this system was then abandoned and special quantitative rates introduced, presumably because of the difficulty of levying *ad valorem* rates. The rates introduced were about 33 per cent higher than those now in force which are—

	Rs.	A.	P.	
Unmanufactured tobacco	1	0	0	per lb.
Cigars	1	10	0	"
Cigarettes weighing less than 3 lb. per thousand.	3	2	0	per thousand.
Cigarettes weighing 3 lb. or more per thousand.	1	4	0	per lb.
Manufactured, other sorts	1	2	0	"

These rates are said to be approximately 36 per cent *ad valorem* on cigars and 33 per cent *ad valorem* on cigarettes though how this is arrived at I don't know, considering how much imported cigars and cigarettes vary in weight and value. The Government of India's first proposal is to raise these rates 'in approximately the same proportion, i.e., to a uniform 50 per cent *ad valorem*.' I presume this means that the duty on cigars is to be raised by about one-third and that on cigarettes by about half. Nothing is said about 'other sorts' which I suppose means principally pipe tobacco. Judging from Spencer's and Oakes' price lists the present rate seems to be from 28 to 41 per cent on the cheapest pipe tobacco and presumably this is also to be raised by about one-third. The rates will then read—

	Rs.	A.	P.	
Cigars	2	3	0	per lb.
Cigarettes	4	11	0	per thousand and
Other sorts	1	14	0	per lb.
	1	8	0	per lb.

I presume the Government of India does not intend to go back to *ad valorem* rates.

Effects of taxation introduced in 1910–11. Sea-Borne Trade Review of 1910–11, page 9.

2. The rates introduced in 1910–11 had the immediate effect of 'extensively curtailing the imports of foreign tobacco and they scarcely realized the revenue it was hoped they would bring in.' The total imports declined by 83 per cent in quantity and 52 per cent in value. Imports of leaf tobacco, *formerly duty free*, fell from 447,115 lb. to 63,267 lb. or by 86 per cent in quantity. Imports from Ceylon and the Straits Settlements practically ceased. [There used to be quite a large trade from the Jaffna and the northern Ceylon ports which supplied a great part of the tobacco used on the west coast of this Presidency.] Imports of cigarettes decreased 77 per cent in quantity and 48 per cent in value. The cheap American varieties were practically shut out, falling 94 per cent in value and the result was the foundation and development of the Indian cigarette industry which has probably taken their place. Exports of cigars to the United Kingdom fell by 72 per cent owing to the imposition of duty on wrapper tobacco. To avoid this, Messrs. Spencer & Co. removed their factory to Pondicherry.

Sea-Borne Trade Review of 1911–12.

3. In 1911–12, owing to the outcry from Ceylon and the leading local manufacturers of better class cigars, the rates were reduced by about 33 per cent to the present figures. Even this, however, failed to revive the import trade from Ceylon and the Straits Settlements which was completely and finally killed. Imports of leaf tobacco rose by 19,160 lb. but this was only a mere fraction of the fall of 383,848 lb. in 1910–11. The increase was confined to the higher grades required in the manufacture of cigars of good quality. Imports of cigarettes showed a further decline in quantity but an increase in value, the trade in cheap American cigarettes being completely extinguished. Exports of cigars to the United Kingdom declined another

7 per cent in value but exports to the Straits Settlements increased by 23 per cent and the whole export of cigars increased by 13 per cent in quantity and 9 per cent in value. The cigars exported to the Straits Sttlements and Federated Malay States appear to be made of purely Indian tobacco which pays no duty.

Sea-Borne Trade Review of 1912–13.

4. In 1912–13, there was a further decrease in imports of cigarettes by 15 per cent and a large factory was opened at Bangalore by the Peninsular Tobacco Company. Manufacture of cigars for export to the United Kingdom was permitted in bond and Messrs. Spencer & Co. returned from Pondicherry. The exports of these cigars rose by 46 per cent but of course the revenue did not profit by this.

Sea-Borne Trade Review of 1913–14.

There was a general increase both in imports and exports of tobacco in 1913–14 and some recovery in imports of cigarettes to a little above the figures of 1910–11. The export of high grade cigars to the United Kingdom rose to ·88 lakh against ·57 lakh in 1910–11.

Effects of the war—Sea-Borne Trade Review, 1914–15.

However, the effect of the war was to send most of the principal figures lower than ever. Imports of raw tobacco fell to 70,573 lb. in 1914–15 and exports of high grade cigars to the United Kingdom, fell to 33,434 lb. and to ·45 lakh in value (nearly 50 per cent), the lowest figure on record.

5. The figures since the introduction of the new tariff are tabulated below :—

Annual value of the sea-borne trade and navigation of the Madras Presidency for 1914–15.

Foreign trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.						
1. Unmanufactured (total for Presidency).	LB. 447,115	LB. 63,267	LB. 82,427	LB. 90,458	LB. 110,458	LB. 70,573
2. Manufactured—						
(*a*) Cigars	11,099	1,049	937	830	1,107	3,368
(*b*) Cigarettes	319,275	72,139	65,410	55,217	78,616	78,429
(*c*) Other sorts	94,940	12,473	26,397	23,370	24,723	28,090
Exports.						
1. Unmanufactured (unaffected by tariff).	1,444,632	1,670,842	1,619,966	1,806,998	2,234,511	2,362,766
Of the above exported to Straits Settlements and Federated Malay States.	1,374,612	1,621,543	1,568,878	1,773,160	2,115,056	2,304,144
2. Manufactured—						
(*a*) Cigars	697,507	704,791	797,383	989,811	988,668	887,165
Of the above quantity exported to United Kingdom.	80,360	42,565	36,184	51,156	56,976	33,434
Straits Settlements and Federated Malay States (unaffected by tariff).	415,357	547,613	661,294	827,278	811,219	800,488
(*b*) Other sorts	4,196	4,515	9,010	8,513	9,363	8,885

Coasting trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.						
1. Unmanufactured	LB. 610,603	LB. 683,787	LB. 664,054	LB. 578,058	LB. 604,165	LB. 596,038
2. Manufactured	142,514	84,439	59,021	94,319	57,595	71,301
Of the above imported from Calcutta.	118,687	73,703	52,511	85,214	46,637	53,301
Exports.						
1. Unmanufactured	7,721,625	7,535,386	6,870,154	6,536,820	6,928,569	5,168,826
Of the above exported to Burma ..	6,926,830	6,474,041	6,149,974	6,133,770	6,521,676	4,579,130
2. Manufactured—						
(*a*) Cigars	347,507	314,933	410,526	419,710	349,618	275,018
Of the above exported to Burma ..	194,493	204,649	292,004	320,781	251,706	177,844
Of the above exported to Bengal ..	101,866	73,206	76,815	61,785	63,117	65,373
(*b*) Cigarettes	..	..	2,877	4,200	26,471	61,599
(*c*) Other sorts	35,726	43,920	37,620	39,906	33,407	77,190

6. The net result of the introduction of the heavier tobacco duties in 1910–11 has, therefore, been to kill the import trade in raw tobacco from Ceylon and the Straits Settlements and in cigarettes from America and to lay the foundations of a cigarette manufacturing industry in India from Indian leaf. The trade in high grade cigars exported to the United Kingdom has suffered very heavily, despite permission to manufacture export in bond. The fall between 1909–10 and 1913–14 (when this industry reached its highest point after the imposition of duties and before the outbreak of war) was about 29 per cent. This shows what an effect even a slight rise in the cost of such a thing as tobacco has on consumption as it was undoubtedly the increased cost (and that only of the wrapper) in 1910–11 that gave the trade this set back. The wrapper is only a minute fraction of the weight of the cigar and if the duty on whole cigars is only equal to an *ad valorem* rate of 36 per cent the duty on a cigar whose wrapper alone pays duty must be nearer 1 or 2 per cent. Since the concession of manufacture in bond has been granted these cigars pay no duty and it is presumed that this concession will be continued so that any enhancement of rates will not affect them.

7. *Rail-borne trade*, 1914–15.—

Imports from other Presidencies and Native States.

	LB.
1. Unmanufactured	2,051,959
Of which imported from Mysore	1,344,550
2. Manufactured—	
(*a*) Cigars	13,330
(*b*) Other sorts—probably cigarettes	1,497,517
Of which imported from Mysore	1,294,272

Exports to other Presidencies and Native States.

1. Unmanufactured	24,729,076
Of which exported to—	
Mysore	8,181,339
Calcutta	5,282,496
Nzam's Territory	4,242,157
2. Manufactured—	
(*a*) Cigars	503,013
(*b*) Other sorts	392,750

Internal trade between various parts of the Presidency.

1. Unmanufactured	53,774,208
2. Manufactured—	
(*a*) Cigars	1,061,815
(*b*) Other sorts—probably cigarettes, bidies and snuff ...	1,074,651

8. From these figures it appears that by far the greatest part of the Delta tobacco is exported in the manufactured condition and made up locally. The trade in manufactured tobacco is comparatively small, which agrees with my information that there are no manufactories of any size. A fairly large quantity of manufactured cigars is exported by rail from the Central districts (i.e., Trichinopoly, Salem and Coimbatore) to Negapatam but this no doubt is included also in the exports by sea to the Straits Settlements.

Cigars.

9. In the Secretariat note of 1911 the total outturn of cigars was estimated by Mr. Innes at about 2,500,000 lb; i.e.:—

	1909–10. LB.
Foreign exports	697,507
Coasting trade exports	347,507
Rail-borne exports	451,164
Do. internal trade	971,208
Total ...	2,467,386

The corresponding figures for 1914–15 are—

	LB.
Foreign exports	887,165
Coasting trade exports	275,018
Rail-borne exports	503,013
Do. internal trade	1,061,815
Total ...	2,727,001

Allowing for the disturbance of trade caused by the war, the export trade and rail-borne traffic in cigars may, therefore, be taken at about 2,750,000 lb. but this is probably an excess estimate of the quantity actually manufactured since the rail-borne traffic probably includes the greater part of the foreign exports and possibly a good deal of the coasting trade exports also.

Cigarettes.

10. The Indian cigarette industry has practically grown up since the Secretariat notes of 1911 were written. Foreign imports of the better class cigarettes have remained nearly stationary since 1911–11 at about 70,000 lb. Comparing the figures of 1909–10 with those of 1910–12 when the full effect of the tariff duties had had time to operate, 253,865 lb. of cheap American cigarettes appear to have been displaced. These have no doubt been replaced by Indian cigarettes and there has probably been a large increase in consumption in addition.

The export trade in cigarettes in 1914–15 appears to have been somewhat as follows:—

	LB.
Foreign exports	8,885*
Coasting trade exports	61,599
Rail-borne exports	392,750*
Do. internal trade	1,074,651*
Total ...	1,537,885

In the absence of figures for bidies, snuff, etc., it is not easy, however, to say how much of these 15 lakhs of pounds represent cigarettes and still less how much represents cigarettes manufactured in the Presidency. My inquiries in Vizagapatam show that none of the cigarettes there consumed (and the consumption is very large) are manufactured in this Presidency. The great bulk come from Calcutta and a good many from the Peninsular Tobacco Company, Bangalore. Similarly in Madras, the bulk of the cigarettes come from Bangalore or Bowringpet, both in Mysore territory and not subject to British excise. It will be seen from paragraph 7 above that 1,294,272 lb. of 'other sorts' including (no doubt mostly) cigarettes are imported from Mysore. Probably the greater number of these are shown in 'rail-borne internal trade' and exports of the Presidency over again. I should put the actual number manufactured in the Presidency at not more than 250,000 lb.

11. The following are principal Indian Cigaratte factories shown in the Lawrence Asylum Press Almanack, page 1438:—

(1) A.G.M. & Sons, Coimbatore.

(2) K.G.A., Coimbatore.

(3) McDowell & Co., Madras.

I have never seen any cigarettes from the first two factories and they seem to be very small and merely supply the local market. McDowell & Co. employ about 25 persons and some small hand machines. Pappadapoulos Brothers make Egyptian cigarettes but import Egyptian tobacco which already pays duty. Besides these there are the two large factories in Mysore—

4. The Peninsular Tobacco Company, Cleveland town, Bangalore, and

5. The Oriental Tobacco Manufacturing Company, Bowringpet.

*Includes, however, pipe tobacco, bidies, snuff, etc.

Both these are run on American lines and employ a large number of workmen and power-driven machinery, but as already remarked they are not subject to British excise.

Outturn of tobacco.

12. According to the 'Season and crop report' for 1914–15 the total area cultivated with tobacco in the Presidency was 227,182 acres, the 'normal' area being 203,230 acres. I learn from Chadwick that 800 lb. of dried leaf per acre is a fair average crop as taken by Castlestuart Stuart in 1910. The total outturn was therefore about 182,000,000 lb. of which we have only accounted for about $3\frac{1}{2}$ millions at most in the manufactured form. This outturn was spread over 24 districts, the area being over 10,000 acres in seven, Vizagapatam (29,115), Godavari (13,099), Guntur (78,560), Kistna (13,022), Kurnool (18,769), Coimbatore (26,001) and Madura (11,172). These figures show little change since 1908–09.

About 90,000,000 are exported in unmanufactured form.

Tobacco industry.

13. The census report for 1911 groups manufacturers of tobacco, opium and ganja together under Order 12, Group 66. The number of manufacturers of opium and ganja must be almost negligible and the total number of workers and dependents is shown to be 12,333. Under Order 33, Group 122, sellers of tobacco, opium, ganja, etc., are said to be 65,733 (workers 25,883, dependents 39,850). The total number of persons dependent on the tobacco trade is therefore about 78,066 against 75,000 in 1901. It is not possible to compare the figures of the other industries referred to in Mr. Castlestuart Stuart's demi-official of 5th November 1910 as the classification has been altered. Betel leaf and arecanut sellers are now grouped with vegetable and fruit sellers. It may be noted however that the number of persons engaged in the manufacture of tobacco is about as many as bakers and biscuit makers (12,970) whilst the number of sellers of tobacco is not much less than the number of sellers of milk, ghee, butter, poultry, eggs, etc. (80,981).

Present proposals criticised.

14. These figures show that there has been comparatively little change in the general position since 1910–11 and the arguments against any form of taxation of Indian grown tobacco remain as strong as they were then. The present proposals of the Government of India may now be examined in detail. The first is, as far as I understand it, to raise the quantitative rates of duty on imported cigars and cigarettes

(*a*) First proposal.

(and perhaps also on other manufactured tobacco) to the figures shown in paragraph 1 above. The quantity of imported cigars is now very small and was only 3,368 lb. in 1914–15. Assuming that the enhanced duty has no effect on consumption, the increase of revenue from this source will be only Rs. 1,824*. But judging from the effect of the enhancement of duty in 1910–11 it will probably be much less. The duty on imported cigarettes (78,429 lb. in 1914–15) was about Rs. 80,000 and the enhancement of the duty by one-half may give Rs. 40,000, though here also a heavy fall in consumption may be confidently looked for. The increase of duty on 'other sorts', i.e., probably pipe tobacco, snuff, etc. (which may be contemplated) by one-third would yield perhaps Rs. 10,742. Altogether, the maximum increase of revenue that may be looked for from this proposal cannot, therefore, be more than Rs. 60,000 and the burden will fall heavily on the poorly paid European and Eurasian assistants in shops, business firms, Railway Companies, etc., who are by far the largest consumers of imported cigarettes. However this increased revenue can no doubt be obtained without administrative difficulty or expense.

*Present duty Rs. 5,473 one-third enhancement Rs. 1,824.

(*b*) Second proposal.

15. The second proposal is to levy an excise duty on cigarettes of Indian manufacture. The large factory referred to by the Government of India is probably that in Bengal, I think at Monghyr. It is proposed to differentiate bidies from cigarettes by the use of cigarette paper. This may be accepted. It is proposed that

the taxation should take the form of a quantitative duty equivalent to an *ad valorem* duty of about 15 per cent. A further point is whether the taxation should be restricted to factories equipped with power-driven machinery. If this qualification is accepted the question is a simple one for there are no such cigarette factories in this Presidency. Assuming, however, that all cigarette factories are to be taxed my inquiries show that cigarettes of Indian manufacture vary considerably in price. The cheapest are sold retail at prices varying from Rs. 1-4-6 per 500 or Rs. 2-6-0 per 1,000 to Rs. 2-12-0 per 500 or Rs. 5-2-0 per 1,000. These cigarettes both weigh almost exactly $2\frac{1}{2}$ lb. per 1,000, the cheaper ones a little more. The manufacturer's price to the trade is no doubt considerably less as these cigarettes have to be imported to Vizagapatam and there is the retailer's profit to be considered. The excise duty will of course have to be fixed with regard to the wholesale price at the factory. I should say Rs. 1-12-0 per 1,000 is probably an outside price for the cheapest cigarettes. This means $28/2\frac{1}{2}=11\frac{1}{5}$, say 11 annas a lb. or as they weigh rather more than $2\frac{1}{2}$ lb. per 1,000, say 10 annas a lb. 15 per cent on 10 annas is one and a half annas per lb. I have estimated the total production of cigarettes in this Presidency at not more than 250,000 lb. and the duty on this would be Rs. 23,437. It is impossible to say without a full inquiry what the number of cigarette factories is but they are certainly very small and probably average not more than 10,000 lb. of cigarettes each per annum. Putting the number at 25 scattered all over the Presidency, not less than 25 Sub-Inspectors on Rs. 40 per mensem would be required to supervise them. The cost of these would be Rs. 12,000 not allowing for contingent expenses such as weighing machines, etc. The net proceeds of the tax would therefore be somewhere about Rs. 10,000, even supposing that the duty had no effect on consumption which is extremely improbable. Moreover as Indian cigarettes vary considerably in price though not so much as cheroots, the duty would press most unfairly on the cheapest brands and on the poorest class of the population which consumes them.

Watch cigarettes—Peninsular Tobacco Company, Bangalore, Rs. 1-4-6.
Ruler cigarettes—Imperial Tobacco Company, Calcutta, Rs. 2-12-0 per 500.

16. The third proposal is to levy a similar quantitative excise duty equivalent to an *ad valorem* tax of 15 per cent on cigars of Indian manufacture. As already pointed out in 1911 this problem absolutely bristles with administrative difficulties. In the first place it is not clear whether bidies are to be included. It is possible to distinguish bidies from cigarettes but the difference between them and the poorest kind of cheroots is almost infinitesimal. Both are rolled in leaves, sometimes tobacco leaves sometimes not. The manufacture of bidies is admittedly a cottage industry carried on in every village and hamlet. However according to the Asylum Press Almanack one tobacco factory at least professes to make bidies. The vast bulk of the Indian cheroots are also made as a cottage industry as is evident from the fact that out of 182 millions of pounds of tobacco grown only about $3\frac{1}{2}$ millions ($4\frac{1}{2}$ at the outside) appear in the trade returns as manufactured. Possibly bidies could be excluded by excepting cheroots, etc., weighing less than as many pounds to the 1,000. My experiments show that the commonest bidies weigh about $1\frac{1}{4}$ lb. per 1,000, so that if manufactured cheroots weighing less than $1\frac{1}{2}$ lb. per 1,000 were excluded this might meet the case. However this would undoubtedly stimulate the consumption of bidies which I understand to be the most deleterious form of smoking. Bidies are sold at 12 annas a 1,000 wholesale in Madras, that is at about $9\frac{3}{5}$ annas per lb. The manufacturer's price may be less so that probably 9 annas per lb. would be a safe figure and the duty, if any, ought to be much the same as for cigarettes or a little less, say 1 anna 4 pies per lb.

(c) Third proposal.

Bidies.

17. Ordinary cheroots of the commonest kind seem to weigh about $3\frac{3}{4}$ lb. per 1,000 and cost Rs. 1-12-0 per 1,000 retail but both weight and price vary enormously. Better class cheroots which, however, are still largely consumed by the poorer classes weigh 20 lb. per 1,000 and cost Rupees 12-8-0. Assuming that the rates to the trade are somewhat less we may estimate the first kind at 6 annas a lb. and the second at 10 annas a lb. The duty ought to be fixed at 15 per cent on the cheapest

Cigars.

kind at 6 annas a lb. The duty would then be 11 pies but for convenience of reckoning might be fixed at one anna.

It is quite impossible to estimate with any accuracy the output of Indian manufactured cigars. The figures in paragraph 9 no doubt afford some guide. I should imagine 2,000,000 lb. to be a fair estimate. The duty on this at 1 anna per lb. would be Rs. 1,25,000. Against this has to be set the cost of establishment which would be enormous. It is not possible at present to form any idea of what this would be. Presumably the only way to ensure the collection of the duty would be to place each factory in charge of an officer who would have to weigh the quantity of raw tobacco received and the quantity finally passed out on payment of duty, seeing that none illicitly passed out and keeping accounts on the same lines as officers in charge of distilleries. The test of a factory would be I suppose that the proprietor sold the manufactured produce, for practically every householder buys a few leaves of tobacco now and again and rolls them up into cheroots for private consumption. Even excluding these individuals, there appear to be about 26,000 persons describing themselves as tobacco sellers in the census returns, excluding 2,000 partially agriculturist. This agrees with what I expected, being an average of about one for every village in the Presidency. In some places there are no doubt several and in others none, but it would be quite impossible to do much in the way of concentration without causing much hardship. The formation of central storehouses appears, therefore, to be impossible and practically every shop will have to have a properly locked storehouse for the cheroots manufactured which adds to the expense. The ordinary staff of the Salt and Abkari Department could not possibly undertake this enormous addition to its work. Assuming that one Sub-Inspector could efficiently supervise on the average 25 factories (which I take to be impossible with the shops scattered as at present) it would require a staff of 1,000 Sub-Inspectors to supervise the work in the Presidency. The opportunities for fraud would be so great that I fear even then the force would be demoralized. Certainly a great many of the Sub-Inspectors would have to be paid more than the lowest grade of Rs. 40 a month. Assuming that the average pay is Rs. 60, this establishment alone would cost Rs. 60,000 per month or Rs. 7,20,000 per annum or about six times the estimated proceeds of the tax. It seems hardly worth while to discuss the matter further. A complete staff of peons, inspectors, Assistant Commissioners and Deputy Commissioners would also be necessary to supervise such an establishment and it would be quite impossible for me to undertake so large an addition to my work. After all there would be no possibility of guarding against fraud as there would be nothing to distinguish between illicit and licit tobacco. As far as I can see no tax less than Re. 1 per lb. would do more than pay for the cost of collection and this of course would be ruinous having regard to the cost of the article.

18. In conclusion I can see nothing in favour of the tax or any possibility of working it. A tax on Indian cheroots made in power-driven factories might be possible. There are only two, viz.: Spencer's at Dindigul and Oakes & Co. at Guindy—employing 700 persons between them. But it seems very hard to discriminate against them, even if the tax was only one anna a lb. and anything more would probably drive them out of the Indian market altogether. I cannot say what the output of these two factories is, but excluding the amount manufactured in bond for Europe I doubt if it exceeds 500,000 lb. and the duty at one anna per lb. would yield only Rs. 31,250.

19. Another possible course would be to put an export duty on manufactured tobacco. In that case I should exclude cigars exported to the United Kingdom which have to pay heavy and enhanced duties there and have already sufferred by the tariff. There are not the same administrative objections to an export duty, at all events on exports by sea, as the establishment exists and evasion would be practically impossible. Exports by sea to foreign countries, excluding the United Kingdom, amounted to 853,731 lb. in 1914-15 and exports to other provinces to 275,018 lb. Total 1,128,749 lb. A duty of one anna per lb. might bring in Rs. 62,500 without any extra cost and as the exported cigars at all events to the Straits Settlements are of fairly good quality a duty of even 2 annas a lb. might not ruin the trade and bring in about one and quarter lakhs. Still the amount is so small that I see no use in upsetting the trade at all for so very little result.

N. S. Brodie—26-12-15.

III

Demi-official from L. DAVIDSON, Esq., I.C.S., to N. S. BRODIE, Esq., I.C.S., dated 4th July 1916, No. 39-S. (Secret No. 183 A, dated 18th December 1916.)

I am desired to refer to your note of the 26th December 1915, on the subject of imposing an excise on locally manufactured cigars and cigarettes. The Government of India are disposed to agree that the taxation of locally-made cigars is not likely to prove of practical value. As regards cigarettes, however, they are unable to abandon the possibility of revenue from an article which is not only a luxury but also, to some extent, a harmful luxury; and they have asked this Government to consider the question at greater leisure.

2. Your note, referred to above, gives an approximate estimate of the total outturn of cigarettes in the Presidency, the number of factories and the prevailing wholesale prices. I am to ask whether you cannot now quietly obtain more precise information as to the number and location of factories, the met hods of manufacture, the outturn and the prices obtained. Collectors could possibly procure the information under the guise of income-tax or statistical inquiries without exciting attention.

3. The calculations in your note are based on the assumption that the excise to be imposed would be equivalent to an *ad valorem* tax of about 15 per cent, as was then suggested by the Government of India. I am to ask you now further to consider the effect of taxation on the industry and to favour Government with your opinion as to the maximum which could safely be imposed without seriously crippling the trade.

4. The Government of India lay stress on the strictly confidential nature of this further reference, but say 'there is no objection to consulting any officer of Government whose advice would be of special value.'

Demi-official from N. S. BRODIE, Esq., I.C.S., to L. DAVIDSON, Esq., I.C.S., dated Ennore, 12th November 1916.

With reference to your demi-official No. 39-S., dated 4th July 1916, I have now made further inquiries into the subject of the production and sale of cigarettes in this Presidency both personally and through Collectors. I cannot say that I have elicited much additional information and the remarks which I made in my note of the 26th December 1915 continue to hold good. It appears, however, that I was wrong in stating that there were no cigarette factories in the Presidency equipped with power-driven machinery as it was found on further inspection that McDowell's factory in Moor street, Madras, had some cutting machines worked by an oil-engine recently set up.

2. The estimate of outturn may very well remain at 250,000 lb. The only details I have been able to get are from the Universal Tobacco Company in Madras which is believed to turn out about 30 lakhs of cigarettes per mensem and from McDowell's factory, also in Madras, which is believed to turn out about 20 lakhs. McDowell's factory does not use Indian tobacco exclusively and some of the brands contain imported tobacco to the extent, it is said, of 25 per cent on the whole. I have tested numerous brands from all parts of the Presidency and find that as a rule they weigh about 2½ lb. per 1,000, a little more or less. This gives the total Madras production about 150,000 lb. per annum. Allowing for the imported tobacco used in McDowell's factory the quantity of Indian cigarettes is about 135,000 lb. The only other factories appear to be Oakes & Co.'s factory at Guindy, a new factory started by Barry & Co. in Cocanada just recently and one or two small factories in Coimbatore. There was a factory at Guntur but it seems to have failed after working a few months. The Collector of Coimbatore has not yet replied to my letter on the subject but I made some inquiries in the course of my last tour and find that there are one and probably two factories in Coimbatore but they use imported tobacco for their cigarettes as does Pappadopoulos in Madras. Allowing for all these factories I should say 115,000 lb. per annum was a very liberal estimate, making 250,000 for the Presidency.

3. Retail prices seem to vary very considerably but on the whole I see no reason to modify my original calculations. The cheapest cigarettes are sold in packets of 5 or

6 and a slightly more expensive lot in packets of 10. The dealers' profit seems to be about eight annas a thousand and the trade discount about 20 per cent. Some cigarettes* are sold as cheaply as Re. 1 per 1,000 wholesale or allowing for the trade discount about thirteen annas per 1,000. This is less than half the price I estimated for the cheapest cigarettes in my last note (Rs. 1-12-0). I doubt if there are many of this brand sold, but there are numerous other brands at Re. 1-4-0, Re. 1-6-0 and Rs. 1-8-0 sold by McDowell & Co. However all other information tends to confirm the view that the cheapest cigarettes are sold at Rs. 2 to Rs. 2-12-0 by the wholesale dealers and consequently must cost somewhere about Rs. 1-12-0 per 1,000 from the manufacturers. These cheap cigarettes are manufactured in this Presidency by McDowell & Co., and the new Universal Tobacco Company only. Those turned out by Oakes & Co., and the new factory started by Barry & Co., at Cocanada are much more expensive and work out at Rs. 11 to Rs. 14 per 1,000.

* By the Universal Tobacco Company, 1/6, Patters Road, Royapetta—'Bazaar' brand.

4. The method of manufacture is probably the same everywhere. The tobacco selected has all the main nibs cut out and the leaves are then laid one above the other to a considerable depth. They are then cut into small pieces by a cutting machine, the tabacco rolled in cagarette paper, gummed and cut into lengths. As far as I know the cutting and gumming, etc., machines are all worked by hand except in McDowell's factory above referred to.

5. In this connexion I should, however, bring to notice one or two facts which I have ascertained in the course of my inquiries. It is a common practice I understand for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale especially at the various shandies and markets in the Presidency. This is common in Malabar, Coimbatore and the Nilgiris at all events and probably elsewhere. Most Collectors have, however, reported that cigarette papers are not commonly sold in the bazaars. I believe the practice of individual consumers rolling their own cigarettes is not common at present though it is said to have been customary in Salem before the shop-made cigarettes became so cheap. It would be clearly impossible to levy an excise duty on cigarettes made by hawkers or private individuals and it may be expected that the practice would be much more largely resorted to if a duty were imposed on the manufactured article. This might perhaps be met by imposing a customs duty on cigarette paper which would have to be determined in accordance with the duty imposed on cigarettes, such customs duty to be refunded on paper actually used by the wholesale manufacturers. It seems that cigarette paper was formerly imported mostly from Austria and Germany—at present it is obtained from France.

6. As regards the duty to be imposed I find it difficult to express an opinion. The heavy rates imposed in 1910-11 practically killed the cheap American cigarettes but then the enhancement of rates was probably more than 100 per cent of the value so that this result was quite intelligible. My inquiries show that my estimate of the cost of collection was much too large. One Sub-Inspector would, I think, be required for each factory but as there seem to be only four or possibly five factories the cost would be only about Rs. 2,400 per annum. As observed in my previous note, a duty of one and a half annas per pound represents 15 per cent of the value of the cheap cigarette. This amounts to 3 annas 9 pies per 1,000 and could hardly affect the retail price at all. The usual retail price per packet of 10 cigarettes seems to be about 4 pies. A duty of 8 annas 4 pies per 1,000 should raise the retail price by one pie and this would probably not seriously affect the trade though even one pie is a consideration in a country like India. I do not think we could safely raise the duty beyond Re. 1 per 1,000 which would raise the retail price about 2 pies or 50 per cent. This would be 6·4 annas per pound and roughly about 60 per cent of the value. Although cheap cigarettes do not seem to vary much in weight I would prefer to levy the duty by the pound rather than by the number as being the only fair way of assessing it. A duty of 6½ annas per pound would, if the production remained at 250,000 lb., yield Rs. 1,01,562½ but if the consumption fell, as it probably would, to about 200,000 lb. the tax would yield Rs. 81,250. As far as this Presidency is concerned, the result would, therefore, be insignificant, but, no doubt, the revenue

from the whole of India would be very considerable and I cannot see any serious objection to the proposal except that it would greatly encourage the smoking of bidies and press rather hardly on the poorest class of the population who smoke cheap cigarettes at present and regard them as a great luxury.

Demi-official from F. J. Richards, Esq., I.C.S., to Ley, Esq., I.C.S., dated the 18th December 1916, No. 75-S.

I am directed to reply to Mr. Low's Confidential demi-official letter No. 4493, dated 14th June 1916, on the subject of the expediency of imposing an excise on cigarettes manufactured in India from indigenous tobacco.

2. In the first place, I am to point out that the correspondence of 1910, to which reference is made in the first paragraph of Mr. Low's letter, did not turn on the present question, for at that time there was no manufacture of cigarettes from indigenous tobacco in this Presidency. It is stated that the question of an excise on manufacture was then dropped because the local cigarette industry was in its infancy and it was considered that the imposition of an excise would deal it a death-blow. So far as this Presidency is concerned, the position is virtually unaltered; for, as stated in Mr. Butterworth's demi-official letter No. A.A.-1, dated 11th January 1916, the local output of cigarettes does not exceed some 250,000 lb. annually. This estimate has been confirmed by subsequent enquiries, though the number of factories to be taken into account is found to be smaller than was thought to be the case. There are probably not more than 5 or 6, of which the two largest are those owned by Messrs. McDowell & Co., and the Universal Tobacco Company both in Madras City. The former has recently been equipped with an oil-engine for driving its cutting machines. The average wholesale price for the cheapest class of ciagarettes quoted in Mr. Butterworth's letter, viz. Rs. 1-12-0 per 1,000, may be taken as correct. These cheap cigarettes are manufactured only by Messrs. McDowell & Co. and the Universal Tobacco Company. Those turned out by Messrs. Oakes & Co., at Guindy and by Messrs. Barry & Co., at Cocanada are much more expensive, costing from Rs. 11 to Rs. 14 per 1,000.

3. The maximum rate of duty which is considered compatible with the survival of the industry is Re. 1 per 1,000 or approximately $6\frac{1}{2}$ annas per lb. This duty would if the production remained 250,000 lb. yield a revenue of a little over a lakh. The imposition of such a tax, however, is almost certain to preclude any expansion of the industry and would very probably strangle that which already exists; for it would either drive the masses to revert to *bidi* smoking or compel the manufacturers to transfer their factories to French territory or to Native States. I may here point out that the Director-General of Commercial Intelligence has incorrectly assumed that the tax realisable from the Peninsular Tobacco Company's factory in the Civil and Military Station, Bangalore, would be credited to Imperial revenues. By the terms of rendition, the Mysore Government is entitled to the whole of the surplus revenue of the Assigned Tract, after the cost of the administration of the tract is defrayed. This fact seriously affects the estimate formed of the probable receipts from the tax.

4. Another factor to be taken into consideration is the practice, common in several districts of this Presidency, for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale, especially at local markets. Individual consumers do not usually roll their own cigarettes, though it is said to have been customary for them to do so in Salem before the shop-made cigarettes became so cheap. It would obviously be impossible to levy an excise duty on cigarettes made by hawkers or private individuals; and it may be expected that the practice would be much more largely resorted to, if a duty were imposed on the manufactured article. Cigarette paper was formerly imported from Germany and Austria; now France is the chief source of supply. A customs duty might be imposed on it, such duty to be refunded on paper actually used by the wholesale manufacturers; but this expedient would not be free from difficulties and would almost certainly result in the use of a local substitute.

5. In these circumstances, I am to say that the Government of Madras are entirely opposed to the proposal. They can suggest no alternative scheme for internal taxation of tobacco, apart from those already rejected.

IV

Letter from C. R. Watkins, Esq., c.i.e., Officiating Collector of Customs, Madras, to the Under Secretary to Government, Finance Department, dated 1st May 1925, No. L. Dis. Nil.

I forward herewith a statement showing the foreign imports into, and exports from, the Madras Presidency of tobacco since the year 1920-21.

2. The rates of customs duty at present in force are given below:—

Name of article.	Per	Tariff valuation.	Duty.
Cigars	.....	Ad valorem.	75 per cent.
Cigarettes of value.—Not exceeding Rs. 10-8-0 per thousand.	Thousand ...	.....	Rs. 7.
Exceeding Rs. 10-8-0 per thousand ...	Do.	.....	,, 10-8-0.
Tobacco, unmanufactured	Lb. ...	.....	,, 1.
All other sorts of tobacco manufactured	,, ...	.....	,, 2-4-0.

Enclosure.

Foreign imports and exports of 'Tobacco' at the Presidency of Madras for the past five years ending 1924-25.

	1920-21.		1921-22.		1922-23.		1923-24.		1924-25.	
	Quantity.	Value.	Quantity	Value.	Quantity.	Value.	Quantity.	Value.	Quantity.	Value.
	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.
FOREIGN IMPORTS.										
Tobacco—Unmanufactured ..	77,507	1,45,703	489,693	13,17,036	742,412	14,07,436	3,105,459	34,57,277	3,485,871	29,29,162
Cigars	12,815	43,430	701	2,922	81	238	94	156	215	473
Cigarettes	500,267	16,39,198	186,750	9,40,779	278,384	12,34,116	296,516	13,54,712	1,86,952	8,34,717
Tobacco for pipes and cigarettes	304	1,296	5,293	54,393	22,524	1,19,720	18,155	97,606	1	3
Other sorts	28,058	1,46,309	9,590	39,508	852	3,891	12,402	40,892	20,564	1,06,279
Total ..	618,951	19,75,936	692,027	23,54,638	1,044,253	27,65,401	3,432,626	49,50,643	3,693,602	38,70,634
FOREIGN EXPORTS.										
Tobacco—Unmanufactured ..	3,118,784	13,57,807	4,650,985	16,84,266	4,258,743	17,68,621	9,953,877	37,65,684	14,366,170	42,49,345
Cigars	75,540	1,04,792	94,905	1,17,671	99,244	1,32,490	1,11,541	1,20,174	88,199	1,25,560
Cigarettes	..	..	129	615	31,230	30,049	1,574	1,492	72,086	81,746
Other sorts	34,166	27,373	48,237	46,322	45,300	44,918	110,903	1,03,645	99,555	49,769
Total ..	3,228,490	14,89,972	4,794,256	18,48,874	4,434,517	19,76,078	10,177,895	39,90,995	14,626,010	45,06,420

V

Statement showing the area under cultivation of tobacco in the Madras Presidency in 1923–24.

	ACS.		ACS.
Ganjam	3,299	Salem	3,737
Vizagapatam	48,285	Coimbatore	25,544
Godavari	11,591	Trichinopoly	4,032
Kistna	13,301	Tanjore	2,223
Guntur	64,481	Madura	7,400
Kurnool	11,542	Ramnad	3,889
Bellary	2,658	Tinnevelly	1,048
Anantapur	4,785	Malabar	17
Cuddapah	1,868	South Kanara	1,623
Nellore	2,625	The Nilgiris	72
Chingleput	62		
South Arcot	2,985	Total ...	219,841
Chittoor	595		
North Arcot	2,179		

CONFIDENTIAL.

TAXATION ON TOBACCO.

I

Notes to G.O. Mis. No. 1993, *dated* 21*st May* 1894.

The question is whether we should take the success of Travancore in levying a revenue from tobacco as a reason for calling the attention of the Government of India to the possibility of levying a revenue for tobacco in our territories. I doubt if we have sufficient ground for doing so and whether such a suggestion would be well received. Travancore is exceptionally situated, so that it has been possible to abolish all growth of tobacco there and levy a revenue by import duties, and the Government of India know all about this. Such a system would be impossible in our territory where tobacco is grown almost everywhere and consumed by almost everybody, and where larger Native States abound. The possibility of levying a revenue on tobacco in our territory, in this or any other way, has been repeatedly discussed and decided against after full communication between all the Governments, so that any suggestion for us on the subject would amount to an insinuation that the discussion had not been complete. The only way in which, as far as I can see, a large revenue could be realized for tobacco would be by establishing monopoly of manufacture and sale. Though this was hardly possible in former days, I believe it would be possible in these days of improved communications and police, but the initial expenditure on warehouses, etc., would be too heavy for a time of financial pressure and the larger preventive establishments which would be necessary and extend through almost every village would result in oppression which would be so widespread and so frequently exercised that it would be eminently dangerous.

G. GARSTIN—7-3-93.

No doubt a tobacco monopoly *could* be worked but it would be a gigantic undertaking, and so very costly (especially in Bengal, where Government has no rural agency at all) that it would not, in my opinion, bring in a net return worth the imitation, the measure would certainly cause. The simplest way of raising a tax on tobacco would be by a special tax on the land on which it was grown, but that would not apply to Native States and cannot be worked in Bengal. A special establishment which would eat up the most part of the profits, while in all settled non-zamindari districts the terms of the settlements would prevent the imposition of such a tax. Independently of this, the taxation of land according to the crop grown would be a

This note is submitted with reference to the enquiry whether the attention of the Government of India has been called in the Revenue Department to tobacco as a possible source of revenue.

2. The occasion for this enquiry will appear from the notes of His Excellency the Governor and the Hon'ble Sir Henry Stokes to which reference is made in that office-note. It arose in this wise—

In submitting the budget estimate of the Travancore State for the Malabar year 1069 (August 1893–94) Mr. Grigg, the Resident, after observing that the most important increases occurred under certain heads of revenue of which tobacco was one, remarked regarding the increase under this head as follows:—

"That under tobacco is very remarkable. I have never heard a rumour of complaint regarding this tax, and yet it comes to approximately As. 6–6 per head of the population and gives a revenue nearly double that of abkari and opium and is now 55 per cent of that of salt—a necessary of life. Offences against the law relating to its importation are, I believe, not numerous. The lucrativeness of this monopoly may well attract the attention of Indian financiers (paragraph 3 of his letter, dated 3rd August 1893, in Government Order, dated 20th October 1893, No. 712, Political).

On this His Excellency noted—

"We should call the attention of the Government of India to the statistics of the tobacco tax and to the Resident's remarks thereon."

On this note Sir Henry Stokes remarked as follows:—

"The attention of the Government of India has been often enough directed to tobacco as a possible source of revenue. The peculiar position of Travancore makes its experience of little or no value in the consideration of the question.

retrograde measure, injurious to the cultivator and certainly beneficial to no one but the karnam.

A licence fee might be imposed and would yield something. It would be a return to the moturfa abolished years ago, and would come very hard on the very poor classes who sell tobacco. I should be sorry to see it tried. Similar objections can be found to every other plan of levying a tobacco tax in this country. I don't think that the Government of India would care to take the question up. It was examined, on another and later occasion, I think, than any of those mentioned in the note, by Mr. Bazeet Colvin when additional Member of the Viceroy's Council, who wrote a long note on this and other projects of taxation, a copy of which I have somewhere—given me by Sir Auckland Colvin, when Finance Minister, who told me at the time that the idea had been finally abandoned—or to that effect. This was in 1886 when the times were almost as hard as they are now.

H. E. STOKES—7-3-94.

This note is very clear, and gives me a complete answer. It is very evident that we should *not* call the attention of India to Mr. Grigg's remarks on the revenue derived in Travancore from taxing tobacco.

I found myself like many others lured into the belief that a large revenue might be derived from taxing this article, and the same results achieved here as in almost every civilized country in the world. But on inquiry I find that not only has it been thoroughly looked into, but the experiment has been tried and has failed, and there is no doubt the peculiar circumstances of the country have rendered the success of the experiment almost impossible. And as Sir J. Strachey very forcibly puts in the incidence of a tax on tobacco would fall with far greater severity on those who now pay the bulk of the salt tax, and we would thereby be putting a crushing weight on those least able to bear the burden. I confess myself converted and withdraw from any further attempt to bring this question within the domains of practical politics—although I can imagine a municipality looking upon it as a fair object for local taxation but even then extremely difficult to work, as poor Madras can testify.

I suppose though that imported tobacco will pay its 5 per cent like other articles (except cotton goods !).

WENLOCK—11-3-20.

Tobacco is not produced in the State : the revenue is derived from import duties, and the configuration of the country lends itself to the easy levy of these duties on the greater portion of the tobacco consumed, which comes from Ceylon. In this Presidency and probably in the rest of India, import duties would not produce any revenue worth having and would be prejudicial to the Cheroot industry (Tobacco imported consists mainly of cheroot covers from Java and Sumatra): but I have no doubt that a considerable revenue might be got from licensees on the vend by others than the growers."

His Excellency wrote thereupon—

"Has this Government ever called their (India's) attention to it? Anyhow I do not think we could do any harm in pointing out what a large sum a little place like Travancore manages to get from the consumers of tobacco. It does not seem to me material how it is raised, whether by import duties or licences. The very significant fact remains that the consumers of tobacco in Travancore contribute yearly Rs. 10 lakhs to the State."

3. His Excellency's query whether this Government has ever called the attention of the Government of India to tobacco as a possible source of revenue has been referred to this department for information, in the office-note from the Chief Secretary.

4. It will be seen from the references put up—

(1) That this question has frequently been considered by the Government of India and has also formed the subject of correspondence between that Government and this and other Local Governments;

(2) That the conclusion come to by the Government of India is that the idea of raising a large imperial revenue from tobacco must be abandoned;

(3) That our Government has also expressed the opinion that no large provincial revenue can be obtained from tobacco; and

(4) That the Government of India is not unaware of the fact that Travancore manages to derive a large revenue from this source.

5. A summary of the correspondence on the subject is subjoined as also a short account of the tobacco monopoly in the districts of Coimbatore, Malabar and Canara which was abolished in the year 1853.

6. The Blue-Book entitled "Papers regarding the Tobacco Monopoly in the Presidency of Fort St. George etc.", gives the main correspondence up to 1868. It will be seen from pages 25–74 of the book, that for 50 years from 1803 to 1853, tobacco was the subject of a Government monopoly in the districts of Canara, Malabar and Coimbatore (vide Regulations 7 and 8 of 1811 and Regulation 5 of 1831 at pages 1, 4 and 8 of the Blue-Book), that the gross annual revenue derived during the 10 years—1833–1843 was about Rs. 8 lakhs and the net revenue about Rs. 5¾ lakhs; that the evils arising from this monopoly were so great that the attention of Government was frequently invited thereto by the officers concerned; that in 1845, the Government after recording a succinct review of the correspondence on the subject (vide No. 2 at page 26) called for a report from the Board of Revenue "on the practicability of a modification of the monopoly which, whilst we shall secure a considerable revenue, shall yet divest the tax of some of its most injurious attributes, its heavy charge of collection and the inducement it held out to smuggling"). The Government added that if a beneficial modification was impracticable, the possibility of finding an available substitute should be investigated.

It cost 2¼ lakhs to collect 8 lakhs !

J.G.

In reply the Board furnished an exhaustive report on the subject and said—

"It is with much reluctance that they are induced to advise the surrender without an equivalent of so considerable a source of revenue as the (tobacco) monopoly and they must be understood as doing so only, because, after much anxious reflection on the subject, they have been led to the conclusion that between such surrender and the retention of the present system with all its evils, there is no practicable middle course.

After a careful consideration of the subject the Government declared—

"The crying evils of the tobacco monopoly continue daily to become more notorious and demand an immediate remedy. The Right Hon'ble the Governor in Council entertains the most decided conviction that, as the Board of Revenue has represented, there is no effectual remedy short of total abolition and the expunging of so objectionable a branch of revenue from the system of Indian Finance."

In accordance with this view application was made to the Court of Directors for sanction to abolish the tobacco monopoly and on such sanction being obtained, Act IV of 1853 was passed abolishing the monopoly—

Some of the evils of this system arose from its being confined to a limited area but the worst-springing from the fact that tobacco is produced almost everywhere and freely consumed by all classes so that any raising of the price gives rise to the worst sort of smuggling and is fatal to the peace of the country—will affect any system.

J.G.

7. The subject of a tobacco-tax was considered by the Government of India during the years 1859–68. A summary of the correspondence which then took place on the subject and of the views held thereon will be found in Sir John Strachy's minute dated 21st October 1865 printed as No. 97 at page 152 of the Blue-Book and in the Government of India's letter to the Secretary of State printed as No. 98 at page 155.

All methods of taxing tobacco were considered then.

J.G.

It will be seen therefrom that, when after the events of the year 1857, the state of the finances rendered it necessary to resort to new sources of revenue, a tax on tobacco was among other things very much discussed.

Four methods of deriving a revenue from this source had been suggested :—

(1) The suppression of the cultivation of the plant throughout India and the imposition of an import duty.

(2) The establishment of a monopoly of the cultivation and manufacture of tobacco similar to that now applied to opium.

(3) The imposition of a licence duty on the cultivation of the plant.

(4) The imposition of licence fees on all wholesale and retail dealers in the manufactured article.

Of these, the first and second methods were soon dismissed as impracticable.

The third plan was at first favoured by the Government of India but most Local Governments disapproved it. The main objections urged were: that to impose a special tax on the cultivation of tobacco would be a violation of the principles on which land assessments were usually made; that it would also be economically a mistake; that the suppression of its cultivation except under a licence would be difficult to enforce; that as the enforcement cannot be extended to Native States (even if it could be extended to zamindari and inam estates) the measure would have the effect of contracting the area of its cultivation in British territory and greatly stimulating its growth in Native States and it would be extremely difficult to prevent the smuggling of free tobacco from such States. The views of this Government are contained in Mr. Bourdillon's letter to the Government of India, dated 11th June 1859, printed as No. 90 at pages 120–128. In the first enclosure to this letter the inexpediency of taxing tobacco in any form is fully set forth by the Board of Revenue.

The Government of India thereupon turned to the fourth plan of licensing the *sale* of tobacco and accordingly inserted a provision to this effect in the Licensing Bill then under its consideration. (The Bill, which was finally passed as India Act 18 of 1861 and repealed by India Act 2 of 1862). But the reports received from Local Governments on the point were not encouraging. They all went to show that no system of licensing would bring in any large revenue.

The Government of India resolved therefore to abandon altogether the idea of raising a revenue from tobacco by Imperial Legislation and the clause in the Licensing Bill which related to tobacco was accordingly expunged.

8. But while arriving at this opinion as to the unsuitability of tobacco for Imperial taxation the Government of India also thought, judging from the reports received from Local Governments, that a considerable revenue might be derived by Local Governments if they were left each to carry out the system best suited to the circumstances of its province. Accordingly, and as it was thought that Imperial revenues might be relieved to a considerable extent by establishing a system of local taxation for local purposes, the Government of India addressed Local Governments on the subject of such taxation and named tobacco as one of the sources from which a revenue might be derived.

The reply of this Government to the above letter is printed at pages 157—162 of the Blue-Book. This Government merely reiterated the opinion it had expressed in its letter of 11th June 1859 (No. 90 at page 120) that there were insurmountable objections to the realization of a revenue from tobacco unless in the shape of a tax on the shops where tobacco was sold, i.e., a licence tax; and that the produce of such a tax would not be considerable.

9. The Government of India appears to have considered this question of a tobacco tax on subsequent occasions also and to have arrived at substantially the same opinion as before, as will appear from the letter to the Secretary of State printed as No. 98 at page 155.

10. In 1870 when the question of raising the rate of income-tax was under the consideration of the Government of India, a proposal was made by one of the members (Mr. Cowie) to tax tobacco. Sir John Strachy and Sir Richard Temple both spoke against the measure and His Excellency Lord Mayo said:—

"Now it is quite true that in many civilized countries tobacco is considered to be a very proper object for taxation but I must remind the Council that tobacco in India is really an absolute necessary of life and that if you put a tax upon the production of tobacco, you tax the two great necessaries of life in this country, viz., salt and tobacco, and I am not prepared even in the present state of our finances to advocate the imposition of a burden upon such a prime necessary of life as that is.

11. The question appears to have been discussed also during Lord Lytton's Vice-royalty and the same conclusion arrived at, namely, that no large revenue could be raised by taxing tobacco (vide pages 368-70 of Strachy's book on "The Finances and

Public Works of India" and page 554 of the volume of Legislative Council's Proceedings for 1877). The following extract from Strachey's book may be noted:

"Tobacco is almost universally consumed and is looked upon as almost a necessary of life. Whatever means were adopted the tax would only be largely productive if it fell ultimately on the classes which form the great mass of the community.* It would be paid by the same classes which now pay the salt tax, and if it should become necessary to increase the burden which they already bear this object would be more easily and economically gained and with far less vexation to the people by increasing the existing tax upon salt than by imposing a new tax upon tobacco. That any increase in the rate of the salt-tax would be one of the greatest possible mistakes, unless in most exceptional circumstances and on the other hand that its present reduction * would be financially a most desirable measure, has been shown in another chapter (page 370).

* The duty was reduced from Rs. 2-8-0 to Rs. 2 in 1882. It was raised as follows in this Presidency:—

	Duty. Rs.	A.	P.
August 1859	1	0	0
April 1861	1	4	0
1861–62 to 1865–66	1	5	0
1866–67 to 1868–69	1	8	0
1869–70 to 1877–78	1	12	0
1878–79 to 1881–82	2	8	0
1882–83 to 1886–87	2	0	0
1886–87	2	8	0

12. That the Government of India knows that Travancore derives a large revenue from tobacco, may be inferred from the correspondence which took place in 1860–65 relative to the Interportal Trade convention with Travancore and Cochin and more especially from the correspondence embodied in Government Order dated 14th May 1868, No. 1338.

It will be seen from the latter correspondence that at the desire of the Viceroy (Sir John Lawrence) whose attention seems to have been drawn to certain remarks which appeared in the Travancore Administration Report for 1865–66, regarding the tobacco tax in that State the Hon'ble Mr. G. N. Taylor addressed the then Resident in Travancore and Cochin (Mr. Newill) for full particulars regarding the mode in which the tax was levied in that State and that complete information on the subject was furnished by the Resident and the then Diwan T. Madhava Rao.

This correspondence came before this Government, mainly on account of a minute recorded by the Hon'ble Mr. G. N. Taylor, in which he suggested that this Government might consider the expediency of imposing a moderate import duty or an excise wherever practicable—vide his minute printed in the Government Order.

The Diwan's Memorandum shows that during the flourishing period of the monopoly system (it was abolished in 1862–63, that is, ten years after the abolition of the Government monopoly in Malabar and Canara) the gross revenue from tobacco amounted to more than half the revenue from all other sources or more than one-third of the total revenue of the State while the revenue now amounts to about one-eighth of the total revenue.

13. From the administration report of the Travancore State for the year 1891–92, it appears that 12,295 † candies of tobacco valued at Rs. 26,77,723 were imported during that year and that a duty of Rs. 9,43,030 was collected thereon.

† Equal to 6,147,500 lb. or 8,065,520 lb. according as a 'candy' is 500 lb. or 656 lb. (which latter is the equivalent given in Madhava Rao's Memorandum—vide paragraph 10.

14. The following statement gives the statistics of the imports of tobacco into this Presidency by sea for the last three years:—

Tobacco—Imports—Sea-Borne ‡ Trade.

Years.	Foreign trade.		Coasting trade.		Total.	
	Quantity in lb.	Value.	Quantity in lb.	Value.	Quantity in lb.	Value.
		Rs.		Rs.		Rs.
1890–91	446,477	2,06,021	218,915	33,563	665,392	2,39,584
1891–92	542,705	2,91,725	110,937	17,121	653,642	3,08,846
1892–93	915,719	3,37,980	135,775	27,107	1,051,494	3,65,087

‡ The rail-borne imports amount only to about 2,000 lb.

At the Travancore rate of duty the imports into this Presidency will bring in a gross revenue of a little over one lakh of rupees.

R.V.S.—1-3-94.

The foregoing account gives a clear and concise summary of all that has been written on this subject and shows that the feasibility of raising a revenue from tobacco has been most exhaustively debated and that the question has been considered in all its bearings. The situation is appropriately summed up by Sir John Strachey in paragraph 8 of his minute of the 21st October 1865 (page 154 of the Blue Book)—

"Tobacco has seemed at first sight a very promising subject of taxation to almost everyone who has thought upon the subject, but almost everyone had given up the scheme upon full consideration of the difficulties which surround it."

J.G.—3-3-94.

II

MR. N. S. BRODIE'S NOTE DATED 26TH DECEMBER 1915 (SECRET D.O. No. A A-1, DATED 11TH JANUARY 1916).

Prior to 1910–11, *ad valorem* rates used to be charged on imported manufactured tobacco of all sorts at the rate of 5 per cent but this system was then abandoned and special quantitative rates introduced, presumably because of the difficulty of levying *ad valorem* rates. The rates introduced were about 33 per cent higher than those now in force which are—

	Rs.	A.	P.	
Unmanufactured tobacco	1	0	0	per lb.
Cigars	1	10	0	"
Cigarettes weighing less than 3 lb. per thousand.	3	2	0	per thousand.
Cigarettes weighing 3 lb. or more per thousand.	1	4	0	per lb.
Manufactured, other sorts	1	2	0	"

These rates are said to be approximately 36 per cent *ad valorem* on cigars and 33 per cent *ad valorem* on cigarettes though how this is arrived at I don't know, considering how much imported cigars and cigarettes vary in weight and value. The Government of India's first proposal is to raise these rates 'in approximately the same proportion, i.e., to a uniform 50 per cent *ad valorem*.' I presume this means that the duty on cigars is to be raised by about one-third and that on cigarettes by about half. Nothing is said about 'other sorts' which I suppose means principally pipe tobacco. Judging from Spencer's and Oakes' price lists the present rate seems to be from 28 to 41 per cent on the cheapest pipe tobacco and presumably this is also to be raised by about one-third. The rates will then read—

	Rs.	A.	P.	
... ...	2	3	0	per lb.
Cigars	4	11	0	per thousand and
Cigarettes	1	14	0	per lb.
Other sorts	1	8	0	per lb.

I presume the Government of India does not intend to go back to *ad valorem* rates.

2. The rates introduced in 1910–11 had the immediate effect of 'extensively curtailing the imports of foreign tobacco and they scarcely realized the revenue it was hoped they would bring in.' The total imports declined by 83 per cent in quantity and 52 per cent in value. Imports of leaf tobacco, *formerly duty free*, fell from 447,115 lb. to 63,267 lb. or by 86 per cent in quantity. Imports from Ceylon and the Straits Settlements practically ceased. [There used to be quite a large trade from the Jaffna and the northern Ceylon ports which supplied a great part of the tobacco used on the west coast of this Presidency.] Imports of cigarettes decreased 77 per cent in quantity and 48 per cent in value. The cheap American varieties were practically shut out, falling 94 per cent in value and the result was the foundation and development of the Indian cigarette industry which has probably taken their place. Exports of cigars to the United Kingdom fell by 72 per cent owing to the imposition of duty on wrapper tobacco. To avoid this, Messrs. Spencer & Co. removed their factory to Pondicherry.

Effects of taxation introduced in 1910–11.
Sea-Borne Trade Review of 1910–11, page 9.

3. In 1911–12, owing to the outcry from Ceylon and the leading local manufacturers of better class cigars, the rates were reduced by about 33 per cent to the present figures. Even this, however, failed to revive the import trade from Ceylon and the Straits Settlements which was completely and finally killed. Imports of leaf tobacco rose by 19,160 lb. but this was only a mere fraction of the fall of 383,848 lb. in 1910–11. The increase was confined to the higher grades required in the manufacture of cigars of good quality. Imports of cigarettes showed a further decline in quantity but an increase in value, the trade in cheap American cigarettes being completely extinguished. Exports of cigars to the United Kingdom declined another

Sea-Borne Trade Review of 1911–12.

7 per cent in value but exports to the Straits Settlements increased by 23 per cent and the whole export of cigars increased by 13 per cent in quantity and 9 per cent in value. The cigars exported to the Straits Ssttlements and Federated Malay States appear to be made of purely Indian tobacco which pays no duty.

4. In 1912–13, there was a further decrease in imports of cigarettes by 15 per cent and a large factory was opened at Bangalore by the Peninsular Tobacco Company. Manufacture of cigars for export to the United Kingdom was permitted in bond and Messrs. Spencer & Co. returned from Pondicherry. The exports of these cigars rose by 46 per cent but of course the revenue did not profit by this.

Sea-Borne Trade Review of 1912–13.

There was a general increase both in imports and exports of tobacco in 1913–14 and some recovery in imports of cigarettes to a little above the figures of 1910–11. The export of high grade cigars to the United Kingdom rose to ·88 lakh against ·57 lakh in 1910–11.

Sea-Borne Trade Review of 1913–14.

However, the effect of the war was to send most of the principal figures lower than ever. Imports of raw tobacco fell to 70,573 lb. in 1914–15 and exports of high grade cigars to the United Kingdom fell to 33,434 lb. and to ·45 lakh in value (nearly 50 per cent), the lowest figure on record.

Effects of the war—Sea-Borne Trade Review, 1914–15.

5. The figures since the introduction of the new tariff are tabulated below:—

Annual value of the sea-borne trade and navigation of the Madras Presidency for 1914–15.

Foreign trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.						
1. Unmanufactured (total for Presidency).	LB. 447,115	LB. 63,267	LB. 82,427	LB. 90,458	LB. 110,458	LB. 70,573
2. Manufactured—						
(*a*) Cigars	11,099					
(*b*) Cigarettes	319,275	1,049	937	830	1,107	3,368
(*c*) Other sorts	94,940	72,139	65,410	55,217	78,616	78,429
		12,473	26,397	23,370	24,723	28,090
Exports.						
1. Unmanufactured (unaffected by tariff).	1,444,632	1,670,842	1,619,966	1,806,998	2,234,511	2,362,766
Of the above exported to Straits Settlements and Federated Malay States.	1,374,612	1,621,543	1,568,878	1,773,160	2,115,056	2,304,144
2. Manufactured—						
(*a*) Cigars	697,507	704,791	797,383	989,811	988,668	887,165
Of the above quantity exported to United Kingdom.	80,360	42,565	36,184	51,156	56,976	33,434
Straits Settlements and Federated Malay States (unaffected by tariff).	415,357	547,613	661,294	827,278	811,219	800,488
(*b*) Other sorts	4,196	4,515	9,010	8,513	9,363	8,885

Coasting trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.						
1. Unmanufactured	LB. 610,603	LB. 683,787	LB. 664,054	LB. 578,058	LB. 604,165	LB. 596,038
2. Manufactured	142,514	84,439	59,021	94,319	57,595	71,301
Of the above imported from Calcutta.	118,687	73,703	52,511	85,214	46,637	53,301
Exports.						
1. Unmanufactured	7,721,625	7,535,386	6,870,154	6,536,820	6,928,569	5,168,826
Of the above exported to Burma ..	6,926,830	6,474,041	6,149,974	6,133,770	6,521,676	4,579,130
2. Manufactured—						
(*a*) Cigars	347,507	314,933	410,526	419,710	349,618	275,018
Of the above exported to Burma ..	194,493	204,649	292,004	320,781	251,706	177,844
Of the above exported to Bengal ..	101,866	73,206	76,815	61,785	63,117	65,373
(*b*) Cigarettes	..	..	2,877	4,200	26,471	61,599
(*c*) Other sorts	35,726	43,920	37,620	39,906	33,407	77,190

6. The net result of the introduction of the heavier tobacco duties in 1910–11 has, therefore, been to kill the import trade in raw tobacco from Ceylon and the Straits Settlements and in cigarettes from America and to lay the foundations of a cigarette manufacturing industry in India from Indian leaf. The trade in high grade cigars exported to the United Kingdom has suffered very heavily, despite permission to manufacture export in bond. The fall between 1909–10 and 1913–14 (when this industry reached its highest point after the imposition of duties and before the outbreak of war) was about 29 per cent. This shows what an effect even a slight rise in the cost of such a thing as tobacco has on consumption as it was undoubtedly the increased cost (and that only of the wrapper) in 1910–11 that gave the trade this set back. The wrapper is only a minute fraction of the weight of the cigar and if the duty on whole cigars is only equal to an *ad valorem* rate of 36 per cent the duty on a cigar whose wrapper alone pays duty must be nearer 1 or 2 per cent. Since the concession of manufacture in bond has been granted these cigars pay no duty and it is presumed that this concession will be continued so that any enhancement of rates will not affect them.

7. *Rail-borne trade*, 1914–15.—

Imports from other Presidencies and Native States.

	LB.
1. Unmanufactured	2,051,959
Of which imported from Mysore	1,344,550
2. Manufactured—	
(*a*) Cigars	13,330
(*b*) Other sorts—probably cigarettes	1,497,517
Of which imported from Mysore	1,294,272

Exports to other Presidencies and Native States.

1. Unmanufactured	24,729,076
Of which exported to—	
Mysore	8,181,339
Calcutta	5,282,496
Nzam's Territory	4,242,157
2. Manufactured—	
(*a*) Cigars	503,013
(*b*) Other sorts	392,750

Internal trade between various parts of the Presidency.

1. Unmanufactured	53,774,208
2. Manufactured—	
(*a*) Cigars	1,061,815
(*b*) Other sorts—probably cigarettes, bidies and snuff ...	1,074,651

8. From these figures it appears that by far the greatest part of the Delta tobacco is exported in the manufactured condition and made up locally. The trade in manufactured tobacco is comparatively small, which agrees with my information that there are no manufactories of any size. A fairly large quantity of manufactured cigars is exported by rail from the Central districts (i.e., Trichinopoly, Salem and Coimbatore) to Negapatam but this no doubt is included also in the exports by sea to the Straits Settlements.

Cigars.

9. In the Secretariat note of 1911 the total outturn of cigars was estimated by Mr. Innes at about 2,500,000 lb; i.e.:—

	1909–10.
	LB.
Foreign exports	697,507
Coasting trade exports	347,507
Rail-borne exports	451,164
Do. internal trade	971,208
Total ...	2,467,886

The corresponding figures for 1914–15 are—

	LB.
Foreign exports, ...	887,165
Coasting trade exports	275,018
Rail-borne exports	503,013
Do. internal trade	1,061,815
Total ...	2,727,001

Allowing for the disturbance of trade caused by the war, the export trade and rail-borne traffic in cigars may, therefore, be taken at about 2,750,000 lb. but this is probably an excess estimate of the quantity actually manufactured since the rail-borne traffic probably includes the greater part of the foreign exports and possibly a good deal of the coasting trade exports also.

Cigarettes.

10. The Indian cigarette industry has practically grown up since the Secretariat notes of 1911 were written. Foreign imports of the better class cigarettes have remained nearly stationary since 1911–11 at about 70,000 lb. Comparing the figures of 1909–10 with those of 1910–12 when the full effect of the tariff duties had had time to operate, 253,865 lb. of cheap American cigarettes appear to have been displaced. These have no doubt been replaced by Indian cigarettes and there has probably been a large increase in consumption in addition.

The export trade in cigarettes in 1914–15 appears to have been somewhat as follows:—

	LB.
Foreign exports	8,885*
Coasting trade exports	61,599
Rail-borne exports	392,750*
Do. internal trade	1,074,651*
Total ...	1,537,885

In the absence of figures for bidies, snuff, etc., it is not easy, however, to say how much of these 15 lakhs of pounds represent cigarettes and still less how much represents cigarettes manufactured in the Presidency. My inquiries in Vizagapatam show that none of the cigarettes there consumed (and the consumption is very large) are manufactured in this Presidency. The great bulk come from Calcutta and a good many from the Peninsular Tobacco Company, Bangalore. Similarly in Madras, the bulk of the cigarettes come from Bangalore or Bowringpet, both in Mysore territory and not subject to British excise. It will be seen from paragraph 7 above that 1,294,272 lb. of 'other sorts' including (no doubt mostly) cigarettes are imported from Mysore. Probably the greater number of these are shown in 'rail-borne internal trade' and exports of the Presidency over again. I should put the actual number manufactured in the Presidency at not more than 250,000 lb.

11. The following are principal Indian Cigaratte factories shown in the Lawrence Asylum Press Almanack, page 1438:—

(1) A.G.M. & Sons, Coimbatore.

(2) K.G.A., Coimbatore.

(3) McDowell & Co., Madras.

I have never seen any cigarettes from the first two factories and they seem to be very small and merely supply the local market. McDowell & Co. employ about 25 persons and some small hand machines. Pappadapoulos Brothers make Egyptian cigarettes but import Egyptian tobacco which already pays duty. Besides these there are the two large factories in Mysore—

4. The Peninsular Tobacco Company, Cleveland town, Bangalore, and

5. The Oriental Tobacco Manufacturing Company, Bowringpet.

*Includes, however, pipe tobacco, bidies, snuff, etc.

Both these are run on American lines and employ a large number of workmen and power-driven machinery, but as already remarked they are not subject to British excise.

Outturn of tobacco.

12. According to the 'Season and crop report' for 1914–15 the total area cultivated with tobacco in the Presidency was 227,182 acres, the 'normal' area being 203,230 acres. I learn from Chadwick that 800 lb. of dried leaf per acre is a fair average crop as taken by Castlestuart Stuart in 1910. The total outturn was therefore about 182,000,000 lb. of which we have only accounted for about 3½ millions at most in the manufactured form. This outturn was spread over 24 districts, the area being over 10,000 acres in seven, Vizagapatam (29,115), Godavari (13,099), Guntur (78,560), Kistna (13,022), Kurnool (18,769), Coimbatore (26,001) and Madura (11,172).. These figures show little change since 1908–09.

About 90,000,000 are exported in unmanufactured form.

Tobacco industry.

13. The census report for 1911 groups manufacturers of tobacco, opium and ganja together under Order 12, Group 66. The number of manufacturers of opium and ganja must be almost negligible and the total number of workers and dependents is shown to be 12,333. Under Order 33, Group 122, sellers of tobacco, opium, ganja, etc., are said to be 65,733 (workers 25,883, dependents 39,850). The total number of persons dependent on the tobacco trade is therefore about 78,066 against 75,000 in 1901. It is not possible to compare the figures of the other industries referred to in Mr. Castlestuart Stuart's demi-official of 5th November 1910 as the classification has been altered. Betel leaf and arecanut sellers are now grouped with vegetable and fruit sellers. It may be noted however that the number of persons engaged in the manufacture of tobacco is about as many as bakers and biscuit makers (12,970) whilst the number of sellers of tobacco is not much less than the number of sellers of milk, ghee, butter, poultry, eggs, etc. (80,981).

Present proposals criticised.

14. These figures show that there has been comparatively little change in the general position since 1910–11 and the arguments against any form of taxation of Indian grown tobacco remain as strong as they were then. The present proposals of the Government of India may now be examined in detail. The first is, as far as I understand it, to raise the quantitative rates of duty on imported cigars and cigarettes (and perhaps also on other manufactured tobacco) to the figures shown in paragraph 1 above. The quantity of imported cigars is now very small and was only 3,368 lb. in 1914–15. Assuming that the enhanced duty has no effect on consumption, the increase of revenue from this source will be only Rs. 1,824*. But judging from the effect of the enhancement of duty in 1910–11 it will probably be much less. The duty on imported cigarettes (78,429 lb. in 1914–15) was about Rs. 80,000 and the enhancement of the duty by one-half may give Rs. 40,000, though here also a heavy fall in consumption may be confidently looked for. The increase of duty on 'other sorts', i.e., probably pipe tobacco, snuff, etc. (which may be contemplated) by one-third would yield perhaps Rs. 10,742. Altogether, the maximum increase of revenue that may be looked for from this proposal cannot, therefore, be more than Rs. 60,000 and the burden will fall heavily on the poorly paid European and Eurasian assistants in shops, business firms, Railway Companies, etc., who are by far the largest consumers of imported cigarettes. However this increased revenue can no doubt be obtained without administrative difficulty or expense.

(a) First proposal.

*Present duty Rs. 5,473 one-third enhancement Rs. 1,824.

(b) Second proposal.

15. The second proposal is to levy an excise duty on cigarettes of Indian manufacture. The large factory referred to by the Government of India is probably that in Bengal, I think at Monghyr. It is proposed to differentiate bidies from cigarettes by the use of cigarette paper. This may be accepted. It is proposed that

the taxation should take the form of a quantitative duty equivalent to an *ad valorem* duty of about 15 per cent. A further point is whether the taxation should be restricted to factories equipped with power-driven machinery. If this qualification is accepted the question is a simple one for there are no such cigarette factories in this Presidency. Assuming, however, that all cigarette factories are to be taxed my inquiries show that cigarettes of Indian manufacture vary considerably in price. The cheapest are sold retail at prices varying from Rs. 1–4–6 per 500 or Rs. 2–6–0 per 1,000 to Rs. 2–12–0 per 500 or Rs. 5–2–0 per 1,000. These cigarettes both weigh almost exactly $2\frac{1}{2}$ lb. per 1,000, the cheaper ones a little more. The manufacturer's price to the trade is no doubt considerably less as these cigarettes have to be imported to Vizagapatam and there is the retailer's profit to be considered. The excise duty will of course have to be fixed with regard to the wholesale price at the factory. I should say Rs. 1–12–0 per 1,000 is probably an outside price for the cheapest cigarettes. This means $28/2\frac{1}{2}=11\frac{1}{5}$, say 11 annas a lb. or as they weigh rather more than $2\frac{1}{2}$ lb. per 1,000, say 10 annas a lb. 15 per cent on 10 annas is one and a half annas per lb. I have estimated the total production of cigarettes in this Presidency at not more than 250,000 lb. and the duty on this would be Rs. 23,437. It is impossible to say without a full inquiry what the number of cigarette factories is but they are certainly very small and probably average not more than 10,000 lb. of cigarettes each per annum. Putting the number at 25 scattered all over the Presidency, not less than 25 Sub-Inspectors on Rs. 40 per mensem would be required to supervise them. The cost of these would be Rs. 12,000 not allowing for contingent expenses such as weighing machines, etc. The net proceeds of the tax would therefore be somewhere about Rs. 10,000, even supposing that the duty had no effect on consumption which is extremely improbable. Moreover as Indian cigarettes vary considerably in price though not so much as cheroots, the duty would press most unfairly on the cheapest brands and on the poorest class of the population which consumes them.

Watch cigarettes—Peninsular Tobacco Company, Bangalore, Rs. 1-4-6.
Ruler cigarettes—Imperial Tobacco Company, Calcutta, Rs. 2-12-0 per 500.

16. The third proposal is to levy a similar quantitative excise duty equivalent to an *ad valorem* tax of 15 per cent on cigars of Indian manufacture. As already pointed out in 1911 this problem absolutely bristles with administrative difficulties. In the first place it is not clear whether bidies are to be included. It is possible to distinguish bidies from cigarettes but the difference between them and the poorest kind of cheroots is almost infinitesimal. Both are rolled in leaves, sometimes tobacco leaves sometimes not. The manufacture of bidies is admittedly a cottage industry carried on in every village and hamlet. However according to the Asylum Press Almanack one tobacco factory at least professes to make bidies. The vast bulk of the Indian cheroots are also made as a cottage industry as is evident from the fact that out of 182 millions of pounds of tobacco grown only about $3\frac{1}{2}$ millions ($4\frac{1}{2}$ at the outside) appear in the trade returns as manufactured. Possibly bidies could be excluded by excepting cheroots, etc., weighing less than as many pounds to the 1,000. My experiments show that the commonest bidies weigh about $1\frac{1}{4}$ lb. per 1,000, so that if manufactured cheroots weighing less than $1\frac{1}{2}$ lb. per 1,000 were excluded this might meet the case. However this would undoubtedly stimulate the consumption of bidies which I understand to be the most deleterious form of smoking. Bidies are sold at 12 annas a 1,000 wholesale in Madras, that is at about $9\frac{3}{5}$ annas per lb. The manufacturer's price may be less so that probably 9 annas per lb. would be a safe figure and the duty, if any, ought to be much the same as for cigarettes or a little less, say 1 anna 4 pies per lb.

(c) Third proposal.

Bidies.

17. Ordinary cheroots of the commonest kind seem to weigh about $3\frac{3}{4}$ lb. per 1,000 and cost Rs. 1–12–0 per 1,000 retail but both weight and price vary enormously. Better class cheroots which, however, are still largely consumed by the poorer classes weigh 20 lb. per 1,000 and cost Rupees 12–8–0. Assuming that the rates to the trade are somewhat less we may estimate the first kind at 6 annas a lb. and the second at 10 annas a lb. The duty ought to be fixed at 15 per cent on the cheapest

Cigars.

kind at 6 annas a lb. The duty would then be 11 pies but for convenience of reckoning might be fixed at one anna.

It is quite impossible to estimate with any accuracy the output of Indian manufactured cigars. The figures in paragraph 9 no doubt afford some guide. I should imagine 2,000,000 lb. to be a fair estimate. The duty on this at 1 anna per lb: would be Rs. 1,25,000. Against this has to be set the cost of establishment which would be enormous. It is not possible at present to form any idea of what this would be. Presumably the only way to ensure the collection of the duty would be to place each factory in charge of an officer who would have to weigh the quantity of raw tobacco received and the quantity finally passed out on payment of duty, seeing that none illicitly passed out and keeping accounts on the same lines as officers in charge of distilleries. The test of a factory would be I suppose that the proprietor sold the manufactured produce, for practically every householder buys a few leaves of tobacco now and again and rolls them up into cheroots for private consumption. Even excluding these individuals, there appear to be about 26,000 persons describing themselves as tobacco sellers in the census returns, excluding 2,000 partially agriculturist. This agrees with what I expected, being an average of about one for every village in the Presidency. In some places there are no doubt several and in others none, but it would be quite impossible to do much in the way of concentration without causing much hardship. The formation of central storehouses appears, therefore, to be impossible and practically every shop will have to have a properly locked storehouse for the cheroots manufactured which adds to the expense. The ordinary staff of the Salt and Abkari Department could not possibly undertake this enormous addition to its work. Assuming that one Sub-Inspector could efficiently supervise on the average 25 factories (which I take to be impossible with the shops scattered as at present) it would require a staff of 1,000 Sub-Inspectors to supervise the work in the Presidency. The opportunities for fraud would be so great that I fear even then the force would be demoralized. Certainly a great many of the Sub-Inspectors would have to be paid more than the lowest grade of Rs. 40 a month. Assuming that the average pay is Rs. 60, this establishment alone would cost Rs. 60,000 per month or Rs. 7,20,000 per annum or about six times the estimated proceeds of the tax. It seems hardly worth while to discuss the matter further. A complete staff of peons, inspectors, Assistant Commissioners and Deputy Commissioners would also be necessary to supervise such an establishment and it would be quite impossible for me to undertake so large an addition to my work. After all there would be no possibility of guarding against fraud as there would be nothing to distinguish between illicit and licit tobacco. As far as I can see no tax less than Re. 1 per lb. would do more than pay for the cost of collection and this of course would be ruinous having regard to the cost of the article.

18. In conclusion I can see nothing in favour of the tax or any possibility of working it. A tax on Indian cheroots made in power-driven factories might be possible. There are only two, viz.: Spencer's at Dindigul and Oakes & Co. at Guindy—employing 700 persons between them. But it seems very hard to discriminate against them, even if the tax was only one anna a lb. and anything more would probably drive them out of the Indian market altogether. I cannot say what the output of these two factories is, but excluding the amount manufactured in bond for Europe I doubt if it exceeds 500,000 lb. and the duty at one anna per lb. would yield only Rs. 31,250.

19. Another possible course would be to put an export duty on manufactured tobacco. In that case I should exclude cigars exported to the United Kingdom which have to pay heavy and enhanced duties there and have already sufferred by the tariff. There are not the same administrative objections to an export duty, at all events on exports by sea, as the establishment exists and evasion would be practically impossible. Exports by sea to foreign countries, excluding the United Kingdom, amounted to 853,731 lb. in 1914–15 and exports to other provinces to 275,018 lb. Total 1,128,749 lb. A duty of one anna per lb. might bring in Rs. 62,500 without any extra cost and as the exported cigars at all events to the Straits Settlements are of fairly good quality a duty of even 2 annas a lb. might not ruin the trade and bring in about one and quarter lakhs. Still the amount is so small that I see no use in upsetting the trade at all for so very little result.

N. S. Brodie—26–12–15.
4

III

Demi-official from L. Davidson, Esq., I.C.S., to N. S. Brodie, Esq., I.C.S., dated 4th July 1916, No. 39-S. (Secret No. 183 A, dated 18th December 1916.)

I am desired to refer to your note of the 26th December 1915, on the subject of imposing an excise on locally manufactured cigars and cigarettes. The Government of India are disposed to agree that the taxation of locally-made cigars is not likely to prove of practical value. As regards cigarettes, however, they are unable to abandon the possibility of revenue from an article which is not only a luxury but also, to some extent, a harmful luxury; and they have asked this Government to consider the question at greater leisure.

2. Your note, referred to above, gives an approximate estimate of the total outturn of cigarettes in the Presidency, the number of factories and the prevailing wholesale prices. I am to ask whether you cannot now quietly obtain more precise information as to the number and location of factories, the met hods of manufacture, the outturn and the prices obtained. Collectors could possibly procure the information under the guise of income-tax or statistical inquiries without exciting attention.

3. The calculations in your note are based on the assumption that the excise to be imposed would be equivalent to an *ad valorem* tax of about 15 per cent, as was then suggested by the Government of India. I am to ask you now further to consider the effect of taxation on the industry and to favour Government with your opinion as to the maximum which could safely be imposed without seriously crippling the trade.

4. The Government of India lay stress on the strictly confidential nature of this further reference, but say 'there is no objection to consulting any officer of Government whose advice would be of special value.'

Demi-official from N. S. Brodie, Esq., I.C.S., to L. Davidson, Esq., I.C.S., dated Ennore, 12th November 1916.

With reference to your demi-official No. 39-S., dated 4th July 1916, I have now made further inquiries into the subject of the production and sale of cigarettes in this Presidency both personally and through Collectors. I cannot say that I have elicited much additional information and the remarks which I made in my note of the 26th December 1915 continue to hold good. It appears, however, that I was wrong in stating that there were no cigarette factories in the Presidency equipped with power-driven machinery as it was found on further inspection that McDowell's factory in Moor street, Madras, had some cutting machines worked by an oil-engine recently set up.

2. The estimate of outturn may very well remain at 250,000 lb. The only details I have been able to get are from the Universal Tobacco Company in Madras which is believed to turn out about 30 lakhs of cigarettes per mensem and from McDowell's factory, also in Madras, which is believed to turn out about 20 lakhs. McDowell's factory does not use Indian tobacco exclusively and some of the brands contain imported tobacco to the extent, it is said, of 25 per cent on the whole. I have tested numerous brands from all parts of the Presidency and find that as a rule they weigh about $2\frac{1}{2}$ lb. per 1,000, a little more or less. This gives the total Madras production about 150,000 lb. per annum. Allowing for the imported tobacco used in McDowell's factory the quantity of Indian cigarettes is about 135,000 lb. The only other factories appear to be Oakes & Co.'s factory at Guindy, a new factory started by Barry & Co. in Cocanada just recently and one or two small factories in Coimbatore. There was a factory at Guntur but it seems to have failed after working a few months. The Collector of Coimbatore has not yet replied to my letter on the subject but I made some inquiries in the course of my last tour and find that there are one and probably two factories in Coimbatore but they use imported tobacco for their cigarettes as does Pappadopoulos in Madras. Allowing for all these factories I should say 115,000 lb. per annum was a very liberal estimate, making 250,000 for the Presidency.

3. Retail prices seem to vary very considerably but on the whole I see no reason to modify my original calculations. The cheapest cigarettes are sold in packets of 5 or

6 and a slightly more expensive lot in packets of 10. The dealers' profit seems to be about eight annas a thousand and the trade discount about 20 per cent. Some

* By the Universal Tobacco Company, 1/6, Patters Road, Royapetta—'Bazaar' brand. cigarettes* are sold as cheaply as Re. 1 per 1,000 wholesale or allowing for the trade discount about thirteen annas per

1,000. This is less than half the price I estimated for the cheapest cigarettes in my last note (Rs. 1-12-0). I doubt if there are many of this brand sold, but there are numerous other brands at Re. 1-4-0, Re. 1-6-0 and Rs. 1-8-0 sold by McDowell & Co. However all other information tends to confirm the view that the cheapest cigarettes are sold at Rs. 2 to Rs. 2-12-0 by the wholesale dealers and consequently must cost somewhere about Rs. 1-12-0 per 1,000 from the manufacturers. These cheap cigarettes are manufactured in this Presidency by McDowell & Co., and the Universal Tobacco Company only. Those turned out by Oakes & Co., and the new factory started by Barry & Co., at Cocanada are much more expensive and work out at Rs. 11 to Rs. 14 per 1,000.

4. The method of manufacture is probably the same everywhere. The tobacco selected has all the main nibs cut out and the leaves are then laid one above the other to a considerable depth. They are then cut into small pieces by a cutting machine, the tabacco rolled in cagarette paper, gummed and cut into lengths. As far as I know the cutting and gumming, etc., machines are all worked by hand except in McDowell's factory above referred to.

5. In this connexion I should, however, bring to notice one or two facts which I have ascertained in the course of my inquiries. It is a common practice I understand for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale especially at the various shandies and markets in the Presidency. This is common in Malabar, Coimbatore and the Nilgiris at all events and probably elsewhere. Most Collectors have, however, reported that cigarette papers are not commonly sold in the bazaars. I believe the practice of individual consumers rolling their own cigarettes is not common at present though it is said to have been customary in Salem before the shop-made cigarettes became so cheap. It would be clearly impossible to levy an excise duty on cigarettes made by hawkers or private individuals and it may be expected that the practice would be much more largely resorted to if a duty were imposed on the manufactured article. This might perhaps be met by imposing a customs duty on cigarette paper which would have to be determined in accordance with the duty imposed on cigarettes, such customs duty to be refunded on paper actually used by the wholesale manufacturers. It seems that cigarette paper was formerly imported mostly from Austria and Germany—at present it is obtained from France.

6. As regards the duty to be imposed I find it difficult to express an opinion. The heavy rates imposed in 1910-11 practically killed the cheap American cigarettes but then the enhancement of rates was probably more than 100 per cent of the value so that this result was quite intelligible. My inquiries show that my estimate of the cost of collection was much too large. One Sub-Inspector would, I think, be required for each factory but as there seem to be only four or possibly five factories the cost would be only about Rs. 2,400 per annum. As observed in my previous note, a duty of one and a half annas per pound represents 15 per cent of the value of the cheap cigarette. This amounts to 3 annas 9 pies per 1,000 and could hardly affect the retail price at all. The usual retail price per packet of 10 cigarettes seems to be about 4 pies. A duty of 8 annas 4 pies per 1,000 should raise the retail price by one pie and this would probably not seriously affect the trade though even one pie is a consideration in a country like India. I do not think we could safely raise the duty beyond Re. 1 per 1,000 which would raise the retail price about 2 pies or 50 per cent. This would be 6·4 annas per pound and roughly about 60 per cent of the value. Although cheap cigarettes do not seem to vary much in weight I would prefer to levy the duty by the pound rather than by the number as being the only fair way of assessing it. A duty of $6\frac{1}{2}$ annas per pound would, if the production remained at 250,000 lb., yield Rs. 1,01,562$\frac{1}{2}$ but if the consumption fell, as it probably would, to about 200,000 lb. the tax would yield Rs. 81,250. As far as this Presidency is concerned, the result would, therefore, be insignificant, but, no doubt, the revenue

from the whole of India would be very considerable and I cannot see any serious objection to the proposal except that it would greatly encourage the smoking of bidies and press rather hardly on the poorest class of the population who smoke cheap cigarettes at present and regard them as a great luxury.

Demi-official from F. J. RICHARDS, Esq., I.C.S., to LEY, Esq., I.C.S., dated the 18th December 1916, No. 75-S.

I am directed to reply to Mr. Low's Confidential demi-official letter No. 4493, dated 14th June 1916, on the subject of the expediency of imposing an excise on cigarettes manufactured in India from indigenous tobacco.

2. In the first place, I am to point out that the correspondence of 1910, to which reference is made in the first paragraph of Mr. Low's letter, did not turn on the present question, for at that time there was no manufacture of cigarettes from indigenous tobacco in this Presidency. It is stated that the question of an excise on manufacture was then dropped because the local cigarette industry was in its infancy and it was considered that the imposition of an excise would deal it a death-blow. So far as this Presidency is concerned, the position is virtually unaltered; for, as stated in Mr. Butterworth's demi-official letter No. A.A.-1, dated 11th January 1916, the local output of cigarettes does not exceed some 250,000 lb. annually. This estimate has been confirmed by subsequent enquiries, though the number of factories to be taken into account is found to be smaller than was thought to be the case. There are probably not more than 5 or 6, of which the two largest are those owned by Messrs. McDowell & Co., and the Universal Tobacco Company both in Madras City. The former has recently been equipped with an oil-engine for driving its cutting machines. The average wholesale price for the cheapest class of ciagarettes quoted in Mr. Butterworth's letter, viz. Rs. 1-12-0 per 1,000, may be taken as correct. These cheap cigarettes are manufactured only by Messrs. McDowell & Co. and the Universal Tobacco Company. Those turned out by Messrs. Oakes & Co., at Guindy and by Messrs. Barry & Co., at Cocanada are much more expensive, costing from Rs. 11 to Rs. 14 per 1,000.

3. The maximum rate of duty which is considered compatible with the survival of the industry is Re. 1 per 1,000 or approximately $6\frac{1}{2}$ annas per lb. This duty would if the production remained 250,000 lb. yield a revenue of a little over a lakh. The imposition of such a tax, however, is almost certain to preclude any expansion of the industry and would very probably strangle that which already exists; for it would either drive the masses to revert to *bidi* smoking or compel the manufacturers to transfer their factories to French territory or to Native States. I may here point out that the Director-General of Commercial Intelligence has incorrectly assumed that the tax realisable from the Peninsular Tobacco Company's factory in the Civil and Military Station, Bangalore, would be credited to Imperial revenues. By the terms of rendition, the Mysore Government is entitled to the whole of the surplus revenue of the Assigned Tract, after the cost of the administration of the tract is defrayed. This fact seriously affects the estimate formed of the probable receipts from the tax.

4. Another factor to be taken into consideration is the practice, common in several districts of this Presidency, for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale, especially at local markets. Individual consumers do not usually roll their own cigarettes, though it is said to have been customary for them to do so in Salem before the shop-made cigarettes became so cheap. It would obviously be impossible to levy an excise duty on cigarettes made by hawkers or private individuals; and it may be expected that the practice would be much more largely resorted to, if a duty were imposed on the manufactured article. Cigarette paper was formerly imported from Germany and Austria; now France is the chief source of supply. A customs duty might be imposed on it, such duty to be refunded on paper actually used by the wholesale manufacturers; but this expedient would not be free from difficulties and would almost certainly result in the use of a local substitute.

5. In these circumstances, I am to say that the Government of Madras are entirely opposed to the proposal. They can suggest no alternative scheme for internal taxation of tobacco, apart from those already rejected.

IV

Letter from C. R. WATKINS, Esq., C.I.E., Officiating Collector of Customs, Madras, to the Under Secretary to Government, Finance Department, dated 1st May 1925, No. L. Dis. Nil.

I forward herewith a statement showing the foreign imports into, and exports from, the Madras Presidency of tobacco since the year 1920-21.

2. The rates of customs duty at present in force are given below:—

Name of article.	Per	Tariff valuation.	Duty.
Cigars	.....	Ad valorem.	75 per cent.
Cigarettes of value.—Not exceeding Rs. 10-8-0 per thousand.	Thousand ...	.....	Rs. 7.
Exceeding Rs. 10-8-0 per thousand ...	Do.	.....	,, 10-8-0.
Tobacco, unmanufactured	Lb. ...	.....	,, 1.
All other sorts of tobacco manufactured	,, ...	.....	,, 2-4-0.

ENCLOSURE.

Foreign imports and exports of 'Tobacco' at the Presidency of Madras for the past five years ending 1924-25.

	1920-21.		1921-22.		1922-23.		1923-24.		1924-25.	
	Quantity.	Value.	Quantity	Value.	Quantity.	Value.	Quantity.	Value.	Quantity.	Value.
FOREIGN IMPORTS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.
Tobacco—Unmanufactured ..	77,507	1,45,703	489,693	13,17,036	742,412	14,07,436	3,105,459	34,57,277	3,485,871	29,29,162
Cigars	12,815	43,430	701	2,922	81	238	94	156	215	473
Cigarettes	500,267	16,39,198	186,750	9,40,779	278,384	12,34,116	296,516	13,54,712	1,86,952	8,34,717
Tobacco for pipes and cigarettes	304	1,296	5,293	54,393	22,524	1,19,720	18,155	97,606	½	3
Other sorts	28,058	1,46,309	9,590	39,508	852	3,891	12,402	40,892	20,564	1,06,279
Total ..	618,951	19,75,936	692,027	23,54,638	1,044,253	27,65,401	3,432,626	49,50,643	3,693,602	38,70,634
FOREIGN EXPORTS.										
Tobacco—Unmanufactured ..	3,118,784	13,57,807	4,650,985	16,84,266	4,258,743	17,68,621	9,953,877	37,65,684	14,366,170	42,49,345
Cigars	75,540	1,04,792	94,905	1,17,671	99,244	1,32,490	1,11,541	1,20,174	88,199	1,25,560
Cigarettes	..	..	129	615	31,230	30,049	1,574	1,492	72,086	81,746
Other sorts	34,166	27,373	48,237	46,322	45,300	44,918	110,903	1,03,645	99,555	49,769
Total ..	3,228,490	14,89,972	4,794,256	18,48,874	4,434,517	19,76,078	10,177,895	39,90,995	14,626,010	45,06,420

V

Statement showing the area under cultivation of tobacco in the Madras Presidency in 1923–24.

	ACS.		ACS.
Ganjam	3,299	Salem	3,737
Vizagapatam	48,285	Coimbatore	25,544
Godavari	11,591	Trichinopoly	4,032
Kistna	13,301	Tanjore	2,223
Guntur	64,481	Madura	7,400
Kurnool	14,542	Ramnad	3,889
Bellary	2,658	Tinnevelly	1,048
Anantapur	4,785	Malabar	17
Cuddapah	1,868	South Kanara	1,623
Nellore	2,625	The Nilgiris	72
Chingleput	62		
South Arcot	2,985	Total ...	219,841
Chittoor	595		
North Arcot	2,179		

CONFIDENTIAL.

TAXATION ON TOBACCO.

I

Notes to G.O. Mis. No. 1993, *dated* 21*st May* 1894.

The question is whether we should take the success of Travancore in levying a revenue from tobacco as a reason for calling the attention of the Government of India to the possibility of levying a revenue for tobacco in our territories. I doubt if we have sufficient ground for doing so and whether such a suggestion would be well received. Travancore is exceptionally situated, so that it has been possible to abolish all growth of tobacco there and levy a revenue by import duties, and the Government of India know all about this. Such a system would be impossible in our territory where tobacco is grown almost everywhere and consumed by almost everybody, and where larger Native States abound. The possibility of levying a revenue on tobacco in our territory, in this or any other way, has been repeatedly discussed and decided against after full communication between all the Governments, so that any suggestion for us on the subject would amount to an insinuation that the discussion had not been complete. The only way in which, as far as I can see, a large revenue could be realized for tobacco would be by establishing monopoly of manufacture and sale. Though this was hardly possible in former days, I believe it would be possible in these days of improved communications and police, but the initial expenditure on warehouses, etc., would be too heavy for a time of financial pressure and the larger preventive establishments which would be necessary and extend through almost every village would result in oppression which would be so widespread and so frequently exercised that it would be eminently dangerous.

G. GARSTIN—7-3-93.

No doubt a tobacco monopoly *could* be worked but it would be a gigantic undertaking, and so very costly (especially in Bengal, where Government has no rural agency at all) that it would not, in my opinion, bring in a net return worth the imitation, the measure would certainly cause. The simplest way of raising a tax on tobacco would be by a special tax on the land on which it was grown, but that would not apply to Native States and cannot be worked in Bengal. A special establishment which would eat up the most part of the profits, while in all settled non-zamindari districts the terms of the settlements would prevent the imposition of such a tax. Independently of this, the taxation of land according to the crop grown would be a

This note is submitted with reference to the enquiry whether the attention of the Government of India has been called in the Revenue Department to tobacco as a possible source of revenue.

2. The occasion for this enquiry will appear from the notes of His Excellency the Governor and the Hon'ble Sir Henry Stokes to which reference is made in that office-note. It arose in this wise—

In submitting the budget estimate of the Travancore State for the Malabar year 1069 (August 1893–94) Mr. Grigg, the Resident, after observing that the most important increases occurred under certain heads of revenue of which tobacco was one, remarked regarding the increase under this head as follows :—

"That under tobacco is very remarkable. I have never heard a rumour of complaint regarding this tax, and yet it comes to approximately As. 6–6 per head of the population and gives a revenue nearly double that of abkari and opium and is now 55 per cent of that of salt—a necessary of life. Offences against the law relating to its importation are, I believe, not numerous. The lucrativeness of this monopoly may well attract the attention of Indian financiers (paragraph 3 of his letter, dated 3rd August 1893, in Government Order, dated 20th October 1893, No. 712, Political).

On this His Excellency noted—

"We should call the attention of the Government of India to the statistics of the tobacco tax and to the Resident's remarks thereon."

On this note Sir Henry Stokes remarked as follows :—

"The attention of the Government of India has been often enough directed to tobacco as a possible source of revenue. The peculiar position of Travancore makes its experience of little or no value in the consideration of the question.

retrograde measure, injurious to the cultivator and certainly beneficial to no one but the karnam.

A licence fee might be imposed and would yield something. It would be a return to the moturfa abolished years ago, and would come very hard on the very poor classes who sell tobacco. I should be sorry to see it tried. Similar objections can be found to every other plan of levying a tobacco tax in this country. I don't think that the Government of India would care to take the question up. It was examined, on another and later occasion, I think, than any of those mentioned in the note, by Mr. Bazeet Colvin when additional Member of the Viceroy's Council, who wrote a long note on this and other projects of taxation, a copy of which I have somewhere—given me by Sir Auckland Colvin, when Finance Minister, who told me at the time that the idea had been finally abandoned—or to that effect. This was in 1886 when the times were almost as hard as they are now.

H. E. STOKES—7-3-94.

This note is very clear, and gives me a complete answer. It is very evident that we should *not* call the attention of India to Mr. Grigg's remarks on the revenue derived in Travancore from taxing tobacco.

I found myself like many others lured into the belief that a large revenue might be derived from taxing this article, and the same results achieved here as in almost every civilized country in the world. But on inquiry I find that not only has it been thoroughly looked into, but the experiment has been tried and has failed, and there is no doubt the peculiar circumstances of the country have rendered the success of the experiment almost impossible. And as Sir J. Strachey very forcibly puts in the incidence of a tax on tobacco would fall with far greater severity on those who now pay the bulk of the salt tax, and we would thereby be putting a crushing weight on those least able to bear the burden. I confess myself converted and withdraw from any further attempt to bring this question within the domains of practical politics—although I can imagine a municipality looking upon it as a fair object for local taxation but even then extremely difficult to work, as poor Madras can testify.

I suppose though that imported tobacco will pay its 5 per cent like other articles (except cotton goods !).

WENLOCK—11-3-20.

Tobacco is not produced in the State : the revenue is derived from import duties, and the configuration of the country lends itself to the easy levy of these duties on the greater portion of the tobacco consumed, which comes from Ceylon. In this Presidency and probably in the rest of India, import duties would not produce any revenue worth having and would be prejudicial to the Cheroot industry (Tobacco imported consists mainly of cheroot covers from Java and Sumatra) : but I have no doubt that a considerable revenue might be got from licensees on the vend by others than the growers."

His Excellency wrote thereupon—

"Has this Government ever called their (India's) attention to it ? Anyhow I do not think we could do any harm in pointing out what a large sum a little place like Travancore manages to get from the consumers of tobacco. It does not seem to me material how it is raised, whether by import duties or licences. The very significant fact remains that the consumers of tobacco in Travancore contribute yearly Rs. 10 lakhs to the State."

3. His Excellency's query whether this Government has ever called the attention of the Government of India to tobacco as a possible source of revenue has been referred to this department for information, in the office-note from the Chief Secretary.

4. It will be seen from the references put up—

(1) That this question has frequently been considered by the Government of India and has also formed the subject of correspondence between that Government and this and other Local Governments ;

(2) That the conclusion come to by the Government of India is that the idea of raising a large imperial revenue from tobacco must be abandoned ;

(3) That our Government has also expressed the opinion that no large provincial revenue can be obtained from tobacco ; and

(4) That the Government of India is not unaware of the fact that Travancore manages to derive a large revenue from this source.

5. A summary of the correspondence on the subject is subjoined as also a short account of the tobacco monopoly in the districts of Coimbatore, Malabar and Canara which was abolished in the year 1853.

6. The Blue-Book entitled "Papers regarding the Tobacco Monopoly in the Presidency of Fort St. George etc.", gives the main correspondence up to 1868. It will be seen from pages 25–74 of the book, that for 50 years from 1803 to 1853, tobacco was the subject of a Government monopoly in the districts of Canara, Malabar and Coimbatore (vide Regulations 7 and 8 of 1811 and Regulation 5 of 1831 at pages 1, 4 and 8 of the Blue-Book), that the gross annual revenue derived during the 10 years—

It cost 2¼ lakhs to collect 8 lakhs !

J.G.

1833–1843 was about Rs. 8 lakhs and the net revenue about Rs. 5¾ lakhs ; that the evils arising from this monopoly were so great that the attention of Government was frequently invited thereto by the officers concerned ; that in 1845, the Government after recording a succinct review of the correspondence on the subject (vide No. 2 at page 26) called for a report from the Board of Revenue "on the practicability of a modification of the monopoly which, whilst we shall secure a considerable revenue, shall yet divest the tax of some of its most injurious attributes, its heavy charge of collection and the inducement it held out to smuggling"). The Government added that if a beneficial modification was impracticable, the possibility of finding an available substitute should be investigated.

In reply the Board furnished an exhaustive report on the subject and said—

"It is with much reluctance that they are induced to advise the surrender without an equivalent of so considerable a source of revenue as the (tobacco) monopoly and they must be understood as doing so only, because, after much anxious reflection on the subject, they have been led to the conclusion that between such surrender and the retention of the present system with all its evils, there is no practicable middle course.

After a careful consideration of the subject the Government declared—

"The crying evils of the tobacco monopoly continue daily to become more notorious and demand an immediate remedy. The Right Hon'ble the Governor in Council entertains the most decided conviction that, as the Board of Revenue has represented, there is no effectual remedy short of total abolition and the expunging of so objectionable a branch of revenue from the system of Indian Finance."

Some of the evils of this system arose from its being confined to a limited area but the worst-springing from the fact that tobacco is produced almost everywhere and freely consumed by all classes so that any raising of the price gives rise to the worst sort of smuggling and is fatal to the peace of the country—will affect any system.

J.G.

In accordance with this view application was made to the Court of Directors for sanction to abolish the tobacco monopoly and on such sanction being obtained, Act IV of 1853 was passed abolishing the monopoly—

7. The subject of a tobacco-tax was considered by the Government of India during the years 1859–68. A summary of the correspondence which then took place on the subject and of the views held thereon will be found in Sir John Strachy's minute dated 21st October 1865 printed as No. 97 at page 152 of the Blue-Book and in the Government of India's letter to the Secretary of State printed as No. 98 at page 155.

All methods of taxing tobacco were considered then.

J.G.

It will be seen therefrom that, when after the events of the year 1857, the state of the finances rendered it necessary to resort to new sources of revenue, a tax on tobacco was among other things very much discussed.

Four methods of deriving a revenue from this source had been suggested :—

(1) The suppression of the cultivation of the plant throughout India and the imposition of an import duty.

(2) The establishment of a monopoly of the cultivation and manufacture of tobacco similar to that now applied to opium.

(3) The imposition of a licence duty on the cultivation of the plant.

(4) The imposition of licence fees on all wholesale and retail dealers in the manufactured article.

Of these, the first and second methods were soon dismissed as impracticable.

The third plan was at first favoured by the Government of India but most Local Governments disapproved it. The main objections urged were: that to impose a special tax on the cultivation of tobacco would be a violation of the principles on which land assessments were usually made; that it would also be economically a mistake; that the suppression of its cultivation except under a licence would be difficult to enforce; that as the enforcement cannot be extended to Native States (even if it could be extended to zamindari and inam estates) the measure would have the effect of contracting the area of its cultivation in British territory and greatly stimulating its growth in Native States and it would be extremely difficult to prevent the smuggling of free tobacco from such States. The views of this Government are contained in Mr. Bourdillon's letter to the Government of India, dated 11th June 1859, printed as No. 90 at pages 120–128. In the first enclosure to this letter the inexpediency of taxing tobacco in any form is fully set forth by the Board of Revenue.

The Government of India thereupon turned to the fourth plan of licensing the *sale* of tobacco and accordingly inserted a provision to this effect in the Licensing Bill then under its consideration. (The Bill, which was finally passed as India Act 18 of 1861 and repealed by India Act 2 of 1862). But the reports received from Local Governments on the point were not encouraging. They all went to show that no system of licensing would bring in any large revenue.

The Government of India resolved therefore to abandon altogether the idea of raising a revenue from tobacco by Imperial Legislation and the clause in the Licensing Bill which related to tobacco was accordingly expunged.

8. But while arriving at this opinion as to the unsuitability of tobacco for Imperial taxation the Government of India also thought, judging from the reports received from Local Governments, that a considerable revenue might be derived by Local Governments if they were left each to carry out the system best suited to the circumstances of its province. Accordingly, and as it was thought that Imperial revenues might be relieved to a considerable extent by establishing a system of local taxation for local purposes, the Government of India addressed Local Governments on the subject of such taxation and named tobacco as one of the sources from which a revenue might be derived.

The reply of this Government to the above letter is printed at pages 157—162 of the Blue-Book. This Government merely reiterated the opinion it had expressed in its letter of 11th June 1859 (No. 90 at page 120) that there were insurmountable objections to the realization of a revenue from tobacco unless in the shape of a tax on the shops where tobacco was sold, i.e., a licence tax; and that the produce of such a tax would not be considerable.

9. The Government of India appears to have considered this question of a tobacco tax on subsequent occasions also and to have arrived at substantially the same opinion as before, as will appear from the letter to the Secretary of State printed as No. 98 at page 155.

10. In 1870 when the question of raising the rate of income-tax was under the consideration of the Government of India, a proposal was made by one of the members (Mr. Cowie) to tax tobacco. Sir John Strachy and Sir Richard Temple both spoke against the measure and His Excellency Lord Mayo said:—

"Now it is quite true that in many civilized countries tobacco is considered to be a very proper object for taxation but I must remind the Council that tobacco in India is really an absolute necessary of life and that if you put a tax upon the production of tobacco, you tax the two great necessaries of life in this country, viz., salt and tobacco, and I am not prepared even in the present state of our finances to advocate the imposition of a burden upon such a prime necessary of life as that is.

11. The question appears to have been discussed also during Lord Lytton's Viceroyalty and the same conclusion arrived at, namely, that no large revenue could be raised by taxing tobacco (vide pages 368-70 of Strachy's book on "The Finances and

Public Works of India" and page 554 of the volume of Legislative Council's Proceedings for 1877). The following extract from Strachey's book may be noted:

"Tobacco is almost universally consumed and is looked upon as almost a necessary of life. Whatever means were adopted the tax would only be largely productive if it fell ultimately on the classes which form the great mass of the community. It would be paid by the same classes which now pay the salt tax, and if it should become necessary to increase the burden which they already bear this object would be more easily and economically gained and with far less vexation to the people by increasing the existing tax upon salt than by imposing a new tax upon tobacco. That any increase in the rate of the salt-tax would be one of the greatest possible mistakes, unless in most exceptional circumstances and on the other hand that its present reduction * would be financially a most desirable measure, has been shown in another chapter (page 370).

* The duty was reduced from Rs. 2-8-0 to Rs. 2 in 1882. It was raised as follows in this Presidency:—

	Duty. Rs.	A.	P.
August 1859	1	0	0
April 1861	1	4	0
1861-62 to 1865-66	1	5	0
1866-67 to 1868-69	1	8	0
1869-70 to 1877-78	1	12	0
1878-79 to 1881-82	2	8	0
1882-83 to 1886-87	2	0	0
1886-87	2	8	0

12. That the Government of India knows that Travancore derives a large revenue from tobacco, may be inferred from the correspondence which took place in 1860–65 relative to the Interportal Trade convention with Travancore and Cochin and more especially from the correspondence embodied in Government Order dated 14th May 1868, No. 1338.

It will be seen from the latter correspondence that at the desire of the Viceroy (Sir John Lawrence) whose attention seems to have been drawn to certain remarks which appeared in the Travancore Administration Report for 1865–66, regarding the tobacco tax in that State the Hon'ble Mr. G. N. Taylor addressed the then Resident in Travancore and Cochin (Mr. Newill) for full particulars regarding the mode in which the tax was levied in that State and that complete information on the subject was furnished by the Resident and the then Diwan T. Madhava Rao.

This correspondence came before this Government, mainly on account of a minute recorded by the Hon'ble Mr. G. N. Taylor, in which he suggested that this Government might consider the expediency of imposing a moderate import duty or an excise wherever practicable—vide his minute printed in the Government Order.

The Diwan's Memorandum shows that during the flourishing period of the monopoly system (it was abolished in 1862–63, that is, ten years after the abolition of the Government monopoly in Malabar and Canara) the gross revenue from tobacco amounted to more than half the revenue from all other sources or more than one-third of the total revenue of the State while the revenue now amounts to about one-eighth of the total revenue.

13. From the administration report of the Travancore State for the year 1891–92, it appears that 12,295 † candies of tobacco valued at Rs. 26,77,723 were imported during that year and that a duty of Rs. 9,43,030 was collected thereon.

† Equal to 6,147,500 lb. or 8,065,520 lb. according as a 'candy' is 500 lb. or 656 lb. (which latter is the equivalent given in Madhava Rao's Memorandum—vide paragraph 10.

14. The following statement gives the statistics of the imports of tobacco into this Presidency by sea for the last three years:—

Tobacco—Imports—Sea-Borne ‡ Trade.

Years.	Foreign trade.		Coasting trade.		Total.	
—	Quantity in lb.	Value.	Quantity in lb.	Value.	Quantity in lb.	Value.
		Rs.		Rs.		Rs.
1890-91	446,477	2,06,021	218,915	33,563	665,392	2,39,584
1891-92	542,705	2,91,725	110,937	17,121	653,642	3,08,846
1892-93	915,719	3,37,980	135,775	27,107	1,051,494	3,65,087

‡ The rail-borne imports amount only to about 2,000 lb.

At the Travancore rate of duty the imports into this Presidency will bring in a gross revenue of a little over one lakh of rupees.

R.V.S.—1-3-94.

The foregoing account gives a clear and concise summary of all that has been written on this subject and shows that the feasibility of raising a revenue from tobacco has been most exhaustively debated and that the question has been considered in all its bearings. The situation is appropriately summed up by Sir John Strachey in paragraph 8 of his minute of the 21st October 1865 (page 154 of the Blue Book)—

"Tobacco has seemed at first sight a very promising subject of taxation to almost everyone who has thought upon the subject, but almost everyone had given up the scheme upon full consideration of the difficulties which surround it."

J.G.—3-3-94.

II

Mr. N. S. BRODIE'S NOTE DATED 26th DECEMBER 1915 (SECRET D.O. No. A A-1, DATED 11th JANUARY 1916).

Prior to 1910–11, *ad valorem* rates used to be charged on imported manufactured tobacco of all sorts at the rate of 5 per cent but this system was then abandoned and special quantitative rates introduced, presumably because of the difficulty of levying *ad valorem* rates. The rates introduced were about 33 per cent higher than those now in force which are—

	Rs.	A.	P.	
Unmanufactured tobacco	1	0	0	per lb.
Cigars	1	10	0	,,
Cigarettes weighing less than 3 lb. per thousand.	3	2	0	per thousand.
Cigarettes weighing 3 lb. or more per thousand.	1	4	0	per lb.
Manufactured, other sorts	1	2	0	,,

These rates are said to be approximately 36 per cent *ad valorem* on cigars and 33 per cent *ad valorem* on cigarettes though how this is arrived at I don't know, considering how much imported cigars and cigarettes vary in weight and value. The Government of India's first proposal is to raise these rates 'in approximately the same proportion, i.e., to a uniform 50 per cent *ad valorem*.' I presume this means that the duty on cigars is to be raised by about one-third and that on cigarettes by about half. Nothing is said about 'other sorts' which I suppose means principally pipe tobacco. Judging from Spencer's and Oakes' price lists the present rate seems to be from 28 to 41 per cent on the cheapest pipe tobacco and presumably this is also to be raised by about one-third. The rates will then read—

	Rs.	A.	P.	
Cigars	2	3	0	per lb.
Cigarettes	4	11	0	per thousand and
	1	14	0	per lb.
Other sorts	1	8	0	per lb.

I presume the Government of India does not intend to go back to *ad valorem* rates.

2. The rates introduced in 1910–11 had the immediate effect of 'extensively curtailing the imports of foreign tobacco and they scarcely realized the revenue it was hoped they would bring in.' The total imports declined by 83 per cent in quantity and 52 per cent in value. Imports of leaf tobacco, *formerly duty free*, fell from 447,115 lb. to 63,267 lb. or by 86 per cent in quantity. Imports from Ceylon and the Straits Settlements practically ceased. [There used to be quite a large trade from the Jaffna and the northern Ceylon ports which supplied a great part of the tobacco used on the west coast of this Presidency.] Imports of cigarettes decreased 77 per cent in quantity and 48 per cent in value. The cheap American varieties were practically shut out, falling 94 per cent in value and the result was the foundation and development of the Indian cigarette industry which has probably taken their place. Exports of cigars to the United Kingdom fell by 72 per cent owing to the imposition of duty on wrapper tobacco. To avoid this, Messrs. Spencer & Co. removed their factory to Pondicherry.

Effects of taxation introduced in 1910–11. Sea-Borne Trade Review of 1910–11, page 9.

3. In 1911–12, owing to the outcry from Ceylon and the leading local manufacturers of better class cigars, the rates were reduced by about 33 per cent to the present figures. Even this, however, failed to revive the import trade from Ceylon and the Straits Settlements which was completely and finally killed. Imports of leaf tobacco rose by 19,160 lb. but this was only a mere fraction of the fall of 383,848 lb. in 1910–11. The increase was confined to the higher grades required in the manufacture of cigars of good quality. Imports of cigarettes showed a further decline in quantity but an increase in value, the trade in cheap American cigarettes being completely extinguished. Exports of cigars to the United Kingdom declined another

Sea-Borne Trade Review of 1911–12.

7 per cent in value but exports to the Straits Settlements increased by 23 per cent and the whole export of cigars increased by 13 per cent in quantity and 9 per cent in value. The cigars exported to the Straits Ssttlements and Federated Malay States appear to be made of purely Indian tobacco which pays no duty.

4. In 1912–13, there was a further decrease in imports of cigarettes by 15 per cent and a large factory was opened at Bangalore by the Peninsular Tobacco Company. Manufacture of cigars for export to the United Kingdom was permitted in bond and Messrs. Spencer & Co. returned from Pondicherry. The exports of these cigars rose by 46 per cent but of course the revenue did not profit by this.

Sea-Borne Trade Review of 1912–13.

There was a general increase both in imports and exports of tobacco in 1913–14 and some recovery in imports of cigarettes to a little above the figures of 1910–11. The export of high grade cigars to the United Kingdom rose to ·88 lakh against ·57 lakh in 1910–11.

Sea-Borne Trade Review of 1913–14.

However, the effect of the war was to send most of the principal figures lower than ever. Imports of raw tobacco fell to 70,573 lb. in 1914–15 and exports of high grade cigars to the United Kingdom fell to 33,434 lb. and to ·45 lakh in value (nearly 50 per cent), the lowest figure on record.

Effects of the war—Sea-Borne Trade Review, 1914–15.

5. The figures since the introduction of the new tariff are tabulated below :—

Annual value of the sea-borne trade and navigation of the Madras Presidency for 1914–15.

Foreign trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.						
1. Unmanufactured (total for Presidency).	LB. 447,115	LB. 63,267	LB. 82,427	LB. 90,458	LB. 110,458	LB. 70,573
2. Manufactured—						
(*a*) Cigars	11,099	1,049	937	830	1,107	3,368
(*b*) Cigarettes	319,275	72,139	65,410	55,217	78,616	78,429
(*c*) Other sorts	94,940	12,473	26,397	23,370	24,723	28,090
Exports.						
1. Unmanufactured (unaffected by tariff).	1,444,632	1,670,842	1,619,966	1,806,998	2,234,511	2,362,766
Of the above exported to Straits Settlements and Federated Malay States.	1,374,612	1,621,543	1,568,878	1,773,160	2,115,056	2,304,144
2. Manufactured—						
(*a*) Cigars	697,507	704,791	797,383	989,811	988,668	887,165
Of the above quantity exported to United Kingdom.	80,360	42,565	36,184	51,156	56,976	33,434
Straits Settlements and Federated Malay States (unaffected by tariff).	415,357	547,613	661,294	827,278	811,219	800,488
(*b*) Other sorts	4,196	4,515	9,010	8,513	9,363	8,885

Coasting trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.						
1. Unmanufactured	LB. 610,603	LB. 683,787	LB. 664,054	LB. 578,058	LB. 604,165	LB. 596,038
2. Manufactured	142,514	84,439	59,021	94,319	57,595	71,301
Of the above imported from Calcutta.	118,687	73,703	52,511	85,214	46,637	53,301
Exports.						
1. Unmanufactured	7,721,625	7,535,386	6,870,154	6,536,820	6,928,569	5,168,826
Of the above exported to Burma ..	6,926,830	6,474,041	6,149,974	6,133,770	6,521,676	4,579,130
2. Manufactured—						
(*a*) Cigars	347,507	314,933	410,526	419,710	349,618	275,018
Of the above exported to Burma ..	194,493	204,649	292,004	320,781	251,706	177,844
Of the above exported to Bengal ..	101,866	73,206	76,815	61,785	63,117	65,373
(*b*) Cigarettes	..	..	2,877	4,200	26,471	64,599
(*c*) Other sorts	35,726	43,920	37,620	39,906	33,407	77,190

6. The net result of the introduction of the heavier tobacco duties in 1910–11 has, therefore, been to kill the import trade in raw tobacco from Ceylon and the Straits Settlements and in cigarettes from America and to lay the foundations of a cigarette manufacturing industry in India from Indian leaf. The trade in high grade cigars exported to the United Kingdom has suffered very heavily, despite permission to manufacture export in bond. The fall between 1909–10 and 1913–14 (when this industry reached its highest point after the imposition of duties and before the outbreak of war) was about 29 per cent. This shows what an effect even a slight rise in the cost of such a thing as tobacco has on consumption as it was undoubtedly the increased cost (and that only of the wrapper) in 1910–11 that gave the trade this set back. The wrapper is only a minute fraction of the weight of the cigar and if the duty on whole cigars is only equal to an *ad valorem* rate of 36 per cent the duty on a cigar whose wrapper alone pays duty must be nearer 1 or 2 per cent. Since the concession of manufacture in bond has been granted these cigars pay no duty and it is presumed that this concession will be continued so that any enhancement of rates will not affect them.

7. *Rail-borne trade*, 1914–15.—

Imports from other Presidencies and Native States.

	LB.
1. Unmanufactured	2,051,959
Of which imported from Mysore	1,344,550
2. Manufactured—	
(*a*) Cigars	13,330
(*b*) Other sorts—probably cigarettes	1,497,517
Of which imported from Mysore	1,294,272

Exports to other Presidencies and Native States.

1. Unmanufactured	24,729,076
Of which exported to—	
Mysore	8,181,339
Calcutta	5,282,496
Nzam's Territory	4,242,157
2. Manufactured—	
(*a*) Cigars	503,013
(*b*) Other sorts	392,750

Internal trade between various parts of the Presidency.

1. Unmanufactured	53,774,208
2. Manufactured—	
(*a*) Cigars	1,061,815
(*b*) Other sorts—probably cigarettes, bidies and snuff ...	1,074,651

8. From these figures it appears that by far the greatest part of the Delta tobacco is exported in the manufactured condition and made up locally. The trade in manufactured tobacco is comparatively small, which agrees with my information that there are no manufactories of any size. A fairly large quantity of manufactured cigars is exported by rail from the Central districts (i.e., Trichinopoly, Salem and Coimbatore) to Negapatam but this no doubt is included also in the exports by sea to the Straits Settlements.

Cigars.

9. In the Secretariat note of 1911 the total outturn of cigars was estimated by Mr. Innes at about 2,500,000 lb; i.e.:—

	1909–10. LB.
Foreign exports	697,507
Coasting trade exports	347,507
Rail-borne exports	451,164
Do. internal trade	971,208
Total ...	2,467,386

The corresponding figures for 1914–15 are—

	LB.
Foreign exports	887,165
Coasting trade exports	275,018
Rail-borne exports	503,013
Do. internal trade	1,061,815
Total ...	2,727,001

Allowing for the disturbance of trade caused by the war, the export trade and rail-borne traffic in cigars may, therefore, be taken at about 2,750,000 lb. but this is probably an excess estimate of the quantity actually manufactured since the rail-borne traffic probably includes the greater part of the foreign exports and possibly a good deal of the coasting trade exports also.

Cigarettes.

10. The Indian cigarette industry has practically grown up since the Secretariat notes of 1911 were written. Foreign imports of the better class cigarettes have remained nearly stationary since 1911–11 at about 70,000 lb. Comparing the figures of 1909–10 with those of 1910–12 when the full effect of the tariff duties had had time to operate, 253,865 lb. of cheap American cigarettes appear to have been displaced. These have no doubt been replaced by Indian cigarettes and there has probably been a large increase in consumption in addition.

The export trade in cigarettes in 1914–15 appears to have been somewhat as follows:—

	LB.
Foreign exports	8,885*
Coasting trade exports	61,599
Rail-borne exports	392,750*
Do. internal trade	1,074,651*
Total ...	1,537,885

In the absence of figures for bidies, snuff, etc., it is not easy, however, to say how much of these 15 lakhs of pounds represent cigarettes and still less how much represents cigarettes manufactured in the Presidency. My inquiries in Vizagapatam show that none of the cigarettes there consumed (and the consumption is very large) are manufactured in this Presidency. The great bulk come from Calcutta and a good many from the Peninsular Tobacco Company, Bangalore. Similarly in Madras, the bulk of the cigarettes come from Bangalore or Bowringpet, both in Mysore territory and not subject to British excise. It will be seen from paragraph 7 above that 1,294,272 lb. of 'other sorts' including (no doubt mostly) cigarettes are imported from Mysore. Probably the greater number of these are shown in 'rail-borne internal trade' and exports of the Presidency over again. I should put the actual number manufactured in the Presidency at not more than 250,000 lb.

11. The following are principal Indian Cigaratte factories shown in the Lawrence Asylum Press Almanack, page 1438:—

(1) A.G.M. & Sons, Coimbatore.

(2) K.G.A., Coimbatore.

(3) McDowell & Co., Madras.

I have never seen any cigarettes from the first two factories and they seem to be very small and merely supply the local market. McDowell & Co. employ about 25 persons and some small hand machines. Pappadapoulos Brothers make Egyptian cigarettes but import Egyptian tobacco which already pays duty. Besides these there are the two large factories in Mysore—

4. The Peninsular Tobacco Company, Cleveland town, Bangalore, and

5. The Oriental Tobacco Manufacturing Company, Bowringpet.

*Includes, however, pipe tobacco, bidies, snuff, etc.

Both these are run on American lines and employ a large number of workmen and power-driven machinery, but as already remarked they are not subject to British excise.

Outturn of tobacco.

12. According to the 'Season and crop report' for 1914–15 the total area culivated with tobacco in the Presidency was 227,182 acres, the 'normal' area being 203,230 acres. I learn from Chadwick that 800 lb. of dried leaf per acre is a fair average crop as taken by Castlestuart Stuart in 1910. The total outturn was therefore about 182,000,000 lb. of which we have only accounted for about $3\frac{1}{2}$ millions at most in the manufactured form. This outturn was spread over 24 districts, the area being over 10,000 acres in seven, Vizagapatam (29,115), Godavari (13,099), Guntur (78,560), Kistna (13,022), Kurnool (18,769), Coimbatore (26,001) and Madura (11,172). These figures show little change since 1908–09.

About 90,000,000 are exported in unmanufactured form.

Tobacco industry.

13. The census report for 1911 groups manufacturers of tobacco, opium and ganja together under Order 12, Group 66. The number of manufacturers of opium and ganja must be almost negligible and the total number of workers and dependents is shown to be 12,333. Under Order 33, Group 122, sellers of tobacco, opium, ganja, etc., are said to be 65,733 (workers 25,883, dependents 39,850). The total number of persons dependent on the tobacco trade is therefore about 78,066 against 75,000 in 1901. It is not possible to compare the figures of the other industries referred to in Mr. Castlestuart Stuart's demi-official of 5th November 1910 as the classification has been altered. Betel-leaf and arecanut sellers are now grouped with vegetable and fruit sellers. It may be noted however that the number of persons engaged in the manufacture of tobacco is about as many as bakers and biscuit makers (12,970) whilst the number of sellers of tobacco is not much less than the number of sellers of milk, ghee, butter, poultry, eggs, etc. (80,981).

Present proposals criticised.

14. These figures show that there has been comparatively little change in the general position since 1910–11 and the arguments against any form of taxation of Indian grown tobacco remain as strong as they were then. The present proposals of the Government of India may now be examined in detail. The first is, as far as I understand it, to raise the quantitative rates of duty on imported cigars and cigarettes (and perhaps also on other manufactured tobacco) to the figures shown in paragraph 1 above. The quantity of imported cigars is now very small and was only 3,368 lb. in 1914–15. Assuming that the enhanced duty has no effect on consumption, the increase of revenue from this source will be only Rs. 1,824*. But judging from the effect of the enhancement of duty in 1910–11 it will probably be much less. The duty on imported cigarettes (78,429 lb. in 1914–15) was about Rs. 80,000 and the enhancement of the duty by one-half may give Rs. 40,000, though here also a heavy fall in consumption may be confidently looked for. The increase of duty on 'other sorts', i.e., probably pipe tobacco, snuff, etc. (which may be contemplated) by one-third would yield perhaps Rs. 10,742. Altogether, the maximum increase of revenue that may be looked for from this proposal cannot, therefore, be more than Rs. 60,000 and the burden will fall heavily on the poorly paid European and Eurasian assistants in shops, business firms, Railway Companies, etc., who are by far the largest consumers of imported cigarettes. However this increased revenue can no doubt be obtained without administrative difficulty or expense.

(a) First proposal.

*Present duty Rs. 5,473 one-third enhancement Rs. 1,824.

(b) Second proposal.

15. The second proposal is to levy an excise duty on cigarettes of Indian manufacture. The large factory referred to by the Government of India is probably that in Bengal, I think at Monghyr. It is proposed to differentiate bidies from cigarettes by the use of cigarette paper. This may be accepted. It is proposed that

the taxation should take the form of a quantitative duty equivalent to an *ad valorem* duty of about 15 per cent. A further point is whether the taxation should be restricted to factories equipped with power-driven machinery. If this qualification is accepted the question is a simple one for there are no such cigarette factories in this Presidency. Assuming, however, that all cigarette factories are to be taxed my inquiries show that cigarettes of Indian manufacture vary considerably in price. The cheapest are sold retail at prices varying from Rs. 1–4–6 per 500 or Rs. 2–6–0 per 1,000 to Rs. 2–12–0 per 500 or Rs. 5–2–0 per 1,000. These cigarettes both weigh almost exactly $2\frac{1}{2}$ lb. per 1,000, the cheaper ones a little more. The manufacturer's price to the trade is no doubt considerably less as these cigarettes have to be imported to Vizagapatam and there is the retailer's profit to be considered. The excise duty will of course have to be fixed with regard to the wholesale price at the factory. I should say Rs. 1–12–0 per 1,000 is probably an outside price for the cheapest cigarettes. This means $28/2\frac{1}{2}=11\frac{1}{5}$, say 11 annas a lb. or as they weigh rather more than $2\frac{1}{2}$ lb. per 1,000, say 10 annas a lb. 15 per cent on 10 annas is one and a half annas per lb. I have estimated the total production of cigarettes in this Presidency at not more than 250,000 lb. and the duty on this would be Rs. 23,437. It is impossible to say without a full inquiry what the number of cigarette factories is but they are certainly very small and probably average not more than 10,000 lb. of cigarettes each per annum. Putting the number at 25 scattered all over the Presidency, not less than 25 Sub-Inspectors on Rs. 40 per mensem would be required to supervise them. The cost of these would be Rs. 12,000 not allowing for contingent expenses such as weighing machines, etc. The net proceeds of the tax would therefore be somewhere about Rs. 10,000, even supposing that the duty had no effect on consumption which is extremely improbable. Moreover as Indian cigarettes vary considerably in price though not so much as cheroots, the duty would press most unfairly on the cheapest brands and on the poorest class of the population which consumes them.

Watch cigarettes—Peninsular Tobacco Company, Bangalore, Rs. 1-4-6.
Ruler cigarettes—Imperial Tobacco Company, Calcutta, Rs. 2–12–0 per 500.

16. The third proposal is to levy a similar quantitative excise duty equivalent to an *ad valorem* tax of 15 per cent on cigars of Indian manufacture. As already pointed out in 1911 this problem absolutely bristles with administrative difficulties. In the first place it is not clear whether bidies are to be included. It is possible to distinguish bidies from cigarettes but the difference between them and the poorest kind of cheroots is almost infinitesimal. Both are rolled in leaves, sometimes tobacco leaves sometimes not. The manufacture of bidies is admittedly a cottage industry carried on in every village and hamlet. However according to the Asylum Press Almanack one tobacco factory at least professes to make bidies. The vast bulk of the Indian cheroots are also made as a cottage industry as is evident from the fact that out of 182 millions of pounds of tobacco grown only about $3\frac{1}{2}$ millions ($4\frac{1}{2}$ at the outside) appear in the trade returns as manufactured. Possibly bidies could be excluded by excepting cheroots, etc., weighing less than as many pounds to the 1,000. My experiments show that the commonest bidies weigh about $1\frac{1}{4}$ lb. per 1,000, so that if manufactured cheroots weighing less than $1\frac{1}{2}$ lb. per 1,000 were excluded this might meet the case. However this would undoubtedly stimulate the consumption of bidies which I understand to be the most deleterious form of smoking. Bidies are sold at 12 annas a 1,000 wholesale in Madras, that is at about $9\frac{3}{5}$ annas per lb. The manufacturer's price may be less so that probably 9 annas per lb. would be a safe figure and the duty, if any, ought to be much the same as for cigarettes or a little less, say 1 anna 4 pies per lb.

(c) Third proposal.

Bidies.

A

17. Ordinary cheroots of the commonest kind seem to weigh about $3\frac{3}{4}$ lb. per 1,000 and cost Rs. 1–12–0 per 1,000 retail but both weight and price vary enormously. Better class cheroots which, however, are still largely consumed by the poorer classes weigh 20 lb. per 1,000 and cost Rupees 12–8–0. Assuming that the rates to the trade are somewhat less we may estimate the first kind at 6 annas a lb. and the second at 10 annas a lb. The duty ought to be fixed at 15 per cent on the cheapest

Cigars.

kind at 6 annas a lb. The duty would then be 11 pies but for convenience of reckoning might be fixed at one anna.

It is quite impossible to estimate with any accuracy the output of Indian manufactured cigars. The figures in paragraph 9 no doubt afford some guide. I should imagine 2,000,000 lb. to be a fair estimate. The duty on this at 1 anna per lb. would be Rs. 1,25,000. Against this has to be set the cost of establishment which would be enormous. It is not possible at present to form any idea of what this would be. Presumably the only way to ensure the collection of the duty would be to place each factory in charge of an officer who would have to weigh the quantity of raw tobacco received and the quantity finally passed out on payment of duty, seeing that none illicitly passed out and keeping accounts on the same lines as officers in charge of distilleries. The test of a factory would be I suppose that the proprietor sold the manufactured produce, for practically every householder buys a few leaves of tobacco now and again and rolls them up into cheroots for private consumption. Even excluding these individuals, there appear to be about 26,000 persons describing themselves as tobacco sellers in the census returns, excluding 2,000 partially agriculturist. This agrees with what I expected, being an average of about one for every village in the Presidency. In some places there are no doubt several and in others none, but it would be quite impossible to do much in the way of concentration without causing much hardship. The formation of central storehouses appears, therefore, to be impossible and practically every shop will have to have a properly locked storehouse for the cheroots manufactured which adds to the expense. The ordinary staff of the Salt and Abkari Department could not possibly undertake this enormous addition to its work. Assuming that one Sub-Inspector could efficiently supervise on the average 25 factories (which I take to be impossible with the shops scattered as at present) it would require a staff of 1,000 Sub-Inspectors to supervise the work in the Presidency. The opportunities for fraud would be so great that I fear even then the force would be demoralized. Certainly a great many of the Sub-Inspectors would have to be paid more than the lowest grade of Rs. 40 a month. Assuming that the average pay is Rs. 60, this establishment alone would cost Rs. 60,000 per month or Rs. 7,20,000 per annum or about six times the estimated proceeds of the tax. It seems hardly worth while to discuss the matter further. A complete staff of peons, inspectors, Assistant Commissioners and Deputy Commissioners would also be necessary to supervise such an establishment and it would be quite impossible for me to undertake so large an addition to my work. After all there would be no possibility of guarding against fraud as there would be nothing to distinguish between illicit and licit tobacco. As far as I can see no tax less than Re. 1 per lb. would do more than pay for the cost of collection and this of course would be ruinous having regard to the cost of the article.

18. In conclusion I can see nothing in favour of the tax or any possibility of working it. A tax on Indian cheroots made in power-driven factories might be possible. There are only two, viz.: Spencer's at Dindigul and Oakes & Co. at Guindy—employing 700 persons between them. But it seems very hard to discriminate against them, even if the tax was only one anna a lb. and anything more would probably drive them out of the Indian market altogether. I cannot say what the output of these two factories is, but excluding the amount manufactured in bond for Europe I doubt if it exceeds 500,000 lb. and the duty at one anna per lb. would yield only Rs. 31,250.

19. Another possible course would be to put an export duty on manufactured tobacco. In that case I should exclude cigars exported to the United Kingdom which have to pay heavy and enhanced duties there and have already sufferred by the tariff. There are not the same administrative objections to an export duty, at all events on exports by sea, as the establishment exists and evasion would be practically impossible. Exports by sea to foreign countries, excluding the United Kingdom, amounted to 853,731 lb. in 1914–15 and exports to other provinces to 275,018 lb. Total 1,128,749 lb. A duty of one anna per lb. might bring in Rs. 62,500 without any extra cost and as the exported cigars at all events to the Straits Settlements are of fairly good quality a duty of even 2 annas a lb. might not ruin the trade and bring in about one and quarter lakhs. Still the amount is so small that I see no use in upsetting the trade at all for so very little result.

N. S. Brodie—26–12–15.

III

Demi-official from L. DAVIDSON, Esq., I.C.S., to N. S. BRODIE, Esq., I.C.S., dated 4th July 1916, No. 39–S. (Secret No. 183 A, dated 18th December 1916.)

I am desired to refer to your note of the 26th December 1915, on the subject of imposing an excise on locally manufactured cigars and cigarettes. The Government of India are disposed to agree that the taxation of locally-made cigars is not likely to prove of practical value. As regards cigarettes, however, they are unable to abandon the possibility of revenue from an article which is not only a luxury but also, to some extent, a harmful luxury; and they have asked this Government to consider the question at greater leisure.

2. Your note, referred to above, gives an approximate estimate of the total outturn of cigarettes in the Presidency, the number of factories and the prevailing wholesale prices. I am to ask whether you cannot now quietly obtain more precise information as to the number and location of factories, the met hods of manufacture, the outturn and the prices obtained. Collectors could possibly procure the information under the guise of income-tax or statistical inquiries without exciting attention.

3. The calculations in your note are based on the assumption that the excise to be imposed would be equivalent to an *ad valorem* tax of about 15 per cent, as was then suggested by the Government of India. I am to ask you now further to consider the effect of taxation on the industry and to favour Government with your opinion as to the maximum which could safely be imposed without seriously crippling the trade.

4. The Government of India lay stress on the strictly confidential nature of this further reference, but say 'there is no objection to consulting any officer of Government whose advice would be of special value.'

Demi-official from N. S. BRODIE, Esq., I.C.S., to L. DAVIDSON, Esq., I.C.S., dated Ennore, 12th November 1916.

With reference to your demi-official No. 39-S., dated 4th July 1916, I have now made further inquiries into the subject of the production and sale of cigarettes in this Presidency both personally and through Collectors. I cannot say that I have elicited much additional information and the remarks which I made in my note of the 26th December 1915 continue to hold good. It appears, however, that I was wrong in stating that there were no cigarette factories in the Presidency equipped with power-driven machinery as it was found on further inspection that McDowell's factory in Moor street, Madras, had some cutting machines worked by an oil-engine recently set up.

2. The estimate of outturn may very well remain at 250,000 lb. The only details I have been able to get are from the Universal Tobacco Company in Madras which is believed to turn out about 30 lakhs of cigarettes per mensem and from McDowell's factory, also in Madras, which is believed to turn out about 20 lakhs. McDowell's factory does not use Indian tobacco exclusively and some of the brands contain imported tobacco to the extent, it is said, of 25 per cent on the whole. I have tested numerous brands from all parts of the Presidency and find that as a rule they weigh about 2½ lb. per 1,000, a little more or less. This gives the total Madras production about 150,000 lb. per annum. Allowing for the imported tobacco used in McDowell's factory the quantity of Indian cigarettes is about 135,000 lb. The only other factories appear to be Oakes & Co.'s factory at Guindy, a new factory started by Barry & Co. in Cocanada just recently and one or two small factories in Coimbatore. There was a factory at Guntur but it seems to have failed after working a few months. The Collector of Coimbatore has not yet replied to my letter on the subject but I made some inquiries in the course of my last tour and find that there are one and probably two factories in Coimbatore but they use imported tobacco for their cigarettes as does Pappadopoulos in Madras. Allowing for all these factories I should say 115,000 lb. per annum was a very liberal estimate, making 250,000 for the Presidency.

3. Retail prices seem to vary very considerably but on the whole I see no reason to modify my original calculations. The cheapest cigarettes are sold in packets of 5 or

6 and a slightly more expensive lot in packets of 10. The dealers' profit seems to be about eight annas a thousand and the trade discount about 20 per cent. Some cigarettes* are sold as cheaply as Re. 1 per 1,000 wholesale or allowing for the trade discount about thirteen annas per 1,000. This is less than half the price I estimated for the cheapest cigarettes in my last note (Rs. 1–12–0). I doubt if there are many of this brand sold, but there are numerous other brands at Re. 1–4–0, Re. 1–6–0 and Rs. 1–8–0 sold by McDowell & Co. However all other information tends to confirm the view that the cheapest cigarettes are sold at Rs. 2 to Rs. 2–12–0 by the wholesale dealers and consequently must cost somewhere about Rs. 1–12–0 per 1,000 from the manufacturers. These cheap cigarettes are manufactured in this Presidency by McDowell & Co., and the Universal Tobacco Company only. Those turned out by Oakes & Co., and the new factory started by Barry & Co., at Cocanada are much more expensive and work out at Rs. 11 to Rs. 14 per 1,000.

* By the Universal Tobacco Company, 1/6, Patters Road, Royapetta—'Bazaar' brand.

4. The method of manufacture is probably the same everywhere. The tobacco selected has all the main nibs cut out and the leaves are then laid one above the other to a considerable depth. They are then cut into small pieces by a cutting machine, the tabacco rolled in cagarette paper, gummed and cut into lengths. As far as I know the cutting and gumming, etc., machines are all worked by hand except in McDowell's factory above referred to.

5. In this connexion I should, however, bring to notice one or two facts which I have ascertained in the course of my inquiries. It is a common practice I understand for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale especially at the various shandies and markets in the Presidency. This is common in Malabar, Coimbatore and the Nilgiris at all events and probably elsewhere. Most Collectors have, however, reported that cigarette papers are not commonly sold in the bazaars. I believe the practice of individual consumers rolling their own cigarettes is not common at present though it is said to have been customary in Salem before the shop-made cigarettes became so cheap. It would be clearly impossible to levy an excise duty on cigarettes made by hawkers or private individuals and it may be expected that the practice would be much more largely resorted to if a duty were imposed on the manufactured article. This might perhaps be met by imposing a customs duty on cigarette paper which would have to be determined in accordance with the duty imposed on cigarettes, such customs duty to be refunded on paper actually used by the wholesale manufacturers. It seems that cigarette paper was formerly imported mostly from Austria and Germany—at present it is obtained from France.

6. As regards the duty to be imposed I find it difficult to express an opinion. The heavy rates imposed in 1910–11 practically killed the cheap American cigarettes but then the enhancement of rates was probably more than 100 per cent of the value so that this result was quite intelligible. My inquiries show that my estimate of the cost of collection was much too large. One Sub-Inspector would, I think, be required for each factory but as there seem to be only four or possibly five factories the cost would be only about Rs. 2,400 per annum. As observed in my previous note, a duty of one and a half annas per pound represents 15 per cent of the value of the cheap cigarette. This amounts to 3 annas 9 pies per 1,000 and could hardly affect the retail price at all. The usual retail price per packet of 10 cigarettes seems to be about 4 pies. A duty of 8 annas 4 pies per 1,000 should raise the retail price by one pie and this would probably not seriously affect the trade though even one pie is a consideration in a country like India. I do not think we could safely raise the duty beyond Re. 1 per 1,000 which would raise the retail price about 2 pies or 50 per cent. This would be 6·4 annas per pound and roughly about 60 per cent of the value. Although cheap cigarettes do not seem to vary much in weight I would prefer to levy the duty by the pound rather than by the number as being the only fair way of assessing it. A duty of 6½ annas per pound would, if the production remained at 250,000 lb., yield Rs. 1,01,562½ but if the consumption fell, as it probably would, to about 200,000 lb. the tax would yield Rs. 81,250. As far as this Presidency is concerned, the result would, therefore, be insignificant, but, no doubt, the revenue

from the whole of India would be very considerable and I cannot see any serious objection to the proposal except that it would greatly encourage the smoking of bidies and press rather hardly on the poorest class of the population who smoke cheap cigarettes at present and regard them as a great luxury.

Demi-official from F. J. Richards, Esq., I.C.S., to Ley, Esq., I.C.S., dated the 18th December 1916, No. 75-S.

I am directed to reply to Mr. Low's Confidential demi-official letter No. 4493, dated 14th June 1916, on the subject of the expediency of imposing an excise on cigarettes manufactured in India from indigenous tobacco.

2. In the first place, I am to point out that the correspondence of 1910, to which reference is made in the first paragraph of Mr. Low's letter, did not turn on the present question, for at that time there was no manufacture of cigarettes from indigenous tobacco in this Presidency. It is stated that the question of an excise on manufacture was then dropped because the local cigarette industry was in its infancy and it was considered that the imposition of an excise would deal it a death-blow. So far as this Presidency is concerned, the position is virtually unaltered; for, as stated in Mr. Butterworth's demi-official letter No. A.A.-1, dated 11th January 1916, the local output of cigarettes does not exceed some 250,000 lb. annually. This estimate has been confirmed by subsequent enquiries, though the number of factories to be taken into account is found to be smaller than was thought to be the case. There are probably not more than 5 or 6, of which the two largest are those owned by Messrs. McDowell & Co., and the Universal Tobacco Company both in Madras City. The former has recently been equipped with an oil-engine for driving its cutting machines. The average wholesale price for the cheapest class of ciagarettes quoted in Mr. Butterworth's letter, viz. Rs. 1-12-0 per 1,000, may be taken as correct. These cheap cigarettes are manufactured only by Messrs. McDowell & Co. and the Universal Tobacco Company. Those turned out by Messrs. Oakes & Co., at Guindy and by Messrs. Barry & Co., at Cocanada are much more expensive, costing from Rs. 11 to Rs. 14 per 1,000.

3. The maximum rate of duty which is considered compatible with the survival of the industry is Re. 1 per 1,000 or approximately $6\frac{1}{2}$ annas per lb. This duty would if the production remained 250,000 lb. yield a revenue of a little over a lakh. The imposition of such a tax, however, is almost certain to preclude any expansion of the industry and would very probably strangle that which already exists; for it would either drive the masses to revert to *bidi* smoking or compel the manufacturers to transfer their factories to French territory or to Native States. I may here point out that the Director-General of Commercial Intelligence has incorrectly assumed that the tax realisable from the Peninsular Tobacco Company's factory in the Civil and Military Station, Bangalore, would be credited to Imperial revenues. By the terms of rendition, the Mysore Government is entitled to the whole of the surplus revenue of the Assigned Tract, after the cost of the administration of the tract is defrayed. This fact seriously affects the estimate formed of the probable receipts from the tax.

4. Another factor to be taken into consideration is the practice, common in several districts of this Presidency, for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale, especially at local markets. Individual consumers do not usually roll their own cigarettes, though it is said to have been customary for them to do so in Salem before the shop-made cigarettes became so cheap. It would obviously be impossible to levy an excise duty on cigarettes made by hawkers or private individuals; and it may be expected that the practice would be much more largely resorted to, if a duty were imposed on the manufactured article. Cigarette paper was formerly imported from Germany and Austria; now France is the chief source of supply. A customs duty might be imposed on it, such duty to be refunded on paper actually used by the wholesale manufacturers; but this expedient would not be free from difficulties and would almost certainly result in the use of a local substitute.

5. In these circumstances, I am to say that the Government of Madras are entirely opposed to the proposal. They can suggest no alternative scheme for internal taxation of tobacco, apart from those already rejected.

IV

Letter from C. R. Watkins, Esq., C.I.E., Officiating Collector of Customs, Madras, to the Under Secretary to Government, Finance Department, dated 1st May 1925, No. L. Dis. Nil.

I forward herewith a statement showing the foreign imports into, and exports from, the Madras Presidency of tobacco since the year 1920–21.

2. The rates of customs duty at present in force are given below:—

Name of article.	Per	Tariff valuation.	Duty.
Cigars	.....	Ad valorem.	75 per cent.
Cigarettes of value.—Not exceeding Rs. 10-8-0 per thousand.	Thousand ...	.....	Rs. 7.
Exceeding Rs. 10-8-0 per thousand ...	Do.	.....	,, 10-8-0.
Tobacco, unmanufactured	Lb. ...	.....	,, 1.
All other sorts of tobacco manufactured	,, ...	.....	,, 2-4-0.

Enclosure.

Foreign imports and exports of 'Tobacco' at the Presidency of Madras for the past five years ending 1924–25.

—	1920–21.		1921–22.		1922–23.		1923–24.		1924–25.	
	Quantity.	Value.	Quantity	Value.	Quantity.	Value.	Quantity.	Value.	Quantity.	Value.
Foreign imports.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.
Tobacco—Unmanufactured ..	77,507	1,45,703	489,693	13,17,036	742,412	14,07,436	3,105,459	34,57,277	3,485,871	29,29,162
Cigars	12,815	43,430	701	2,922	81	238	94	156	215	473
Cigarettes	500,267	16,39,198	186,750	9,40,779	278,384	12,34,116	296,516	13,54,712	1,86,952	8,34,717
Tobacco for pipes and cigarettes	304	1,296	5,293	54,393	22,524	1,19,720	18,155	97,606	½	3
Other sorts	28,058	1,46,309	9,590	39,508	852	3,891	12,402	40,892	20,564	1,06,279
Total ..	618,951	19,75,936	692,027	23,54,638	1,044,253	27,65,401	3,432,626	49,50,643	3,693,602	38,70,634
Foreign exports.										
Tobacco—Unmanufactured ..	3,118,784	13,57,807	4,650,985	16,84,266	4,258,743	17,68,621	9,953,877	37,65,684	14,366,170	42,49,345
Cigars	75,540	1,04,792	94,905	1,17,671	99,244	1,32,490	1,11,541	1,20,174	88,199	1,25,560
Cigarettes	..	..	129	615	31,230	30,049	1,574	1,492	72,086	81,746
Other sorts	34,166	27,373	48,237	46,322	45,300	44,918	110,903	1,03,645	99,555	49,769
Total ..	3,228,490	14,89,972	4,794,256	18,48,874	4,434,517	19,76,078	10,177,895	39,90,995	14,626,010	45,06,420

V

Statement showing the area under cultivation of tobacco in the Madras Presidency in 1923–24.

			ACS.				ACS.
Ganjam	...	...	3,299	Salem	...	...	3,737
Vizagapatam	...	...	48,285	Coimbatore	...	...	25,544
Godavari	...	...	11,591	Trichinopoly	...	...	4,032
Kistna	...	...	13,301	Tanjore	...	...	2,223
Guntur	...	...	64,481	Madura	...	...	7,400
Kurnool	...	...	11,542	Ramnad	...	...	3,889
Bellary	...	...	2,658	Tinnevelly	...	...	1,048
Anantapur	...	...	4,785	Malabar	...	...	17
Cuddapah	...	...	1,868	South Kanara	...	...	1,623
Nellore	...	...	2,625	The Nilgiris	...	...	72
Chingleput	...	...	62				
South Arcot	...	...	2,985			Total	219,841
Chittoor	...	...	595				
North Arcot	...	...	2,179				

CONFIDENTIAL.

TAXATION ON TOBACCO.

I

Notes to G.O. Mis. No. 1993, *dated* 21*st May* 1894.

The question is whether we should take the success of Travancore in levying a revenue from tobacco as a reason for calling the attention of the Government of India to the possibility of levying a revenue for tobacco in our territories. I doubt if we have sufficient ground for doing so and whether such a suggestion would be well received. Travancore is exceptionally situated, so that it has been possible to abolish all growth of tobacco there and levy a revenue by import duties, and the Government of India know all about this. Such a system would be impossible in our territory where tobacco is grown almost everywhere and consumed by almost everybody, and where larger Native States abound. The possibility of levying a revenue on tobacco in our territory, in this or any other way, has been repeatedly discussed and decided against after full communication between all the Governments, so that any suggestion for us on the subject would amount to an insinuation that the discussion had not been complete. The only way in which, as far as I can see, a large revenue could be realized for tobacco would be by establishing monopoly of manufacture and sale. Though this was hardly possible in former days, I believe it would be possible in these days of improved communications and police, but the initial expenditure on warehouses, etc., would be too heavy for a time of financial pressure and the larger preventive establishments which would be necessary and extend through almost every village would result in oppression which would be so widespread and so frequently exercised that it would be eminently dangerous.

G. Garstin—7-3-93.

No doubt a tobacco monopoly *could* be worked but it would be a gigantic undertaking, and so very costly (especially in Bengal, where Government has no rural agency at all) that it would not, in my opinion, bring in a net return worth the imitation, the measure would certainly cause. The simplest way of raising a tax on tobacco would be by a special tax on the land on which it was grown, but that would not apply to Native States and cannot be worked in Bengal. A special establishment which would eat up the most part of the profits, while in all settled non-zamindari districts the terms of the settlements would prevent the imposition of such a tax. Independently of this, the taxation of land according to the crop grown would be a

This note is submitted with reference to the enquiry whether the attention of the Government of India has been called in the Revenue Department to tobacco as a possible source of revenue.

2. The occasion for this enquiry will appear from the notes of His Excellency the Governor and the Hon'ble Sir Henry Stokes to which reference is made in that office-note. It arose in this wise—

In submitting the budget estimate of the Travancore State for the Malabar year 1069 (August 1893–94) Mr. Grigg, the Resident, after observing that the most important increases occurred under certain heads of revenue of which tobacco was one, remarked regarding the increase under this head as follows :—

"That under tobacco is very remarkable. I have never heard a rumour of complaint regarding this tax, and yet it comes to approximately As. 6–6 per head of the population and gives a revenue nearly double that of abkari and opium and is now 55 per cent of that of salt—a necessary of life. Offences against the law relating to its importation are, I believe, not numerous. The lucrativeness of this monopoly may well attract the attention of Indian financiers (paragraph 3 of his letter, dated 3rd August 1893, in Government Order, dated 20th October 1893, No. 712, Political).

On this His Excellency noted—

"We should call the attention of the Government of India to the statistics of the tobacco tax and to the Resident's remarks thereon."

On this note Sir Henry Stokes remarked as follows :—

"The attention of the Government of India has been often enough directed to tobacco as a possible source of revenue. The peculiar position of Travancore makes its experience of little or no value in the consideration of the question.

retrograde measure, injurious to the cultivator and certainly beneficial to no one but the karnam.

A licence fee might be imposed and would yield something. It would be a return to the moturfa abolished years ago, and would come very hard on the very poor classes who sell tobacco. I should be sorry to see it tried. Similar objections can be found to every other plan of levying a tobacco tax in this country. I don't think that the Government of India would care to take the question up. It was examined, on another and later occasion, I think, than any of those mentioned in the note, by Mr. Bazeet Colvin when additional Member of the Viceroy's Council, who wrote a long note on this and other projects of taxation, a copy of which I have somewhere—given me by Sir Auckland Colvin, when Finance Minister, who told me at the time that the idea had been finally abandoned—or to that effect. This was in 1886 when the times were almost as hard as they are now.

H. E. STOKES—7-3-94.

This note is very clear, and gives me a complete answer. It is very evident that we should *not* call the attention of India to Mr. Grigg's remarks on the revenue derived in Travancore from taxing tobacco.

I found myself like many others lured into the belief that a large revenue might be derived from taxing this article, and the same results achieved here as in almost every civilized country in the world. But on inquiry I find that not only has it been thoroughly looked into, but the experiment has been tried and has failed, and there is no doubt the peculiar circumstances of the country have rendered the success of the experiment almost impossible. And as Sir J. Strachey very forcibly puts in the incidence of a tax on tobacco would fall with far greater severity on those who now pay the bulk of the salt tax, and we would thereby be putting a crushing weight on those least able to bear the burden. I confess myself converted and withdraw from any further attempt to bring this question within the domains of practical politics—although I can imagine a municipality looking upon it as a fair object for local taxation but even then extremely difficult to work, as poor Madras can testify.

I suppose though that imported tobacco will pay its 5 per cent like other articles (except cotton goods !).

WENLOCK—11-3-20.

Tobacco is not produced in the State : the revenue is derived from import duties, and the configuration of the country lends itself to the easy levy of these duties on the greater portion of the tobacco consumed, which comes from Ceylon. In this Presidency and probably in the rest of India, import duties would not produce any revenue worth having and would be prejudicial to the Cheroot industry (Tobacco imported consists mainly of cheroot covers from Java and Sumatra): but I have no doubt that a considerable revenue might be got from licensees on the vend by others than the growers."

His Excellency wrote thereupon—

"Has this Government ever called their (India's) attention to it? Anyhow I do not think we could do any harm in pointing out what a large sum a little place like Travancore manages to get from the consumers of tobacco. It does not seem to me material how it is raised, whether by import duties or licences. The very significant fact remains that the consumers of tobacco in Travancore contribute yearly Rs. 10 lakhs to the State."

3. His Excellency's query whether this Government has ever called the attention of the Government of India to tobacco as a possible source of revenue has been referred to this department for information, in the office-note from the Chief Secretary.

4. It will be seen from the references put up—

(1) That this question has frequently been considered by the Government of India and has also formed the subject of correspondence between that Government and this and other Local Governments;

(2) That the conclusion come to by the Government of India is that the idea of raising a large imperial revenue from tobacco must be abandoned;

(3) That our Government has also expressed the opinion that no large provincial revenue can be obtained from tobacco; and

(4) That the Government of India is not unaware of the fact that Travancore manages to derive a large revenue from this source.

5. A summary of the correspondence on the subject is subjoined as also a short account of the tobacco monopoly in the districts of Coimbatore, Malabar and Canara which was abolished in the year 1853.

6. The Blue-Book entitled "Papers regarding the Tobacco Monopoly in the Presidency of Fort St. George etc.", gives the main correspondence up to 1868. It will be seen from pages 25–74 of the book, that for 50 years from 1803 to 1853, tobacco was the subject of a Government monopoly in the districts of Canara, Malabar and Coimbatore (vide Regulations 7 and 8 of 1811 and Regulation 5 of 1831 at pages 1, 4 and 8 of the Blue-Book), that the gross annual revenue derived during the 10 years—1833–1843 was about Rs. 8 lakhs and the net revenue about Rs. $5\frac{3}{4}$ lakhs; that the evils arising from this monopoly were so great that the attention of Government was frequently invited thereto by the officers concerned; that in 1845, the Government after recording a succinct review of the correspondence on the subject (vide No. 2 at page 26) called for a report from the Board of Revenue "on the practicability of a modification of the monopoly which, whilst we shall secure a considerable revenue, shall yet divest the tax of some of its most injurious attributes, its heavy charge of collection and the inducement it held out to smuggling"). The Government added that if a beneficial modification was impracticable, the possibility of finding an available substitute should be investigated.

It cost $2\frac{1}{4}$ lakhs to collect 8 lakhs !

J.G.

In reply the Board furnished an exhaustive report on the subject and said—

"It is with much reluctance that they are induced to advise the surrender without an equivalent of so considerable a source of revenue as the (tobacco) monopoly and they must be understood as doing so only, because, after much anxious reflection on the subject, they have been led to the conclusion that between such surrender and the retention of the present system with all its evils, there is no practicable middle course.

After a careful consideration of the subject the Government declared—

"The crying evils of the tobacco monopoly continue daily to become more notorious and demand an immediate remedy. The Right Hon'ble the Governor in Council entertains the most decided conviction that, as the Board of Revenue has represented, there is no effectual remedy short of total abolition and the expunging of so objectionable a branch of revenue from the system of Indian Finance."

Some of the evils of this system arose from its being confined to a limited area but the worst-springing from the fact that tobacco is produced almost every where and freely consumed by all classes so that any raising of the price gives rise to the worst sort of smuggling and is fatal to the peace of the country—will affect any system.

J.G.

In accordance with this view application was made to the Court of Directors for sanction to abolish the tobacco monopoly and on such sanction being obtained, Act IV of 1853 was passed abolishing the monopoly—

7. The subject of a tobacco-tax was considered by the Government of India during the years 1859–68. A summary of the correspondence which then took place on the subject and of the views held thereon will be found in Sir John Strachy's minute dated 21st October 1865 printed as No. 97 at page 152 of the Blue-Book and in the Government of India's letter to the Secretary of State printed as No. 98 at page 155.

All methods of taxing tobacco were considered then.

J.G.

It will be seen therefrom that, when after the events of the year 1857, the state of the finances rendered it necessary to resort to new sources of revenue, a tax on tobacco was among other things very much discussed.

Four methods of deriving a revenue from this source had been suggested :—

(1) The suppression of the cultivation of the plant throughout India and the imposition of an import duty.

(2) The establishment of a monopoly of the cultivation and manufacture of tobacco similar to that now applied to opium.

(3) The imposition of a licence duty on the cultivation of the plant.

(4) The imposition of licence fees on all wholesale and retail dealers in the manufactured article.

Of these, the first and second methods were soon dismissed as impracticable.

The third plan was at first favoured by the Government of India but most Local Governments disapproved it. The main objections urged were: that to impose a special tax on the cultivation of tobacco would be a violation of the principles on which land assessments were usually made; that it would also be economically a mistake; that the suppression of its cultivation except under a licence would be difficult to enforce; that as the enforcement cannot be extended to Native States (even if it could be extended to zamindari and inam estates) the measure would have the effect of contracting the area of its cultivation in British territory and greatly stimulating its growth in Native States and it would be extremely difficult to prevent the smuggling of free tobacco from such States. The views of this Government are contained in Mr. Bourdillon's letter to the Government of India, dated 11th June 1859, printed as No. 90 at pages 120–128. In the first enclosure to this letter the inexpediency of taxing tobacco in any form is fully set forth by the Board of Revenue.

The Government of India thereupon turned to the fourth plan of licensing the *sale* of tobacco and accordingly inserted a provision to this effect in the Licensing Bill then under its consideration. (The Bill, which was finally passed as India Act 18 of 1861 and repealed by India Act 2 of 1862). But the reports received from Local Governments on the point were not encouraging. They all went to show that no system of licensing would bring in any large revenue.

The Government of India resolved therefore to abandon altogether the idea of raising a revenue from tobacco by Imperial Legislation and the clause in the Licensing Bill which related to tobacco was accordingly expunged.

8. But while arriving at this opinion as to the unsuitability of tobacco for Imperial taxation the Government of India also thought, judging from the reports received from Local Governments, that a considerable revenue might be derived by Local Governments if they were left each to carry out the system best suited to the circumstances of its province. Accordingly, and as it was thought that Imperial revenues might be relieved to a considerable extent by establishing a system of local taxation for local purposes, the Government of India addressed Local Governments on the subject of such taxation and named tobacco as one of the sources from which a revenue might be derived.

The reply of this Government to the above letter is printed at pages 157—162 of the Blue-Book. This Government merely reiterated the opinion it had expressed in its letter of 11th June 1859 (No. 90 at page 120) that there were insurmountable objections to the realization of a revenue from tobacco unless in the shape of a tax on the shops where tobacco was sold, i.e., a licence tax; and that the produce of such a tax would not be considerable.

9. The Government of India appears to have considered this question of a tobacco tax on subsequent occasions also and to have arrived at substantially the same opinion as before, as will appear from the letter to the Secretary of State printed as No. 98 at page 155.

10. In 1870 when the question of raising the rate of income-tax was under the consideration of the Government of India, a proposal was made by one of the members (Mr. Cowie) to tax tobacco. Sir John Strachy and Sir Richard Temple both spoke against the measure and His Excellency Lord Mayo said:—

"Now it is quite true that in many civilized countries tobacco is considered to be a very proper object for taxation but I must remind the Council that tobacco in India is really an absolute necessary of life and that if you put a tax upon the production of tobacco, you tax the two great necessaries of life in this country, viz., salt and tobacco, and I am not prepared even in the present state of our finances to advocate the imposition of a burden upon such a prime necessary of life as that is.

11. The question appears to have been discussed also during Lord Lytton's Viceroyalty and the same conclusion arrived at, namely, that no large revenue could be raised by taxing tobacco (vide pages 368-70 of Strachy's book on "The Finances and

Public Works of India" and page 554 of the volume of Legislative Council's Proceedings for 1877). The following extract from Strachey's book may be noted:

"Tobacco is almost universally consumed and is looked upon as almost a necessary of life. Whatever means were adopted the tax would only be largely productive if it fell ultimately on the classes which form the great mass of the community. It would be paid by the same classes which now pay the salt tax, and if it should become necessary to increase the burden which they already bear this object would be more easily and economically gained and with far less vexation to the people by increasing the existing tax upon salt than by imposing a new tax upon tobacco. That any increase in the rate of the salt-tax would be one of the greatest possible mistakes, unless in most exceptional circumstances and on the other hand that its present reduction * would be financially a most desirable measure, has been shown in another chapter (page 370).

* The duty was reduced from Rs. 2-8-0 to Rs. 2 in 1882. It was raised as follows in this Presidency:—

	Duty. Rs.	A.	P.
August 1859	1	0	0
April 1861	1	4	0
1861–62 to 1865–66	1	5	0
1866–67 to 1868–69	1	8	0
1869–70 to 1877–78	1	12	0
1878–79 to 1881–82	2	8	0
1882–83 to 1886–87	2	0	0
1886–87	2	8	0

12. That the Government of India knows that Travancore derives a large revenue from tobacco, may be inferred from the correspondence which took place in 1860–65 relative to the Interportal Trade convention with Travancore and Cochin and more especially from the correspondence embodied in Government Order dated 14th May 1868, No. 1338.

It will be seen from the latter correspondence that at the desire of the Viceroy (Sir John Lawrence) whose attention seems to have been drawn to certain remarks which appeared in the Travancore Administration Report for 1865–66, regarding the tobacco tax in that State the Hon'ble Mr. G. N. Taylor addressed the then Resident in Travancore and Cochin (Mr. Newill) for full particulars regarding the mode in which the tax was levied in that State and that complete information on the subject was furnished by the Resident and the then Diwan T. Madhava Rao.

This correspondence came before this Government, mainly on account of a minute recorded by the Hon'ble Mr. G. N. Taylor, in which he suggested that this Government might consider the expediency of imposing a moderate import duty or an excise wherever practicable—vide his minute printed in the Government Order.

The Diwan's Memorandum shows that during the flourishing period of the monopoly system (it was abolished in 1862–63, that is, ten years after the abolition of the Government monopoly in Malabar and Canara) the gross revenue from tobacco amounted to more than half the revenue from all other sources or more than one-third of the total revenue of the State while the revenue now amounts to about one-eighth of the total revenue.

13. From the administration report of the Travancore State for the year 1891–92, it appears that 12,295 † candies of tobacco valued at Rs. 26,77,723 were imported during that year and that a duty of Rs. 9,43,030 was collected thereon.

† Equal to 6,147,500 lb. or 8,065,520 lb. according as a 'candy' is 500 lb. or 656 lb. (which latter is the equivalent given in Madhava Rao's Memorandum—vide paragraph 10.

14. The following statement gives the statistics of the imports of tobacco into this Presidency by sea for the last three years:—

Tobacco—Imports—Sea-Borne ‡ Trade.

Years.	Foreign trade.		Coasting trade.		Total.	
——	Quantity in lb.	Value.	Quantity in lb.	Value.	Quantity in lb.	Value.
		Rs.		Rs.		Rs.
1890–91	446,477	2,06,021	218,915	33,563	665,392	2,39,584
1891–92	542,705	2,91,725	110,937	17,121	653,642	3,08,846
1892–93	915,719	3,37,980	135,775	27,107	1,051,494	3,65,087

‡ The rail-borne imports amount only to about 2,000 lb.

At the Travancore rate of duty the imports into this Presidency will bring in a gross revenue of a little over one lakh of rupees.

R.V.S.—1-3-94.

The foregoing account gives a clear and concise summary of all that has been written on this subject and shows that the feasibility of raising a revenue from tobacco has been most exhaustively debated and that the question has been considered in all its bearings. The situation is appropriately summed up by Sir John Strachey in paragraph 8 of his minute of the 21st October 1865 (page 154 of the Blue Book)—

"Tobacco has seemed at first sight a very promising subject of taxation to almost everyone who has thought upon the subject, but almost everyone had given up the scheme upon full consideration of the difficulties which surround it."

J.G.—3-3-94.

II

Mr. N. S. BRODIE'S NOTE DATED 26th DECEMBER 1915 (SECRET D.O. No. A A-1, DATED 11th JANUARY 1916).

Prior to 1910–11, *ad valorem* rates used to be charged on imported manufactured tobacco of all sorts at the rate of 5 per cent but this system was then abandoned and special quantitative rates introduced, presumably because of the difficulty of levying *ad valorem* rates. The rates introduced were about 33 per cent higher than those now in force which are—

	Rs.	A.	P.	
Unmanufactured tobacco	1	0	0	per lb.
Cigars	1	10	0	"
Cigarettes weighing less than 3 lb. per thousand.	3	2	0	per thousand.
Cigarettes weighing 3 lb. or more per thousand.	1	4	0	per lb.
Manufactured, other sorts	1	2	0	"

These rates are said to be approximately 36 per cent *ad valorem* on cigars and 33 per cent *ad valorem* on cigarettes though how this is arrived at I don't know, considering how much imported cigars and cigarettes vary in weight and value. The Government of India's first proposal is to raise these rates 'in approximately the same proportion, i.e., to a uniform 50 per cent *ad valorem*.' I presume this means that the duty on cigars is to be raised by about one-third and that on cigarettes by about half. Nothing is said about 'other sorts' which I suppose means principally pipe tobacco. Judging from Spencer's and Oakes' price lists the present rate seems to be from 28 to 41 per cent on the cheapest pipe tobacco and presumably this is also to be raised by about one-third. The rates will then read—

	Rs.	A.	P.	
Cigars	2	3	0	per lb.
Cigarettes	4	11	0	per thousand and
	1	14	0	per lb.
Other sorts	1	8	0	per lb.

I presume the Government of India does not intend to go back to *ad valorem* rates.

Effects of taxation introduced in 1910–11. Sea-Borne Trade Review of 1910–11, page 9.

2. The rates introduced in 1910–11 had the immediate effect of 'extensively curtailing the imports of foreign tobacco and they scarcely realized the revenue it was hoped they would bring in.' The total imports declined by 83 per cent in quantity and 52 per cent in value. Imports of leaf tobacco, *formerly duty free*, fell from 447,115 lb. to 63,267 lb. or by 86 per cent in quantity. Imports from Ceylon and the Straits Settlements practically ceased. [There used to be quite a large trade from the Jaffna and the northern Ceylon ports which supplied a great part of the tobacco used on the west coast of this Presidency.] Imports of cigarettes decreased 77 per cent in quantity and 48 per cent in value. The cheap American varieties were practically shut out, falling 94 per cent in value and the result was the foundation and development of the Indian cigarette industry which has probably taken their place. Exports of cigars to the United Kingdom fell by 72 per cent owing to the imposition of duty on wrapper tobacco. To avoid this, Messrs. Spencer & Co. removed their factory to Pondicherry.

Sea-Borne Trade Review of 1911–12.

3. In 1911–12, owing to the outcry from Ceylon and the leading local manufacturers of better class cigars, the rates were reduced by about 33 per cent to the present figures. Even this, however, failed to revive the import trade from Ceylon and the Straits Settlements which was completely and finally killed. Imports of leaf tobacco rose by 19,160 lb. but this was only a mere fraction of the fall of 383,848 lb. in 1910–11. The increase was confined to the higher grades required in the manufacture of cigars of good quality. Imports of cigarettes showed a further decline in quantity but an increase in value, the trade in cheap American cigarettes being completely extinguished. Exports of cigars to the United Kingdom declined another

7 per cent in value but exports to the Straits Settlements increased by 23 per cent and the whole export of cigars increased by 13 per cent in quantity and 9 per cent in value. The cigars exported to the Straits Sttlements and Federated Malay States appear to be made of purely Indian tobacco which pays no duty.

Sea-Borne Trade Review of 1912–13.

4. In 1912–13, there was a further decrease in imports of cigarettes by 15 per cent and a large factory was opened at Bangalore by the Peninsular Tobacco Company. Manufacture of cigars for export to the United Kingdom was permitted in bond and Messrs. Spencer & Co. returned from Pondicherry. The exports of these cigars rose by 46 per cent but of course the revenue did not profit by this.

Sea-Borne Trade Review of 1913–14.

There was a general increase both in imports and exports of tobacco in 1913–14 and some recovery in imports of cigarettes to a little above the figures of 1910–11. The export of high grade cigars to the United Kingdom rose to ·88 lakh against ·57 lakh in 1910–11.

Effects of the war—Sea-Borne Trade Review, 1914–15.

However, the effect of the war was to send most of the principal figures lower than ever. Imports of raw tobacco fell to 70,573 lb. in 1914–15 and exports of high grade cigars to the United Kingdom fell to 33,434 lb. and to ·45 lakh in value (nearly 50 per cent), the lowest figure on record.

5. The figures since the introduction of the new tariff are tabulated below :—

Annual value of the sea-borne trade and navigation of the Madras Presidency for 1914–15.

Foreign trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.						
1. Unmanufactured (total for Presidency).	LB. 447,115	LB. 63,267	LB. 82,427	LB. 90,458	LB. 110,458	LB. 70,573
2. Manufactured—						
(*a*) Cigars	11,099	1,049	937	830	1,107	3,368
(*b*) Cigarettes	319,275	72,139	65,410	55,217	78,616	78,429
(*c*) Other sorts	94,940	12,473	26,397	23,370	24,723	28,090
Exports.						
1. Unmanufactured (unaffected by tariff).	1,444,632	1,670,842	1,619,966	1,806,998	2,234,511	2,362,766
Of the above exported to Straits Settlements and Federated Malay States.	1,374,612	1,621,543	1,568,878	1,773,160	2,115,056	2,304,144
2. Manufactured—						
(*a*) Cigars	697,507	704,791	797,383	989,811	988,668	887,165
Of the above quantity exported to United Kingdom.	80,360	42,565	36,184	51,156	56,976	33,434
Straits Settlements and Federated Malay States (unaffected by tariff).	415,357	547,613	661,294	827,278	811,219	800,488
(*b*) Other sorts	4,196	4,515	9,010	8,513	9,363	8,885

Coasting trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.						
1. Unmanufactured	LB. 610,603	LB. 683,787	LB. 664,054	LB. 578,058	LB. 604,165	LB. 596,038
2. Manufactured	142,514	84,439	59,021	94,319	57,595	71,301
Of the above imported from Calcutta.	118,687	73,703	52,511	85,214	46,637	53,301
Exports.						
1. Unmanufactured	7,721,625	7,535,386	6,870,154	6,536,820	6,928,569	5,168,826
Of the above exported to Burma ..	6,926,830	6,474,041	6,149,974	6,133,770	6,521,676	4,579,130
2. Manufactured—						
(*a*) Cigars	347,507	314,933	410,526	419,710	349,618	275,018
Of the above exported to Burma ..	194,493	204,649	292,004	320,781	251,706	177,844
Of the above exported to Bengal ..	101,866	73,206	76,815	61,785	63,117	65,373
(*b*) Cigarettes	..	..	2,877	4,200	26,471	61,599
(*c*) Other sorts	35,726	43,920	37,620	39,906	33,407	77,190

6. The net result of the introduction of the heavier tobacco duties in 1910–11 has, therefore, been to kill the import trade in raw tobacco from Ceylon and the Straits Settlements and in cigarettes from America and to lay the foundations of a cigarette manufacturing industry in India from Indian leaf. The trade in high grade cigars exported to the United Kingdom has suffered very heavily, despite permission to manufacture export in bond. The fall between 1909–10 and 1913–14 (when this industry reached its highest point after the imposition of duties and before the outbreak of war) was about 29 per cent. This shows what an effect even a slight rise in the cost of such a thing as tobacco has on consumption as it was undoubtedly the increased cost (and that only of the wrapper) in 1910–11 that gave the trade this set back. The wrapper is only a minute fraction of the weight of the cigar and if the duty on whole cigars is only equal to an *ad valorem* rate of 36 per cent the duty on a cigar whose wrapper alone pays duty must be nearer 1 or 2 per cent. Since the concession of manufacture in bond has been granted these cigars pay no duty and it is presumed that this concession will be continued so that any enhancement of rates will not affect them.

7. *Rail-borne trade*, 1914–15.—

Imports from other Presidencies and Native States.

	LB.
1. Unmanufactured	2,051,959
Of which imported from Mysore	1,344,550
2. Manufactured—	
(*a*) Cigars	13,330
(*b*) Other sorts—probably cigarettes	1,497,517
Of which imported from Mysore	1,294,272

Exports to other Presidencies and Native States.

1. Unmanufactured	24,729,076
Of which exported to—	
Mysore	8,181,339
Calcutta	5,282,496
Nzam's Territory	4,242,157
2. Manufactured—	
(*a*) Cigars	503,013
(*b*) Other sorts	392,750

Internal trade between various parts of the Presidency.

1. Unmanufactured	53,774,208
2. Manufactured—	
(*a*) Cigars	1,061,815
(*b*) Other sorts—probably cigarettes, bidies and snuff ...	1,074,651

Cigars.

8. From these figures it appears that by far the greatest part of the Delta tobacco is exported in the manufactured condition and made up locally. The trade in manufactured tobacco is comparatively small, which agrees with my information that there are no manufactories of any size. A fairly large quantity of manufactured cigars is exported by rail from the Central districts (i.e., Trichinopoly, Salem and Coimbatore) to Negapatam but this no doubt is included also in the exports by sea to the Straits Settlements.

9. In the Secretariat note of 1911 the total outturn of cigars was estimated by Mr. Innes at about 2,500,000 lb; i.e.:—

	1909–10.
	LB.
Foreign exports	697,507
Coasting trade exports	347,507
Rail-borne exports	451,164
Do. internal trade	971,208
Total ...	2,467,386

The corresponding figures for 1914–15 are—

	LB.
Foreign exports	887,165
Coasting trade exports	275,018
Rail-borne exports	503,013
Do. internal trade	1,061,815
Total ...	2,727,001

Allowing for the disturbance of trade caused by the war, the export trade and rail-borne traffic in cigars may, therefore, be taken at about 2,750,000 lb. but this is probably an excess estimate of the quantity actually manufactured since the rail-borne traffic probably includes the greater part of the foreign exports and possibly a good deal of the coasting trade exports also.

Cigarettes.

10. The Indian cigarette industry has practically grown up since the Secretariat notes of 1911 were written. Foreign imports of the better class cigarettes have remained nearly stationary since 1911–11 at about 70,000 lb. Comparing the figures of 1909–10 with those of 1910–12 when the full effect of the tariff duties had had time to operate, 253,865 lb. of cheap American cigarettes appear to have been displaced. These have no doubt been replaced by Indian cigarettes and there has probably been a large increase in consumption in addition.

The export trade in cigarettes in 1914–15 appears to have been somewhat as follows:—

	LB.
Foreign exports	8,885*
Coasting trade exports	61,599
Rail-borne exports	392,750*
Do. internal trade	1,074,651*
Total ...	1,537,885

In the absence of figures for bidies, snuff, etc., it is not easy, however, to say how much of these 15 lakhs of pounds represent cigarettes and still less how much represents cigarettes manufactured in the Presidency. My inquiries in Vizagapatam show that none of the cigarettes there consumed (and the consumption is very large) are manufactured in this Presidency. The great bulk come from Calcutta and a good many from the Peninsular Tobacco Company, Bangalore. Similarly in Madras, the bulk of the cigarettes come from Bangalore or Bowringpet, both in Mysore territory and not subject to British excise. It will be seen from paragraph 7 above that 1,294,272 lb. of 'other sorts' including (no doubt mostly) cigarettes are imported from Mysore. Probably the greater number of these are shown in 'rail-borne internal trade' and exports of the Presidency over again. I should put the actual number manufactured in the Presidency at not more than 250,000 lb.

11. The following are principal Indian Cigaratte factories shown in the Lawrence Asylum Press Almanack, page 1438:—

(1) A.G.M. & Sons, Coimbatore.

(2) K.G.A., Coimbatore.

(3) McDowell & Co., Madras.

I have never seen any cigarettes from the first two factories and they seem to be very small and merely supply the local market. McDowell & Co. employ about 25 persons and some small hand machines. Pappadapoulos Brothers make Egyptian cigarettes but import Egyptian tobacco which already pays duty. Besides these there are the two large factories in Mysore—

4. The Peninsular Tobacco Company, Cleveland town, Bangalore, and

5. The Oriental Tobacco Manufacturing Company, Bowringpet.

*Includes, however, pipe tobacco, bidies, snuff, etc.

Both these are run on American lines and employ a large number of workmen and power-driven machinery, but as already remarked they are not subject to British excise.

Outturn of tobacco.

12. According to the 'Season and crop report' for 1914–15 the total area cultivated with tobacco in the Presidency was 227,182 acres, the 'normal' area being 203,230 acres. I learn from Chadwick that 800 lb. of dried leaf per acre is a fair average crop as taken by Castlestuart Stuart in 1910. The total outturn was therefore about 182,000,000 lb. of which we have only accounted for about $3\frac{1}{2}$ millions at most in the manufactured form. This outturn was spread over 24 districts, the area being over 10,000 acres in seven, Vizagapatam (29,115), Godavari (13,099), Guntur (78,560), Kistna (13,022), Kurnool (18,769), Coimbatore (26,001) and Madura (11,172). These figures show little change since 1908–09.

About 90,000,000 are exported in unmanufactured form.

Tobacco industry.

13. The census report for 1911 groups manufacturers of tobacco, opium and ganja together under Order 12, Group 66. The number of manufacturers of opium and ganja must be almost negligible and the total number of workers and dependents is shown to be 12,333. Under Order 33, Group 122, sellers of tobacco, opium, ganja, etc., are said to be 65,733 (workers 25,883, dependents 39,850). The total number of persons dependent on the tobacco trade is therefore about 78,066 against 75,000 in 1901. It is not possible to compare the figures of the other industries referred to in Mr. Castlestuart Stuart's demi-official of 5th November 1910 as the classification has been altered. Betel leaf and arecanut sellers are now grouped with vegetable and fruit sellers. It may be noted however that the number of persons engaged in the manufacture of tobacco is about as many as bakers and biscuit makers (12,970) whilst the number of sellers of tobacco is not much less than the number of sellers of milk, ghee, butter, poultry, eggs, etc. (80,981).

Present proposals criticised.

14. These figures show that there has been comparatively little change in the general position since 1910–11 and the arguments against any form of taxation of Indian grown tobacco remain as strong as they were then. The present proposals of the Government of India may now be examined in detail. The first is, as far as I understand it, to raise the quantitative rates of duty on imported cigars and cigarettes (and perhaps also on other manufactured tobacco) to the figures shown in paragraph 1 above. The quantity of imported cigars is now very small and was only 3,368 lb. in 1914–15. Assuming that the enhanced duty has no effect on consumption, the increase of revenue from this source will be only Rs. 1,824*. But judging from the effect of the enhancement of duty in 1910–11 it will probably be much less. The duty on imported cigarettes (78,429 lb. in 1914–15) was about Rs. 80,000 and the enhancement of the duty by one-half may give Rs. 40,000, though here also a heavy fall in consumption may be confidently looked for. The increase of duty on 'other sorts', i.e., probably pipe tobacco, snuff, etc. (which may be contemplated) by one-third would yield perhaps Rs. 10,742. Altogether, the maximum increase of revenue that may be looked for from this proposal cannot, therefore, be more than Rs. 60,000 and the burden will fall heavily on the poorly paid European and Eurasian assistants in shops, business firms, Railway Companies, etc., who are by far the largest consumers of imported cigarettes. However this increased revenue can no doubt be obtained without administrative difficulty or expense.

(*a*) First proposal.

*Present duty Rs. 5,473 one-third enhancement Rs. 1,824.

15. The second proposal is to levy an excise duty on cigarettes of Indian manufacture. The large factory referred to by the Government of India is probably that in Bengal, I think at Monghyr. It is proposed to differentiate bidies from cigarettes by the use of cigarette paper. This may be accepted. It is proposed that

(*b*) Second proposal.

the taxation should take the form of a quantitative duty equivalent to an *ad valorem* duty of about 15 per cent. A further point is whether the taxation should be restricted to factories equipped with power-driven machinery. If this qualification is accepted the question is a simple one for there are no such cigarette factories in this Presidency. Assuming, however, that all cigarette factories are to be taxed my inquiries show that cigarettes of Indian manufacture vary considerably in price. The cheapest are sold retail at prices varying from Rs. 1–4–6 per 500 or Rs. 2–6–0 per 1,000 to Rs. 2–12–0 per 500 or Rs. 5–2–0 per 1,000. These cigarettes both weigh almost exactly $2\frac{1}{2}$ lb. per 1,000, the cheaper ones a little more. The manufacturer's price to the trade is no doubt considerably less as these cigarettes have to be imported to Vizagapatam and there is the retailer's profit to be considered. The excise duty will of course have to be fixed with regard to the wholesale price at the factory. I should say Rs. 1–12–0 per 1,000 is probably an outside price for the cheapest cigarettes. This means $28/2\frac{1}{2}=11\frac{1}{5}$, say 11 annas a lb. or as they weigh rather more than $2\frac{1}{2}$ lb. per 1,000, say 10 annas a lb. 15 per cent on 10 annas is one and a half annas per lb. I have estimated the total production of cigarettes in this Presidency at not more than 250,000 lb. and the duty on this would be Rs. 23,437. It is impossible to say without a full inquiry what the number of cigarette factories is but they are certainly very small and probably average not more than 10,000 lb. of cigarettes each per annum. Putting the number at 25 scattered all over the Presidency, not less than 25 Sub-Inspectors on Rs. 40 per mensem would be required to supervise them. The cost of these would be Rs. 12,000 not allowing for contingent expenses such as weighing machines, etc. The net proceeds of the tax would therefore be somewhere about Rs. 10,000, even supposing that the duty had no effect on consumption which is extremely improbable. Moreover as Indian cigarettes vary considerably in price though not so much as cheroots, the duty would press most unfairly on the cheapest brands and on the poorest class of the population which consumes them.

Watch cigarettes—Peninsular Tobacco Company, Bangalore, Rs. 1-4-6.
Ruler cigarettes—Imperial Tobacco Company, Calcutta, Rs. 2–12–0 per 500.

16. The third proposal is to levy a similar quantitative excise duty equivalent to an *ad valorem* tax of 15 per cent on cigars of Indian manufacture. As already pointed out in 1911 this problem absolutely bristles with administrative difficulties. In the first place it is not clear whether bidies are to be included. It is possible to distinguish bidies from cigarettes but the difference between them and the poorest kind of cheroots is almost infinitesimal. Both are rolled in leaves, sometimes tobacco leaves sometimes not. The manufacture of bidies is admittedly a cottage industry carried on in every village and hamlet. However according to the Asylum Press Almanack one tobacco factory at least professes to make bidies. The vast bulk of the Indian cheroots are also made as a cottage industry as is evident from the fact that out of 182 millions of pounds of tobacco grown only about $3\frac{1}{2}$ millions ($4\frac{1}{2}$ at the outside) appear in the trade returns as manufactured. Possibly bidies could be excluded by excepting cheroots, etc., weighing less than as many pounds to the 1,000. My experiments show that the commonest bidies weigh about $1\frac{1}{4}$ lb. per 1,000, so that if manufactured cheroots weighing less than $1\frac{1}{2}$ lb. per 1,000 were excluded this might meet the case. However this would undoubtedly stimulate the consumption of bidies which I understand to be the most deleterious form of smoking. Bidies are sold at 12 annas a 1,000 wholesale in Madras, that is at about $9\frac{3}{5}$ annas per lb. The manufacturer's price may be less so that probably 9 annas per lb. would be a safe figure and the duty, if any, ought to be much the same as for cigarettes or a little less, say 1 anna 4 pies per lb.

(c) Third proposal.

Bidies.

17. Ordinary cheroots of the commonest kind seem to weigh about $3\frac{3}{4}$ lb. per 1,000 and cost Rs. 1–12–0 per 1,000 retail but both weight and price vary enormously. Better class cheroots which, however, are still largely consumed by the poorer classes weigh 20 lb. per 1,000 and cost Rupees 12–8–0. Assuming that the rates to the trade are somewhat less we may estimate the first kind at 6 annas a lb. and the second at 10 annas a lb. The duty ought to be fixed at 15 per cent on the cheapest

Cigars.

kind at 6 annas a lb. The duty would then be 11 pies but for convenience of reckoning might be fixed at one anna.

It is quite impossible to estimate with any accuracy the output of Indian manufactured cigars. The figures in paragraph 9 no doubt afford some guide. I should imagine 2,000,000 lb. to be a fair estimate. The duty on this at 1 anna per lb. would be Rs. 1,25,000. Against this has to be set the cost of establishment which would be enormous. It is not possible at present to form any idea of what this would be. Presumably the only way to ensure the collection of the duty would be to place each factory in charge of an officer who would have to weigh the quantity of raw tobacco received and the quantity finally passed out on payment of duty, seeing that none illicitly passed out and keeping accounts on the same lines as officers in charge of distilleries. The test of a factory would be I suppose that the proprietor sold the manufactured produce, for practically every householder buys a few leaves of tobacco now and again and rolls them up into cheroots for private consumption. Even excluding these individuals, there appear to be about 26,000 persons describing themselves as tobacco sellers in the census returns, excluding 2,000 partially agriculturist. This agrees with what I expected, being an average of about one for every village in the Presidency. In some places there are no doubt several and in others none, but it would be quite impossible to do much in the way of concentration without causing much hardship. The formation of central storehouses appears, therefore, to be impossible and practically every shop will have to have a properly locked storehouse for the cheroots manufactured which adds to the expense. The ordinary staff of the Salt and Abkari Department could not possibly undertake this enormous addition to its work. Assuming that one Sub-Inspector could efficiently supervise on the average 25 factories (which I take to be impossible with the shops scattered as at present) it would require a staff of 1,000 Sub-Inspectors to supervise the work in the Presidency. The opportunities for fraud would be so great that I fear even then the force would be demoralized. Certainly a great many of the Sub-Inspectors would have to be paid more than the lowest grade of Rs. 40 a month. Assuming that the average pay is Rs. 60, this establishment alone would cost Rs. 60,000 per month or Rs. 7,20,000 per annum or about six times the estimated proceeds of the tax. It seems hardly worth while to discuss the matter further. A complete staff of peons, inspectors, Assistant Commissioners and Deputy Commissioners would also be necessary to supervise such an establishment and it would be quite impossible for me to undertake so large an addition to my work. After all there would be no possibility of guarding against fraud as there would be nothing to distinguish between illicit and licit tobacco. As far as I can see no tax less than Re. 1 per lb. would do more than pay for the cost of collection and this of course would be ruinous having regard to the cost of the article.

18. In conclusion I can see nothing in favour of the tax or any possibility of working it. A tax on Indian cheroots made in power-driven factories might be possible. There are only two, viz.: Spencer's at Dindigul and Oakes & Co. at Guindy—employing 700 persons between them. But it seems very hard to discriminate against them, even if the tax was only one anna a lb. and anything more would probably drive them out of the Indian market altogether. I cannot say what the output of these two factories is, but excluding the amount manufactured in bond for Europe I doubt if it exceeds 500,000 lb. and the duty at one anna per lb. would yield only Rs. 31,250.

19. Another possible course would be to put an export duty on manufactured tobacco. In that case I should exclude cigars exported to the United Kingdom which have to pay heavy and enhanced duties there and have already sufferred by the tariff. There are not the same administrative objections to an export duty, at all events on exports by sea, as the establishment exists and evasion would be practically impossible. Exports by sea to foreign countries, excluding the United Kingdom, amounted to 853,731 lb. in 1914–15 and exports to other provinces to 275,018 lb. Total 1,128,749 lb. A duty of one anna per lb. might bring in Rs. 62,500 without any extra cost and as the exported cigars at all events to the Straits Settlements are of fairly good quality a duty of even 2 annas a lb. might not ruin the trade and bring in about one and quarter lakhs. Still the amount is so small that I see no use in upsetting the trade at all for so very little result.

N. S. Brodie—26–12–15.

III

Demi-official from L. DAVIDSON, Esq., I.C.S., to N. S. BRODIE, Esq., I.C.S., dated 4th July 1916, No. 39-S. (Secret No. 183 A, dated 18th December 1916.)

I am desired to refer to your note of the 26th December 1915, on the subject of imposing an excise on locally manufactured cigars and cigarettes. The Government of India are disposed to agree that the taxation of locally-made cigars is not likely to prove of practical value. As regards cigarettes, however, they are unable to abandon the possibility of revenue from an article which is not only a luxury but also, to some extent, a harmful luxury; and they have asked this Government to consider the question at greater leisure.

2. Your note, referred to above, gives an approximate estimate of the total outturn of cigarettes in the Presidency, the number of factories and the prevailing wholesale prices. I am to ask whether you cannot now quietly obtain more precise information as to the number and location of factories, the met hods of manufacture, the outturn and the prices obtained. Collectors could possibly procure the information under the guise of income-tax or statistical inquiries without exciting attention.

3. The calculations in your note are based on the assumption that the excise to be imposed would be equivalent to an *ad valorem* tax of about 15 per cent, as was then suggested by the Government of India. I am to ask you now further to consider the effect of taxation on the industry and to favour Government with your opinion as to the maximum which could safely be imposed without seriously crippling the trade.

4. The Government of India lay stress on the strictly confidential nature of this further reference, but say 'there is no objection to consulting any officer of Government whose advice would be of special value.'

Demi-official from N. S. BRODIE, Esq., I.C.S., to L. DAVIDSON, Esq., I.C.S., dated Ennore, 12th November 1916.

With reference to your demi-official No. 39-S., dated 4th July 1916, I have now made further inquiries into the subject of the production and sale of cigarettes in this Presidency both personally and through Collectors. I cannot say that I have elicited much additional information and the remarks which I made in my note of the 26th December 1915 continue to hold good. It appears, however, that I was wrong in stating that there were no cigarette factories in the Presidency equipped with power-driven machinery as it was found on further inspection that McDowell's factory in Moor street, Madras, had some cutting machines worked by an oil-engine recently set up.

2. The estimate of outturn may very well remain at 250,000 lb. The only details I have been able to get are from the Universal Tobacco Company in Madras which is believed to turn out about 30 lakhs of cigarettes per mensem and from McDowell's factory, also in Madras, which is believed to turn out about 20 lakhs. McDowell's factory does not use Indian tobacco exclusively and some of the brands contain imported tobacco to the extent, it is said, of 25 per cent on the whole. I have tested numerous brands from all parts of the Presidency and find that as a rule they weigh about 2½ lb. per 1,000, a little more or less. This gives the total Madras production about 150,000 lb. per annum. Allowing for the imported tobacco used in McDowell's factory the quantity of Indian cigarettes is about 135,000 lb. The only other factories appear to be Oakes & Co.'s factory at Guindy, a new factory started by Barry & Co. in Cocanada just recently and one or two small factories in Coimbatore. There was a factory at Guntur but it seems to have failed after working a few months. The Collector of Coimbatore has not yet replied to my letter on the subject but I made some inquiries in the course of my last tour and find that there are one and probably two factories in Coimbatore but they use imported tobacco for their cigarettes as does Pappadopoulos in Madras. Allowing for all these factories I should say 115,000 lb. per annum was a very liberal estimate, making 250,000 for the Presidency.

3. Retail prices seem to vary very considerably but on the whole I see no reason to modify my original calculations. The cheapest cigarettes are sold in packets of 5 or

6 and a slightly more expensive lot in packets of 10. The dealers' profit seems to be about eight annas a thousand and the trade discount about 20 per cent. Some cigarettes* are sold as cheaply as Re. 1 per 1,000 wholesale or allowing for the trade discount about thirteen annas per 1,000. This is less than half the price I estimated for the cheapest cigarettes in my last note (Rs. 1-12-0). I doubt if there are many of this brand sold, but there are numerous other brands at Re. 1-4-0, Re. 1-6-0 and Rs. 1-8-0 sold by McDowell & Co. However all other information tends to confirm the view that the cheapest cigarettes are sold at Rs. 2 to Rs. 2-12-0 by the wholesale dealers and consequently must cost somewhere about Rs. 1-12-0 per 1,000 from the manufacturers. These cheap cigarettes are manufactured in this Presidency by McDowell & Co., and the Universal Tobacco Company only. Those turned out by Oakes & Co., and the new factory started by Barry & Co., at Cocanada are much more expensive and work out at Rs. 11 to Rs. 14 per 1,000.

* By the Universal Tobacco Company, 1/6, Patters Road, Royapetta—'Bazaar' brand.

4. The method of manufacture is probably the same everywhere. The tobacco selected has all the main nibs cut out and the leaves are then laid one above the other to a considerable depth. They are then cut into small pieces by a cutting machine, the tabacco rolled in cagarette paper, gummed and cut into lengths. As far as I know the cutting and gumming, etc., machines are all worked by hand except in McDowell's factory above referred to.

5. In this connexion I should, however, bring to notice one or two facts which I have ascertained in the course of my inquiries. It is a common practice I understand for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale especially at the various shandies and markets in the Presidency. This is common in Malabar, Coimbatore and the Nilgiris at all events and probably elsewhere. Most Collectors have, however, reported that cigarette papers are not commonly sold in the bazaars. I believe the practice of individual consumers rolling their own cigarettes is not common at present though it is said to have been customary in Salem before the shop-made cigarettes became so cheap. It would be clearly impossible to levy an excise duty on cigarettes made by hawkers or private individuals and it may be expected that the practice would be much more largely resorted to if a duty were imposed on the manufactured article. This might perhaps be met by imposing a customs duty on cigarette paper which would have to be determined in accordance with the duty imposed on cigarettes, such customs duty to be refunded on paper actually used by the wholesale manufacturers. It seems that cigarette paper was formerly imported mostly from Austria and Germany—at present it is obtained from France.

6. As regards the duty to be imposed I find it difficult to express an opinion. The heavy rates imposed in 1910-11 practically killed the cheap American cigarettes but then the enhancement of rates was probably more than 100 per cent of the value so that this result was quite intelligible. My inquiries show that my estimate of the cost of collection was much too large. One Sub-Inspector would, I think, be required for each factory but as there seem to be only four or possibly five factories the cost would be only about Rs. 2,400 per annum. As observed in my previous note, a duty of one and a half annas per pound represents 15 per cent of the value of the cheap cigarette. This amounts to 3 annas 9 pies per 1,000 and could hardly affect the retail price at all. The usual retail price per packet of 10 cigarettes seems to be about 4 pies. A duty of 8 annas 4 pies per 1,000 should raise the retail price by one pie and this would probably not seriously affect the trade though even one pie is a consideration in a country like India. I do not think we could safely raise the duty beyond Re. 1 per 1,000 which would raise the retail price about 2 pies or 50 per cent. This would be 6·4 annas per pound and roughly about 60 per cent of the value. Although cheap cigarettes do not seem to vary much in weight I would prefer to levy the duty by the pound rather than by the number as being the only fair way of assessing it. A duty of 6½ annas per pound would, if the production remained at 250,000 lb., yield Rs. 1,01,562½ but if the consumption fell, as it probably would, to about 200,000 lb. the tax would yield Rs. 81,250. As far as this Presidency is concerned, the result would, therefore, be insignificant, but, no doubt, the revenue

from the whole of India would be very considerable and I cannot see any serious objection to the proposal except that it would greatly encourage the smoking of bidies and press rather hardly on the poorest class of the population who smoke cheap cigarettes at present and regard them as a great luxury.

Demi-official from F. J. Richards, Esq., I.C.S., to Ley, Esq., I.C.S., dated the 18th December 1916, No. 75–S.

I am directed to reply to Mr. Low's Confidential demi-official letter No. 4493, dated 14th June 1916, on the subject of the expediency of imposing an excise on cigarettes manufactured in India from indigenous tobacco.

2. In the first place, I am to point out that the correspondence of 1910, to which reference is made in the first paragraph of Mr. Low's letter, did not turn on the present question, for at that time there was no manufacture of cigarettes from indigenous tobacco in this Presidency. It is stated that the question of an excise on manufacture was then dropped because the local cigarette industry was in its infancy and it was considered that the imposition of an excise would deal it a death-blow. So far as this Presidency is concerned, the position is virtually unaltered; for, as stated in Mr. Butterworth's demi-official letter No. A.A.-1, dated 11th January 1916, the local output of cigarettes does not exceed some 250,000 lb. annually. This estimate has been confirmed by subsequent enquiries, though the number of factories to be taken into account is found to be smaller than was thought to be the case. There are probably not more than 5 or 6, of which the two largest are those owned by Messrs. McDowell & Co., and the Universal Tobacco Company both in Madras City. The former has recently been equipped with an oil-engine for driving its cutting machines. The average wholesale price for the cheapest class of cigarettes quoted in Mr. Butterworth's letter, viz. Rs. 1-12-0 per 1,000, may be taken as correct. These cheap cigarettes are manufactured only by Messrs. McDowell & Co. and the Universal Tobacco Company. Those turned out by Messrs. Oakes & Co., at Guindy and by Messrs. Barry & Co., at Cocanada are much more expensive, costing from Rs. 11 to Rs. 14 per 1,000.

3. The maximum rate of duty which is considered compatible with the survival of the industry is Re. 1 per 1,000 or approximately $6\frac{1}{2}$ annas per lb. This duty would if the production remained 250,000 lb. yield a revenue of a little over a lakh. The imposition of such a tax, however, is almost certain to preclude any expansion of the industry and would very probably strangle that which already exists; for it would either drive the masses to revert to *bidi* smoking or compel the manufacturers to transfer their factories to French territory or to Native States. I may here point out that the Director-General of Commercial Intelligence has incorrectly assumed that the tax realisable from the Peninsular Tobacco Company's factory in the Civil and Military Station, Bangalore, would be credited to Imperial revenues. By the terms of rendition, the Mysore Government is entitled to the whole of the surplus revenue of the Assigned Tract, after the cost of the administration of the tract is defrayed. This fact seriously affects the estimate formed of the probable receipts from the tax.

4. Another factor to be taken into consideration is the practice, common in several districts of this Presidency, for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale, especially at local markets. Individual consumers do not usually roll their own cigarettes, though it is said to have been customary for them to do so in Salem before the shop-made cigarettes became so cheap. It would obviously be impossible to levy an excise duty on cigarettes made by hawkers or private individuals; and it may be expected that the practice would be much more largely resorted to, if a duty were imposed on the manufactured article. Cigarette paper was formerly imported from Germany and Austria; now France is the chief source of supply. A customs duty might be imposed on it, such duty to be refunded on paper actually used by the wholesale manufacturers; but this expedient would not be free from difficulties and would almost certainly result in the use of a local substitute.

5. In these circumstances, I am to say that the Government of Madras are entirely opposed to the proposal. They can suggest no alternative scheme for internal taxation of tobacco, apart from those already rejected.

IV

Letter from C. R. Watkins, Esq., C.I.E., Officiating Collector of Customs, Madras, to the Under Secretary to Government, Finance Department, dated 1st May 1925, No. L. Dis. Nil.

I forward herewith a statement showing the foreign imports into, and exports from, the Madras Presidency of tobacco since the year 1920–21.

2. The rates of customs duty at present in force are given below:—

Name of article.	Per	Tariff valuation.	Duty.
Cigars	.....	*Ad valorem.*	75 per cent.
Cigarettes of value.—Not exceeding Rs. 10-8-0 per thousand.	Thousand ...	.....	Rs. 7.
Exceeding Rs. 10-8-0 per thousand ...	Do.	.....	,, 10-8-0.
Tobacco, unmanufactured ...	Lb. ...	.....	,, 1.
All other sorts of tobacco manufactured	,, ...	.....	,, 2-4-0.

Enclosure.

Foreign imports and exports of 'Tobacco' at the Presidency of Madras for the past five years ending 1924–25.

	1920–21.		1921–22.		1922–23.		1923–24.		1924–25.	
	Quantity.	Value.	Quantity	Value.	Quantity.	Value.	Quantity.	Value.	Quantity.	Value.
	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.
Foreign imports.										
Tobacco—Unmanufactured ..	77,507	1,45,703	489,693	13,17,036	742,412	14,07,436	3,105,459	34,57,277	3,485,871	29,29,162
Cigars	12,815	43,430	701	2,922	81	238	94	156	215	473
Cigarettes	500,267	16,39,193	186,750	9,40,779	278,384	12,34,116	296,516	13,54,712	1,86,952	8,34,717
Tobacco for pipes and cigarettes	304	1,296	5,293	54,393	22,524	1,19,720	18,155	97,606	½	3
Other sorts	28,058	1,46,309	9,590	39,508	852	3,891	12,402	40,892	20,564	1,06,279
Total ..	618,951	19,75,936	692,027	23,54,638	1,044,253	27,65,401	3,432,626	49,50,643	3,693,602	38,70,634
Foreign exports.										
Tobacco—Unmanufactured ..	3,118,784	13,57,807	4,650,985	16,84,266	4,258,743	17,68,621	9,953,877	37,65,684	14,366,170	42,49,345
Cigars	75,540	1,04,792	94,905	1,17,671	99,244	1,32,490	1,11,541	1,20,174	88,199	1,25,560
Cigarettes	..	..	129	615	31,230	30,049	1,574	1,492	72,086	81,746
Other sorts	34,166	27,373	48,237	46,322	45,300	44,918	110,903	1,03,645	99,555	49,769
Total ..	3,228,490	14,89,972	4,794,256	18,48,874	4,434,517	19,76,078	10,177,895	39,90,995	14,626,010	45,06,420

V

Statement showing the area under cultivation of tobacco in the Madras Presidency in 1923–24.

	ACS.		ACS.
Ganjam	3,299	Salem	3,737
Vizagapatam	48,285	Coimbatore	25,544
Godavari	11,591	Trichinopoly	4,032
Kistna	13,301	Tanjore	2,223
Guntur	64,481	Madura	7,400
Kurnool	11,542	Ramnad	3,889
Bellary	2,658	Tinnevelly	1,048
Anantapur	4,785	Malabar	17
Cuddapah	1,868	South Kanara	1,623
Nellore	2,625	The Nilgiris	72
Chingleput	62		
South Arcot	2,985	Total ...	219,841
Chittoor	595		
North Arcot	2,179		

CONFIDENTIAL.

TAXATION ON TOBACCO.

I

Notes to G.O. Mis. No. 1993, *dated* 21*st May* 1894.

The question is whether we should take the success of Travancore in levying a revenue from tobacco as a reason for calling the attention of the Government of India to the possibility of levying a revenue for tobacco in our territories. I doubt if we have sufficient ground for doing so and whether such a suggestion would be well received. Travancore is exceptionally situated, so that it has been possible to abolish all growth of tobacco there and levy a revenue by import duties, and the Government of India know all about this. Such a system would be impossible in our territory where tobacco is grown almost everywhere and consumed by almost everybody, and where larger Native States abound. The possibility of levying a revenue on tobacco in our territory, in this or any other way, has been repeatedly discussed and decided against after full communication between all the Governments, so that any suggestion for us on the subject would amount to an insinuation that the discussion had not been complete. The only way in which, as far as I can see, a large revenue could be realized for tobacco would be by establishing monopoly of manufacture and sale. Though this was hardly possible in former days, I believe it would be possible in these days of improved communications and police, but the initial expenditure on warehouses, etc., would be too heavy for a time of financial pressure and the larger preventive establishments which would be necessary and extend through almost every village would result in oppression which would be so widespread and so frequently exercised that it would be eminently dangerous.

G. Garstin—7-3-93.

No doubt a tobacco monopoly *could* be worked but it would be a gigantic undertaking, and so very costly (especially in Bengal, where Government has no rural agency at all) that it would not, in my opinion, bring in a net return worth the imitation, the measure would certainly cause. The simplest way of raising a tax on tobacco would be by a special tax on the land on which it was grown, but that would not apply to Native States and cannot be worked in Bengal. A special establishment which would eat up the most part of the profits, while in all settled non-zamindari districts the terms of the settlements would prevent the imposition of such a tax. Independently of this, the taxation of land according to the crop grown would be a

This note is submitted with reference to the enquiry whether the attention of the Government of India has been called in the Revenue Department to tobacco as a possible source of revenue.

2. The occasion for this enquiry will appear from the notes of His Excellency the Governor and the Hon'ble Sir Henry Stokes to which reference is made in that office-note. It arose in this wise—

In submitting the budget estimate of the Travancore State for the Malabar year 1069 (August 1893–94) Mr. Grigg, the Resident, after observing that the most important increases occurred under certain heads of revenue of which tobacco was one, remarked regarding the increase under this head as follows :—

"That under tobacco is very remarkable. I have never heard a rumour of complaint regarding this tax, and yet it comes to approximately As. 6–6 per head of the population and gives a revenue nearly double that of abkari and opium and is now 55 per cent of that of salt—a necessary of life. Offences against the law relating to its importation are, I believe, not numerous. The lucrativeness of this monopoly may well attract the attention of Indian financiers (paragraph 3 of his letter, dated 3rd August 1893, in Government Order, dated 20th October 1893, No. 712, Political).

On this His Excellency noted—

"We should call the attention of the Government of India to the statistics of the tobacco tax and to the Resident's remarks thereon."

On this note Sir Henry Stokes remarked as follows :—

"The attention of the Government of India has been often enough directed to tobacco as a possible source of revenue. The peculiar position of Travancore makes its experience of little or no value in the consideration of the question.

retrograde measure, injurious to the cultivator and certainly beneficial to no one but the karnam.

A licence fee might be imposed and would yield something. It would be a return to the moturfa abolished years ago, and would come very hard on the very poor classes who sell tobacco. I should be sorry to see it tried. Similar objections can be found to every other plan of levying a tobacco tax in this country. I don't think that the Government of India would care to take the question up. It was examined, on another and later occasion, I think, than any of those mentioned in the note, by Mr. Bazeet Colvin when additional Member of the Viceroy's Council, who wrote a long note on this and other projects of taxation, a copy of which I have somewhere—given me by Sir Auckland Colvin, when Finance Minister, who told me at the time that the idea had been finally abandoned—or to that effect. This was in 1886 when the times were almost as hard as they are now.

H. E. STOKES—7-3-94.

This note is very clear, and gives me a complete answer. It is very evident that we should *not* call the attention of India to Mr. Grigg's remarks on the revenue derived in Travancore from taxing tobacco.

I found myself like many others lured into the belief that a large revenue might be derived from taxing this article, and the same results achieved here as in almost every civilized country in the world. But on inquiry I find that not only has it been thoroughly looked into, but the experiment has been tried and has failed, and there is no doubt the peculiar circumstances of the country have rendered the success of the experiment almost impossible. And as Sir J. Strachey very forcibly puts in the incidence of a tax on tobacco would fall with far greater severity on those who now pay the bulk of the salt tax, and we would thereby be putting a crushing weight on those least able to bear the burden. I confess myself converted and withdraw from any further attempt to bring this question within the domains of practical politics—although I can imagine a municipality looking upon it as a fair object for local taxation but even then extremely difficult to work, as poor Madras can testify.

I suppose though that imported tobacco will pay its 5 per cent like other articles (except cotton goods !).

WENLOCK—11-3-20.

Tobacco is not produced in the State : the revenue is derived from import duties, and the configuration of the country lends itself to the easy levy of these duties on the greater portion of the tobacco consumed, which comes from Ceylon. In this Presidency and probably in the rest of India, import duties would not produce any revenue worth having and would be prejudicial to the Cheroot industry (Tobacco imported consists mainly of cheroot covers from Java and Sumatra): but I have no doubt that a considerable revenue might be got from licensees on the vend by others than the growers."

His Excellency wrote thereupon—

"Has this Government ever called their (India's) attention to it? Anyhow I do not think we could do any harm in pointing out what a large sum a little place like Travancore manages to get from the consumers of tobacco. It does not seem to me material how it is raised, whether by import duties or licences. The very significant fact remains that the consumers of tobacco in Travancore contribute yearly Rs. 10 lakhs to the State."

3. His Excellency's query whether this Government has ever called the attention of the Government of India to tobacco as a possible source of revenue has been referred to this department for information, in the office-note from the Chief Secretary.

4. It will be seen from the references put up—

(1) That this question has frequently been considered by the Government of India and has also formed the subject of correspondence between that Government and this and other Local Governments;

(2) That the conclusion come to by the Government of India is that the idea of raising a large imperial revenue from tobacco must be abandoned;

(3) That our Government has also expressed the opinion that no large provincial revenue can be obtained from tobacco; and

(4) That the Government of India is not unaware of the fact that Travancore manages to derive a large revenue from this source.

5. A summary of the correspondence on the subject is subjoined as also a short account of the tobacco monopoly in the districts of Coimbatore, Malabar and Canara which was abolished in the year 1853.

6. The Blue-Book entitled "Papers regarding the Tobacco Monopoly in the Presidency of Fort St. George etc.", gives the main correspondence up to 1868. It will be seen from pages 25–74 of the book, that for 50 years from 1803 to 1853, tobacco was the subject of a Government monopoly in the districts of Canara, Malabar and Coimbatore (vide Regulations 7 and 8 of 1811 and Regulation 5 of 1831 at pages 1, 4 and 8 of the Blue-Book), that the gross annual revenue derived during the 10 years—1833–1843 was about Rs. 8 lakhs and the net revenue about Rs. 5¾ lakhs; that the evils arising from this monopoly were so great that the attention of Government was frequently invited thereto by the officers concerned; that in 1845, the Government after recording a succinct review of the correspondence on the subject (vide No. 2 at page 26) called for a report from the Board of Revenue "on the practicability of a modification of the monopoly which, whilst we shall secure a considerable revenue, shall yet divest the tax of some of its most injurious attributes, its heavy charge of collection and the inducement it held out to smuggling"). The Government added that if a beneficial modification was impracticable, the possibility of finding an available substitute should be investigated.

It cost 2¼ lakhs to collect 8 lakhs !

J.G.

In reply the Board furnished an exhaustive report on the subject and said—

"It is with much reluctance that they are induced to advise the surrender without an equivalent of so considerable a source of revenue as the (tobacco) monopoly and they must be understood as doing so only, because, after much anxious reflection on the subject, they have been led to the conclusion that between such surrender and the retention of the present system with all its evils, there is no practicable middle course.

After a careful consideration of the subject the Government declared—

"The crying evils of the tobacco monopoly continue daily to become more notorious and demand an immediate remedy. The Right Hon'ble the Governor in Council entertains the most decided conviction that, as the Board of Revenue has represented, there is no effectual remedy short of total abolition and the expunging of so objectionable a branch of revenue from the system of Indian Finance."

In accordance with this view application was made to the Court of Directors for sanction to abolish the tobacco monopoly and on such sanction being obtained, Act IV of 1853 was passed abolishing the monopoly—

Some of the evils of this system arose from its being confined to a limited area but the worst-springing from the fact that tobacco is produced almost everywhere and freely consumed by all classes so that any raising of the price gives rise to the worst sort of smuggling and is fatal to the peace of the country—will affect any system.

J.G.

7. The subject of a tobacco-tax was considered by the Government of India during the years 1859–68. A summary of the correspondence which then took place on the subject and of the views held thereon will be found in Sir John Strachy's minute dated 21st October 1865 printed as No. 97 at page 152 of the Blue-Book and in the Government of India's letter to the Secretary of State printed as No. 98 at page 155.

All methods of taxing tobacco were considered then.

J.G.

It will be seen therefrom that, when after the events of the year 1857, the state of the finances rendered it necessary to resort to new sources of revenue, a tax on tobacco was among other things very much discussed.

Four methods of deriving a revenue from this source had been suggested :—

(1) The suppression of the cultivation of the plant throughout India and the imposition of an import duty.

(2) The establishment of a monopoly of the cultivation and manufacture of tobacco similar to that now applied to opium.

(3) The imposition of a licence duty on the cultivation of the plant.

(4) The imposition of licence fees on all wholesale and retail dealers in the manufactured article.

Of these, the first and second methods were soon dismissed as impracticable.

The third plan was at first favoured by the Government of India but most Local Governments disapproved it. The main objections urged were: *that to impose a special tax on the cultivation of tobacco would be a violation of the principles on which land assessments were usually made*; that it would also be economically a mistake; that the suppression of its cultivation except under a licence would be difficult to enforce; that as the enforcement cannot be extended to Native States (even if it could be extended to zamindari and inam estates) the measure would have the effect of contracting the area of its cultivation in British territory and greatly stimulating its growth in Native States and it would be extremely difficult to prevent the smuggling of free tobacco from such States. The views of this Government are contained in Mr. Bourdillon's letter to the Government of India, dated 11th June 1859, printed as No. 90 at pages 120–128. In the first enclosure to this letter the inexpediency of taxing tobacco in any form is fully set forth by the Board of Revenue.

The Government of India thereupon turned to the fourth plan of licensing the *sale* of tobacco and accordingly inserted a provision to this effect in the Licensing Bill then under its consideration. (The Bill, which was finally passed as India Act 18 of 1861 and repealed by India Act 2 of 1862). But the reports received from Local Governments on the point were not encouraging. They all went to show that no system of licensing would bring in any large revenue.

The Government of India resolved therefore to abandon altogether the idea of raising a revenue from tobacco by Imperial Legislation and the clause in the Licensing Bill which related to tobacco was accordingly expunged.

8. But while arriving at this opinion as to the unsuitability of tobacco for Imperial taxation the Government of India also thought, judging from the reports received from Local Governments, that a considerable revenue might be derived by Local Governments if they were left each to carry out the system best suited to the circumstances of its province. Accordingly, and as it was thought that Imperial revenues might be relieved to a considerable extent by establishing a system of local taxation for local purposes, the Government of India addressed Local Governments on the subject of such taxation and named tobacco as one of the sources from which a revenue might be derived.

The reply of this Government to the above letter is printed at pages 157—162 of the Blue-Book. This Government merely reiterated the opinion it had expressed in its letter of 11th June 1859 (No. 90 at page 120) that there were insurmountable objections to the realization of a revenue from tobacco unless in the shape of a tax on the shops where tobacco was sold, i.e., a licence tax; and that the produce of such a tax would not be considerable.

9. The Government of India appears to have considered this question of a tobacco tax on subsequent occasions also and to have arrived at substantially the same opinion as before, as will appear from the letter to the Secretary of State printed as No. 98 at page 155.

10. In 1870 when the question of raising the rate of income-tax was under the consideration of the Government of India, a proposal was made by one of the members (Mr. Cowie) to tax tobacco. Sir John Strachy and Sir Richard Temple both spoke against the measure and His Excellency Lord Mayo said:—

"Now it is quite true that in many civilized countries tobacco is considered to be a very proper object for taxation but I must remind the Council that tobacco in India is really an absolute necessary of life and that if you put a tax upon the production of tobacco, you tax the two great necessaries of life in this country, viz., salt and tobacco, and I am not prepared even in the present state of our finances to advocate the imposition of a burden upon such a prime necessary of life as that is.

11. The question appears to have been discussed also during Lord Lytton's Vice-royalty and the same conclusion arrived at, namely, that no large revenue could be raised by taxing tobacco (vide pages 368-70 of Strachy's book on "The Finances and

Public Works of India" and page 554 of the volume of Legislative Council's Proceedings for 1877). The following extract from Strachey's book may be noted:

"Tobacco is almost universally consumed and is looked upon as almost a necessary of life. Whatever means were adopted the tax would only be largely productive if it fell ultimately on the classes which form the great mass of the community. It would be paid by the same classes which now pay the salt tax, and if it should become necessary to increase the burden which they already bear this object would be more easily and economically gained and with far less vexation to the people by increasing the existing tax upon salt than by imposing a new tax upon tobacco. That any increase in the rate of the salt-tax would be one of the greatest possible mistakes, unless in most exceptional circumstances and on the other hand that its present reduction * would be financially a most desirable measure, has been shown in another chapter (page 370).

* The duty was reduced from Rs. 2-8-0 to Rs. 2 in 1882. It was raised as follows in this Presidency:—

	Duty. Rs.	A.	P.
August 1859	1	0	0
April 1861	1	4	0
1861–62 to 1865–66	1	5	0
1866–67 to 1868–69	1	8	0
1869–70 to 1877–78	1	12	0
1878–79 to 1881–82	2	8	0
1882–83 to 1886–87	2	0	0
1886–87	2	8	0

12. That the Government of India knows that Travancore derives a large revenue from tobacco, may be inferred from the correspondence which took place in 1860–65 relative to the Interportal Trade convention with Travancore and Cochin and more especially from the correspondence embodied in Government Order dated 14th May 1868, No. 1338.

It will be seen from the latter correspondence that at the desire of the Viceroy (Sir John Lawrence) whose attention seems to have been drawn to certain remarks which appeared in the Travancore Administration Report for 1865–66, regarding the tobacco tax in that State the Hon'ble Mr. G. N. Taylor addressed the then Resident in Travancore and Cochin (Mr. Newill) for full particulars regarding the mode in which the tax was levied in that State and that complete information on the subject was furnished by the Resident and the then Diwan T. Madhava Rao.

This correspondence came before this Government, mainly on account of a minute recorded by the Hon'ble Mr. G. N. Taylor, in which he suggested that this Government might consider the expediency of imposing a moderate import duty or an excise wherever practicable—vide his minute printed in the Government Order.

The Diwan's Memorandum shows that during the flourishing period of the monopoly system (it was abolished in 1862–63, that is, ten years after the abolition of the Government monopoly in Malabar and Canara) the gross revenue from tobacco amounted to more than half the revenue from all other sources or more than one-third of the total revenue of the State while the revenue now amounts to about one-eighth of the total revenue.

13. From the administration report of the Travancore State for the year 1891–92, it appears that 12,295 † candies of tobacco valued at Rs. 26,77,723 were imported during that year and that a duty of Rs. 9,43,030 was collected thereon.

† Equal to 6,147,500 lb. or 8,065,520 lb. according as a 'candy' is 500 lb. or 656 lb. (which latter is the equivalent given in Madhava Rao's Memorandum—vide paragraph 10.

14. The following statement gives the statistics of the imports of tobacco into this Presidency by sea for the last three years:—

Tobacco—Imports—Sea-Borne ‡ Trade.

Years.	Foreign trade.		Coasting trade.		Total.	
——	Quantity in lb.	Value.	Quantity in lb.	Value.	Quantity in lb.	Value.
		Rs.		Rs.		Rs.
1890–91	446,477	2,06,021	218,915	33,563	665,392	2,39,584
1891–92	542,705	2,91,725	110,937	17,121	653,642	3,08,846
1892–93	915,719	3,37,980	135,775	27,107	1,051,494	3,65,087

‡ The rail-borne imports amount only to about 2,000 lb.

At the Travancore rate of duty the imports into this Presidency will bring in a gross revenue of a little over one lakh of rupees.

R.V.S.—1-3-94.

The foregoing account gives a clear and concise summary of all that has been written on this subject and shows that the feasibility of raising a revenue from tobacco has been most exhaustively debated and that the question has been considered in all its bearings. The situation is appropriately summed up by Sir John Strachey in paragraph 8 of his minute of the 21st October 1865 (page 154 of the Blue Book)—

"Tobacco has seemed at first sight a very promising subject of taxation to almost everyone who has thought upon the subject, but almost everyone had given up the scheme upon full consideration of the difficulties which surround it."

J.G.—3-3-94.

II

Mr. N. S. BRODIE'S NOTE DATED 26th DECEMBER 1915 (SECRET D.O. No. A A-1, DATED 11th JANUARY 1916).

Prior to 1910–11, *ad valorem* rates used to be charged on imported manufactured tobacco of all sorts at the rate of 5 per cent but this system was then abandoned and special quantitative rates introduced, presumably because of the difficulty of levying *ad valorem* rates. The rates introduced were about 33 per cent higher than those now in force which are—

	Rs.	A.	P.	
Unmanufactured tobacco	1	0	0	per lb.
Cigars	1	10	0	"
Cigarettes weighing less than 3 lb. per thousand.	3	2	0	per thousand.
Cigarettes weighing 3 lb. or more per thousand.	1	4	0	per lb.
Manufactured, other sorts	1	2	0	"

These rates are said to be approximately 36 per cent *ad valorem* on cigars and 33 per cent *ad valorem* on cigarettes though how this is arrived at I don't know, considering how much imported cigars and cigarettes vary in weight and value. The Government of India's first proposal is to raise these rates 'in approximately the same proportion, i.e., to a uniform 50 per cent *ad valorem*.' I presume this means that the duty on cigars is to be raised by about one-third and that on cigarettes by about half. Nothing is said about 'other sorts' which I suppose means principally pipe tobacco. Judging from Spencer's and Oakes' price lists the present rate seems to be from 28 to 41 per cent on the cheapest pipe tobacco and presumably this is also to be raised by about one-third. The rates will then read—

	Rs.	A.	P.	
Cigars	2	3	0	per lb.
Cigarettes	4	11	0	per thousand and
	1	14	0	per lb.
Other sorts	1	8	0	per lb.

I presume the Government of India does not intend to go back to *ad valorem* rates.

2. The rates introduced in 1910–11 had the immediate effect of 'extensively curtailing the imports of foreign tobacco and they scarcely realized the revenue it was hoped they would bring in.' The total imports declined by 83 per cent in quantity and 52 per cent in value. Imports of leaf tobacco, *formerly duty free*, fell from 447,115 lb. to 63,267 lb. or by 86 per cent in quantity. Imports from Ceylon and the Straits Settlements practically ceased. [There used to be quite a large trade from the Jaffna and the northern Ceylon ports which supplied a great part of the tobacco used on the west coast of this Presidency.] Imports of cigarettes decreased 77 per cent in quantity and 48 per cent in value. The cheap American varieties were practically shut out, falling 94 per cent in value and the result was the foundation and development of the Indian cigarette industry which has probably taken their place. Exports of cigars to the United Kingdom fell by 72 per cent owing to the imposition of duty on wrapper tobacco. To avoid this, Messrs. Spencer & Co. removed their factory to Pondicherry.

Effects of taxation introduced in 1910–11. Sea-Borne Trade Review of 1910–11, page 9.

3. In 1911–12, owing to the outcry from Ceylon and the leading local manufacturers of better class cigars, the rates were reduced by about 33 per cent to the present figures. Even this, however, failed to revive the import trade from Ceylon and the Straits Settlements which was completely and finally killed. Imports of leaf tobacco rose by 19,160 lb. but this was only a mere fraction of the fall of 383,848 lb. in 1910–11. The increase was confined to the higher grades required in the manufacture of cigars of good quality. Imports of cigarettes showed a further decline in quantity but an increase in value, the trade in cheap American cigarettes being completely extinguished. Exports of cigars to the United Kingdom declined another

Sea-Borne Trade Review of 1911–12.

7 per cent in value but exports to the Straits Settlements increased by 23 per cent and the whole export of cigars increased by 13 per cent in quantity and 9 per cent in value. The cigars exported to the Straits Ssttlements and Federated Malay States appear to be made of purely Indian tobacco which pays no duty.

4. In 1912–13, there was a further decrease in imports of cigarettes by 15 per cent and a large factory was opened at Bangalore by the Peninsular Tobacco Company. Manufacture of cigars for export to the United Kingdom was permitted in bond and Messrs. Spencer & Co. returned from Pondicherry. The exports of these cigars rose by 46 per cent but of course the revenue did not profit by this.

Sea-Borne Trade Review of 1912–13.

There was a general increase both in imports and exports of tobacco in 1913–14 and some recovery in imports of cigarettes to a little above the figures of 1910–11. The export of high grade cigars to the United Kingdom rose to ·88 lakh against ·57 lakh in 1910–11.

Sea-Borne Trade Review of 1913–14.

However, the effect of the war was to send most of the principal figures lower than ever. Imports of raw tobacco fell to 70,573 lb. in 1914–15 and exports of high grade cigars to the United Kingdom fell to 33,434 lb. and to ·45 lakh in value (nearly 50 per cent), the lowest figure on record.

Effects of the war—Sea-Borne Trade Review, 1914–15.

5. The figures since the introduction of the new tariff are tabulated below :—

Annual value of the sea-borne trade and navigation of the Madras Presidency for 1914–15.

Foreign trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.	LB.	LB.	LB.	LB.	LB.	LB.
1. Unmanufactured (total for Presidency).	447,115	63,267	82,427	90,458	110,458	70,573
2. Manufactured—						
(*a*) Cigars	11,099					
(*b*) Cigarettes	319,275	1,049				
(*c*) Other sorts	94,940	72,139	937			
Exports.		12,473	65,410	830	1,107	3,368
1. Unmanufactured (unaffected by tariff).	1,444,632	1,670,842	26,397	55,217	78,616	78,429
Of the above exported to Straits Settlements and Federated Malay States.	1,374,612	1,621,543	1,619,956	23,370	24,723	28,090
2. Manufactured—			1,568,878	1,806,998	2,234,511	2,362,766
(*a*) Cigars	697,507	704,791		1,773,160	2,115,056	2,304,144
Of the above quantity exported to United Kingdom.	80,360	42,565	797,383			
Straits Settlements and Federated Malay States (unaffected by tariff).	415,357	547,613	36,184	989,811	988,668	887,165
(*b*) Other sorts	4,196	4,515	661,294	51,156	56,976	33,434
			9,010	827,278	811,219	800,488
				8,513	9,363	8,885

Coasting trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.	LB.	LB.	LB.	LB.	LB.	LB.
1. Unmanufactured	610,603	683,787	664,054	578,058	604,165	596,038
2. Manufactured	142,514	84,439	59,021	94,319	57,595	71,301
Of the above imported from Calcutta.	118,687	73,703	52,511	85,214	46,637	53,301
Exports.						
1. Unmanufactured	7,721,625	7,535,386	6,870,154	6,536,820	6,928,569	5,168,826
Of the above exported to Burma ..	6,926,830	6,474,041	6,149,974	6,133,770	6,521,676	4,579,130
2. Manufactured—						
(*a*) Cigars	347,507	314,933	410,526	419,710	349,618	275,018
Of the above exported to Burma ..	194,493	204,649	292,004	320,781	251,706	177,844
Of the above exported to Bengal ..	101,866	73,206	76,815	61,785	63,117	65,373
(*b*) Cigarettes	..	..	2,877	4,200	26,471	61,599
(*c*) Other sorts	35,726	43,920	37,620	39,906	33,407	77,190

6. The net result of the introduction of the heavier tobacco duties in 1910–11 has, therefore, been to kill the import trade in raw tobacco from Ceylon and the Straits Settlements and in cigarettes from America and to lay the foundations of a cigarette manufacturing industry in India from Indian leaf. The trade in high grade cigars exported to the United Kingdom has suffered very heavily, despite permission to manufacture export in bond. The fall between 1909–10 and 1913–14 (when this industry reached its highest point after the imposition of duties and before the outbreak of war) was about 29 per cent. This shows what an effect even a slight rise in the cost of such a thing as tobacco has on consumption as it was undoubtedly the increased cost (and that only of the wrapper) in 1910–11 that gave the trade this set back. The wrapper is only a minute fraction of the weight of the cigar and if the duty on whole cigars is only equal to an *ad valorem* rate of 36 per cent the duty on a cigar whose wrapper alone pays duty must be nearer 1 or 2 per cent. Since the concession of manufacture in bond has been granted these cigars pay no duty and it is presumed that this concession will be continued so that any enhancement of rates will not affect them.

7. *Rail-borne trade*, 1914–15.—

Imports from other Presidencies and Native States.

	LB.
1. Unmanufactured	2,051,959
Of which imported from Mysore	1,344,550
2. Manufactured—	
(*a*) Cigars	13,330
(*b*) Other sorts—probably cigarettes	1,497,517
Of which imported from Mysore	1,294,272

Exports to other Presidencies and Native States.

1. Unmanufactured	24,729,076
Of which exported to—	
Mysore	8,181,339
Calcutta	5,282,496
Nzam's Territory	4,242,157
2. Manufactured—	
(*a*) Cigars	503,013
(*b*) Other sorts	392,750

Internal trade between various parts of the Presidency.

1. Unmanufactured	53,774,208
2. Manufactured—	
(*a*) Cigars	1,061,815
(*b*) Other sorts—probably cigarettes, bidies and snuff ...	1,074,651

8. From these figures it appears that by far the greatest part of the Delta tobacco is exported in the manufactured condition and made up locally. The trade in manufactured tobacco is comparatively small, which agrees with my information that there are no manufactories of any size. A fairly large quantity of manufactured cigars is exported by rail from the Central districts (i.e., Trichinopoly, Salem and Coimbatore) to Negapatam but this no doubt is included also in the exports by sea to the Straits Settlements.

Cigars.

9. In the Secretariat note of 1911 the total outturn of cigars was estimated by Mr. Innes at about 2,500,000 lb; i.e.:—

	1909–10.
	LB.
Foreign exports	697,507
Coasting trade exports	347,507
Rail-borne exports	451,164
Do. internal trade	971,208
Total ...	2,467,386

7 per cent in value but exports to the Straits Settlements increased by 23 per cent and the whole export of cigars increased by 13 per cent in quantity and 9 per cent in value. The cigars exported to the Straits Ssttlements and Federated Malay States appear to be made of purely Indian tobacco which pays no duty.

4. In 1912–13, there was a further decrease in imports of cigarettes by 15 per cent and a large factory was opened at Bangalore by the Peninsular Tobacco Company. Manufacture of cigars for export to the United Kingdom was permitted in bond and Messrs. Spencer & Co. returned from Pondicherry. The exports of these cigars rose by 46 per cent but of course the revenue did not profit by this.

Sea-Borne Trade Review of 1912–13.

There was a general increase both in imports and exports of tobacco in 1913–14 and some recovery in imports of cigarettes to a little above the figures of 1910–11. The export of high grade cigars to the United Kingdom rose to ·88 lakh against ·57 lakh in 1910–11.

Sea-Borne Trade Review of 1913–14.

However, the effect of the war was to send most of the principal figures lower than ever. Imports of raw tobacco fell to 70,573 lb. in 1914–15 and exports of high grade cigars to the United Kingdom fell to 33,434 lb. and to ·45 lakh in value (nearly 50 per cent), the lowest figure on record.

Effects of the war—Sea-Borne Trade Review, 1914–15.

5. The figures since the introduction of the new tariff are tabulated below :—

Annual value of the sea-borne trade and navigation of the Madras Presidency for 1914–15.

Foreign trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.	LB.	LB.	LB.	LB.	LB.	LB.
1. Unmanufactured (total for Presidency).	447,115	63,267	82,427	90,458	110,458	70,573
2. Manufactured—						
(*a*) Cigars	11,099	1,049	937	830	1,107	3,368
(*b*) Cigarettes	319,275	72,139	65,410	55,217	78,616	78,429
(*c*) Other sorts	94,940	12,473	26,397	23,370	24,723	28,090
Exports.						
1. Unmanufactured (unaffected by tariff).	1,444,632	1,670,842	1,619,966	1,806,998	2,234,511	2,362,766
Of the above exported to Straits Settlements and Federated Malay States.	1,374,612	1,621,543	1,568,878	1,773,160	2,115,056	2,304,144
2. Manufactured—						
(*a*) Cigars	697,507	704,791	797,383	989,811	988,668	887,165
Of the above quantity exported to United Kingdom.	80,360	42,565	36,184	51,156	56,976	33,434
Straits Settlements and Federated Malay States (unaffected by tariff).	415,357	547,613	661,294	827,278	811,219	800,488
(*b*) Other sorts	4,196	4,515	9,010	8,513	9,363	8,885

Coasting trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.	LB.	LB.	LB.	LB.	LB.	LB.
1. Unmanufactured	610,603	683,787	664,054	578,058	604,165	596,038
2. Manufactured	142,514	84,439	59,021	94,319	57,595	71,301
Of the above imported from Calcutta.	118,687	73,703	52,511	85,214	46,637	53,301
Exports.						
1. Unmanufactured	7,721,625	7,535,386	6,870,154	6,536,820	6,928,569	5,168,826
Of the above exported to Burma ..	6,926,830	6,474,041	6,149,974	6,133,770	6,521,676	4,579,130
2. Manufactured—						
(*a*) Cigars	347,507	314,933	410,526	419,710	349,618	275,018
Of the above exported to Burma ..	194,493	204,649	292,004	320,781	251,706	177,844
Of the above exported to Bengal ..	101,866	73,206	76,815	61,785	63,117	65,373
(*b*) Cigarettes	..	..	2,877	4,200	26,471	61,599
(*c*) Other sorts	35,726	43,920	37,620	39,906	33,407	77,190

6. The net result of the introduction of the heavier tobacco duties in 1910–11 has, therefore, been to kill the import trade in raw tobacco from Ceylon and the Straits Settlements and in cigarettes from America and to lay the foundations of a cigarette manufacturing industry in India from Indian leaf. The trade in high grade cigars exported to the United Kingdom has suffered very heavily, despite permission to manufacture export in bond. The fall between 1909–10 and 1913–14 (when this industry reached its highest point after the imposition of duties and before the outbreak of war) was about 29 per cent. This shows what an effect even a slight rise in the cost of such a thing as tobacco has on consumption as it was undoubtedly the increased cost (and that only of the wrapper) in 1910–11 that gave the trade this set back. The wrapper is only a minute fraction of the weight of the cigar and if the duty on whole cigars is only equal to an *ad valorem* rate of 36 per cent the duty on a cigar whose wrapper alone pays duty must be nearer 1 or 2 per cent. Since the concession of manufacture in bond has been granted these cigars pay no duty and it is presumed that this concession will be continued so that any enhancement of rates will not affect them.

7. *Rail-borne trade*, 1914–15.—

Imports from other Presidencies and Native States.

	LB.
1. Unmanufactured	2,051,959
Of which imported from Mysore	1,344,550
2. Manufactured—	
(*a*) Cigars	13,330
(*b*) Other sorts—probably cigarettes	1,497,517
Of which imported from Mysore	1,294,272

Exports to other Presidencies and Native States.

1. Unmanufactured	24,729,076
Of which exported to—	
Mysore	8,181,339
Calcutta	5,282,496
Nzam's Territory	4,242,157
2. Manufactured—	
(*a*) Cigars	503,013
(*b*) Other sorts	392,750

Internal trade between various parts of the Presidency.

1. Unmanufactured	53,774,208
2. Manufactured—	
(*a*) Cigars	1,061,815
(*b*) Other sorts—probably cigarettes, bidies and snuff ...	1,074,651

8. From these figures it appears that by far the greatest part of the Delta tobacco is exported in the manufactured condition and made up locally. The trade in manufactured tobacco is comparatively small, which agrees with my information that there are no manufactories of any size. A fairly large quantity of manufactured cigars is exported by rail from the Central districts (i.e., Trichinopoly, Salem and Coimbatore) to Negapatam but this no doubt is included also in the exports by sea to the Straits Settlements.

Cigars.

9. In the Secretariat note of 1911 the total outturn of cigars was estimated by Mr. Innes at about 2,500,000 lb; i.e.:—

	1909–10. LB.
Foreign exports	697,507
Coasting trade exports	347,507
Rail-borne exports	451,164
Do. internal trade	971,208
Total ...	2,467,386

The corresponding figures for 1914–15 are—

	LB.
Foreign exports ...	887,165
Coasting trade exports ...	275,018
Rail-borne exports ...	503,013
Do. internal trade ...	1,061,815
Total ...	2,727,001

Allowing for the disturbance of trade caused by the war, the export trade and rail-borne traffic in cigars may, therefore, be taken at about 2,750,000 lb. but this is probably an excess estimate of the quantity actually manufactured since the rail-borne traffic probably includes the greater part of the foreign exports and possibly a good deal of the coasting trade exports also.

Cigarettes.

10. The Indian cigarette industry has practically grown up since the Secretariat notes of 1911 were written. Foreign imports of the better class cigarettes have remained nearly stationary since 1911–11 at about 70,000 lb. Comparing the figures of 1909–10 with those of 1910–12 when the full effect of the tariff duties had had time to operate, 253,865 lb. of cheap American cigarettes appear to have been displaced. These have no doubt been replaced by Indian cigarettes and there has probably been a large increase in consumption in addition.

The export trade in cigarettes in 1914–15 appears to have been somewhat as follows:—

	LB.
Foreign exports ...	8,885*
Coasting trade exports ...	61,599
Rail-borne exports ...	392,750*
Do. internal trade ...	1,074,651*
Total ...	1,537,885

In the absence of figures for bidies, snuff, etc., it is not easy, however, to say how much of these 15 lakhs of pounds represent cigarettes and still less how much represents cigarettes manufactured in the Presidency. My inquiries in Vizagapatam show that none of the cigarettes there consumed (and the consumption is very large) are manufactured in this Presidency. The great bulk come from Calcutta and a good many from the Peninsular Tobacco Company, Bangalore. Similarly in Madras, the bulk of the cigarettes come from Bangalore or Bowringpet, both in Mysore territory and not subject to British excise. It will be seen from paragraph 7 above that 1,294,272 lb. of 'other sorts' including (no doubt mostly) cigarettes are imported from Mysore. Probably the greater number of these are shown in 'rail-borne internal trade' and exports of the Presidency over again. I should put the actual number manufactured in the Presidency at not more than 250,000 lb.

11. The following are principal Indian Cigaratte factories shown in the Lawrence Asylum Press Almanack, page 1438:—

(1) A.G.M. & Sons, Coimbatore.

(2) K.G.A., Coimbatore.

(3) McDowell & Co., Madras.

I have never seen any cigarettes from the first two factories and they seem to be very small and merely supply the local market. McDowell & Co. employ about 25 persons and some small hand machines. Pappadapoulos Brothers make Egyptian cigarettes but import Egyptian tobacco which already pays duty. Besides these there are the two large factories in Mysore—

4. The Peninsular Tobacco Company, Cleveland town, Bangalore, and

5. The Oriental Tobacco Manufacturing Company, Bowringpet.

*Includes, however, pipe tobacco, bidies, snuff, etc.

Both these are run on American lines and employ a large number of workmen and power-driven machinery, but as already remarked they are not subject to British excise.

Outturn of tobacco.

12. According to the 'Season and crop report' for 1914–15 the total area cultivated with tobacco in the Presidency was 227,182 acres, the 'normal' area being 203,230 acres. I learn from Chadwick that 800 lb. of dried leaf per acre is a fair average crop as taken by Castlestuart Stuart in 1910. The total outturn was therefore about 182,000,000 lb. of which we have only accounted for about 3½ millions at most in the manufactured form. This outturn was spread over 24 districts, the area being over 10,000 acres in seven, Vizagapatam (29,115), Godavari (13,099), Guntur (78,560), Kistna (13,022), Kurnool (18,769), Coimbatore (26,001) and Madura (11,172). These figures show little change since 1908–09.

About 90,000,000 are exported in unmanufactured form.

Tobacco industry.

13. The census report for 1911 groups manufacturers of tobacco, opium and ganja together under Order 12, Group 66. The number of manufacturers of opium and ganja must be almost negligible and the total number of workers and dependents is shown to be 12,333. Under Order 33, Group 122, sellers of tobacco, opium, ganja, etc., are said to be 65,733 (workers 25,883, dependents 39,850). The total number of persons dependent on the tobacco trade is therefore about 78,066 against 75,000 in 1901. It is not possible to compare the figures of the other industries referred to in Mr. Castlestuart Stuart's demi-official of 5th November 1910 as the classification has been altered. Betel leaf and arecanut sellers are now grouped with vegetable and fruit sellers. It may be noted however that the number of persons engaged in the manufacture of tobacco is about as many as bakers and biscuit makers (12,970) whilst the number of sellers of tobacco is not much less than the number of sellers of milk, ghee, butter, poultry, eggs, etc. (80,981).

Present proposals criticised.

14. These figures show that there has been comparatively little change in the general position since 1910–11 and the arguments against any form of taxation of Indian grown tobacco remain as strong as they were then. The present proposals of the Government of India may now be examined in detail. The first is, as far as I understand it, to raise the quantitative rates of duty on imported cigars and cigarettes

(*a*) First proposal.

(and perhaps also on other manufactured tobacco) to the figures shown in paragraph 1 above. The quantity of imported cigars is now very small and was only 3,368 lb. in 1914–15. Assuming that the enhanced duty has no effect on consumption, the increase of revenue from this source will be only Rs. 1,824*. But judging from the effect of the enhancement of duty in 1910–11 it will probably be much less. The duty on imported cigarettes (78,429 lb. in 1914–15) was about Rs. 80,000 and the enhancement of the duty by one-half may give Rs. 40,000, though here also a heavy fall in consumption may be confidently looked for. The increase of duty on 'other sorts', i.e., probably pipe tobacco, snuff, etc. (which may be contemplated) by one-third would yield perhaps Rs. 10,742. Altogether, the maximum increase of revenue that may be looked for from this proposal cannot, therefore, be more than Rs. 60,000 and the burden will fall heavily on the poorly paid European and Eurasian assistants in shops, business firms, Railway Companies, etc., who are by far the largest consumers of imported cigarettes. However this increased revenue can no doubt be obtained without administrative difficulty or expense.

*Present duty Rs. 5,473 one-third enhancement Rs. 1,824.

(*b*) Second proposal.

15. The second proposal is to levy an excise duty on cigarettes of Indian manufacture. The large factory referred to by the Government of India is probably that in Bengal, I think at Monghyr. It is proposed to differentiate bidies from cigarettes by the use of cigarette paper. This may be accepted. It is proposed that

the taxation should take the form of a quantitative duty equivalent to an *ad valorem* duty of about 15 per cent. A further point is whether the taxation should be restricted to factories equipped with power-driven machinery. If this qualification is accepted the question is a simple one for there are no such cigarette factories in this Presidency. Assuming, however, that all cigarette factories are to be taxed my inquiries show that cigarettes of Indian manufacture vary considerably in price. The cheapest are sold retail at prices varying from Rs. 1–4–6 per 500 or Rs. 2–6–0 per 1,000 to Rs. 2–12–0 per 500 or Rs. 5–2–0 per 1,000. These cigarettes both weigh almost exactly $2\frac{1}{2}$ lb. per 1,000, the cheaper ones a little more. The manufacturer's price to the trade is no doubt considerably less as these cigarettes have to be imported to Vizagapatam and there is the excise duty will of course have to be fixed with regard to the wholesale price at the factory. I should say Rs. 1–12–0 per 1,000 is probably an outside price for the cheapest cigarettes. This means $28/2\frac{1}{2}=11\frac{1}{5}$, say 11 annas a lb. or as they weigh rather more than $2\frac{1}{2}$ lb. per 1,000, say 10 annas a lb. 15 per cent on 10 annas is one and a half annas per lb. I have estimated the total production of cigarettes in this Presidency at not more than 250,000 lb. and the duty on this would be Rs. 23,437. It is impossible to say without a full inquiry what the number of cigarette factories is but they are certainly very small and probably average not more than 10,000 lb. of cigarettes each per annum. Putting the number at 25 scattered all over the Presidency, not less than 25 Sub-Inspectors on Rs. 40 per mensem would be required to supervise them. The cost of these would be Rs. 12,000 not allowing for contingent expenses such as weighing machines, etc. The net proceeds of the tax would therefore be somewhere about Rs. 10,000, even supposing that the duty had no effect on consumption which is extremely improbable. Moreover as Indian cigarettes vary considerably in price though not so much as cheroots, the duty would press most unfairly on the cheapest brands and on the poorest class of the population which consumes them.

Watch cigarettes—Peninsular Tobacco Company, Bangalore, Rs. 1-4-6.
Ruler cigarettes—Imperial Tobacco Company, Calcutta, Rs. 2–12–0 per 500.

16. The third proposal is to levy a similar quantitative excise duty equivalent to an *ad valorem* tax of 15 per cent on cigars of Indian manufacture. As already pointed out in 1911 this problem absolutely bristles with administrative difficulties. In the first place it is not clear whether bidies are to be included. It is possible to distinguish bidies from cigarettes but the difference between them and the poorest kind of cheroots is almost infinitesimal. Both are rolled in leaves, sometimes tobacco leaves sometimes not. The manufacture of bidies is admittedly a cottage industry carried on in every village and hamlet. However according to the Asylum Press Almanack one tobacco factory at least professes to make bidies. The vast bulk of the Indian cheroots are also made as a cottage industry as is evident from the fact that out of 182 millions of pounds of tobacco grown only about $3\frac{1}{2}$ millions ($4\frac{1}{2}$ at the outside) appear in the trade returns as manufactured. Possibly bidies could be excluded by excepting cheroots, etc., weighing less than as many pounds to the 1,000. My experiments show that the commonest bidies weigh about $1\frac{1}{2}$ lb. per 1,000 were excluded this might meet the case. However this would undoubtedly stimulate the consumption of bidies which I understand to be the most deleterious form of smoking. Bidies are sold at 12 annas a 1,000 wholesale in Madras, that is at about $9\frac{3}{5}$ annas per lb. The manufacturer's price may be less so that probably 9 annas per lb. would be a safe figure and the duty, if any, ought to be much the same as for cigarettes or a little less, say 1 anna 4 pies per lb.

Bidies.

17. Ordinary cheroots of the commonest kind seem to weigh about $3\frac{3}{4}$ lb. per 1,000 and cost Rs. 1–12–0 per 1,000 retail but both weight and price vary enormously. Better class cheroots which, however, are still largely consumed by the poorer classes weigh 20 lb. per 1,000 and cost Rupees 12–8–0. Assuming that the rates to the trade are somewhat less we may estimate the first kind at 6 annas a lb. and the second at 10 annas a lb. The duty ought to be fixed at 15 per cent on the cheapest

Cigars.

kind at 6 annas a lb. The duty would then be 11 pies but for convenience of reckoning might be fixed at one anna.

It is quite impossible to estimate with any accuracy the output of Indian manufactured cigars. The figures in paragraph 9 no doubt afford some guide. I should imagine 2,000,000 lb. to be a fair estimate. The duty on this at 1 anna per lb. would be Rs. 1,25,000. Against this has to be set the cost of establishment which would be enormous. It is not possible at present to form any idea of what this would be. Presumably the only way to ensure the collection of the duty would be to place each factory in charge of an officer who would have to weigh the quantity of raw tobacco received and the quantity finally passed out on payment of duty, seeing that none illicitly passed out and keeping accounts on the same lines as officers in charge of distilleries. The test of a factory would be I suppose that the proprietor sold the manufactured produce, for practically every householder buys a few leaves of tobacco now and again and rolls them up into cheroots for private consumption. Even excluding these individuals, there appear to be about 26,000 persons describing themselves as tobacco sellers in the census returns, excluding 2,000 partially agriculturist. This agrees with what I expected, being an average of about one for every village in the Presidency. In some places there are no doubt several and in others none, but it would be quite impossible to do much in the way of concentration without causing much hardship. The formation of central storehouses appears, therefore, to be impossible and practically every shop will have to have a properly locked storehouse for the cheroots manufactured which adds to the expense. The ordinary staff of the Salt and Abkari Department could not possibly undertake this enormous addition to its work. Assuming that one Sub-Inspector could efficiently supervise on the average 25 factories (which I take to be impossible with the shops scattered as at present) it would require a staff of 1,000 Sub-Inspectors to supervise the work in the Presidency. The opportunities for fraud would be so great that I fear even then the force would be demoralized. Certainly a great many of the Sub-Inspectors would have to be paid more than the lowest grade of Rs. 40 a month. Assuming that the average pay is Rs. 60, this establishment alone would cost Rs. 60,000 per month or Rs. 7,20,000 per annum or about six times the estimated proceeds of the tax. It seems hardly worth while to discuss the matter further. A complete staff of peons, inspectors, Assistant Commissioners and Deputy Commissioners would also be necessary to supervise such an establishment and it would be quite impossible for me to undertake so large an addition to my work. After all there would be no possibility of guarding against fraud as there would be nothing to distinguish between illicit and licit tobacco. As far as I can see no tax less than Re. 1 per lb. would do more than pay for the cost of collection and this of course would be ruinous having regard to the cost of the article.

18. In conclusion I can see nothing in favour of the tax or any possibility of working it. A tax on Indian cheroots made in power-driven factories might be possible. There are only two, viz.: Spencer's at Dindigul and Oakes & Co. at Guindy—employing 700 persons between them. But it seems very hard to discriminate against them, even if the tax was only one anna a lb. and anything more would probably drive them out of the Indian market altogether. I cannot say what the output of these two factories is, but excluding the amount manufactured in bond for Europe I doubt if it exceeds 500,000 lb. and the duty at one anna per lb. would yield only Rs. 31,250.

19. Another possible course would be to put an export duty on manufactured tobacco. In that case I should exclude cigars exported to the United Kingdom which have to pay heavy and enhanced duties there and have already sufferred by the tariff. There are not the same administrative objections to an export duty, at all events on exports by sea, as the establishment exists and evasion would be practically impossible. Exports by sea to foreign countries, excluding the United Kingdom, amounted to 853,731 lb. in 1914–15 and exports to other provinces to 275,018 lb. Total 1,128,749 lb. A duty of one anna per lb. might bring in Rs. 62,500 without any extra cost and as the exported cigars at all events to the Straits Settlements are of fairly good quality a duty of even 2 annas a lb. might not ruin the trade and bring in about one and quarter lakhs. Still the amount is so small that I see no use in upsetting the trade at all for so very little result.

N. S. Brodie—26–12–15.
4

III

Demi-official from L. Davidson, Esq., I.C.S., to N. S. Brodie, Esq., I.C.S., dated 4th July 1916, No. 39-S. (Secret No. 183 A, dated 18th December 1916.)

I am desired to refer to your note of the 26th December 1915, on the subject of imposing an excise on locally manufactured cigars and cigarettes. The Government of India are disposed to agree that the taxation of locally-made cigars is not likely to prove of practical value. As regards cigarettes, however, they are unable to abandon the possibility of revenue from an article which is not only a luxury but also, to some extent, a harmful luxury; and they have asked this Government to consider the question at greater leisure.

2. Your note, referred to above, gives an approximate estimate of the total outturn of cigarettes in the Presidency, the number of factories and the prevailing wholesale prices. I am to ask whether you cannot now quietly obtain more precise information as to the number and location of factories, the met hods of manufacture, the outturn and the prices obtained. Collectors could possibly procure the information under the guise of income-tax or statistical inquiries without exciting attention.

3. The calculations in your note are based on the assumption that the excise to be imposed would be equivalent to an *ad valorem* tax of about 15 per cent, as was then suggested by the Government of India. I am to ask you now further to consider the effect of taxation on the industry and to favour Government with your opinion as to the maximum which could safely be imposed without seriously crippling the trade.

4. The Government of India lay stress on the strictly confidential nature of this further reference, but say 'there is no objection to consulting any officer of Government whose advice would be of special value.'

Demi-official from N. S. Brodie, Esq., I.C.S., to L. Davidson, Esq., I.C.S., dated Ennore, 12th November 1916.

With reference to your demi-official No. 39-S., dated 4th July 1916, I have now made further inquiries into the subject of the production and sale of cigarettes in this Presidency both personally and through Collectors. I cannot say that I have elicited much additional information and the remarks which I made in my note of the 26th December 1915 continue to hold good. It appears, however, that I was wrong in stating that there were no cigarette factories in the Presidency equipped with power-driven machinery as it was found on further inspection that McDowell's factory in Moor street, Madras, had some cutting machines worked by an oil-engine recently set up.

2. The estimate of outturn may very well remain at 250,000 lb. The only details I have been able to get are from the Universal Tobacco Company in Madras which is believed to turn out about 30 lakhs of cigarettes per mensem and from McDowell's factory, also in Madras, which is believed to turn out about 20 lakhs. McDowell's factory does not use Indian tobacco exclusively and some of the brands contain imported tobacco to the extent, it is said, of 25 per cent on the whole. I have tested numerous brands from all parts of the Presidency and find that as a rule they weigh about 2½ lb. per 1,000, a little more or less. This gives the total Madras production about 150,000 lb. per annum. Allowing for the imported tobacco used in McDowell's factory the quantity of Indian cigarettes is about 135,000 lb. The only other factories appear to be Oakes & Co.'s factory at Guindy, a new factory started by Barry & Co. in Cocanada just recently and one or two small factories in Coimbatore. There was a factory at Guntur but it seems to have failed after working a few months. The Collector of Coimbatore has not yet replied to my letter on the subject but I made some inquiries in the course of my last tour and find that there are one and probably two factories in Coimbatore but they use imported tobacco for their cigarettes as does Pappadopoulos in Madras. Allowing for all these factories I should say 115,000 lb. per annum was a very liberal estimate, making 250,000 for the Presidency.

3. Retail prices seem to vary very considerably but on the whole I see no reason to modify my original calculations. The cheapest cigarettes are sold in packets of 5 or

6 and a slightly more expensive lot in packets of 10. The dealers' profit seems to be about eight annas a thousand and the trade discount about 20 per cent. Some cigarettes* are sold as cheaply as Re. 1 per 1,000 wholesale or allowing for the trade discount about thirteen annas per 1,000. This is less than half the price I estimated for the cheapest cigarettes in my last note (Rs. 1-12-0). I doubt if there are many of this brand sold, but there are numerous other brands at Re. 1-4-0, Re. 1-6-0 and Rs. 1-8-0 sold by McDowell & Co. However all other information tends to confirm the view that the cheapest cigarettes are sold at Rs. 2 to Rs. 2-12-0 by the wholesale dealers and consequently must cost somewhere about Rs. 1-12-0 per 1,000 from the manufacturers. These cheap cigarettes are manufactured in this Presidency by McDowell & Co., and the Universal Tobacco Company only. Those turned out by Oakes & Co., and the new factory started by Barry & Co., at Cocanada are much more expensive and work out at Rs. 11 to Rs. 14 per 1,000.

*By the Universal Tobacco Company, 1/6, Patters Road, Royapetta—'Bazaar' brand.

4. The method of manufacture is probably the same everywhere. The tobacco selected has all the main nibs cut out and the leaves are then laid one above the other to a considerable depth. They are then cut into small pieces by a cutting machine, the tabacco rolled in cagarette paper, gummed and cut into lengths. As far as I know the cutting and gumming, etc., machines are all worked by hand except in McDowell's factory above referred to.

5. In this connexion I should, however, bring to notice one or two facts which I have ascertained in the course of my inquiries. It is a common practice I understand for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale especially at the various shandies and markets in the Presidency. This is common in Malabar, Coimbatore and the Nilgiris at all events and probably elsewhere. Most Collectors have, however, reported that cigarette papers are not commonly sold in the bazaars. I believe the practice of individual consumers rolling their own cigarettes is not common at present though it is said to have been customary in Salem before the shop-made cigarettes became so cheap. It would be clearly impossible to levy an excise duty on cigarettes made by hawkers or private individuals and it may be expected that the practice would be much more largely resorted to if a duty were imposed on the manufactured article. This might perhaps be met by imposing a customs duty on cigarette paper which would have to be determined in accordance with the duty imposed on cigarettes, such customs duty to be refunded on paper actually used by the wholesale manufacturers. It seems that cigarette paper was formerly imported mostly from Austria and Germany—at present it is obtained from France.

6. As regards the duty to be imposed I find it difficult to express an opinion. The heavy rates imposed in 1910-11 practically killed the cheap American cigarettes but then the enhancement of rates was probably more than 100 per cent of the value so that this result was quite intelligible. My inquiries show that my estimate of the cost of collection was much too large. One Sub-Inspector would, I think, be required for each factory but as there seem to be only four or possibly five factories the cost would be only about Rs. 2,400 per annum. As observed in my previous note, a duty of one and a half annas per pound represents 15 per cent of the value of the cheap cigarette. This amounts to 3 annas 9 pies per 1,000 and could hardly affect the retail price at all. The usual retail price per packet of 10 cigarettes seems to be about 4 pies. A duty of 8 annas 4 pies per 1,000 should raise the retail price by one pie and this would probably not seriously affect the trade though even one pie is a consideration in a country like India. I do not think we could safely raise the duty beyond Re. 1 per 1,000 which would raise the retail price about 2 pies or 50 per cent. This would be 6·4 annas per pound and roughly about 60 per cent of the value. Although cheap cigarettes do not seem to vary much in weight I would prefer to levy the duty by the pound rather than by the number as being the only fair way of assessing it. A duty of 6½ annas per pound would, if the production remained at 250,000 lb., yield Rs. 1,01,562½ but if the consumption fell, as it probably would, to about 200,000 lb. the tax would yield Rs. 81,250. As far as this Presidency is concerned, the result would, therefore, be insignificant, but, no doubt, the revenue

from the whole of India would be very considerable and I cannot see any serious objection to the proposal except that it would greatly encourage the smoking of bidies and press rather hardly on the poorest class of the population who smoke cheap cigarettes at present and regard them as a great luxury.

Demi-official from F. J. RICHARDS, Esq., I.C.S., to LEY, Esq., I.C.S., dated the 18th December 1916, No. 75-S.

I am directed to reply to Mr. Low's Confidential demi-official letter No. 4493, dated 14th June 1916, on the subject of the expediency of imposing an excise on cigarettes manufactured in India from indigenous tobacco.

2. In the first place, I am to point out that the correspondence of 1910, to which reference is made in the first paragraph of Mr. Low's letter, did not turn on the present question, for at that time there was no manufacture of cigarettes from indigenous tobacco in this Presidency. It is stated that the question of an excise on manufacture was then dropped because the local cigarette industry was in its infancy and it was considered that the imposition of an excise would deal it a death-blow. So far as this Presidency is concerned, the position is virtually unaltered; for, as stated in Mr. Butterworth's demi-official letter No. A.A.-1, dated 11th January 1916, the local output of cigarettes does not exceed some 250,000 lb. annually. This estimate has been confirmed by subsequent enquiries, though the number of factories to be taken into account is found to be smaller than was thought to be the case. There are probably not more than 5 or 6, of which the two largest are those owned by Messrs. McDowell & Co., and the Universal Tobacco Company both in Madras City. The former has recently been equipped with an oil-engine for driving its cutting machines. The average wholesale price for the cheapest class of ciagarettes quoted in Mr. Butterworth's letter, viz. Rs. 1-12-0 per 1,000, may be taken as correct. These cheap cigarettes are manufactured only by Messrs. McDowell & Co. and the Universal Tobacco Company. Those turned out by Messrs. Oakes & Co., at Guindy and by Messrs. Barry & Co., at Cocanada are much more expensive, costing from Rs. 11 to Rs. 14 per 1,000.

3. The maximum rate of duty which is considered compatible with the survival of the industry is Re. 1 per 1,000 or approximately $6\frac{1}{2}$ annas per lb. This duty would if the production remained 250,000 lb. yield a revenue of a little over a lakh. The imposition of such a tax, however, is almost certain to preclude any expansion of the industry and would very probably strangle that which already exists; for it would either drive the masses to revert to *bidi* smoking or compel the manufacturers to transfer their factories to French territory or to Native States. I may here point out that the Director-General of Commercial Intelligence has incorrectly assumed that the tax realisable from the Peninsular Tobacco Company's factory in the Civil and Military Station, Bangalore, would be credited to Imperial revenues. By the terms of rendition, the Mysore Government is entitled to the whole of the surplus revenue of the Assigned Tract, after the cost of the administration of the tract is defrayed. This fact seriously affects the estimate formed of the probable receipts from the tax.

4. Another factor to be taken into consideration is the practice, common in several districts of this Presidency, for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale, especially at local markets. Individual consumers do not usually roll their own cigarettes, though it is said to have been customary for them to do so in Salem before the shop-made cigarettes became so cheap. It would obviously be impossible to levy an excise duty on cigarettes made by hawkers or private individuals; and it may be expected that the practice would be much more largely resorted to, if a duty were imposed on the manufactured article. Cigarette paper was formerly imported from Germany and Austria; now France is the chief source of supply. A customs duty might be imposed on it, such duty to be refunded on paper actually used by the wholesale manufacturers; but this expedient would not be free from difficulties and would almost certainly result in the use of a local substitute.

5. In these circumstances, I am to say that the Government of Madras are entirely opposed to the proposal. They can suggest no alternative scheme for internal taxation of tobacco, apart from those already rejected.

IV

Letter from C. R. WATKINS, Esq., C.I.E., Officiating Collector of Customs, Madras, to the Under Secretary to Government, Finance Department, dated 1st May 1925, No. L. Dis. Nil.

I forward herewith a statement showing the foreign imports into, and exports from, the Madras Presidency of tobacco since the year 1920-21.

2. The rates of customs duty at present in force are given below:—

Name of article.	Per	Tariff valuation.	Duty.
Cigars	.....	Ad valorem.	75 per cent.
Cigarettes of value.—Not exceeding Rs. 10-8-0 per thousand.	Thousand ...	.....	Rs. 7.
Exceeding Rs. 10-8-0 per thousand ...	Do.	.....	,, 10-8-0.
Tobacco, unmanufactured	Lb. ...	.....	,, 1.
All other sorts of tobacco manufactured	,, ...	.....	,, 2-4-0.

ENCLOSURE.

Foreign imports and exports of 'Tobacco' at the Presidency of Madras for the past five years ending 1924-25.

	1920-21.		1921-22.		1922-23.		1923-24.		1924-25.	
	Quantity.	Value.	Quantity	Value.	Quantity.	Value.	Quantity.	Value.	Quantity.	Value.
FOREIGN IMPORTS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.
Tobacco—Unmanufactured ..	77,507	1,45,703	489,693	13,17,036	742,412	14,07,436	3,105,459	34,57,277	3,485,871	29,29,162
Cigars	12,815	43,430	701	2,922	81	238	94	156	215	473
Cigarettes	500,267	16,39,198	186,750	9,40,779	278,384	12,34,116	296,516	13,54,712	1,86,952	8,34,717
Tobacco for pipes and cigarettes	304	1,296	5,293	54,393	22,524	1,19,720	18,155	97,606	½	3
Other sorts	28,058	1,46,309	9,590	39,508	852	3,891	12,402	40,892	20,564	1,06,279
Total ..	618,951	19,75,936	692,027	23,54,638	1,044,253	27,65,401	3,432,626	49,50,643	3,693,602	38,70,634
FOREIGN EXPORTS.										
Tobacco—Unmanufactured ..	3,118,784	13,57,807	4,650,985	16,84,266	4,258,743	17,68,621	9,953,877	37,65,684	14,366,170	42,49,345
Cigars	75,540	1,04,792	94,905	1,17,671	99,244	1,32,490	1,11,541	1,20,174	88,199	1,25,560
Cigarettes	..	..	129	615	31,230	30,049	1,574	1,492	72,086	81,746
Other sorts	34,166	27,373	48,237	46,322	45,300	44,918	110,903	1,03,645	99,555	49,769
Total ..	3,228,490	14,89,972	4,794,256	18,48,874	4,434,517	19,76,078	10,177,895	39,90,995	14,626,010	45,06,420

V

Statement showing the area under cultivation of tobacco in the Madras Presidency in 1923–24.

	ACS.		ACS.
Ganjam	3,299	Salem	3,737
Vizagapatam	48,285	Coimbatore	25,544
Godavari	11,591	Trichinopoly	4,032
Kistna	13,301	Tanjore	2,223
Guntur	64,481	Madura	7,400
Kurnool	11,542	Ramnad	3,889
Bellary	2,658	Tinnevelly	1,048
Anantapur	4,785	Malabar	17
Cuddapah	1,868	South Kanara	1,623
Nellore	2,625	The Nilgiris	72
Chingleput	62		
South Arcot	2,985	Total ...	219,841
Chittoor	595		
North Arcot	2,179		

CONFIDENTIAL.

TAXATION ON TOBACCO.

I

Notes to G.O. Mis. No. 1993, *dated* 21*st May* 1894.

The question is whether we should take the success of Travancore in levying a revenue from tobacco as a reason for calling the attention of the Government of India to the possibility of levying a revenue for tobacco in our territories. I doubt if we have sufficient ground for doing so and whether such a suggestion would be well received. Travancore is exceptionally situated, so that it has been possible to abolish all growth of tobacco there and levy a revenue by import duties, and the Government of India know all about this. Such a system would be impossible in our territory where tobacco is grown almost everywhere and consumed by almost everybody, and where larger Native States abound. The possibility of levying a revenue on tobacco in our territory, in this or any other way, has been repeatedly discussed and decided against after full communication between all the Governments, so that any suggestion for us on the subject would amount to an insinuation that the discussion had not been complete. The only way in which, as far as I can see, a large revenue could be realized for tobacco would be by establishing monopoly of manufacture and sale. Though this was hardly possible in former days, I believe it would be possible in these days of improved communications and police, but the initial expenditure on warehouses, etc., would be too heavy for a time of financial pressure and the larger preventive establishments which would be necessary and extend through almost every village would result in oppression which would be so widespread and so frequently exercised that it would be eminently dangerous.

G. GARSTIN—7-3-93.

No doubt a tobacco monopoly *could* be worked but it would be a gigantic undertaking, and so very costly (especially in Bengal, where Government has no rural agency at all) that it would not, in my opinion, bring in a net return worth the imitation, the measure would certainly cause. The simplest way of raising a tax on tobacco would be by a special tax on the land on which it was grown, but that would not apply to Native States and cannot be worked in Bengal. A special establishment which would eat up the most part of the profits, while in all settled non-zamindari districts the terms of the settlements would prevent the imposition of such a tax. Independently of this, the taxation of land according to the crop grown would be a

This note is submitted with reference to the enquiry whether the attention of the Government of India has been called in the Revenue Department to tobacco as a possible source of revenue.

2. The occasion for this enquiry will appear from the notes of His Excellency the Governor and the Hon'ble Sir Henry Stokes to which reference is made in that office-note. It arose in this wise—

In submitting the budget estimate of the Travancore State for the Malabar year 1069 (August 1893–94) Mr. Grigg, the Resident, after observing that the most important increases occurred under certain heads of revenue of which tobacco was one, remarked regarding the increase under this head as follows:—

"That under tobacco is very remarkable. I have never heard a rumour of complaint regarding this tax, and yet it comes to approximately As. 6–6 per head of the population and gives a revenue nearly double that of abkari and opium and is now 55 per cent of that of salt—a necessary of life. Offences against the law relating to its importation are, I believe, not numerous. The lucrativeness of this monopoly may well attract the attention of Indian financiers (paragraph 3 of his letter, dated 3rd August 1893, in Government Order, dated 20th October 1893, No. 712, Political).

On this His Excellency noted—

"We should call the attention of the Government of India to the statistics of the tobacco tax and to the Resident's remarks thereon."

On this note Sir Henry Stokes remarked as follows:—

"The attention of the Government of India has been often enough directed to tobacco as a possible source of revenue. The peculiar position of Travancore makes its experience of little or no value in the consideration of the question.

retrograde measure, injurious to the cultivator and certainly beneficial to no one but the karnam.

A licence fee might be imposed and would yield something. It would be a return to the moturfa abolished years ago, and would come very hard on the very poor classes who sell tobacco. I should be sorry to see it tried. Similar objections can be found to every other plan of levying a tobacco tax in this country. I don't think that the Government of India would care to take the question up. It was examined, on another and later occasion, I think, than any of those mentioned in the note, by Mr. Bazeet Colvin when additional Member of the Viceroy's Council, who wrote a long note on this and other projects of taxation, a copy of which I have somewhere—given me by Sir Auckland Colvin, when Finance Minister, who told me at the time that the idea had been finally abandoned—or to that effect. This was in 1886 when the times were almost as hard as they are now.

H. E. STOKES—7-3-94.

This note is very clear, and gives me a complete answer. It is very evident that we should *not* call the attention of India to Mr. Grigg's remarks on the revenue derived in Travancore from taxing tobacco.

I found myself like many others lured into the belief that a large revenue might be derived from taxing this article, and the same results achieved here as in almost every civilized country in the world. But on inquiry I find that not only has it been thoroughly looked into, but the experiment has been tried and has failed, and there is no doubt the peculiar circumstances of the country have rendered the success of the experiment almost impossible. And as Sir J. Strachey very forcibly puts in the incidence of a tax on tobacco would fall with far greater severity on those who now pay the bulk of the salt tax, and we would thereby be putting a crushing weight on those least able to bear the burden. I confess myself converted and withdraw from any further attempt to bring this question within the domains of practical politics—although I can imagine a municipality looking upon it as a fair object for local taxation but even then extremely difficult to work, as poor Madras can testify.

I suppose though that imported tobacco will pay its 5 per cent like other articles (except cotton goods !).

WENLOCK—11-3-20.

Tobacco is not produced in the State : the revenue is derived from import duties, and the configuration of the country lends itself to the easy levy of these duties on the greater portion of the tobacco consumed, which comes from Ceylon. In this Presidency and probably in the rest of India, import duties would not produce any revenue worth having and would be prejudicial to the Cheroot industry (Tobacco imported consists mainly of cheroot covers from Java and Sumatra) : but I have no doubt that a considerable revenue might be got from licensees on the vend by others than the growers."

His Excellency wrote thereupon—

"Has this Government ever called their (India's) attention to it? Anyhow I do not think we could do any harm in pointing out what a large sum a little place like Travancore manages to get from the consumers of tobacco. It does not seem to me material how it is raised, whether by import duties or licences. The very significant fact remains that the consumers of tobacco in Travancore contribute yearly Rs. 10 lakhs to the State."

3. His Excellency's query whether this Government has ever called the attention of the Government of India to tobacco as a possible source of revenue has been referred to this department for information, in the office-note from the Chief Secretary.

4. It will be seen from the references put up—

(1) That this question has frequently been considered by the Government of India and has also formed the subject of correspondence between that Government and this and other Local Governments ;

(2) That the conclusion come to by the Government of India is that the idea of raising a large imperial revenue from tobacco must be abandoned ;

(3) That our Government has also expressed the opinion that no large provincial revenue can be obtained from tobacco ; and

(4) That the Government of India is not unaware of the fact that Travancore manages to derive a large revenue from this source.

5. A summary of the correspondence on the subject is subjoined as also a short account of the tobacco monopoly in the districts of Coimbatore, Malabar and Canara which was abolished in the year 1853.

6. The Blue-Book entitled "Papers regarding the Tobacco Monopoly in the Presidency of Fort St. George etc.", gives the main correspondence up to 1868. It will be seen from pages 25–74 of the book, that for 50 years from 1803 to 1853, tobacco was the subject of a Government monopoly in the districts of Canara, Malabar and Coimbatore (vide Regulations 7 and 8 of 1811 and Regulation 5 of 1831 at pages 1, 4 and 8 of the Blue-Book), that the gross annual revenue derived during the 10 years—1833–1843 was about Rs. 8 lakhs and the net revenue about Rs. 5¾ lakhs ; that the evils arising from this monopoly were so great that the attention of Government was frequently invited thereto by the officers concerned ; that in 1845, the Government after recording a succinct review of the correspondence on the subject (vide No. 2 at page 26) called for a report from the Board of Revenue "on the practicability of a modification of the monopoly which, whilst we shall secure a considerable revenue, shall yet divest the tax of some of its most injurious attributes, its heavy charge of collection and the inducement it held out to smuggling"). The Government added that if a beneficial modification was impracticable, the possibility of finding an available substitute should be investigated.

It cost 2¼ lakhs to collect 8 lakhs !

J.G.

In reply the Board furnished an exhaustive report on the subject and said—

"It is with much reluctance that they are induced to advise the surrender without an equivalent of so considerable a source of revenue as the (tobacco) monopoly and they must be understood as doing so only, because, after much anxious reflection on the subject, they have been led to the conclusion that between such surrender and the retention of the present system with all its evils, there is no practicable middle course.

After a careful consideration of the subject the Government declared—

"The crying evils of the tobacco monopoly continue daily to become more notorious and demand an immediate remedy. The Right Hon'ble the Governor in Council entertains the most decided conviction that, as the Board of Revenue has represented, there is no effectual remedy short of total abolition and the expunging of so objectionable a branch of revenue from the system of Indian Finance."

Some of the evils of this system arose from its being confined to a limited area but the worst-springing from the fact that tobacco is produced almost everywhere and freely consumed by all classes so that any raising of the price gives rise to the worst sort of smuggling and is fatal to the peace of the country—will affect any system.

J.G.

In accordance with this view application was made to the Court of Directors for sanction to abolish the tobacco monopoly and on such sanction being obtained, Act IV of 1853 was passed abolishing the monopoly—

7. The subject of a tobacco-tax was considered by the Government of India during the years 1859–68. A summary of the correspondence which then took place on the subject and of the views held thereon will be found in Sir John Strachy's minute dated 21st October 1865 printed as No. 97 at page 152 of the Blue-Book and in the Government of India's letter to the Secretary of State printed as No. 98 at page 155.

All methods of taxing tobacco were considered then.

J.G.

It will be seen therefrom that, when after the events of the year 1857, the state of the finances rendered it necessary to resort to new sources of revenue, a tax on tobacco was among other things very much discussed.

Four methods of deriving a revenue from this source had been suggested :—

(1) The suppression of the cultivation of the plant throughout India and the imposition of an import duty.

(2) The establishment of a monopoly of the cultivation and manufacture of tobacco similar to that now applied to opium.

(3) The imposition of a licence duty on the cultivation of the plant.

(4) The imposition of licence fees on all wholesale and retail dealers in the manufactured article.

Of these, the first and second methods were soon dismissed as impracticable.

The third plan was at first favoured by the Government of India but most Local Governments disapproved it. The main objections urged were: that to impose a special tax on the cultivation of tobacco would be a violation of the principles on which land assessments were usually made; that it would also be economically a mistake; that the suppression of its cultivation except under a licence would be difficult to enforce; that as the enforcement cannot be extended to Native States (even if it could be extended to zamindari and inam estates) the measure would have the effect of contracting the area of its cultivation in British territory and greatly stimulating its growth in Native States and it would be extremely difficult to prevent the smuggling of free tobacco from such States. The views of this Government are contained in Mr. Bourdillon's letter to the Government of India, dated 11th June 1859, printed as No. 90 at pages 120–128. In the first enclosure to this letter the inexpediency of taxing tobacco in any form is fully set forth by the Board of Revenue.

The Government of India thereupon turned to the fourth plan of licensing the *sale* of tobacco and accordingly inserted a provision to this effect in the Licensing Bill then under its consideration. (The Bill, which was finally passed as India Act 18 of 1861 and repealed by India Act 2 of 1862). But the reports received from Local Governments on the point were not encouraging. They all went to show that no system of licensing would bring in any large revenue.

The Government of India resolved therefore to abandon altogether the idea of raising a revenue from tobacco by Imperial Legislation and the clause in the Licensing Bill which related to tobacco was accordingly expunged.

8. But while arriving at this opinion as to the unsuitability of tobacco for Imperial taxation the Government of India also thought, judging from the reports received from Local Governments, that a considerable revenue might be derived by Local Governments if they were left each to carry out the system best suited to the circumstances of its province. Accordingly, and as it was thought that Imperial revenues might be relieved to a considerable extent by establishing a system of local taxation for local purposes, the Government of India addressed Local Governments on the subject of such taxation and named tobacco as one of the sources from which a revenue might be derived.

The reply of this Government to the above letter is printed at pages 157—162 of the Blue-Book. This Government merely reiterated the opinion it had expressed in its letter of 11th June 1859 (No. 90 at page 120) that there were insurmountable objections to the realization of a revenue from tobacco unless in the shape of a tax on the shops where tobacco was sold, i.e., a licence tax; and that the produce of such a tax would not be considerable.

9. The Government of India appears to have considered this question of a tobacco tax on subsequent occasions also and to have arrived at substantially the same opinion as before, as will appear from the letter to the Secretary of State printed as No. 98 at page 155.

10. In 1870 when the question of raising the rate of income-tax was under the consideration of the Government of India, a proposal was made by one of the members (Mr. Cowie) to tax tobacco. Sir John Strachy and Sir Richard Temple both spoke against the measure and His Excellency Lord Mayo said:—

"Now it is quite true that in many civilized countries tobacco is considered to be a very proper object for taxation but I must remind the Council that tobacco in India is really an absolute necessary of life and that if you put a tax upon the production of tobacco, you tax the two great necessaries of life in this country, viz., salt and tobacco, and I am not prepared even in the present state of our finances to advocate the imposition of a burden upon such a prime necessary of life as that is.

11. The question appears to have been discussed also during Lord Lytton's Viceroyalty and the same conclusion arrived at, namely, that no large revenue could be raised by taxing tobacco (vide pages 368-70 of Strachy's book on "The Finances and

Public Works of India" and page 554 of the volume of Legislative Council's Proceedings for 1877). The following extract from Strachey's book may be noted:

"Tobacco is almost universally consumed and is looked upon as almost a necessary of life. Whatever means were adopted the tax would only be largely productive if it fell ultimately on the classes which form the great mass of the community. It would be paid by the same classes which now pay the salt tax, and if it should become necessary to increase the burden which they already bear this object would be more easily and economically gained and with far less vexation to the people by increasing the existing tax upon salt than by imposing a new tax upon tobacco. That any increase in the rate of the salt-tax would be one of the greatest possible mistakes, unless in most exceptional circumstances and on the other hand that its present reduction * would be financially a most desirable measure, has been shown in another chapter (page 370).

* The duty was reduced from Rs. 2-8-0 to Rs. 2 in 1882. It was raised as follows in this Presidency:—

	Duty. Rs.	A.	P.
August 1859	1	0	0
April 1861	1	4	0
1861–62 to 1865–66	1	5	0
1866–67 to 1868–69	1	8	0
1869–70 to 1877–78	1	12	0
1878–79 to 1881–82	2	8	0
1882–83 to 1886–87	2	0	0
1886–87	2	8	0

12. That the Government of India knows that Travancore derives a large revenue from tobacco, may be inferred from the correspondence which took place in 1860–65 relative to the Interportal Trade convention with Travancore and Cochin and more especially from the correspondence embodied in Government Order dated 14th May 1868, No. 1338.

It will be seen from the latter correspondence that at the desire of the Viceroy (Sir John Lawrence) whose attention seems to have been drawn to certain remarks which appeared in the Travancore Administration Report for 1865–66, regarding the tobacco tax in that State the Hon'ble Mr. G. N. Taylor addressed the then Resident in Travancore and Cochin (Mr. Newill) for full particulars regarding the mode in which the tax was levied in that State and that complete information on the subject was furnished by the Resident and the then Diwan T. Madhava Rao.

This correspondence came before this Government, mainly on account of a minute recorded by the Hon'ble Mr. G. N. Taylor, in which he suggested that this Government might consider the expediency of imposing a moderate import duty or an excise wherever practicable—vide his minute printed in the Government Order.

The Diwan's Memorandum shows that during the flourishing period of the monopoly system (it was abolished in 1862–63, that is, ten years after the abolition of the Government monopoly in Malabar and Canara) the gross revenue from tobacco amounted to more than half the revenue from all other sources or more than one-third of the total revenue of the State while the revenue now amounts to about one-eighth of the total revenue.

13. From the administration report of the Travancore State for the year 1891–92, it appears that 12,295 † candies of tobacco valued at Rs. 26,77,723 were imported during that year and that a duty of Rs. 9,43,030 was collected thereon.

† Equal to 6,147,500 lb. or 8,065,520 lb. according as a 'candy' is 500 lb. or 656 lb. (which latter is the equivalent given in Madhava Rao's Memorandum—vide paragraph 10.

14. The following statement gives the statistics of the imports of tobacco into this Presidency by sea for the last three years:—

Tobacco—Imports—Sea-Borne ‡ Trade.

Years.	Foreign trade.		Coasting trade.		Total.	
	Quantity in lb.	Value.	Quantity in lb.	Value.	Quantity in lb.	Value.
		Rs.		Rs.		Rs.
1890–91	446,477	2,06,021	218,915	33,563	665,392	2,39,584
1891–92	542,705	2,91,725	110,937	17,121	653,642	3,08,846
1892–93	915,719	3,37,980	135,775	27,107	1,051,494	3,65,087

‡ The rail-borne imports amount only to about 2,000 lb.

At the Travancore rate of duty the imports into this Presidency will bring in a gross revenue of a little over one lakh of rupees.

R.V.S.—1-3-94.

The foregoing account gives a clear and concise summary of all that has been written on this subject and shows that the feasibility of raising a revenue from tobacco has been most exhaustively debated and that the question has been considered in all its bearings. The situation is appropriately summed up by Sir John Strachey in paragraph 8 of his minute of the 21st October 1865 (page 154 of the Blue Book)—

"Tobacco has seemed at first sight a very promising subject of taxation to almost everyone who has thought upon the subject, but almost everyone had given up the scheme upon full consideration of the difficulties which surround it."

J.G.—3-3-94.

II

Mr. N. S. BRODIE'S NOTE DATED 26th DECEMBER 1915 (SECRET D.O. No. A A-1, DATED 11th JANUARY 1916).

Prior to 1910–11, *ad valorem* rates used to be charged on imported manufactured tobacco of all sorts at the rate of 5 per cent but this system was then abandoned and special quantitative rates introduced, presumably because of the difficulty of levying *ad valorem* rates. The rates introduced were about 33 per cent higher than those now in force which are—

	Rs.	A.	P.	
Unmanufactured tobacco	1	0	0	per lb.
Cigars	1	10	0	"
Cigarettes weighing less than 3 lb. per thousand.	3	2	0	per thousand.
Cigarettes weighing 3 lb. or more per thousand.	1	4	0	per lb.
Manufactured, other sorts	1	2	0	"

These rates are said to be approximately 36 per cent *ad valorem* on cigars and 33 per cent *ad valorem* on cigarettes though how this is arrived at I don't know, considering how much imported cigars and cigarettes vary in weight and value. The Government of India's first proposal is to raise these rates 'in approximately the same proportion, i.e., to a uniform 50 per cent *ad valorem*.' I presume this means that the duty on cigars is to be raised by about one-third and that on cigarettes by about half. Nothing is said about 'other sorts' which I suppose means principally pipe tobacco. Judging from Spencer's and Oakes' price lists the present rate seems to be from 28 to 41 per cent on the cheapest pipe tobacco and presumably this is also to be raised by about one-third. The rates will then read—

	Rs.	A.	P.	
Cigars	2	3	0	per lb.
Cigarettes	4	11	0	per thousand and
	1	14	0	per lb.
Other sorts	1	8	0	per lb.

I presume the Government of India does not intend to go back to *ad valorem* rates.

2. The rates introduced in 1910–11 had the immediate effect of 'extensively curtailing the imports of foreign tobacco and they scarcely realized the revenue it was hoped they would bring in.' The total imports declined by 83 per cent in quantity and 52 per cent in value. Imports of leaf tobacco, *formerly duty free*, fell from 447,115 lb. to 63,267 lb. or by 86 per cent in quantity. Imports from Ceylon and the Straits Settlements practically ceased. [There used to be quite a large trade from the Jaffna and the northern Ceylon ports which supplied a great part of the tobacco used on the west coast of this Presidency.] Imports of cigarettes decreased 77 per cent in quantity and 48 per cent in value. The cheap American varieties were practically shut out, falling 94 per cent in value and the result was the foundation and development of the Indian cigarette industry which has probably taken their place. Exports of cigars to the United Kingdom fell by 72 per cent owing to the imposition of duty on wrapper tobacco. To avoid this, Messrs. Spencer & Co. removed their factory to Pondicherry.

Effects of taxation introduced in 1910–11.
Sea-Borne Trade Review of 1910–11, page 9.

3. In 1911–12, owing to the outcry from Ceylon and the leading local manufacturers of better class cigars, the rates were reduced by about 33 per cent to the present figures. Even this, however, failed to revive the import trade from Ceylon and the Straits Settlements which was completely and finally killed. Imports of leaf tobacco rose by 19,160 lb. but this was only a mere fraction of the fall of 383,848 lb. in 1910–11. The increase was confined to the higher grades required in the manufacture of cigars of good quality. Imports of cigarettes showed a further decline in quantity but an increase in value, the trade in cheap American cigarettes being completely extinguished. Exports of cigars to the United Kingdom declined another

Sea-Borne Trade Review of 1911–12.

7 per cent in value but exports to the Straits Settlements increased by 23 per cent and the whole export of cigars increased by 13 per cent in quantity and 9 per cent in value. The cigars exported to the Straits Ssttlements and Federated Malay States appear to be made of purely Indian tobacco which pays no duty.

Sea-Borne Trade Review of 1912–13.

4. In 1912–13, there was a further decrease in imports of cigarettes by 15 per cent and a large factory was opened at Bangalore by the Peninsular Tobacco Company. Manufacture of cigars for export to the United Kingdom was permitted in bond and Messrs. Spencer & Co returned from Pondicherry. The exports of these cigars rose by 46 per cent but of course the revenue did not profit by this.

Sea-Borne Trade Review of 1913–14.

There was a general increase both in imports and exports of tobacco in 1913–14 and some recovery in imports of cigarettes to a little above the figures of 1910–11. The export of high grade cigars to the United Kingdom rose to ·88 lakh against ·57 lakh in 1910–11.

Effects of the war—Sea-Borne Trade Review, 1914–15.

However, the effect of the war was to send most of the principal figures lower than ever. Imports of raw tobacco fell to 70,573 lb. in 1914–15 and exports of high grade cigars to the United Kingdom fell to 33,434 lb. and to ·45 lakh in value (nearly 50 per cent), the lowest figure on record.

5. The figures since the introduction of the new tariff are tabulated below :—

Annual value of the sea-borne trade and navigation of the Madras Presidency for 1914–15.

Foreign trade.

——	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.	LB.	LB.	LB.	LB.	LB.	LB.
1. Unmanufactured (total for Presidency).	447,115	63,267	82,427	90,458	110,458	70,573
2. Manufactured—						
(*a*) Cigars	11,099	1,049	937	830	1,107	3,368
(*b*) Cigarettes	319,275	72,139	65,410	55,217	78,616	78,429
(*c*) Other sorts	94,940	12,473	26,397	23,370	24,723	28,090
Exports.						
1. Unmanufactured (unaffected by tariff).	1,444,632	1,670,842	1,619,966	1,806,998	2,234,511	2,362,766
Of the above exported to Straits Settlements and Federated Malay States.	1,374,612	1,621,543	1,568,878	1,773,160	2,115,056	2,304,144
2. Manufactured—						
(*a*) Cigars	697,507	704,791	797,383	989,811	988,668	887,165
Of the above quantity exported to United Kingdom.	80,360	42,565	36,184	51,156	56,976	33,434
Straits Settlements and Federated Malay States (unaffected by tariff).	415,357	547,613	661,294	827,278	811,219	800,488
(*b*) Other sorts	4,196	4,515	9,010	8,513	9,363	8,885

Coasting trade.

——	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.	LB.	LB.	LB.	LB.	LB.	LB.
1. Unmanufactured	610,603	683,787	664,054	578,058	604,165	596,038
2. Manufactured	142,514	84,439	59,021	94,319	57,595	71,301
Of the above imported from Calcutta.	118,687	73,703	52,511	85,214	46,637	53,301
Exports.						
1. Unmanufactured	7,721,625	7,535,386	6,870,154	6,536,820	6,928,569	5,168,826
Of the above exported to Burma ..	6,926,830	6,474,041	6,149,974	6,133,770	6,521,676	4,579,130
2. Manufactured—						
(*a*) Cigars	347,507	314,933	410,526	419,710	349,618	275,018
Of the above exported to Burma ..	194,493	204,649	292,004	320,781	251,706	177,844
Of the above exported to Bengal ..	101,866	73,206	76,815	61,785	63,117	65,373
(*b*) Cigarettes	..	..	2,877	4,200	26,471	64,599
(*c*) Other sorts	35,726	43,920	37,620	39,906	33,407	77,190

6. The net result of the introduction of the heavier tobacco duties in 1910–11 has, therefore, been to kill the import trade in raw tobacco from Ceylon and the Straits Settlements and in cigarettes from America and to lay the foundations of a cigarette manufacturing industry in India from Indian leaf. The trade in high grade cigars exported to the United Kingdom has suffered very heavily, despite permission to manufacture export in bond. The fall between 1909–10 and 1913–14 (when this industry reached its highest point after the imposition of duties and before the outbreak of war) was about 29 per cent. This shows what an effect even a slight rise in the cost of such a thing as tobacco has on consumption as it was undoubtedly the increased cost (and that only of the wrapper) in 1910–11 that gave the trade this set back. The wrapper is only a minute fraction of the weight of the cigar and if the duty on whole cigars is only equal to an *ad valorem* rate of 36 per cent the duty on a cigar whose wrapper alone pays duty must be nearer 1 or 2 per cent. Since the concession of manufacture in bond has been granted these cigars pay no duty and it is presumed that this concession will be continued so that any enhancement of rates will not affect them.

7. *Rail-borne trade*, 1914–15.—

Imports from other Presidencies and Native States.

	LB.
1. Unmanufactured	2,051,959
Of which imported from Mysore	1,344,550
2. Manufactured—	
(*c*) Cigars	13,330
(*b*) Other sorts—probably cigarettes	1,497,517
Of which imported from Mysore	1,294,272

Exports to other Presidencies and Native States.

1. Unmanufactured	24,729,076
Of which exported to—	
Mysore	8,181,339
Calcutta	5,282,496
Nzam's Territory	4,242,157
2. Manufactured—	
(*a*) Cigars	503,013
(*b*) Other sorts	392,750

Internal trade between various parts of the Presidency.

1. Unmanufactured	53,774,208
2. Manufactured—	
(*a*) Cigars	1,061,815
(*b*) Other sorts—probably cigarettes, bidies and snuff ...	1,074,651

Cigars.

8. From these figures it appears that by far the greatest part of the Delta tobacco is exported in the manufactured condition and made up locally. The trade in manufactured tobacco is comparatively small, which agrees with my information that there are no manufactories of any size. A fairly large quantity of manufactured cigars is exported by rail from the Central districts (i.e., Trichinopoly, Salem and Coimbatore) to Negapatam but this no doubt is included also in the exports by sea to the Straits Settlements.

9. In the Secretariat note of 1911 the total outturn of cigars was estimated by Mr. Innes at about 2,500,000 lb; i.e.:—

	1909–10.
	LB.
Foreign exports	697,507
Coasting trade exports	347,507
Rail-borne exports	451,164
Do. internal trade	971,208
Total ...	2,467,386

The corresponding figures for 1914–15 are—

	LB.
Foreign exports	887,165
Coasting trade exports	275,018
Rail-borne exports	503,013
Do. internal trade	1,061,815
Total ...	2,727,001

Allowing for the disturbance of trade caused by the war, the export trade and rail-borne traffic in cigars may, therefore, be taken at about 2,750,000 lb. but this is probably an excess estimate of the quantity actually manufactured since the rail-borne traffic probably includes the greater part of the foreign exports and possibly a good deal of the coasting trade exports also.

Cigarettes.

10. The Indian cigarette industry has practically grown up since the Secretariat notes of 1911 were written. Foreign imports of the better class cigarettes have remained nearly stationary since 1911–11 at about 70,000 lb. Comparing the figures of 1909–10 with those of 1910–12 when the full effect of the tariff duties had had time to operate, 253,865 lb. of cheap American cigarettes appear to have been displaced. These have no doubt been replaced by Indian cigarettes and there has probably been a large increase in consumption in addition.

The export trade in cigarettes in 1914–15 appears to have been somewhat as follows:—

	LB.
Foreign exports	8,885*
Coasting trade exports	61,599
Rail-borne exports	392,750*
Do. internal trade	1,074,651*
Total ...	1,537,885

In the absence of figures for bidies, snuff, etc., it is not easy, however, to say how much of these 15 lakhs of pounds represent cigarettes and still less how much represents cigarettes manufactured in the Presidency. My inquiries in Vizagapatam show that none of the cigarettes there consumed (and the consumption is very large) are manufactured in this Presidency. The great bulk come from Calcutta and a good many from the Peninsular Tobacco Company, Bangalore. Similarly in Madras, the bulk of the cigarettes come from Bangalore or Bowringpet, both in Mysore territory and not subject to British excise. It will be seen from paragraph 7 above that 1,294,272 lb. of 'other sorts' including (no doubt mostly) cigarettes are imported from Mysore. Probably the greater number of these are shown in 'rail-borne internal trade' and exports of the Presidency over again. I should put the actual number manufactured in the Presidency at not more than 250,000 lb.

11. The following are principal Indian Cigaratte factories shown in the Lawrence Asylum Press Almanack, page 1438:—

(1) A.G.M. & Sons, Coimbatore.

(2) K.G.A., Coimbatore.

(3) McDowell & Co., Madras.

I have never seen any cigarettes from the first two factories and they seem to be very small and merely supply the local market. McDowell & Co. employ about 25 persons and some small hand machines. Pappadapoulos Brothers make Egyptian cigarettes but import Egyptian tobacco which already pays duty. Besides these there are the two large factories in Mysore—

4. The Peninsular Tobacco Company, Cleveland town, Bangalore, and

5. The Oriental Tobacco Manufacturing Company, Bowringpet.

*Includes, however, pipe tobacco, bidies, snuff, etc.

Both these are run on American lines and employ a large number of workmen and power-driven machinery, but as already remarked they are not subject to British excise.

Outturn of tobacco.

12. According to the 'Season and crop report' for 1914–15 the total area cultivated with tobacco in the Presidency was 227,182 acres, the 'normal' area being 203,230 acres. I learn from Chadwick that 800 lb. of dried leaf per acre is a fair average crop as taken by Castlestuart Stuart in 1910. The total outturn was therefore about 182,000,000 lb. of which we have only accounted for about 3½ millions at most in the manufactured form. This outturn was spread over 24 districts, the area being over 10,000 acres in seven, Vizagapatam (29,115), Godavari (13,099), Guntur (78,560), Kistna (13,022), Kurnool (18,769), Coimbatore (26,001) and Madura (11,172). These figures show little change since 1908-09.

About 90,000,000 are exported in unmanufactured form.

Tobacco industry.

13. The census report for 1911 groups manufacturers of tobacco, opium and ganja together under Order 12, Group 66. The number of manufacturers of opium and ganja must be almost negligible and the total number of workers and dependents is shown to be 12,333. Under Order 33, Group 122, sellers of tobacco, opium, ganja, etc., are said to be 65,733 (workers 25,883, dependents 39,850). The total number of persons dependent on the tobacco trade is therefore about 78,066 against 75,000 in 1901. It is not possible to compare the figures of the other industries referred to in Mr. Castlestuart Stuart's demi-official of 5th November 1910 as the classification has been altered. Betel leaf and arecanut sellers are now grouped with vegetable and fruit sellers. It may be noted however that the number of persons engaged in the manufacture of tobacco is about as many as bakers and biscuit makers (12,970) whilst the number of sellers of tobacco is not much less than the number of sellers of milk, ghee, butter, poultry, eggs, etc. (80,981).

Present proposals criticised.

14. These figures show that there has been comparatively little change in the general position since 1910–11 and the arguments against any form of taxation of Indian grown tobacco remain as strong as they were then. The present proposals of the Government of India may now be examined in detail. The first is, as far as I understand it, to raise the quantitative rates of duty on imported cigars and cigarettes

(*a*) First proposal.

(and perhaps also on other manufactured tobacco) to the figures shown in paragraph 1 above. The quantity of imported cigars is now very small and was only 3,368 lb. in 1914–15. Assuming that the enhanced duty has no effect on consumption, the increase of revenue from this source will be only Rs. 1,824*. But judging from the effect of the enhancement of duty in 1910–11 it will probably be much less. The duty on imported cigarettes (78,429 lb. in 1914–15) was about Rs. 80,000 and the enhancement of the duty by one-half may give Rs. 40,000, though here also a heavy fall in consumption may be confidently looked for. The increase of duty on 'other sorts', i.e., probably pipe tobacco, snuff, etc. (which may be contemplated) by one-third would yield perhaps Rs. 10,742. Altogether, the maximum increase of revenue that may be looked for from this proposal cannot, therefore, be more than Rs. 60,000 and the burden will fall heavily on the poorly paid European and Eurasian assistants in shops, business firms, Railway Companies, etc., who are by far the largest consumers of imported cigarettes. However this increased revenue can no doubt be obtained without administrative difficulty or expense.

*Present duty Rs. 5,473 one-third enhancement Rs. 1,824.

15. The second proposal is to levy an excise duty on cigarettes of Indian manufacture. The large factory referred to by the Government of India is probably

(*b*) Second proposal.

that in Bengal, I think at Monghyr. It is proposed to differentiate bidies from cigarettes by the use of cigarette paper. This may be accepted. It is proposed that

the taxation should take the form of a quantitative duty equivalent to an *ad valorem* duty of about 15 per cent. A further point is whether the taxation should be restricted to factories equipped with power-driven machinery. If this qualification is accepted the question is a simple one for there are no such cigarette factories in this Presidency. Assuming, however, that all cigarette factories are to be taxed my inquiries show that cigarettes of Indian manufacture vary considerably in price. The cheapest are sold retail at prices varying from Rs. 1–4–6 per 500 or Rs. 2–6–0 per 1,000 to Rs. 2–12–0 per 500 or Rs. 5–2–0 per 1,000. These cigarettes both weigh almost exactly $2\frac{1}{2}$ lb. per 1,000, the cheaper ones a little more. The manufacturer's price to the trade is no doubt considerably less as these cigarettes have to be imported to Vizagapatam and there is the retailer's profit to be considered. The excise duty will of course have to be fixed with regard to the wholesale price at the factory. I should say Rs. 1–12–0 per 1,000 is probably an outside price for the cheapest cigarettes. This means $28/2\frac{1}{2}=11\frac{1}{5}$, say 11 annas a lb. or as they weigh rather more than $2\frac{1}{2}$ lb. per 1,000, say 10 annas a lb. 15 per cent on 10 annas is one and a half annas per lb. I have estimated the total production of cigarettes in this Presidency at not more than 250,000 lb. and the duty on this would be Rs. 23,437. It is impossible to say without a full inquiry what the number of cigarette factories is but they are certainly very small and probably average not more than 10,000 lb. of cigarettes each per annum. Putting the number at 25 scattered all over the Presidency, not less than 25 Sub-Inspectors on Rs. 40 per mensem would be required to supervise them. The cost of these would be Rs. 12,000 not allowing for contingent expenses such as weighing machines, etc. The net proceeds of the tax would therefore be somewhere about Rs. 10,000, even supposing that the duty had no effect on consumption which is extremely improbable. Moreover as Indian cigarettes vary considerably in price though not so much as cheroots, the duty would press most unfairly on the cheapest brands and on the poorest class of the population which consumes them.

Watch cigarettes—Peninsular Tobacco Company, Bangalore, Rs. 1-4-6.
Ruler cigarettes—Imperial Tobacco Company, Calcutta, Rs. 2–12–0 per 500.

16. The third proposal is to levy a similar quantitative excise duty equivalent to an *ad valorem* tax of 15 per cent on cigars of Indian manufacture. As already pointed out in 1911 this problem absolutely bristles with administrative difficulties. In the first place it is not clear whether bidies are to be included. It is possible to distinguish bidies from cigarettes but the difference between them and the poorest kind of cheroots is almost infinitesimal. Both are rolled in leaves, sometimes tobacco leaves sometimes not. The manufacture of bidies is admittedly a cottage industry carried on in every village and hamlet. However according to the Asylum Press Almanack one tobacco factory at least professes to make bidies. The vast bulk of the Indian cheroots are also made as a cottage industry as is evident from the fact that out of 182 millions of pounds of tobacco grown only about $3\frac{1}{2}$ millions ($4\frac{1}{2}$ at the outside) appear in the trade returns as manufactured. Possibly bidies could be excluded by excepting cheroots, etc., weighing less than as many pounds to the 1,000. My experiments show that the commonest bidies weigh about $1\frac{1}{4}$ lb. per 1,000, so that if manufactured cheroots weighing less than $1\frac{1}{2}$ lb. per 1,000 were excluded this might meet the case. However this would undoubtedly stimulate the consumption of bidies which I understand to be the most deleterious form of smoking. Bidies are sold at 12 annas a 1,000 wholesale in Madras, that is at about $9\frac{3}{5}$ annas per lb. The manufacturer's price may be less so that probably 9 annas per lb. would be a safe figure and the duty, if any, ought to be much the same as for cigarettes or a little less, say 1 anna 4 pies per lb.

(c) Third proposal.

Bidies.

17. Ordinary cheroots of the commonest kind seem to weigh about $3\frac{3}{4}$ lb. per 1,000 and cost Rs. 1–12–0 per 1,000 retail but both weight and price vary enormously. Better class cheroots which, however, are still largely consumed by the poorer classes weigh 20 lb. per 1,000 and cost Rupees 12–8–0. Assuming that the rates to the trade are somewhat less we may estimate the first kind at 6 annas a lb. and the second at 10 annas a lb. The duty ought to be fixed at 15 per cent on the cheapest

Cigars.

kind at 6 annas a lb. The duty would then be 11 pies but for convenience of reckoning might be fixed at one anna.

It is quite impossible to estimate with any accuracy the output of Indian manufactured cigars. The figures in paragraph 9 no doubt afford some guide. I should imagine 2,000,000 lb. to be a fair estimate. The duty on this at 1 anna per lb. would be Rs. 1,25,000. Against this has to be set the cost of establishment which would be enormous. It is not possible at present to form any idea of what this would be. Presumably the only way to ensure the collection of the duty would be to place each factory in charge of an officer who would have to weigh the quantity of raw tobacco received and the quantity finally passed out on payment of duty, seeing that none illicitly passed out and keeping accounts on the same lines as officers in charge of distilleries. The test of a factory would be I suppose that the proprietor sold the manufactured produce, for practically every householder buys a few leaves of tobacco now and again and rolls them up into cheroots for private consumption. Even excluding these individuals, there appear to be about 26,000 persons describing themselves as tobacco sellers in the census returns, excluding 2,000 partially agriculturist. This agrees with what I expected, being an average of about one for every village in the Presidency. In some places there are no doubt several and in others none, but it would be quite impossible to do much in the way of concentration without causing much hardship. The formation of central storehouses appears, therefore, to be impossible and practically every shop will have to have a properly locked storehouse for the cheroots manufactured which adds to the expense. The ordinary staff of the Salt and Abkari Department could not possibly undertake this enormous addition to its work. Assuming that one Sub-Inspector could efficiently supervise on the average 25 factories (which I take to be impossible with the shops scattered as at present) it would require a staff of 1,000 Sub-Inspectors to supervise the work in the Presidency. The opportunities for fraud would be so great that I fear even then the force would be demoralized. Certainly a great many of the Sub-Inspectors would have to be paid more than the lowest grade of Rs. 40 a month. Assuming that the average pay is Rs. 60, this establishment alone would cost Rs. 60,000 per month or Rs. 7,20,000 per annum or about six times the estimated proceeds of the tax. It seems hardly worth while to discuss the matter further. A complete staff of peons, inspectors, Assistant Commissioners and Deputy Commissioners would also be necessary to supervise such an establishment and it would be quite impossible for me to undertake so large an addition to my work. After all there would be no possibility of guarding against fraud as there would be nothing to distinguish between illicit and licit tobacco. As far as I can see no tax less than Re. 1 per lb. would do more than pay for the cost of collection and this of course would be ruinous having regard to the cost of the article.

18. In conclusion I can see nothing in favour of the tax or any possibility of working it. A tax on Indian cheroots made in power-driven factories might be possible. There are only two, viz.: Spencer's at Dindigul and Oakes & Co. at Guindy—employing 700 persons between them. But it seems very hard to discriminate against them, even if the tax was only one anna a lb. and anything more would probably drive them out of the Indian market altogether. I cannot say what the output of these two factories is, but excluding the amount manufactured in bond for Europe I doubt if it exceeds 500,000 lb. and the duty at one anna per lb. would yield only Rs. 31,250.

19. Another possible course would be to put an export duty on manufactured tobacco. In that case I should exclude cigars exported to the United Kingdom which have to pay heavy and enhanced duties there and have already sufferred by the tariff. There are not the same administrative objections to an export duty, at all events on exports by sea, as the establishment exists and evasion would be practically impossible. Exports by sea to foreign countries, excluding the United Kingdom, amounted to 853,731 lb. in 1914–15 and exports to other provinces to 275,018 lb. Total 1,128,749 lb. A duty of one anna per lb. might bring in Rs. 62,500 without any extra cost and as the exported cigars at all events to the Straits Settlements are of fairly good quality a duty of even 2 annas a lb. might not ruin the trade and bring in about one and quarter lakhs. Still the amount is so small that I see no use in upsetting the trade at all for so very little result.

N. S. Brodie—26–12–15.

III

Demi-official from L. Davidson, Esq., I.C.S., to N. S. Brodie, Esq., I.C.S., dated 4th July 1916, No. 39–S. (Secret No. 183 A, dated 18th December 1916.)

I am desired to refer to your note of the 26th December 1915, on the subject of imposing an excise on locally manufactured cigars and cigarettes. The Government of India are disposed to agree that the taxation of locally-made cigars is not likely to prove of practical value. As regards cigarettes, however, they are unable to abandon the possibility of revenue from an article which is not only a luxury but also, to some extent, a harmful luxury; and they have asked this Government to consider the question at greater leisure.

2. Your note, referred to above, gives an approximate estimate of the total outturn of cigarettes in the Presidency, the number of factories and the prevailing wholesale prices. I am to ask whether you cannot now quietly obtain more precise information as to the number and location of factories, the met hods of manufacture, the outturn and the prices obtained. Collectors could possibly procure the information under the guise of income-tax or statistical inquiries without exciting attention.

3. The calculations in your note are based on the assumption that the excise to be imposed would be equivalent to an *ad valorem* tax of about 15 per cent, as was then suggested by the Government of India. I am to ask you now further to consider the effect of taxation on the industry and to favour Government with your opinion as to the maximum which could safely be imposed without seriously crippling the trade.

4. The Government of India lay stress on the strictly confidential nature of this further reference, but say 'there is no objection to consulting any officer of Government whose advice would be of special value.'

Demi-official from N. S. Brodie, Esq., I.C.S., to L. Davidson, Esq., I.C.S., dated Ennore, 12th November 1916.

With reference to your demi-official No. 39-S., dated 4th July 1916, I have now made further inquiries into the subject of the production and sale of cigarettes in this Presidency both personally and through Collectors. I cannot say that I have elicited much additional information and the remarks which I made in my note of the 26th December 1915 continue to hold good. It appears, however, that I was wrong in stating that there were no cigarette factories in the Presidency equipped with power-driven machinery as it was found on further inspection that McDowell's factory in Moor street, Madras, had some cutting machines worked by an oil-engine recently set up.

2. The estimate of outturn may very well remain at 250,000 lb. The only details I have been able to get are from the Universal Tobacco Company in Madras which is believed to turn out about 30 lakhs of cigarettes per mensem and from McDowell's factory, also in Madras, which is believed to turn out about 20 lakhs. McDowell's factory does not use Indian tobacco exclusively and some of the brands contain imported tobacco to the extent, it is said, of 25 per cent on the whole. I have tested numerous brands from all parts of the Presidency and find that as a rule they weigh about 2½ lb. per 1,000, a little more or less. This gives the total Madras production about 150,000 lb. per annum. Allowing for the imported tobacco used in McDowell's factory the quantity of Indian cigarettes is about 135,000 lb. The only other factories appear to be Oakes & Co.'s factory at Guindy, a new factory started by Barry & Co. in Cocanada just recently and one or two small factories in Coimbatore. There was a factory at Guntur but it seems to have failed after working a few months. The Collector of Coimbatore has not yet replied to my letter on the subject but I made some inquiries in the course of my last tour and find that there are one and probably two factories in Coimbatore but they use imported tobacco for their cigarettes as does Pappadopoulos in Madras. Allowing for all these factories I should say 115,000 lb. per annum was a very liberal estimate, making 250,000 for the Presidency.

3. Retail prices seem to vary very considerably but on the whole I see no reason to modify my original calculations. The cheapest cigarettes are sold in packets of 5 or

6 and a slightly more expensive lot in packets of 10. The dealers' profit seems to be about eight annas a thousand and the trade discount about 20 per cent. Some cigarettes* are sold as cheaply as Re. 1 per 1,000 wholesale or allowing for the trade discount about thirteen annas per 1,000. This is less than half the price I estimated for the cheapest cigarettes in my last note (Rs. 1–12–0). I doubt if there are many of this brand sold, but there are numerous other brands at Re. 1–4–0, Re. 1–6–0 and Rs. 1–8–0 sold by McDowell & Co. However all other information tends to confirm the view that the cheapest cigarettes are sold at Rs. 2 to Rs. 2–12–0 by the wholesale dealers and consequently must cost somewhere about Rs. 1–12–0 per 1,000 from the manufacturers. These cheap cigarettes are manufactured in this Presidency by McDowell & Co., and the Universal Tobacco Company only. Those turned out by Oakes & Co., and the new factory started by Barry & Co., at Cocanada are much more expensive and work out at Rs. 11 to Rs. 14 per 1,000.

* By the Universal Tobacco Company, 1/6, Patters Road, Royapetta—'Bazaar' brand.

4. The method of manufacture is probably the same everywhere. The tobacco selected has all the main nibs cut out and the leaves are then laid one above the other to a considerable depth. They are then cut into small pieces by a cutting machine, the tabacco rolled in cagarette paper, gummed and cut into lengths. As far as I know the cutting and gumming, etc., machines are all worked by hand except in McDowell's factory above referred to.

5. In this connexion I should, however, bring to notice one or two facts which I have ascertained in the course of my inquiries. It is a common practice I understand for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale especially at the various shandies and markets in the Presidency. This is common in Malabar, Coimbatore and the Nilgiris at all events and probably elsewhere. Most Collectors have, however, reported that cigarette papers are not commonly sold in the bazaars. I believe the practice of individual consumers rolling their own cigarettes is not common at present though it is said to have been customary in Salem before the shop-made cigarettes became so cheap. It would be clearly impossible to levy an excise duty on cigarettes made by hawkers or private individuals and it may be expected that the practice would be much more largely resorted to if a duty were imposed on the manufactured article. This might perhaps be met by imposing a customs duty on cigarette paper which would have to be determined in accordance with the duty imposed on cigarettes, such customs duty to be refunded on paper actually used by the wholesale manufacturers. It seems that cigarette paper was formerly imported mostly from Austria and Germany—at present it is obtained from France.

6. As regards the duty to be imposed I find it difficult to express an opinion. The heavy rates imposed in 1910–11 practically killed the cheap American cigarettes but then the enhancement of rates was probably more than 100 per cent of the value so that this result was quite intelligible. My inquiries show that my estimate of the cost of collection was much too large. One Sub-Inspector would, I think, be required for each factory but as there seem to be only four or possibly five factories the cost would be only about Rs. 2,400 per annum. As observed in my previous note, a duty of one and a half annas per pound represents 15 per cent of the value of the cheap cigarette. This amounts to 3 annas 9 pies per 1,000 and could hardly affect the retail price at all. The usual retail price per packet of 10 cigarettes seems to be about 4 pies. A duty of 8 annas 4 pies per 1,000 should raise the retail price by one pie and this would probably not seriously affect the trade though even one pie is a consideration in a country like India. I do not think we could safely raise the duty beyond Re. 1 per 1,000 which would raise the retail price about 2 pies or 50 per cent. This would be 6·4 annas per pound and roughly about 60 per cent of the value. Although cheap cigarettes do not seem to vary much in weight I would prefer to levy the duty by the pound rather than by the number as being the only fair way of assessing it. A duty of 6½ annas per pound would, if the production remained at 250,000 lb., yield Rs. 1,01,562½ but if the consumption fell, as it probably would, to about 200,000 lb. the tax would yield Rs. 81,250. As far as this Presidency is concerned, the result would, therefore, be insignificant, but, no doubt, the revenue

from the whole of India would be very considerable and I cannot see any serious objection to the proposal except that it would greatly encourage the smoking of bidies and press rather hardly on the poorest class of the population who smoke cheap cigarettes at present and regard them as a great luxury.

Demi-official from F. J. Richards, Esq., I.C.S., to Ley, Esq., I.C.S., dated the 18th December 1916, No. 75-S.

I am directed to reply to Mr. Low's Confidential demi-official letter No. 4493, dated 14th June 1916, on the subject of the expediency of imposing an excise on cigarettes manufactured in India from indigenous tobacco.

2. In the first place, I am to point out that the correspondence of 1910, to which reference is made in the first paragraph of Mr. Low's letter, did not turn on the present question, for at that time there was no manufacture of cigarettes from indigenous tobacco in this Presidency. It is stated that the question of an excise on manufacture was then dropped because the local cigarette industry was in its infancy and it was considered that the imposition of an excise would deal it a death-blow. So far as this Presidency is concerned, the position is virtually unaltered; for, as stated in Mr. Butterworth's demi-official letter No. A.A.-1, dated 11th January 1916, the local output of cigarettes does not exceed some 250,000 lb. annually. This estimate has been confirmed by subsequent enquiries, though the number of factories to be taken into account is found to be smaller than was thought to be the case. There are probably not more than 5 or 6, of which the two largest are those owned by Messrs. McDowell & Co., and the Universal Tobacco Company both in Madras City. The former has recently been equipped with an oil-engine for driving its cutting machines. The average wholesale price for the cheapest class of ciagarettes quoted in Mr. Butterworth's letter, viz. Rs. 1-12-0 per 1,000, may be taken as correct. These cheap cigarettes are manufactured only by Messrs. McDowell & Co. and the Universal Tobacco Company. Those turned out by Messrs. Oakes & Co., at Cocanada are much more expensive, costing from Rs. 11 to Rs. 14 per 1,000.

3. The maximum rate of duty which is considered compatible with the survival of the industry is Re. 1 per 1,000 or approximately $6\frac{1}{2}$ annas per lb. This duty would if the production remained 250,000 lb. yield a revenue of a little over a lakh. The imposition of such a tax, however, is almost certain to preclude any expansion of the industry and would very probably strangle that which already exists; for it would either drive the masses to revert to *bidi* smoking or compel the manufacturers to transfer their factories to French territory or to Native States. I may here point out that the Director-General of Commercial Intelligence has incorrectly assumed that the tax realisable from the Peninsular Tobacco Company's factory in the Civil and Military Station, Bangalore, would be credited to Imperial revenues. By the terms of rendition, the Mysore Government is entitled to the whole of the surplus revenue of the Assigned Tract, after the cost of the administration of the tract is defrayed. This fact seriously affects the estimate formed of the probable receipts from the tax.

4. Another factor to be taken into consideration is the practice, common in several districts of this Presidency, for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale, especially at local markets. Individual consumers do not usually roll their own cigarettes, though it is said to have been customary for them to do so in Salem before the shop-made cigarettes became so cheap. It would obviously be impossible to levy an excise duty on cigarettes made by hawkers or private individuals; and it may be expected that the practice would be much more largely resorted to, if a duty were imposed on the manufactured article. Cigarette paper was formerly imported from Germany and Austria; now France is the chief source of supply. A customs duty might be imposed on it, such duty to be refunded on paper actually used by the wholesale manufacturers; but this expedient would not be free from difficulties and would almost certainly result in the use of a local substitute.

5. In these circumstances, I am to say that the Government of Madras are entirely opposed to the proposal. They can suggest no alternative scheme for internal taxation of tobacco, apart from those already rejected.

IV

Letter from C. R. Watkins, Esq., C.I.E., Officiating Collector of Customs, Madras, to the Under Secretary to Government, Finance Department, dated 1st May 1925, No. L. Dis. Nil.

I forward herewith a statement showing the foreign imports into, and exports from, the Madras Presidency of tobacco since the year 1920-21.

2. The rates of customs duty at present in force are given below:—

Name of article.	Per	Tariff valuation.	Duty.
Cigars	.....	Ad valorem.	75 per cent.
Cigarettes of value.—Not exceeding Rs. 10-8-0 per thousand.	Thousand ...	.....	Rs. 7.
Exceeding Rs. 10-8-0 per thousand ...	Do.	.....	,, 10-8-0.
Tobacco, unmanufactured	Lb.	.....	,, 1.
All other sorts of tobacco manufactured	,, ...	.....	,, 2-4-0.

Enclosure.

Foreign imports and exports of 'Tobacco' at the Presidency of Madras for the past five years ending 1924-25.

	1920-21.		1921-22.		1922-23.		1923-24.		1924-25.	
	Quantity.	Value.	Quantity	Value.	Quantity.	Value.	Quantity.	Value.	Quantity.	Value.
Foreign imports.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.
Tobacco—Unmanufactured ..	77,507	1,45,703	489,693	13,17,036	742,412	14,07,436	3,105,459	34,57,277	3,485,871	29,29,162
Cigars	12,815	43,430	701	2,922	81	238	94	156	215	473
Cigarettes	500,267	16,39,198	186,750	9,40,779	278,384	12,34,116	296,516	13,54,712	1,86,952	8,34,717
Tobacco for pipes and cigarettes	304	1,296	5,293	54,393	22,524	1,19,720	18,155	97,606		
Other sorts	28,058	1,46,309	9,590	39,508	852	3,891	12,402	40,892	½ 20,564	3 1,06,279
Total ..	618,951	19,75,936	692,027	23,54,638	1,044,253	27,65,401	3,432,626	49,50,643	3,693,602	38,70,634
Foreign exports.										
Tobacco—Unmanufactured ..	3,118,784	13,57,807	4,650,985	16,84,266	4,258,743	17,68,621	9,953,877	37,65,684	14,366,170	42,49,345
Cigars	75,540	1,04,792	94,905	1,17,671	99,244	1,32,490	1,11,541	1,20,174	88,199	1,25,560
Cigarettes	..	..	129	615	31,230	30,049	1,574	1,492	72,086	81,746
Other sorts	34,166	27,373	48,237	46,322	45,300	44,918	110,903	1,03,645	99,555	49,769
Total ..	3,228,490	14,89,972	4,794,256	18,48,874	4,434,517	19,76,078	10,177,895	39,90,995	14,626,010	45,06,420

V

Statement showing the area under cultivation of tobacco in the Madras Presidency in 1923–24.

	ACS.		ACS.
Ganjam	3,299	Salem	3,737
Vizagapatam	48,285	Coimbatore	25,544
Godavari	11,591	Trichinopoly	4,032
Kistna	13,301	Tanjore	2,223
Guntur	64,481	Madura	7,400
Kurnool	11,542	Ramnad	3,889
Bellary	2,658	Tinnevelly	1,048
Anantapur	4,785	Malabar	17
Cuddapah	1,868	South Kanara	1,623
Nellore	2,625	The Nilgiris	72
Chingleput	62		
South Arcot	2,985	Total ...	219,841
Chittoor	595		
North Arcot	2,179		

CONFIDENTIAL.

TAXATION ON TOBACCO.

I

Notes to G.O. Mis. No. 1993, *dated* 21*st May* 1894.

The question is whether we should take the success of Travancore in levying a revenue from tobacco as a reason for calling the attention of the Government of India to the possibility of levying a revenue for tobacco in our territories. I doubt if we have sufficient ground for doing so and whether such a suggestion would be well received. Travancore is exceptionally situated, so that it has been possible to abolish all growth of tobacco there and levy a revenue by import duties, and the Government of India know all about this. Such a system would be impossible in our territory where tobacco is grown almost everywhere and consumed by almost everybody, and where larger Native States abound. The possibility of levying a revenue on tobacco in our territory, in this or any other way, has been repeatedly discussed and decided against after full communication between all the Governments, so that any suggestion for us on the subject would amount to an insinuation that the discussion had not been complete. The only way in which, as far as I can see, a large revenue could be realized for tobacco would be by establishing monopoly of manufacture and sale. Though this was hardly possible in former days, I believe it would be possible in these days of improved communications and police, but the initial expenditure on warehouses, etc., would be too heavy for a time of financial pressure and the larger preventive establishments which would be necessary and extend through almost every village would result in oppression which would be so widespread and so frequently exercised that it would be eminently dangerous.

G. Garstin—7-3-93.

No doubt a tobacco monopoly *could* be worked but it would be a gigantic undertaking, and so very costly (especially in Bengal, where Government has no rural agency at all) that it would not, in my opinion, bring in a net return worth the imitation, the measure would certainly cause. The simplest way of raising a tax on tobacco would be by a special tax on the land on which it was grown, but that would not apply to Native States and cannot be worked in Bengal. A special establishment which would eat up the most part of the profits, while in all settled non-zamindari districts the terms of the settlements would prevent the imposition of such a tax. Independently of this, the taxation of land according to the crop grown would be a

This note is submitted with reference to the enquiry whether the attention of the Government of India has been called in the Revenue Department to tobacco as a possible source of revenue.

2. The occasion for this enquiry will appear from the notes of His Excellency the Governor and the Hon'ble Sir Henry Stokes to which reference is made in that office-note. It arose in this wise—

In submitting the budget estimate of the Travancore State for the Malabar year 1069 (August 1893–94) Mr. Grigg, the Resident, after observing that the most important increases occurred under certain heads of revenue of which tobacco was one, remarked regarding the increase under this head as follows:—

"That under tobacco is very remarkable. I have never heard a rumour of complaint regarding this tax, and yet it comes to approximately As. 6-6 per head of the population and gives a revenue nearly double that of abkari and opium and is now 55 per cent of that of salt—a necessary of life. Offences against the law relating to its importation are, I believe, not numerous. The lucrativeness of this monopoly may well attract the attention of Indian financiers (paragraph 3 of his letter, dated 3rd August 1893, in Government Order, dated 20th October 1893, No. 712, Political).

On this His Excellency noted—

"We should call the attention of the Government of India to the statistics of the tobacco tax and to the Resident's remarks thereon."

On this note Sir Henry Stokes remarked as follows:—

"The attention of the Government of India has been often enough directed to tobacco as a possible source of revenue. The peculiar position of Travancore makes its experience of little or no value in the consideration of the question.

retrograde measure, injurious to the cultivator and certainly beneficial to no one but the karnam.

A licence fee might be imposed and would yield something. It would be a return to the moturfa abolished years ago, and would come very hard on the very poor classes who sell tobacco. I should be sorry to see it tried. Similar objections can be found to every other plan of levying a tobacco tax in this country. I don't think that the Government of India would care to take the question up. It was examined, on another and later occasion, I think, than any of those mentioned in the note, by Mr. Bazeet Colvin when additional Member of the Viceroy's Council, who wrote a long note on this and other projects of taxation, a copy of which I have somewhere—given me by Sir Auckland Colvin, when Finance Minister, who told me at the time that the idea had been finally abandoned—or to that effect. This was in 1886 when the times were almost as hard as they are now.

H. E. STOKES—7-3-94.

This note is very clear, and gives me a complete answer. It is very evident that we should *not* call the attention of India to Mr. Grigg's remarks on the revenue derived in Travancore from taxing tobacco.

I found myself like many others lured into the belief that a large revenue might be derived from taxing this article, and the same results achieved here as in almost every civilized country in the world. But on inquiry I find that not only has it been thoroughly looked into, but the experiment has been tried and has failed, and there is no doubt the peculiar circumstances of the country have rendered the success of the experiment almost impossible. And as Sir J. Strachey very forcibly puts in the incidence of a tax on tobacco would fall with far greater severity on those who now pay the bulk of the salt tax, and we would thereby be putting a crushing weight on those least able to bear the burden. I confess myself converted and withdraw from any further attempt to bring this question within the domains of practical politics—although I can imagine a municipality looking upon it as a fair object for local taxation but even then extremely difficult to work, as poor Madras can testify.

I suppose though that imported tobacco will pay its 5 per cent like other articles (except cotton goods !).

WENLOCK—11-3-20.

Tobacco is not produced in the State : the revenue is derived from import duties, and the configuration of the country lends itself to the easy levy of these duties on the greater portion of the tobacco consumed, which comes from Ceylon. In this Presidency and probably in the rest of India, import duties would not produce any revenue worth having and would be prejudicial to the Cheroot industry (Tobacco imported consists mainly of cheroot covers from Java and Sumatra): but I have no doubt that a considerable revenue might be got from licensees on the vend by others than the growers."

His Excellency wrote thereupon—

"Has this Government ever called their (India's) attention to it? Anyhow I do not think we could do any harm in pointing out what a large sum a little place like Travancore manages to get from the consumers of tobacco. It does not seem to me material how it is raised, whether by import duties or licences. The very significant fact remains that the consumers of tobacco in Travancore contribute yearly Rs. 10 lakhs to the State."

3. His Excellency's query whether this Government has ever called the attention of the Government of India to tobacco as a possible source of revenue has been referred to this department for information, in the office-note from the Chief Secretary.

4. It will be seen from the references put up—

(1) That this question has frequently been considered by the Government of India and has also formed the subject of correspondence between that Government and this and other Local Governments;

(2) That the conclusion come to by the Government of India is that the idea of raising a large imperial revenue from tobacco must be abandoned;

(3) That our Government has also expressed the opinion that no large provincial revenue can be obtained from tobacco; and

(4) That the Government of India is not unaware of the fact that Travancore manages to derive a large revenue from this source.

5. A summary of the correspondence on the subject is subjoined as also a short account of the tobacco monopoly in the districts of Coimbatore, Malabar and Canara which was abolished in the year 1853.

6. The Blue-Book entitled "Papers regarding the Tobacco Monopoly in the Presidency of Fort St. George etc.", gives the main correspondence up to 1868. It will be seen from pages 25–74 of the book, that for 50 years from 1803 to 1853, tobacco was the subject of a Government monopoly in the districts of Canara, Malabar and Coimbatore (vide Regulations 7 and 8 of 1811 and Regulation 5 of 1831 at pages 1, 4 and 8 of the Blue-Book), that the gross annual revenue derived during the 10 years—1833–1843 was about Rs. 8 lakhs and the net revenue about Rs. 5¾ lakhs; that the evils arising from this monopoly were so great that the attention of Government was frequently invited thereto by the officers concerned; that in 1845, the Government after recording a succinct review of the correspondence on the subject (vide No. 2 at page 26) called for a report from the Board of Revenue "on the practicability of a modification of the monopoly which, whilst we shall secure a considerable revenue, shall yet divest the tax of some of its most injurious attributes, its heavy charge of collection and the inducement it held out to smuggling"). The Government added that if a beneficial modification was impracticable, the possibility of finding an available substitute should be investigated.

It cost 2¼ lakhs to collect 8 lakhs !

J.G.

In reply the Board furnished an exhaustive report on the subject and said—

"It is with much reluctance that they are induced to advise the surrender without an equivalent of so considerable a source of revenue as the (tobacco) monopoly and they must be understood as doing so only, because, after much anxious reflection on the subject, they have been led to the conclusion that between such surrender and the retention of the present system with all its evils, there is no practicable middle course.

After a careful consideration of the subject the Government declared—

"The crying evils of the tobacco monopoly continue daily to become more notorious and demand an immediate remedy. The Right Hon'ble the Governor in Council entertains the most decided conviction that, as the Board of Revenue has represented, there is no effectual remedy short of total abolition and the expunging of so objectionable a branch of revenue from the system of Indian Finance."

Some of the evils of this system arose from its being confined to a limited area but the worst-springing from the fact that tobacco is produced almost everywhere and freely consumed by all classes so that any raising of the price gives rise to the worst sort of smuggling and is fatal to the peace of the country—will affect any system.

J.G.

In accordance with this view application was made to the Court of Directors for sanction to abolish the tobacco monopoly and on such sanction being obtained, Act IV of 1853 was passed abolishing the monopoly—

7. The subject of a tobacco-tax was considered by the Government of India during the years 1859–68. A summary of the correspondence which then took place on the subject and of the views held thereon will be found in Sir John Strachy's minute dated 21st October 1865 printed as No. 97 at page 152 of the Blue-Book and in the Government of India's letter to the Secretary of State printed as No. 98 at page 155.

All methods of taxing tobacco were considered then.

J.G.

It will be seen therefrom that, when after the events of the year 1857, the state of the finances rendered it necessary to resort to new sources of revenue, a tax on tobacco was among other things very much discussed.

Four methods of deriving a revenue from this source had been suggested :—

(1) The suppression of the cultivation of the plant throughout India and the imposition of an import duty.

(2) The establishment of a monopoly of the cultivation and manufacture of tobacco similar to that now applied to opium.

(3) The imposition of a licence duty on the cultivation of the plant.

(4) The imposition of licence fees on all wholesale and retail dealers in the manufactured article.

Of these, the first and second methods were soon dismissed as impracticable.

The third plan was at first favoured by the Government of India but most Local Governments disapproved it. The main objections urged were: that to impose a special tax on the cultivation of tobacco would be a violation of the principles on which land assessments were usually made; that it would also be economically a mistake; that the suppression of its cultivation except under a licence would be difficult to enforce; that as the enforcement cannot be extended to Native States (even if it could be extended to zamindari and inam estates) the measure would have the effect of contracting the area of its cultivation in British territory and greatly stimulating its growth in Native States and it would be extremely difficult to prevent the smuggling of free tobacco from such States. The views of this Government are contained in Mr. Bourdillon's letter to the Government of India, dated 11th June 1859, printed as No. 90 at pages 120–128. In the first enclosure to this letter the inexpediency of taxing tobacco in any form is fully set forth by the Board of Revenue.

The Government of India thereupon turned to the fourth plan of licensing the *sale* of tobacco and accordingly inserted a provision to this effect in the Licensing Bill then under its consideration. (The Bill, which was finally passed as India Act 18 of 1861 and repealed by India Act 2 of 1862).* But the reports received from Local Governments on the point were not encouraging. They all went to show that no system of licensing would bring in any large revenue.

The Government of India resolved therefore to abandon altogether the idea of raising a revenue from tobacco by Imperial Legislation and the clause in the Licensing Bill which related to tobacco was accordingly expunged.

8. But while arriving at this opinion as to the unsuitability of tobacco for Imperial taxation the Government of India also thought, judging from the reports received from Local Governments, that a considerable revenue might be derived by Local Governments if they were left each to carry out the system best suited to the circumstances of its province. Accordingly, and as it was thought that Imperial revenues might be relieved to a considerable extent by establishing a system of local taxation for local purposes, the Government of India addressed Local Governments on the subject of such taxation and named tobacco as one of the sources from which a revenue might be derived.

The reply of this Government to the above letter is printed at pages 157—162 of the Blue-Book. This Government merely reiterated the opinion it had expressed in its letter of 11th June 1859 (No. 90 at page 120) that there were insurmountable objections to the realization of a revenue from tobacco unless in the shape of a tax on the shops where tobacco was sold, i.e., a licence tax; and that the produce of such a tax would not be considerable.

9. The Government of India appears to have considered this question of a tobacco tax on subsequent occasions also and to have arrived at substantially the same opinion as before, as will appear from the letter to the Secretary of State printed as No. 98 at page 155.

10. In 1870 when the question of raising the rate of income-tax was under the consideration of the Government of India, a proposal was made by one of the members (Mr. Cowie) to tax tobacco. Sir John Strachy and Sir Richard Temple both spoke against the measure and His Excellency Lord Mayo said:—

"Now it is quite true that in many civilized countries tobacco is considered to be a very proper object for taxation but I must remind the Council that tobacco in India is really an absolute necessary of life and that if you put a tax upon the production of tobacco, you tax the two great necessaries of life in this country, viz., salt and tobacco, and I am not prepared even in the present state of our finances to advocate the imposition of a burden upon such a prime necessary of life as that is.

11. The question appears to have been discussed also during Lord Lytton's Viceroyalty and the same conclusion arrived at, namely, that no large revenue could be raised by taxing tobacco (vide pages 368-70 of Strachy's book on "The Finances and

Public Works of India" and page 554 of the volume of Legislative Council's Proceedings for 1877). The following extract from Strachey's book may be noted:

"Tobacco is almost universally consumed and is looked upon as almost a necessary of life. Whatever means were adopted the tax would only be largely productive if it fell ultimately on the classes which form the great mass of the community. It would be paid by the same classes which now pay the salt tax, and if it should become necessary to increase the burden which they already bear this object would be more easily and economically gained and with far less vexation to the people by increasing the existing tax upon salt than by imposing a new tax upon tobacco. That any increase in the rate of the salt-tax would be one of the greatest possible mistakes, unless in most exceptional circumstances and on the other hand that its present reduction * would be financially a most desirable measure, has been shown in another chapter (page 370).

* The duty was reduced from Rs. 2-8-0 to Rs. 2 in 1882. It was raised as follows in this Presidency:—

	Duty. Rs.	A.	P.
August 1859	1	0	0
April 1861	1	4	0
1861–62 to 1865–66	1	5	0
1866–67 to 1868–69	1	8	0
1869–70 to 1877–78	1	12	0
1878–79 to 1881–82	2	8	0
1882–83 to 1886–87	2	0	0
1886–87	2	8	0

12. That the Government of India knows that Travancore derives a large revenue from tobacco, may be inferred from the correspondence which took place in 1860–65 relative to the Interportal Trade convention with Travancore and Cochin and more especially from the correspondence embodied in Government Order dated 14th May 1868, No. 1338.

It will be seen from the latter correspondence that at the desire of the Viceroy (Sir John Lawrence) whose attention seems to have been drawn to certain remarks which appeared in the Travancore Administration Report for 1865–66, regarding the tobacco tax in that State the Hon'ble Mr. G. N. Taylor addressed the then Resident in Travancore and Cochin (Mr. Newill) for full particulars regarding the mode in which the tax was levied in that State and that complete information on the subject was furnished by the Resident and the then Diwan T. Madhava Rao.

This correspondence came before this Government, mainly on account of a minute recorded by the Hon'ble Mr. G. N. Taylor, in which he suggested that this Government might consider the expediency of imposing a moderate import duty or an excise wherever practicable—vide his minute printed in the Government Order.

The Diwan's Memorandum shows that during the flourishing period of the monopoly system (it was abolished in 1862–63, that is, ten years after the abolition of the Government monopoly in Malabar and Canara) the gross revenue from tobacco amounted to more than half the revenue from all other sources or more than one-third of the total revenue of the State while the revenue now amounts to about one-eighth of the total revenue.

13. From the administration report of the Travancore State for the year 1891–92, it appears that 12,295 † candies of tobacco valued at Rs. 26,77,723 were imported during that year and that a duty of Rs. 9,43,030 was collected thereon.

† Equal to 6,147,500 lb. or 8,065,520 lb. according as a 'candy' is 500 lb. or 656 lb. (which latter is the equivalent given in Madhava Rao's Memorandum—vide paragraph 10.

14. The following statement gives the statistics of the imports of tobacco into this Presidency by sea for the last three years:—

Tobacco—Imports—Sea-Borne ‡ Trade.

Years.	Foreign trade. Quantity in lb.	Value.	Coasting trade. Quantity in lb.	Value.	Total. Quantity in lb.	Value.
		Rs.		Rs.		Rs.
1890–91	446,477	2,06,021	218,915	33,563	665,392	2,39,584
1891–92	542,705	2,91,725	110,937	17,121	653,642	3,08,846
1892–93	915,719	3,37,980	135,775	27,107	1,051,494	3,65,087

‡ The rail-borne imports amount only to about 2,000 lb.

At the Travancore rate of duty the imports into this Presidency will bring in a gross revenue of a little over one lakh of rupees.

R.V.S.—1-3-94.

The foregoing account gives a clear and concise summary of all that has been written on this subject and shows that the feasibility of raising a revenue from tobacco has been most exhaustively debated and that the question has been considered in all its bearings. The situation is appropriately summed up by Sir John Strachey in paragraph 8 of his minute of the 21st October 1865 (page 154 of the Blue Book)—

"Tobacco has seemed at first sight a very promising subject of taxation to almost everyone who has thought upon the subject, but almost everyone had given up the scheme upon full consideration of the difficulties which surround it."

J.G.—3-3-94.

II

Mr. N. S. Brodie's Note dated 26th December 1915 (Secret D.O. No. A A-1, dated 11th January 1916).

Prior to 1910–11, *ad valorem* rates used to be charged on imported manufactured tobacco of all sorts at the rate of 5 per cent but this system was then abandoned and special quantitative rates introduced, presumably because of the difficulty of levying *ad valorem* rates. The rates introduced were about 33 per cent higher than those now in force which are—

	Rs.	A.	P.	
Unmanufactured tobacco	1	0	0	per lb.
Cigars	1	10	0	„
Cigarettes weighing less than 3 lb. per thousand.	3	2	0	per thousand.
Cigarettes weighing 3 lb. or more per thousand.	1	4	0	per lb.
Manufactured, other sorts	1	2	0	„

These rates are said to be approximately 36 per cent *ad valorem* on cigars and 33 per cent *ad valorem* on cigarettes though how this is arrived at I don't know, considering how much imported cigars and cigarettes vary in weight and value. The Government of India's first proposal is to raise these rates 'in approximately the same proportion, i.e., to a uniform 50 per cent *ad valorem*.' I presume this means that the duty on cigars is to be raised by about one-third and that on cigarettes by about half. Nothing is said about 'other sorts' which I suppose means principally pipe tobacco. Judging from Spencer's and Oakes' price lists the present rate seems to be from 28 to 41 per cent on the cheapest pipe tobacco and presumably this is also to be raised by about one-third. The rates will then read—

	Rs.	A.	P.	
Cigars	2	3	0	per lb.
Cigarettes	4	11	0	per thousand and
	1	14	0	per lb.
Other sorts	1	8	0	per lb.

I presume the Government of India does not intend to go back to *ad valorem* rates.

Effects of taxation introduced in 1910–11. Sea-Borne Trade Review of 1910–11, page 9.

2. The rates introduced in 1910–11 had the immediate effect of 'extensively curtailing the imports of foreign tobacco and they scarcely realized the revenue it was hoped they would bring in.' The total imports declined by 83 per cent in quantity and 52 per cent in value. Imports of leaf tobacco, *formerly duty free*, fell from 447,115 lb. to 63,267 lb. or by 86 per cent in quantity. Imports from Ceylon and the Straits Settlements practically ceased. [There used to be quite a large trade from the Jaffna and the northern Ceylon ports which supplied a great part of the tobacco used on the west coast of this Presidency.] Imports of cigarettes decreased 77 per cent in quantity and 48 per cent in value. The cheap American varieties were practically shut out, falling 94 per cent in value and the result was the foundation and development of the Indian cigarette industry which has probably taken their place. Exports of cigars to the United Kingdom fell by 72 per cent owing to the imposition of duty on wrapper tobacco. To avoid this, Messrs. Spencer & Co. removed their factory to Pondicherry.

Sea-Borne Trade Review of 1911–12.

3. In 1911–12, owing to the outcry from Ceylon and the leading local manufacturers of better class cigars, the rates were reduced by about 33 per cent to the present figures. Even this, however, failed to revive the import trade from Ceylon and the Straits Settlements which was completely and finally killed. Imports of leaf tobacco rose by 19,160 lb. but this was only a mere fraction of the fall of 383,848 lb. in 1910–11. The increase was confined to the higher grades required in the manufacture of cigars of good quality. Imports of cigarettes showed a further decline in quantity but an increase in value, the trade in cheap American cigarettes being completely extinguished. Exports of cigars to the United Kingdom declined another

7 per cent in value but exports to the Straits Settlements increased by 23 per cent and the whole export of cigars increased by 13 per cent in quantity and 9 per cent in value. The cigars exported to the Straits Sttlements and Federated Malay States appear to be made of purely Indian tobacco which pays no duty.

4. In 1912–13, there was a further decrease in imports of cigarettes by 15 per cent and a large factory was opened at Bangalore by the Peninsular Tobacco Company. Manufacture of cigars for export to the United Kingdom was permitted in bond and Messrs. Spencer & Co. returned from Pondicherry. The exports of these cigars rose by 46 per cent but of course the revenue did not profit by this.

Sea-Borne Trade Review of 1912–13.

There was a general increase both in imports and exports of tobacco in 1913–14 and some recovery in imports of cigarettes to a little above the figures of 1910–11. The export of high grade cigars to the United Kingdom rose to ·88 lakh against ·57 lakh in 1910–11.

Sea-Borne Trade Review of 1913–14.

However, the effect of the war was to send most of the principal figures lower than ever. Imports of raw tobacco fell to 70,573 lb. in 1914–15 and exports of high grade cigars to the United Kingdom fell to 33,434 lb. and to ·45 lakh in value (nearly 50 per cent), the lowest figure on record.

Effects of the war—Sea-Borne Trade Review, 1914–15.

5. The figures since the introduction of the new tariff are tabulated below :—

Annual value of the sea-borne trade and navigation of the Madras Presidency for 1914–15.

Foreign trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.	LB.	LB.	LB.	LB.	LB.	LB.
1. Unmanufactured (total for Presidency).	447,115	63,267	82,427	90,458	110,458	70,573
2. Manufactured—						
(*a*) Cigars	11,099	1,049	937	830	1,107	3,368
(*b*) Cigarettes	319,275	72,139	65,410	55,217	78,616	78,429
(*c*) Other sorts	94,940	12,473	26,397	23,370	24,723	28,090
Exports.						
1. Unmanufactured (unaffected by tariff).	1,444,632	1,670,842	1,619,966	1,806,998	2,234,511	2,362,766
Of the above exported to Straits Settlements and Federated Malay States.	1,374,612	1,621,543	1,568,878	1,773,160	2,115,056	2,304,144
2. Manufactured—						
(*a*) Cigars	697,507	704,791	797,383	989,811	988,668	887,165
Of the above quantity exported to United Kingdom.	80,360	42,565	36,184	51,156	56,976	33,434
Straits Settlements and Federated Malay States (unaffected by tariff).	415,357	547,613	661,294	827,278	811,219	800,488
(*b*) Other sorts	4,196	4,515	9,010	8,513	9,363	8,885

Coasting trade.

—	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.	LB.	LB.	LB.	LB.	LB.	LB.
1. Unmanufactured	610,603	683,787	664,054	578,058	604,165	596,038
2. Manufactured	142,514	84,439	59,021	94,319	57,595	71,301
Of the above imported from Calcutta.	118,687	73,703	52,511	85,214	46,637	53,301
Exports.						
1. Unmanufactured	7,721,625	7,535,386	6,870,154	6,536,820	6,928,569	5,168,826
Of the above exported to Burma ..	6,926,830	6,474,041	6,149,974	6,133,770	6,521,676	4,579,130
2. Manufactured—						
(*a*) Cigars	347,507	314,933	410,526	419,710	349,618	275,018
Of the above exported to Burma ..	194,493	204,649	292,004	320,781	251,706	177,844
Of the above exported to Bengal ..	101,866	73,206	76,815	61,785	63,117	65,373
(*b*) Cigarettes	..	..	2,877	4,200	26,471	61,599
(*c*) Other sorts	35,726	43,920	37,620	39,906	33,407	77,190

6. The net result of the introduction of the heavier tobacco duties in 1910–11 has, therefore, been to kill the import trade in raw tobacco from Ceylon and the Straits Settlements and in cigarettes from America and to lay the foundations of a cigarette manufacturing industry in India from Indian leaf. The trade in high grade cigars exported to the United Kingdom has suffered very heavily, despite permission to manufacture export in bond. The fall between 1909–10 and 1913–14 (when this industry reached its highest point after the imposition of duties and before the outbreak of war) was about 29 per cent. This shows what an effect even a slight rise in the cost of such a thing as tobacco has on consumption as it was undoubtedly the increased cost (and that only of the wrapper) in 1910–11 that gave the trade this set back. The wrapper is only a minute fraction of the weight of the cigar and if the duty on whole cigars is only equal to an *ad valorem* rate of 36 per cent the duty on a cigar whose wrapper alone pays duty must be nearer 1 or 2 per cent. Since the concession of manufacture in bond has been granted these cigars pay no duty and it is presumed that this concession will be continued so that any enhancement of rates will not affect them.

7. *Rail-borne trade*, 1914–15.—

Imports from other Presidencies and Native States.

	LB.
1. Unmanufactured	2,051,959
Of which imported from Mysore	1,344,550
2. Manufactured—	
(*a*) Cigars	13,330
(*b*) Other sorts—probably cigarettes	1,497,517
Of which imported from Mysore	1,294,272

Exports to other Presidencies and Native States.

1. Unmanufactured	24,729,076
Of which exported to—	
Mysore	8,181,339
Calcutta	5,282,496
Nzam's Territory	4,242,157
2. Manufactured—	
(*a*) Cigars	503,013
(*b*) Other sorts	392,750

Internal trade between various parts of the Presidency.

1. Unmanufactured	53,774,208
2. Manufactured—	
(*a*) Cigars	1,061,815
(*b*) Other sorts—probably cigarettes, bidies and snuff ...	1,074,651

8. From these figures it appears that by far the greatest part of the Delta tobacco is exported in the manufactured condition and made up locally. The trade in manufactured tobacco is comparatively small, which agrees with my information that there are no manufactories of any size. A fairly large quantity of manufactured cigars is exported by rail from the Central districts (i.e., Trichinopoly, Salem and Coimbatore) to Negapatam but this no doubt is included also in the exports by sea to the Straits Settlements.

Cigars.

9. In the Secretariat note of 1911 the total outturn of cigars was estimated by Mr. Innes at about 2,500,000 lb; i.e.:—

	1909–10.
	LB.
Foreign exports	697,507
Coasting trade exports	347,507
Rail-borne exports	451,164
Do. internal trade	971,208
Total ...	2,467,386

The corresponding figures for 1914–15 are—

	LB.
Foreign exports	887,165
Coasting trade exports	275,018
Rail-borne exports	503,013
Do. internal trade	1,061,815
Total ...	2,727,001

Allowing for the disturbance of trade caused by the war, the export trade and rail-borne traffic in cigars may, therefore, be taken at about 2,750,000 lb. but this is probably an excess estimate of the quantity actually manufactured since the rail-borne traffic probably includes the greater part of the foreign exports and possibly a good deal of the coasting trade exports also.

Cigarettes.

10. The Indian cigarette industry has practically grown up since the Secretariat notes of 1911 were written. Foreign imports of the better class cigarettes have remained nearly stationary since 1911–11 at about 70,000 lb. Comparing the figures of 1909–10 with those of 1910–12 when the full effect of the tariff duties had had time to operate, 253,865 lb. of cheap American cigarettes appear to have been displaced. These have no doubt been replaced by Indian cigarettes and there has probably been a large increase in consumption in addition.

The export trade in cigarettes in 1914–15 appears to have been somewhat as follows:—

	LB.
Foreign exports	8,885 *
Coasting trade exports	61,599
Rail-borne exports	392,750 *
Do. internal trade	1,074,651 *
Total ...	1,537,885

In the absence of figures for bidies, snuff, etc., it is not easy, however, to say how much of these 15 lakhs of pounds represent cigarettes and still less how much represents cigarettes manufactured in the Presidency. My inquiries in Vizagapatam show that none of the cigarettes there consumed (and the consumption is very large) are manufactured in this Presidency. The great bulk come from Calcutta and a good many from the Peninsular Tobacco Company, Bangalore. Similarly in Madras, the bulk of the cigarettes come from Bangalore or Bowringpet, both in Mysore territory and not subject to British excise. It will be seen from paragraph 7 above that 1,294,272 lb. of 'other sorts' including (no doubt mostly) cigarettes are imported from Mysore. Probably the greater number of these are shown in 'rail-borne internal trade' and exports of the Presidency over again. I should put the actual number manufactured in the Presidency at not more than 250,000 lb.

11. The following are principal Indian Cigaratte factories shown in the Lawrence Asylum Press Almanack, page 1438:—

(1) A.G.M. & Sons, Coimbatore.

(2) K.G.A., Coimbatore.

(3) McDowell & Co., Madras.

I have never seen any cigarettes from the first two factories and they seem to be very small and merely supply the local market. McDowell & Co. employ about 25 persons and some small hand machines. Pappadapoulos Brothers make Egyptian cigarettes but import Egyptian tobacco which already pays duty. Besides these there are the two large factories in Mysore—

4. The Peninsular Tobacco Company, Cleveland town, Bangalore, and

5. The Oriental Tobacco Manufacturing Company, Bowringpet.

*Includes, however, pipe tobacco, bidies, snuff, etc.

Both these are run on American lines and employ a large number of workmen and power-driven machinery, but as already remarked they are not subject to British excise.

Outturn of tobacco.

12. According to the 'Season and crop report' for 1914–15 the total area cultivated with tobacco in the Presidency was 227,182 acres, the 'normal' area being 203,230 acres. I learn from Chadwick that 800 lb. of dried leaf per acre is a fair average crop as taken by Castlestuart Stuart in 1910. The total outturn was therefore about 182,000,000 lb. of which we have only accounted for about 3½ millions at most in the manufactured form. This outturn was spread over 24 districts, the area being over 10,000 acres in seven, Vizagapatam (29,115), Godavari (13,099), Guntur (78,560), Kistna (13,022), Kurnool (18,769), Coimbatore (26,001) and Madura (11,172). These figures show little change since 1908–09.

About 90,000,000 are exported in unmanufactured form.

Tobacco industry.

13. The census report for 1911 groups manufacturers of tobacco, opium and ganja together under Order 12, Group 66. The number of manufacturers of opium and ganja must be almost negligible and the total number of workers and dependents is shown to be 12,333. Under Order 33, Group 122, sellers of tobacco, opium, ganja, etc., are said to be 65,733 (workers 25,883, dependents 39,850). The total number of persons dependent on the tobacco trade is therefore about 78,066 against 75,000 in 1901. It is not possible to compare the figures of the other industries referred to in Mr. Castlestuart Stuart's demi-official of 5th November 1910 as the classification has been altered. Betel leaf and arecanut sellers are now grouped with vegetable and fruit sellers. It may be noted however that the number of persons engaged in the manufacture of tobacco is about as many as bakers and biscuit makers (12,970) whilst the number of sellers of tobacco is not much less than the number of sellers of milk, ghee, butter, poultry, eggs, etc. (80,981).

Present proposals criticised.

14. These figures show that there has been comparatively little change in the general position since 1910–11 and the arguments against any form of taxation of Indian grown tobacco remain as strong as they were then. The present proposals of the Government of India may now be examined in detail. The first is, as far as I understand it, to raise the quantitative rates of duty on imported cigars and cigarettes (and perhaps also on other manufactured tobacco) to the figures shown in paragraph 1 above. The quantity of imported cigars is now very small and was only 3,368 lb. in 1914–15. Assuming that the enhanced duty has no effect on consumption, the increase of revenue from this source will be only Rs. 1,824*. But judging from the effect of the enhancement of duty in 1910–11 it will probably be much less. The duty on imported cigarettes (78,429 lb. in 1914–15) was about Rs. 80,000 and the enhancement of the duty by one-half may give Rs. 40,000, though here also a heavy fall in consumption may be confidently looked for. The increase of duty on 'other sorts', i.e., probably pipe tobacco, snuff, etc. (which may be contemplated) by one-third would yield perhaps Rs. 10,742. Altogether, the maximum increase of revenue that may be looked for from this proposal cannot, therefore, be more than Rs. 60,000 and the burden will fall heavily on the poorly paid European and Eurasian assistants in shops, business firms, Railway Companies, etc., who are by far the largest consumers of imported cigarettes. However this increased revenue can no doubt be obtained without administrative difficulty or expense.

(a) First proposal.

*Present duty Rs. 5,473 one-third enhancement Rs. 1,824.

(b) Secopd proposal.

15. The second proposal is to levy an excise duty on cigarettes of Indian manufacture. The large factory referred to by the Government of India is probably that in Bengal, I think at Monghyr. It is proposed to differentiate bidies from cigarettes by the use of cigarette paper. This may be accepted. It is proposed that

the taxation should take the form of a quantitative duty equivalent to an *ad valorem* duty of about 15 per cent. A further point is whether the taxation should be restricted to factories equipped with power-driven machinery. If this qualification is accepted the question is a simple one for there are no such cigarette factories in this Presidency. Assuming, however, that all cigarette factories are to be taxed my inquiries show that cigarettes of Indian manufacture vary considerably in price. The cheapest are sold retail at prices varying from Rs. 1–4–6 per 500 or Rs. 2–6–0 per 1,000 to Rs. 2–12–0 per 500 or Rs. 5–2–0 per 1,000. These cigarettes both weigh almost exactly $2\frac{1}{2}$ lb. per 1,000, the cheaper ones a little more. The manufacturer's price to the trade is no doubt considerably less as these cigarettes have to be imported to Vizagapatam and there is the retailer's profit to be considered. The excise duty will of course have to be fixed with regard to the wholesale price at the factory. I should say Rs. 1–12–0 per 1,000 is probably an outside price for the cheapest cigarettes. This means $28/2\frac{1}{2}=11\frac{1}{5}$, say 11 annas a lb. or as they weigh rather more than $2\frac{1}{2}$ lb. per 1,000, say 10 annas a lb. 15 per cent on 10 annas is one and a half annas per lb. I have estimated the total production of cigarettes in this Presidency at not more than 250,000 lb. and the duty on this would be Rs. 23,437. It is impossible to say without a full inquiry what the number of cigarette factories is but they are certainly very small and probably average not more than 10,000 lb. of cigarettes each per annum. Putting the number at 25 scattered all over the Presidency, not less than 25 Sub-Inspectors on Rs. 40 per mensem would be required to supervise them. The cost of these would be Rs. 12,000 not allowing for contingent expenses such as weighing machines, etc. The net proceeds of the tax would therefore be somewhere about Rs. 10,000, even supposing that the duty had no effect on consumption which is extremely improbable. Moreover as Indian cigarettes vary considerably in price though not so much as cheroots, the duty would press most unfairly on the cheapest brands and on the poorest class of the population which consumes them.

Watch cigarettes—Peninsular Tobacco Company, Bangalore, Rs. 1-4-6.
Ruler cigarettes—Imperial Tobacco Company, Calcutta, Rs. 2-12-0 per 500.

16. The third proposal is to levy a similar quantitative excise duty equivalent to an *ad valorem* tax of 15 per cent on cigars of Indian manufacture. As already pointed out in 1911 this problem absolutely bristles with administrative difficulties. In the first place it is not clear whether bidies are to be included. It is possible to distinguish bidies from cigarettes but the difference between them and the poorest kind of cheroots is almost infinitesimal. Both are rolled in leaves, sometimes tobacco leaves sometimes not. The manufacture of bidies is admittedly a cottage industry carried on in every village and hamlet. However according to the Asylum Press Almanack one tobacco factory at least professes to make bidies. The vast bulk of the Indian cheroots are also made as a cottage industry as is evident from the fact that out of 182 millions of pounds of tobacco grown only about $3\frac{1}{2}$ millions ($4\frac{1}{2}$ at the outside) appear in the trade returns as manufactured. Possibly bidies could be excluded by excepting cheroots, etc., weighing less than as many pounds to the 1,000. My experiments show that the commonest bidies weigh about $1\frac{1}{4}$ lb. per 1,000, so that if manufactured cheroots weighing less than $1\frac{1}{2}$ lb. per 1,000 were excluded this might meet the case. However this would undoubtedly stimulate the consumption of bidies which I understand to be the most deleterious form of smoking. Bidies are sold at 12 annas a 1,000 wholesale in Madras, that is at about $9\frac{3}{5}$ annas per lb. The manufacturer's price may be less so that probably 9 annas per lb. would be a safe figure and the duty, if any, ought to be much the same as for cigarettes or a little less, say 1 anna 4 pies per lb.

(c) Third proposal.

Bidies.

17. Ordinary cheroots of the commonest kind seem to weigh about $3\frac{3}{4}$ lb. per 1,000 and cost Rs. 1–12–0 per 1,000 retail but both weight and price vary enormously. Better class cheroots which, however, are still largely consumed by the poorer classes weigh 20 lb. per 1,000 and cost Rupees 12–8–0. Assuming that the rates to the trade are somewhat less we may estimate the first kind at 6 annas a lb. and the second at 10 annas a lb. The duty ought to be fixed at 15 per cent on the cheapest

Cigars.

kind at 6 annas a lb. The duty would then be 11 pies but for convenience of reckoning might be fixed at one anna.

It is quite impossible to estimate with any accuracy the output of Indian manufactured cigars. The figures in paragraph 9 no doubt afford some guide. I should imagine 2,000,000 lb. to be a fair estimate. The duty on this at 1 anna per lb. would be Rs. 1,25,000. Against this has to be set the cost of establishment which would be enormous. It is not possible at present to form any idea of what this would be. Presumably the only way to ensure the collection of the duty would be to place each factory in charge of an officer who would have to weigh the quantity of raw tobacco received and the quantity finally passed out on payment of duty, seeing that none illicitly passed out and keeping accounts on the same lines as officers in charge of distilleries. The test of a factory would be I suppose that the proprietor sold the manufactured produce, for practically every householder buys a few leaves of tobacco now and again and rolls them up into cheroots for private consumption. Even excluding these individuals, there appear to be about 26,000 persons describing themselves as tobacco sellers in the census returns, excluding 2,000 partially agriculturist. This agrees with what I expected, being an average of about one for every village in the Presidency. In some places there are no doubt several and in others none, but it would be quite impossible to do much in the way of concentration without causing much hardship. The formation of central storehouses appears, therefore, to be impossible and practically every shop will have to have a properly locked storehouse for the cheroots manufactured which adds to the expense. The ordinary staff of the Salt and Abkari Department could not possibly undertake this enormous addition to its work. Assuming that one Sub-Inspector could efficiently supervise on the average 25 factories (which I take to be impossible with the shops scattered as at present) it would require a staff of 1;000 Sub-Inspectors to supervise the work in the Presidency. The opportunities for fraud would be so great that I fear even then the force would be demoralized. Certainly a great many of the Sub-Inspectors would have to be paid more than the lowest grade of Rs. 40 a month. Assuming that the average pay is Rs. 60, this establishment alone would cost Rs. 60,000 per month or Rs. 7,20,000 per annum or about six times the estimated proceeds of the tax. It seems hardly worth while to discuss the matter further. A complete staff of peons, inspectors, Assistant Commissioners and Deputy Commissioners would also be necessary to supervise such an establishment and it would be quite impossible for me to undertake so large an addition to my work. After all there would be no possibility of guarding against fraud as there would be nothing to distinguish between illicit and licit tobacco. As far as I can see no tax less than Re. 1 per lb. would do more than pay for the cost of collection and this of course would be ruinous having regard to the cost of the article.

18. In conclusion I can see nothing in favour of the tax or any possibility of working it. A tax on Indian cheroots made in power-driven factories might be possible. There are only two, viz.: Spencer's at Dindigul and Oakes & Co. at Guindy—employing 700 persons between them. But it seems very hard to discriminate against them, even if the tax was only one anna a lb. and anything more would probably drive them out of the Indian market altogether. I cannot say what the output of these two factories is, but excluding the amount manufactured in bond for Europe I doubt if it exceeds 500,000 lb. and the duty at one anna per lb. would yield only Rs. 31,250.

19. Another possible course would be to put an export duty on manufactured tobacco. In that case I should exclude cigars exported to the United Kingdom which have to pay heavy and enhanced duties there and have already sufferred by the tariff. There are not the same administrative objections to an export duty, at all events on exports by sea, as the establishment exists and evasion would be practically impossible. Exports by sea to foreign countries, excluding the United Kingdom, amounted to 853,731 lb. in 1914–15 and exports to other provinces to 275,018 lb. Total 1,128,749 lb. A duty of one anna per lb. might bring in Rs. 62,500 without any extra cost and as the exported cigars at all events to the Straits Settlements are of fairly good quality a duty of even 2 annas a lb. might not ruin the trade and bring in about one and quarter lakhs. Still the amount is so small that I see no use in upsetting the trade at all for so very little result.

N. S. Brodie—26–12–15.

III

Demi-official from L. DAVIDSON, Esq., I.C.S., to N. S. BRODIE, Esq., I.C.S., dated 4th July 1916, No. 39–S. (Secret No. 183 A, dated 18th December 1916.)

I am desired to refer to your note of the 26th December 1915, on the subject of imposing an excise on locally manufactured cigars and cigarettes. The Government of India are disposed to agree that the taxation of locally-made cigars is not likely to prove of practical value. As regards cigarettes, however, they are unable to abandon the possibility of revenue from an article which is not only a luxury but also, to some extent, a harmful luxury; and they have asked this Government to consider the question at greater leisure.

2. Your note, referred to above, gives an approximate estimate of the total outturn of cigarettes in the Presidency, the number of factories and the prevailing wholesale prices. I am to ask whether you cannot now quietly obtain more precise information as to the number and location of factories, the met hods of manufacture, the outturn and the prices obtained. Collectors could possibly procure the information under the guise of income-tax or statistical inquiries without exciting attention.

3. The calculations in your note are based on the assumption that the excise to be imposed would be equivalent to an *ad valorem* tax of about 15 per cent, as was then suggested by the Government of India. I am to ask you now further to consider the effect of taxation on the industry and to favour Government with your opinion as to the maximum which could safely be imposed without seriously crippling the trade.

4. The Government of India lay stress on the strictly confidential nature of this further reference, but say 'there is no objection to consulting any officer of Government whose advice would be of special value.'

Demi-official from N. S. BRODIE, Esq., I.C.S., to L. DAVIDSON, Esq., I.C.S., dated Ennore, 12th November 1916.

With reference to your demi-official No. 39-S., dated 4th July 1916, I have now made further inquiries into the subject of the production and sale of cigarettes in this Presidency both personally and through Collectors. I cannot say that I have elicited much additional information and the remarks which I made in my note of the 26th December 1915 continue to hold good. It appears, however, that I was wrong in stating that there were no cigarette factories in the Presidency equipped with power-driven machinery as it was found on further inspection that McDowell's factory in Moor street, Madras, had some cutting machines worked by an oil-engine recently set up.

2. The estimate of outturn may very well remain at 250,000 lb. The only details I have been able to get are from the Universal Tobacco Company in Madras which is believed to turn out about 30 lakhs of cigarettes per mensem and from McDowell's factory, also in Madras, which is believed to turn out about 20 lakhs. McDowell's factory does not use Indian tobacco exclusively and some of the brands contain imported tobacco to the extent, it is said, of 25 per cent on the whole. I have tested numerous brands from all parts of the Presidency and find that as a rule they weigh about 2½ lb. per 1,000, a little more or less. This gives the total Madras production about 150,000 lb. per annum. Allowing for the imported tobacco used in McDowell's factory the quantity of Indian cigarettes is about 135,000 lb. The only other factories appear to be Oakes & Co.'s factory at Guindy, a new factory started by Barry & Co. in Cocanada just recently and one or two small factories in Coimbatore. There was a factory at Guntur but it seems to have failed after working a few months. The Collector of Coimbatore has not yet replied to my letter on the subject but I made some inquiries in the course of my last tour and find that there are one and probably two factories in Coimbatore but they use imported tobacco for their cigarettes as does Pappadopoulos in Madras. Allowing for all these factories I should say 115,000 lb. per annum was a very liberal estimate, making 250,000 for the Presidency.

3. Retail prices seem to vary very considerably but on the whole I see no reason to modify my original calculations. The cheapest cigarettes are sold in packets of 5 or

6 and a slightly more expensive lot in packets of 10. The dealers' profit seems to be about eight annas a thousand and the trade discount about 20 per cent. Some cigarettes* are sold as cheaply as Re. 1 per 1,000 wholesale or allowing for the trade discount about thirteen annas per 1,000. This is less than half the price I estimated for the cheapest cigarettes in my last note (Rs. 1–12–0). I doubt if there are many of this brand sold, but there are numerous other brands at Re. 1–4–0, Re. 1–6–0 and Rs. 1–8–0 sold by McDowell & Co. However all other information tends to confirm the view that the cheapest cigarettes are sold at Rs. 2 to Rs. 2–12–0 by the wholesale dealers and consequently must cost somewhere about Rs. 1–12–0 per 1,000 from the manufacturers. These cheap cigarettes are manufactured in this Presidency by McDowell & Co., and the Universal Tobacco Company only. Those turned out by Oakes & Co., and the new factory started by Barry & Co., at Cocanada are much more expensive and work out at Rs. 11 to Rs. 14 per 1,000.

* By the Universal Tobacco Company, 1/6, Patters Road, Royapetta—'Bazaar' brand.

4. The method of manufacture is probably the same everywhere. The tobacco selected has all the main nibs cut out and the leaves are then laid one above the other to a considerable depth. They are then cut into small pieces by a cutting machine, the tabacco rolled in cagarette paper, gummed and cut into lengths. As far as I know the cutting and gumming, etc., machines are all worked by hand except in McDowell's factory above referred to.

5. In this connexion I should, however, bring to notice one or two facts which I have ascertained in the course of my inquiries. It is a common practice I understand for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale especially at the various shandies and markets in the Presidency. This is common in Malabar, Coimbatore and the Nilgiris at all events and probably elsewhere. Most Collectors have, however, reported that cigarette papers are not commonly sold in the bazaars. I believe the practice of individual consumers rolling their own cigarettes is not common at present though it is said to have been customary in Salem before the shop-made cigarettes became so cheap. It would be clearly impossible to levy an excise duty on cigarettes made by hawkers or private individuals and it may be expected that the practice would be much more largely resorted to if a duty were imposed on the manufactured article. This might perhaps be met by imposing a customs duty on cigarette paper which would have to be determined in accordance with the duty imposed on cigarettes, such customs duty to be refunded on paper actually used by the wholesale manufacturers. It seems that cigarette paper was formerly imported mostly from Austria and Germany—at present it is obtained from France.

6. As regards the duty to be imposed I find it difficult to express an opinion. The heavy rates imposed in 1910–11 practically killed the cheap American cigarettes but then the enhancement of rates was probably more than 100 per cent of the value so that this result was quite intelligible. My inquiries show that my estimate of the cost of collection was much too large. One Sub-Inspector would, I think, be required for each factory but as there seem to be only four or possibly five factories the cost would be only about Rs. 2,400 per annum. As observed in my previous note, a duty of one and a half annas per pound represents 15 per cent of the value of the cheap cigarette. This amounts to 3 annas 9 pies per 1,000 and could hardly affect the retail price at all. The usual retail price per packet of 10 cigarettes seems to be about 4 pies. A duty of 8 annas 4 pies per 1,000 should raise the retail price by one pie and this would probably not seriously affect the trade though even one pie is a consideration in a country like India. I do not think we could safely raise the duty beyond Re. 1 per 1,000 which would raise the retail price about 2 pies or 50 per cent. This would be 6·4 annas per pound and roughly about 60 per cent of the value. Although cheap cigarettes do not seem to vary much in weight I would prefer to levy the duty by the pound rather than by the number as being the only fair way of assessing it. A duty of 6½ annas per pound would, if the production remained at 250,000 lb., yield Rs. 1,01,562½ but if the consumption fell, as it probably would, to about 200,000 lb. the tax would yield Rs. 81,250. As far as this Presidency is concerned, the result would, therefore, be insignificant, but, no doubt, the revenue

from the whole of India would be very considerable and I cannot see any serious objection to the proposal except that it would greatly encourage the smoking of bidies and press rather hardly on the poorest class of the population who smoke cheap cigarettes at present and regard them as a great luxury.

Demi-official from F. J. Richards, Esq., I.C.S., to Ley, Esq., I.C.S., dated the 18th December 1916, No. 75-8.

I am directed to reply to Mr. Low's Confidential demi-official letter No. 4493, dated 14th June 1916, on the subject of the expediency of imposing an excise on cigarettes manufactured in India from indigenous tobacco.

2. In the first place, I am to point out that the correspondence of 1910, to which reference is made in the first paragraph of Mr. Low's letter, did not turn on the present question, for at that time there was no manufacture of cigarettes from indigenous tobacco in this Presidency. It is stated that the question of an excise on manufacture was then dropped because the local cigarette industry was in its infancy and it was considered that the imposition of an excise would deal it a death-blow. So far as this Presidency is concerned, the position is virtually unaltered; for, as stated in Mr. Butterworth's demi-official letter No. A.A.-1, dated 11th January 1916, the local output of cigarettes does not exceed some 250,000 lb. annually. This estimate has been confirmed by subsequent enquiries, though the number of factories to be taken into account is found to be smaller than was thought to be the case. There are probably not more than 5 or 6, of which the two largest are those owned by Messrs. McDowell & Co., and the Universal Tobacco Company both in Madras City. The former has recently been equipped with an oil-engine for driving its cutting machines. The average wholesale price for the cheapest class of ciagarettes quoted in Mr. Butterworth's letter, viz. Rs. 1-12-0 per 1,000, may be taken as correct. These cheap cigarettes are manufactured only by Messrs. McDowell & Co. and the Universal Tobacco Company. Those turned out by Messrs. Oakes & Co., at Guindy and by Messrs. Barry & Co., at Cocanada are much more expensive, costing from Rs. 11 to Rs. 14 per 1,000.

3. The maximum rate of duty which is considered compatible with the survival of the industry is Re. 1 per 1,000 or approximately $6\frac{1}{2}$ annas per lb. This duty would if the production remained 250,000 lb. yield a revenue of a little over a lakh. The imposition of such a tax, however, is almost certain to preclude any expansion of the industry and would very probably strangle that which already exists; for it would either drive the masses to revert to *bidi* smoking or compel the manufacturers to transfer their factories to French territory or to Native States. I may here point out that the Director-General of Commercial Intelligence has incorrectly assumed that the tax realisable from the Peninsular Tobacco Company's factory in the Civil and Military Station, Bangalore, would be credited to Imperial revenues. By the terms of rendition, the Mysore Government is entitled to the whole of the surplus revenue of the Assigned Tract, after the cost of the administration of the tract is defrayed. This fact seriously affects the estimate formed of the probable receipts from the tax.

4. Another factor to be taken into consideration is the practice, common in several districts of this Presidency, for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale, especially at local markets. Individual consumers do not usually roll their own cigarettes, though it is said to have been customary for them to do so in Salem before the shop-made cigarettes became so cheap. It would obviously be impossible to levy an excise duty on cigarettes made by hawkers or private individuals; and it may be expected that the practice would be much more largely resorted to, if a duty were imposed on the manufactured article. Cigarette paper was formerly imported from Germany and Austria; now France is the chief source of supply. A customs duty might be imposed on it, such duty to be refunded on paper actually used by the wholesale manufacturers; but this expedient would not be free from difficulties and would almost certainly result in the use of a local substitute.

5. In these circumstances, I am to say that the Government of Madras are entirely opposed to the proposal. They can suggest no alternative scheme for internal taxation of tobacco, apart from those already rejected.

IV

Letter from C. R. Watkins, Esq., C.I.E., Officiating Collector of Customs, Madras, to the Under Secretary to Government, Finance Department, dated 1st May 1925, No. L. Dis. Nil.

I forward herewith a statement showing the foreign imports into, and exports from, the Madras Presidency of tobacco since the year 1920-21.

2. The rates of customs duty at present in force are given below:—

Name of article.	Per	Tariff valuation.	Duty.
Cigars	.....	Ad valorem.	75 per cent.
Cigarettes of value.—Not exceeding Rs. 10-8-0 per thousand.	Thousand ...	.....	Rs. 7.
Exceeding Rs. 10-8-0 per thousand ...	Do.	.....	,, 10-8-0.
Tobacco, unmanufactured	Lb. ...	.....	,, 1.
All other sorts of tobacco manufactured	,,		,, 2-4-0.

Enclosure.

Foreign imports and exports of 'Tobacco' at the Presidency of Madras for the past five years ending 1924-25.

	1920-21.		1921-22.		1922-23.		1923-24.		1924-25.	
	Quantity.	Value.	Quantity	Value.	Quantity.	Value.	Quantity.	Value.	Quantity.	Value.
Foreign imports.	Lb.	Rs.	Lb.	Rs.	Lb.	Rs.	Lb.	Rs.	Lb.	Rs.
Tobacco—Unmanufactured ..	77,607	1,45,703	489,693	13,17,036	742,412	14,07,436	3,105,459	34,57,277	3,485,871	29,29,162
Cigars	12,815	43,430	701	2,922	81	238	94	156	215	473
Cigarettes	500,267	16,39,198	186,750	9,40,779	278,384	12,34,116	296,516	13,54,712	1,86,952	8,34,717
Tobacco for pipes and cigarettes	304	1,296	5,293	54,393	22,524	1,19,720	18,155	97,606	½	3
Other sorts	28,058	1,46,309	9,590	39,508	852	3,891	12,402	40,892	20,564	1,06,279
Total ..	618,951	19,75,936	692,027	23,54,638	1,044,253	27,65,401	3,432,626	49,50,643	3,693,602	38,70,634
Foreign exports.										
Tobacco—Unmanufactured ..	3,118,784	13,57,807	4,650,985	16,84,266	4,258,743	17,68,621	9,953,877	37,65,684	14,366,170	42,49,345
Cigars	75,540	1,04,792	94,905	1,17,671	99,244	1,32,490	1,11,541	1,20,174	88,199	1,25,560
Cigarettes	..	..	129	615	31,230	30,049	1,574	1,492	72,086	81,746
Other sorts	34,166	27,373	48,237	46,322	45,300	44,918	110,903	1,03,645	99,555	49,769
Total ..	3,228,490	14,89,972	4,794,256	18,48,874	4,434,517	19,76,078	10,177,895	39,90,995	14,626,010	45,06,420

V

Statement showing the area under cultivation of tobacco in the Madras Presidency in 1923–24.

	Acs.		Acs.
Ganjam	3,299	Salem	3,737
Vizagapatam	48,285	Coimbatore	25,544
Godavari	11,591	Trichinopoly	4,032
Kistna	13,301	Tanjore	2,223
Guntur	64,481	Madura	7,400
Kurnool	11,542	Ramnad	3,889
Bellary	2,658	Tinnevelly	1,048
Anantapur	4,785	Malabar	17
Cuddapah	1,868	South Kanara	1,623
Nellore	2,625	The Nilgiris	72
Chingleput	62	Total ...	219,841
South Arcot	2,985		
Chittoor	595		
North Arcot	2,179		

CONFIDENTIAL.

TAXATION ON TOBACCO.

I

Notes to G.O. Mis. No. 1993, *dated* 21*st May* 1894.

The question is whether we should take the success of Travancore in levying a revenue from tobacco as a reason for calling the attention of the Government of India to the possibility of levying a revenue for tobacco in our territories. I doubt if we have sufficient ground for doing so and whether such a suggestion would be well received. Travancore is exceptionally situated, so that it has been possible to abolish all growth of tobacco there and levy a revenue by import duties, and the Government of India know all about this. Such a system would be impossible in our territory where tobacco is grown almost everywhere and consumed by almost everybody, and where larger Native States abound. The possibility of levying a revenue on tobacco in our territory, in this or any other way, has been repeatedly discussed and decided against after full communication between all the Governments, so that any suggestion for us on the subject would amount to an insinuation that the discussion had not been complete. The only way in which, as far as I can see, a large revenue could be realized for tobacco would be by establishing monopoly of manufacture and sale. Though this was hardly possible in former days, I believe it would be possible in these days of improved communications and police, but the initial expenditure on warehouses, etc., would be too heavy for a time of financial pressure and the larger preventive establishments which would be necessary and extend through almost every village would result in oppression which would be so widespread and so frequently exercised that it would be eminently dangerous.

G. Garstin—7-3-93.

No doubt a tobacco monopoly *could* be worked but it would be a gigantic undertaking, and so very costly (especially in Bengal, where Government has no rural agency at all) that it would not, in my opinion, bring in a net return worth the imitation, the measure would certainly cause. The simplest way of raising a tax on tobacco would be by a special tax on the land on which it was grown, but that would not apply to Native States and cannot be worked in Bengal. A special establishment which would eat up the most part of the profits, while in all settled non-zamindari districts the terms of the settlements would prevent the imposition of such a tax. Independently of this, the taxation of land according to the crop grown would be a

This note is submitted with reference to the enquiry whether the attention of the Government of India has been called in the Revenue Department to tobacco as a possible source of revenue.

2. The occasion for this enquiry will appear from the notes of His Excellency the Governor and the Hon'ble Sir Henry Stokes to which reference is made in that office-note. It arose in this wise—

In submitting the budget estimate of the Travancore State for the Malabar year 1069 (August 1893–94) Mr. Grigg, the Resident, after observing that the most important increases occurred under certain heads of revenue of which tobacco was one, remarked regarding the increase under this head as follows:—

"That under tobacco is very remarkable. I have never heard a rumour of complaint regarding this tax, and yet it comes to approximately As. 6–6 per head of the population and gives a revenue nearly double that of abkari and opium and is now 55 per cent of that of salt—a necessary of life. Offences against the law relating to its importation are, I believe, not numerous. The lucrativeness of this monopoly may well attract the attention of Indian financiers (paragraph 3 of his letter, dated 3rd August 1893, in Government Order, dated 20th October 1893, No. 712, Political).

On this His Excellency noted—

"We should call the attention of the Government of India to the statistics of the tobacco tax and to the Resident's remarks thereon."

On this note Sir Henry Stokes remarked as follows:—

"The attention of the Government of India has been often enough directed to tobacco as a possible source of revenue. The peculiar position of Travancore makes its experience of little or no value in the consideration of the question.

retrograde measure, injurious to the cultivator and certainly beneficial to no one but the karnam.

A licence fee might be imposed and would yield something. It would be a return to the moturfa abolished years ago, and would come very hard on the very poor classes who sell tobacco. I should be sorry to see it tried. Similar objections can be found to every other plan of levying a tobacco tax in this country. I don't think that the Government of India would care to take the question up. It was examined, on another and later occasion, I think, than any of those mentioned in the note, by Mr. Bazeet Colvin when additional Member of the Viceroy's Council, who wrote a long note on this and other projects of taxation, a copy of which I have somewhere—given me by Sir Auckland Colvin, when Finance Minister, who told me at the time that the idea had been finally abandoned—or to that effect. This was in 1886 when the times were almost as hard as they are now.

H. E. Stokes—7-3-94.

This note is very clear, and gives me a complete answer. It is very evident that we should *not* call the attention of India to Mr. Grigg's remarks on the revenue derived in Travancore from taxing tobacco.

I found myself like many others lured into the belief that a large revenue might be derived from taxing this article, and the same results achieved here as in almost every civilized country in the world. But on inquiry I find that not only has it been thoroughly looked into, but the experiment has been tried and has failed, and there is no doubt the peculiar circumstances of the country have rendered the success of the experiment almost impossible. And as Sir J. Strachey very forcibly puts in the incidence of a tax on tobacco would fall with far greater severity on those who now pay the bulk of the salt tax, and we would thereby be putting a crushing weight on those least able to bear the burden. I confess myself converted and withdraw from any further attempt to bring this question within the domains of practical politics—although I can imagine a municipality looking upon it as a fair object for local taxation but even then extremely difficult to work, as poor Madras can testify.

I suppose though that imported tobacco will pay its 5 per cent like other articles (except cotton goods !).

Wenlock—11-3-20.

Tobacco is not produced in the State : the revenue is derived from import duties, and the configuration of the country lends itself to the easy levy of these duties on the greater portion of the tobacco consumed, which comes from Ceylon. In this Presidency and probably in the rest of India, import duties would not produce any revenue worth having and would be prejudicial to the Cheroot industry (Tobacco imported consists mainly of cheroot covers from Java and Sumatra) : but I have no doubt that a considerable revenue might be got from licensees on the vend by others than the growers."

His Excellency wrote thereupon—

"Has this Government ever called their (India's) attention to it? Anyhow I do not think we could do any harm in pointing out what a large sum a little place like Travancore manages to get from the consumers of tobacco. It does not seem to me material how it is raised, whether by import duties or licences. The very significant fact remains that the consumers of tobacco in Travancore contribute yearly Rs. 10 lakhs to the State."

3. His Excellency's query whether this Government has ever called the attention of the Government of India to tobacco as a possible source of revenue has been referred to this department for information, in the office-note from the Chief Secretary.

4. It will be seen from the references put up—

(1) That this question has frequently been considered by the Government of India and has also formed the subject of correspondence between that Government and this and other Local Governments ;

(2) That the conclusion come to by the Government of India is that the idea of raising a large imperial revenue from tobacco must be abandoned ;

(3) That our Government has also expressed the opinion that no large provincial revenue can be obtained from tobacco ; and

(4) That the Government of India is not unaware of the fact that Travancore manages to derive a large revenue from this source.

5. A summary of the correspondence on the subject is subjoined as also a short account of the tobacco monopoly in the districts of Coimbatore, Malabar and Canara which was abolished in the year 1853.

6. The Blue-Book entitled "Papers regarding the Tobacco Monopoly in the Presidency of Fort St. George etc.", gives the main correspondence up to 1868. It will be seen from pages 25–74 of the book, that for 50 years from 1803 to 1853, tobacco was the subject of a Government monopoly in the districts of Canara, Malabar and Coimbatore (vide Regulations 7 and 8 of 1811 and Regulation 5 of 1831 at pages 1, 4 and 8 of the Blue-Book), that the gross annual revenue derived during the 10 years—1833–1843 was about Rs. 8 lakhs and the net revenue about Rs. 5¾ lakhs ; that the evils arising from this monopoly were so great that the attention of Government was frequently invited thereto by the officers concerned ; that in 1845, the Government after recording a succinct review of the correspondence on the subject (vide No. 2 at page 26) called for a report from the Board of Revenue "on the practicability of a modification of the monopoly which, whilst we shall secure a considerable revenue, shall yet divest the tax of some of its most injurious attributes, its heavy charge of collection and the inducement it held out to smuggling"). The Government added that if a beneficial modification was impracticable, the possibility of finding an available substitute should be investigated.

It cost 2¼ lakhs to collect 8 lakhs !

J.G.

In reply the Board furnished an exhaustive report on the subject and said—

"It is with much reluctance that they are induced to advise the surrender without an equivalent of so considerable a source of revenue as the (tobacco) monopoly and they must be understood as doing so only, because, after much anxious reflection on the subject, they have been led to the conclusion that between such surrender and the retention of the present system with all its evils, there is no practicable middle course.

After a careful consideration of the subject the Government declared—

"The crying evils of the tobacco monopoly continue daily to become more notorious and demand an immediate remedy. The Right Hon'ble the Governor in Council entertains the most decided conviction that, as the Board of Revenue has represented, there is no effectual remedy short of total abolition and the expunging of so objectionable a branch of revenue from the system of Indian Finance."

In accordance with this view application was made to the Court of Directors for sanction to abolish the tobacco monopoly and on such sanction being obtained, Act IV of 1853 was passed abolishing the monopoly—

Some of the evils of this system arose from its being confined to a limited area but the worst-springing from the fact that tobacco is produced almost every where and freely consumed by all classes so that any raising of the price gives rise to the worst sort of smuggling and is fatal to the peace of the country—will affect any system.

J.G.

7. The subject of a tobacco-tax was considered by the Government of India during the years 1859–68. A summary of the correspondence which then took place on the subject and of the views held thereon will be found in Sir John Strachy's minute dated 21st October 1865 printed as No. 97 at page 152 of the Blue-Book and in the Government of India's letter to the Secretary of State printed as No. 98 at page 155.

All methods of taxing tobacco were considered then.

J.G.

It will be seen therefrom that, when after the events of the year 1857, the state of the finances rendered it necessary to resort to new sources of revenue, a tax on tobacco was among other things very much discussed.

Four methods of deriving a revenue from this source had been suggested :—

(1) The suppression of the cultivation of the plant throughout India and the imposition of an import duty.

(2) The establishment of a monopoly of the cultivation and manufacture of tobacco similar to that now applied to opium.

(3) The imposition of a licence duty on the cultivation of the plant.

(4) The imposition of licence fees on all wholesale and retail dealers in the manufactured article.

Of these, the first and second methods were soon dismissed as impracticable.

The third plan was at first favoured by the Government of India but most Local Governments disapproved it. The main objections urged were: that to impose a special tax on the cultivation of tobacco would be a violation of the principles on which land assessments were usually made; that it would also be economically a mistake; that the suppression of its cultivation except under a licence would be difficult to enforce; that as the enforcement cannot be extended to Native States (even if it could be extended to zamindari and inam estates) the measure would have the effect of contracting the area of its cultivation in British territory and greatly stimulating its growth in Native States and it would be extremely difficult to prevent the smuggling of free tobacco from such States. The views of this Government are contained in Mr. Bourdillon's letter to the Government of India, dated 11th June 1859, printed as No. 90 at pages 120–128. In the first enclosure to this letter the inexpediency of taxing tobacco in any form is fully set forth by the Board of Revenue.

The Government of India thereupon turned to the fourth plan of licensing the *sale* of tobacco and accordingly inserted a provision to this effect in the Licensing Bill then under its consideration. (The Bill, which was finally passed as India Act 18 of 1861 and repealed by India Act 2 of 1862). But the reports received from Local Governments on the point were not encouraging. They all went to show that no system of licensing would bring in any large revenue.

The Government of India resolved therefore to abandon altogether the idea of raising a revenue from tobacco by Imperial Legislation and the clause in the Licensing Bill which related to tobacco was accordingly expunged.

8. But while arriving at this opinion as to the unsuitability of tobacco for Imperial taxation the Government of India also thought, judging from the reports received from Local Governments, that a considerable revenue might be derived by Local Governments if they were left each to carry out the system best suited to the circumstances of its province. Accordingly, and as it was thought that Imperial revenues might be relieved to a considerable extent by establishing a system of local taxation for local purposes, the Government of India addressed Local Governments on the subject of such taxation and named tobacco as one of the sources from which a revenue might be derived.

The reply of this Government to the above letter is printed at pages 157—162 of the Blue-Book. This Government merely reiterated the opinion it had expressed in its letter of 11th June 1859 (No. 90 at page 120) that there were insurmountable objections to the realization of a revenue from tobacco unless in the shape of a tax on the shops where tobacco was sold, i.e., a licence tax; and that the produce of such a tax would not be considerable.

9. The Government of India appears to have considered this question of a tobacco tax on subsequent occasions also and to have arrived at substantially the same opinion as before, as will appear from the letter to the Secretary of State printed as No. 98 at page 155.

10. In 1870 when the question of raising the rate of income-tax was under the consideration of the Government of India, a proposal was made by one of the members (Mr. Cowie) to tax tobacco. Sir John Strachy and Sir Richard Temple both spoke against the measure and His Excellency Lord Mayo said:—

"Now it is quite true that in many civilized countries tobacco is considered to be a very proper object for taxation but I must remind the Council that tobacco in India is really an absolute necessary of life and that if you put a tax upon the production of tobacco, you tax the two great necessaries of life in this country, viz., salt and tobacco, and I am not prepared even in the present state of our finances to advocate the imposition of a burden upon such a prime necessary of life as that is.

11. The question appears to have been discussed also during Lord Lytton's Viceroyalty and the same conclusion arrived at, namely, that no large revenue could be raised by taxing tobacco (vide pages 368-70 of Strachy's book on "The Finances and

Public Works of India" and page 554 of the volume of Legislative Council's Proceedings for 1877). The following extract from Strachey's book may be noted:

"Tobacco is almost universally consumed and is looked upon as almost a necessary of life. Whatever means were adopted the tax would only be largely productive if it fell ultimately on the classes which form the great mass of the community. It would be paid by the same classes which now pay the salt tax, and if it should become necessary to increase the burden which they already bear this object would be more easily and economically gained and with far less vexation to the people by increasing the existing tax upon salt than by imposing a new tax upon tobacco. That any increase in the rate of the salt-tax would be one of the greatest possible mistakes, unless in most exceptional circumstances and on the other hand that its present reduction * would be financially a most desirable measure, has been shown in another chapter (page 370).

* The duty was reduced from Rs. 2-8-0 to Rs. 2 in 1882. It was raised as follows in this Presidency:—

	Duty. RS.	A.	P.
August 1859	1	0	0
April 1861	1	4	0
1861–62 to 1865–66	1	5	0
1866–67 to 1868–69	1	8	0
1869–70 to 1877–78	1	12	0
1878–79 to 1881–82	2	8	0
1882–83 to 1886–87	2	0	0
1886–87	2	8	0

12. That the Government of India knows that Travancore derives a large revenue from tobacco, may be inferred from the correspondence which took place in 1860–65 relative to the Interportal Trade convention with Travancore and Cochin and more especially from the correspondence embodied in Government Order dated 14th May 1868, No. 1338.

It will be seen from the latter correspondence that at the desire of the Viceroy (Sir John Lawrence) whose attention seems to have been drawn to certain remarks which appeared in the Travancore Administration Report for 1865–66, regarding the tobacco tax in that State the Hon'ble Mr. G. N. Taylor addressed the then Resident in Travancore and Cochin (Mr. Newill) for full particulars regarding the mode in which the tax was levied in that State and that complete information on the subject was furnished by the Resident and the then Diwan T. Madhava Rao.

This correspondence came before this Government, mainly on account of a minute recorded by the Hon'ble Mr. G. N. Taylor, in which he suggested that this Government might consider the expediency of imposing a moderate import duty or an excise wherever practicable—vide his minute printed in the Government Order.

The Diwan's Memorandum shows that during the flourishing period of the monopoly system (it was abolished in 1862–63, that is, ten years after the abolition of the Government monopoly in Malabar and Canara) the gross revenue from tobacco amounted to more than half the revenue from all other sources or more than one-third of the total revenue of the State while the revenue now amounts to about one-eighth of the total revenue.

13. From the administration report of the Travancore State for the year 1891–92, it appears that 12,295 † candies of tobacco valued at Rs. 26,77,723 were imported during that year and that a duty of Rs. 9,43,030 was collected thereon.

† Equal to 6,147,500 lb. or 8,065,520 lb. according as a 'candy' is 500 lb. or 656 lb. (which latter is the equivalent given in Madhava Rao's Memorandum—vide paragraph 10.

14. The following statement gives the statistics of the imports of tobacco into this Presidency by sea for the last three years:—

Tobacco—Imports—Sea-Borne ‡ Trade.

Years.	Foreign trade.		Coasting trade.		Total.	
——	Quantity in lb.	Value.	Quantity in lb.	Value.	Quantity in lb.	Value.
		RS.		RS.		RS.
1890–91	446,477	2,06,021	218,915	33,563	665,392	2,39,584
1891–92	542,705	2,91,725	110,937	17,121	653,642	3,08,846
1892–93	915,719	3,37,980	135,775	27,107	1,051,494	3,65,087

‡ The rail-borne imports amount only to about 2,000 lb.

At the Travancore rate of duty the imports into this Presidency will bring in a gross revenue of a little over one lakh of rupees.

R.V.S.—1-3-94.

The foregoing account gives a clear and concise summary of all that has been written on this subject and shows that the feasibility of raising a revenue from tobacco has been most exhaustively debated and that the question has been considered in all its bearings. The situation is appropriately summed up by Sir John Strachey in paragraph 8 of his minute of the 21st October 1865 (page 154 of the Blue Book)—

"Tobacco has seemed at first sight a very promising subject of taxation to almost everyone who has thought upon the subject, but almost everyone had given up the scheme upon full consideration of the difficulties which surround it."

J.G.—3-3-94.

II

Mr. N. S. Brodie's Note dated 26th December 1915 (Secret D.O. No. A A-1, dated 11th January 1916).

Prior to 1910–11, *ad valorem* rates used to be charged on imported manufactured tobacco of all sorts at the rate of 5 per cent but this system was then abandoned and special quantitative rates introduced, presumably because of the difficulty of levying *ad valorem* rates. The rates introduced were about 33 per cent higher than those now in force which are—

	Rs.	A.	P.	
Unmanufactured tobacco	1	0	0	per lb.
Cigars	1	10	0	„
Cigarettes weighing less than 3 lb. per thousand.	3	2	0	per thousand.
Cigarettes weighing 3 lb. or more per thousand.	1	4	0	per lb.
Manufactured, other sorts	1	2	0	„

These rates are said to be approximately 36 per cent *ad valorem* on cigars and 33 per cent *ad valorem* on cigarettes though how this is arrived at I don't know, considering how much imported cigars and cigarettes vary in weight and value. The Government of India's first proposal is to raise these rates 'in approximately the same proportion, i.e., to a uniform 50 per cent *ad valorem*.' I presume this means that the duty on cigars is to be raised by about one-third and that on cigarettes by about half. Nothing is said about 'other sorts' which I suppose means principally pipe tobacco. Judging from Spencer's and Oakes' price lists the present rate seems to be from 28 to 41 per cent on the cheapest pipe tobacco and presumably this is also to be raised by about one-third. The rates will then read—

	Rs.	A.	P.	
Cigars	2	3	0	per lb.
Cigarettes	4	11	0	per thousand and
	1	14	0	per lb.
Other sorts	1	8	0	per lb.

I presume the Government of India does not intend to go back to *ad valorem* rates.

2. The rates introduced in 1910–11 had the immediate effect of 'extensively curtailing the imports of foreign tobacco and they scarcely realized the revenue it was hoped they would bring in.' The total imports declined by 83 per cent in quantity and 52 per cent in value. Imports of leaf tobacco, *formerly duty free*, fell from 447,115 lb. to 63,267 lb. or by 86 per cent in quantity. Imports from Ceylon and the Straits Settlements practically ceased. [There used to be quite a large trade from the Jaffna and the northern Ceylon ports which supplied a great part of the tobacco used on the west coast of this Presidency.] Imports of cigarettes decreased 77 per cent in quantity and 48 per cent in value. The cheap American varieties were practically shut out, falling 94 per cent in value and the result was the foundation and development of the Indian cigarette industry which has probably taken their place. Exports of cigars to the United Kingdom fell by 72 per cent owing to the imposition of duty on wrapper tobacco. To avoid this, Messrs. Spencer & Co. removed their factory to Pondicherry.

Effects of taxation introduced in 1910–11. Sea-Borne Trade Review of 1910–11, page 9.

3. In 1911–12, owing to the outcry from Ceylon and the leading local manufacturers of better class cigars, the rates were reduced by about 33 per cent to the present figures. Even this, however, failed to revive the import trade from Ceylon and the Straits Settlements which was completely and finally killed. Imports of leaf tobacco rose by 19,160 lb. but this was only a mere fraction of the fall of 383,848 lb. in 1910–11. The increase was confined to the higher grades required in the manufacture of cigars of good quality. Imports of cigarettes showed a further decline in quantity but an increase in value, the trade in cheap American cigarettes being completely extinguished. Exports of cigars to the United Kingdom declined another

Sea-Borne Trade Review of 1911–12.

7 per cent in value but exports to the Straits Settlements increased by 23 per cent and the whole export of cigars increased by 13 per cent in quantity and 9 per cent in value. The cigars exported to the Straits Ssttlements and Federated Malay States appear to be made of purely Indian tobacco which pays no duty.

Sea-Borne Trade Review of 1912–13.

4. In 1912–13, there was a further decrease in imports of cigarettes by 15 per cent and a large factory was opened at Bangalore by the Peninsular Tobacco Company. Manufacture of cigars for export to the United Kingdom was permitted in bond and Messrs. Spencer & Co. returned from Pondicherry. The exports of these cigars rose by 46 per cent but of course the revenue did not profit by this.

Sea-Borne Trade Review of 1913–14.

There was a general increase both in imports and exports of tobacco in 1913–14 and some recovery in imports of cigarettes to a little above the figures of 1910–11. The export of high grade cigars to the United Kingdom rose to ·88 lakh against ·57 lakh in 1910–11.

Effects of the war—Sea-Borne Trade Review, 1914–15.

However, the effect of the war was to send most of the principal figures lower than ever. Imports of raw tobacco fell to 70,573 lb. in 1914–15 and exports of high grade cigars to the United Kingdom fell to 33,434 lb. and to ·45 lakh in value (nearly 50 per cent), the lowest figure on record.

5. The figures since the introduction of the new tariff are tabulated below :—

Annual value of the sea-borne trade and navigation of the Madras Presidency for 1914–15.

Foreign trade.

——	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.						
1. Unmanufactured (total for Presidency).	LB. 447,115	LB. 63,267	LB. 82,427	LB. 90,458	LB. 110,458	LB. 70,573
2. Manufactured—						
(*a*) Cigars	11,099	1,049	937	830	1,107	3,368
(*b*) Cigarettes	319,275	72,139	65,410	55,217	78,616	78,429
(*c*) Other sorts	94,940	12,473	26,397	23,370	24,723	28,090
Exports.						
1. Unmanufactured (unaffected by tariff).	1,444,632	1,670,842	1,619,966	1,806,998	2,234,511	2,362,766
Of the above exported to Straits Settlements and Federated Malay States.	1,374,612	1,621,543	1,568,878	1,773,160	2,115,056	2,304,144
2. Manufactured—						
(*a*) Cigars	697,507	704,791	797,383	989,811	988,668	887,165
Of the above quantity exported to United Kingdom.	80,360	42,565	36,184	51,156	56,976	33,434
Straits Settlements and Federated Malay States (unaffected by tariff).	415,357	547,613	661,294	827,278	811,219	800,488
(*b*) Other sorts	4,196	4,515	9,010	8,513	9,363	8,885

Coasting trade.

——	1909–10.	1910–11.	1911–12.	1912–13.	1913–14.	1914–15.
Imports.						
1. Unmanufactured	LB. 610,603	LB. 683,787	LB. 664,054	LB. 578,058	LB. 604,165	LB. 596,038
2. Manufactured	142,514	84,439	59,021	94,319	57,595	71,301
Of the above imported from Calcutta.	118,687	73,703	52,511	85,214	46,637	53,301
Exports.						
1. Unmanufactured	7,721,625	7,535,386	6,870,154	6,536,820	6,928,569	5,168,826
Of the above exported to Burma ..	6,926,830	6,474,041	6,149,974	6,133,770	6,521,676	4,579,130
2. Manufactured—						
(*a*) Cigars	347,507	314,933	410,526	419,710	349,618	275,018
Of the above exported to Burma ..	194,493	204,649	292,004	320,781	251,706	177,844
Of the above exported to Bengal ..	101,866	73,206	76,815	61,785	63,117	65,373
(*b*) Cigarettes	..	..	2,877	4,200	26,471	61,599
(*c*) Other sorts	35,726	43,920	37,620	39,906	33,407	77,190

6. The net result of the introduction of the heavier tobacco duties in 1910–11 has, therefore, been to kill the import trade in raw tobacco from Ceylon and the Straits Settlements and in cigarettes from America and to lay the foundations of a cigarette manufacturing industry in India from Indian leaf. The trade in high grade cigars exported to the United Kingdom has suffered very heavily, despite permission to manufacture export in bond. The fall between 1909–10 and 1913–14 (when this industry reached its highest point after the imposition of duties and before the outbreak of war) was about 29 per cent. This shows what an effect even a slight rise in the cost of such a thing as tobacco has on consumption as it was undoubtedly the increased cost (and that only of the wrapper) in 1910–11 that gave the trade this set back. The wrapper is only a minute fraction of the weight of the cigar and if the duty on whole cigars is only equal to an *ad valorem* rate of 36 per cent the duty on a cigar whose wrapper alone pays duty must be nearer 1 or 2 per cent. Since the concession of manufacture in bond has been granted these cigars pay no duty and it is presumed that this concession will be continued so that any enhancement of rates will not affect them.

7. *Rail-borne trade*, 1914–15.—

Imports from other Presidencies and Native States.

	LB.
1. Unmanufactured	2,051,959
Of which imported from Mysore	1,344,550
2. Manufactured—	
(*a*) Cigars	13,330
(*b*) Other sorts—probably cigarettes	1,497,517
Of which imported from Mysore	1,294,272

Exports to other Presidencies and Native States.

1. Unmanufactured	24,729,076
Of which exported to—	
Mysore	8,181,339
Calcutta	5,282,496
Nzam's Territory	4,242,157
2. Manufactured—	
(*a*) Cigars	503,013
(*b*) Other sorts	392,750

Internal trade between various parts of the Presidency.

1. Unmanufactured	53,774,208
2. Manufactured—	
(*a*) Cigars	1,061,815
(*b*) Other sorts—probably cigarettes, bidies and snuff ...	1,074,651

Cigars.

8. From these figures it appears that by far the greatest part of the Delta tobacco is exported in the manufactured condition and made up locally. The trade in manufactured tobacco is comparatively small, which agrees with my information that there are no manufactories of any size. A fairly large quantity of manufactured cigars is exported by rail from the Central districts (i.e., Trichinopoly, Salem and Coimbatore) to Negapatam but this no doubt is included also in the exports by sea to the Straits Settlements.

9. In the Secretariat note of 1911 the total outturn of cigars was estimated by Mr. Innes at about 2,500,000 lb; i.e.:—

	1909–10.
	LB.
Foreign exports	697,507
Coasting trade exports	347,507
Rail-borne exports	451,164
Do. internal trade	971,208
Total ...	2,467,386

The corresponding figures for 1914–15 are—

	LB.
Foreign exports ...	887,165
Coasting trade exports ...	275,018
Rail-borne exports ...	503,013
Do. internal trade ...	1,061,815
Total ...	2,727,001

Allowing for the disturbance of trade caused by the war, the export trade and rail-borne traffic in cigars may, therefore, be taken at about 2,750,000 lb. but this is probably an excess estimate of the quantity actually manufactured since the rail-borne traffic probably includes the greater part of the foreign exports and possibly a good deal of the coasting trade exports also.

Cigarettes.

10. The Indian cigarette industry has practically grown up since the Secretariat notes of 1911 were written. Foreign imports of the better class cigarettes have remained nearly stationary since 1911–11 at about 70,000 lb. Comparing the figures of 1909–10 with those of 1910–12 when the full effect of the tariff duties had had time to operate, 253,865 lb. of cheap American cigarettes appear to have been displaced. These have no doubt been replaced by Indian cigarettes and there has probably been a large increase in consumption in addition.

The export trade in cigarettes in 1914–15 appears to have been somewhat as follows:—

	LB.
Foreign exports ...	8,885*
Coasting trade exports ...	61,599
Rail-borne exports ...	392,750*
Do. internal trade ...	1,074,651*
Total ...	1,537,885

In the absence of figures for bidies, snuff, etc., it is not easy, however, to say how much of these 15 lakhs of pounds represent cigarettes and still less how much represents cigarettes manufactured in the Presidency. My inquiries in Vizagapatam show that none of the cigarettes there consumed (and the consumption is very large) are manufactured in this Presidency. The great bulk come from Calcutta and a good many from the Peninsular Tobacco Company, Bangalore. Similarly in Madras, the bulk of the cigarettes come from Bangalore or Bowringpet, both in Mysore territory and not subject to British excise. It will be seen from paragraph 7 above that 1,294,272 lb. of 'other sorts' including (no doubt mostly) cigarettes are imported from Mysore. Probably the greater number of these are shown in 'rail-borne internal trade' and exports of the Presidency over again. I should put the actual number manufactured in the Presidency at not more than 250,000 lb.

11. The following are principal Indian Cigaratte factories shown in the Lawrence Asylum Press Almanack, page 1438:—

(1) A.G.M. & Sons, Coimbatore.

(2) K.G.A., Coimbatore.

(3) McDowell & Co., Madras.

I have never seen any cigarettes from the first two factories and they seem to be very small and merely supply the local market. McDowell & Co. employ about 25 persons and some small hand machines. Pappadapoulos Brothers make Egyptian cigarettes but import Egyptian tobacco which already pays duty. Besides these there are the two large factories in Mysore—

4. The Peninsular Tobacco Company, Cleveland town, Bangalore, and

5. The Oriental Tobacco Manufacturing Company, Bowringpet.

*Includes, however, pipe tobacco, bidies, snuff, etc.

Both these are run on American lines and employ a large number of workmen and power-driven machinery, but as already remarked they are not subject to British excise.

Outturn of tobacco.

12. According to the 'Season and crop report' for 1914–15 the total area cultivated with tobacco in the Presidency was 227,182 acres, the 'normal' area being 203,230 acres. I learn from Chadwick that 800 lb. of dried leaf per acre is a fair average crop as taken by Castlestuart Stuart in 1910. The total outturn was therefore about 182,000,000 lb. of which we have only accounted for about 3½ millions at most in the manufactured form. This outturn was spread over 24 districts, the area being over 10,000 acres in seven, Vizagapatam (29,115), Godavari (13,099), Guntur (78,560), Kistna (13,022), Kurnool (18,769), Coimbatore (26,001) and Madura (11,172). These figures show little change since 1908–09.

About 90,000,000 are exported in unmanufactured form.

Tobacco industry.

13. The census report for 1911 groups manufacturers of tobacco, opium and ganja together under Order 12, Group 66. The number of manufacturers of opium and ganja must be almost negligible and the total number of workers and dependents is shown to be 12,333. Under Order 33, Group 122, sellers of tobacco, opium, ganja, etc., are said to be 65,733 (workers 25,883, dependents 39,850). The total number of persons dependent on the tobacco trade is therefore about 78,066 against 75,000 in 1901. It is not possible to compare the figures of the other industries referred to in Mr. Castlestuart Stuart's demi-official of 5th November 1910 as the classification has been altered. Betel leaf and arecanut sellers are now grouped with vegetable and fruit sellers. It may be noted however that the number of persons engaged in the manufacture of tobacco is about as many as bakers and biscuit makers (12,970) whilst the number of sellers of tobacco is not much less than the number of sellers of milk, ghee, butter, poultry, eggs, etc. (80,981).

Present proposals criticised.

14. These figures show that there has been comparatively little change in the general position since 1910–11 and the arguments against any form of taxation of Indian grown tobacco remain as strong as they were then. The present proposals of the Government of India may now be examined in detail. The first is, as far as I understand it, to raise the quantitative rates of duty on imported cigars and cigarettes

(*a*) First proposal.

(and perhaps also on other manufactured tobacco) to the figures shown in paragraph 1 above. The quantity of imported cigars is now very small and was only 3,368 lb. in 1914–15. Assuming that the enhanced duty has no effect on consumption, the increase of revenue from this source will be only Rs. 1,824*. But judging from the effect of the enhancement of duty in 1910–11 it will probably be much less. The duty on imported cigarettes (78,429 lb. in 1914–15) was about Rs. 80,000 and the enhancement of the duty by one-half may give Rs. 40,000, though here also a heavy fall in consumption may be confidently looked for. The increase of duty on 'other sorts', i.e., probably pipe tobacco, snuff, etc. (which may be contemplated) by one-third would yield perhaps Rs. 10,742. Altogether, the maximum increase of revenue that may be looked for from this proposal cannot, therefore, be more than Rs. 60,000 and the burden will fall heavily on the poorly paid European and Eurasian assistants in shops, business firms, Railway Companies, etc., who are by far the largest consumers of imported cigarettes. However this increased revenue can no doubt be obtained without administrative difficulty or expense.

*Present duty Rs. 5,473 one-third enhancement Rs. 1,824.

(*b*) Second proposal.

15. The second proposal is to levy an excise duty on cigarettes of Indian manufacture. The large factory referred to by the Government of India is probably that in Bengal, I think at Monghyr. It is proposed to differentiate bidies from cigarettes by the use of cigarette paper. This may be accepted. It is proposed that

the taxation should take the form of a quantitative duty equivalent to an *ad valorem* duty of about 15 per cent. A further point is whether the taxation should be restricted to factories equipped with power-driven machinery. If this qualification is accepted the question is a simple one for there are no such cigarette factories in this Presidency. Assuming, however, that all cigarette factories are to be taxed my inquiries show that cigarettes of Indian manufacture vary considerably in price. The cheapest are sold retail at prices varying from Rs. 1–4–6 per 500 or Rs. 2–6–0 per 1,000 to Rs. 2–12–0 per 500 or Rs. 5–2–0 per 1,000. These cigarettes both weigh almost exactly $2\frac{1}{2}$ lb. per 1,000, the cheaper ones a little more. The manufacturer's price to the trade is no doubt considerably less as these cigarettes have to be imported to Vizagapatam and there is the retailer's profit to be considered. The excise duty will of course have to be fixed with regard to the wholesale price at the factory. I should say Rs. 1–12–0 per 1,000 is probably an outside price for the cheapest cigarettes. This means $28/2\frac{1}{2}=11\frac{1}{5}$, say 11 annas a lb. or as they weigh rather more than $2\frac{1}{2}$ lb. per 1,000, say 10 annas a lb. 15 per cent on 10 annas is one and a half annas per lb. I have estimated the total production of cigarettes in this Presidency at not more than 250,000 lb. and the duty on this would be Rs. 23,437. It is impossible to say without a full inquiry what the number of cigarette factories is but they are certainly very small and probably average not more than 10,000 lb. of cigarettes each per annum. Putting the number at 25 scattered all over the Presidency, not less than 25 Sub-Inspectors on Rs. 40 per mensem would be required to supervise them. The cost of these would be Rs. 12,000 not allowing for contingent expenses such as weighing machines, etc. The net proceeds of the tax would therefore be somewhere about Rs. 10,000, even supposing that the duty had no effect on consumption which is extremely improbable. Moreover as Indian cigarettes vary considerably in price though not so much as cheroots, the duty would press most unfairly on the cheapest brands and on the poorest class of the population which consumes them.

Watch cigarettes—Peninsular Tobacco Company, Bangalore, Rs. 1-4-6.
Ruler cigarettes—Imperial Tobacco Company, Calcutta, Rs. 2–12–0 per 500.

16. The third proposal is to levy a similar quantitative excise duty equivalent to an *ad valorem* tax of 15 per cent on cigars of Indian manufacture. As already pointed out in 1911 this problem absolutely bristles with administrative difficulties. In the first place it is not clear whether bidies are to be included. It is possible to distinguish bidies from cigarettes but the difference between them and the poorest kind of cheroots is almost infinitesimal. Both are rolled in leaves, sometimes tobacco leaves sometimes not. The manufacture of bidies is admittedly a cottage industry carried on in every village and hamlet. However according to the Asylum Press Almanack one tobacco factory at least professes to make bidies. The vast bulk of the Indian cheroots are also made as a cottage industry as is evident from the fact that out of 182 millions of pounds of tobacco grown only about $3\frac{1}{2}$ millions ($4\frac{1}{2}$ at the outside) appear in the trade returns as manufactured. Possibly bidies could be excluded by excepting cheroots, etc., weighing less than as many pounds to the 1,000. My experiments show that the commonest bidies weigh about $1\frac{1}{4}$ lb. per 1,000, so that if manufactured cheroots weighing less than $1\frac{1}{2}$ lb. per 1,000 were excluded this might meet the case. However this would undoubtedly stimulate the consumption of bidies which I understand to be the most deleterious form of smoking. Bidies are sold at 12 annas a 1,000 wholesale in Madras, that is at about $9\frac{3}{5}$ annas per lb. The manufacturer's price may be less so that probably 9 annas per lb. would be a safe figure and the duty, if any, ought to be much the same as for cigarettes or a little less, say 1 anna 4 pies per lb.

(c) Third proposal.

Bidies.

17. Ordinary cheroots of the commonest kind seem to weigh about $3\frac{3}{4}$ lb. per 1,000 and cost Rs. 1–12–0 per 1,000 retail but both weight and price vary enormously. Better class cheroots which, however, are still largely consumed by the poorer classes weigh 20 lb. per 1,000 and cost Rupees 12–8–0. Assuming that the rates to the trade are somewhat less we may estimate the first kind at 6 annas a lb. and the second at 10 annas a lb. The duty ought to be fixed at 15 per cent on the cheapest

Cigars.

kind at 6 annas a lb. The duty would then be 11 pies but for convenience of reckoning might be fixed at one anna.

It is quite impossible to estimate with any accuracy the output of Indian manufactured cigars. The figures in paragraph 9 no doubt afford some guide. I should imagine 2,000,000 lb. to be a fair estimate. The duty on this at 1 anna per lb. would be Rs. 1,25,000. Against this has to be set the cost of establishment which would be enormous. It is not possible at present to form any idea of what this would be. Presumably the only way to ensure the collection of the duty would be to place each factory in charge of an officer who would have to weigh the quantity of raw tobacco received and the quantity finally passed out on payment of duty, seeing that none illicitly passed out and keeping accounts on the same lines as officers in charge of distilleries. The test of a factory would be I suppose that the proprietor sold the manufactured produce, for practically every householder buys a few leaves of tobacco now and again and rolls them up into cheroots for private consumption. Even excluding these individuals, there appear to be about 26,000 persons describing themselves as tobacco sellers in the census returns, excluding 2,000 partially agriculturist. This agrees with what I expected, being an average of about one for every village in the Presidency. In some places there are no doubt several and in others none, but it would be quite impossible to do much in the way of concentration without causing much hardship. The formation of central storehouses appears, therefore, to be impossible and practically every shop will have to have a properly locked storehouse for the cheroots manufactured which adds to the expense. The ordinary staff of the Salt and Abkari Department could not possibly undertake this enormous addition to its work. Assuming that one Sub-Inspector could efficiently supervise on the average 25 factories (which I take to be impossible with the shops scattered as at present) it would require a staff of 1,000 Sub-Inspectors to supervise the work in the Presidency. The opportunities for fraud would be so great that I fear even then the force would be demoralized. Certainly a great many of the Sub-Inspectors would have to be paid more than the lowest grade of Rs. 40 a month. Assuming that the average pay is Rs. 60, this establishment alone would cost Rs. 60,000 per month or Rs. 7,20,000 per annum or about six times the estimated proceeds of the tax. It seems hardly worth while to discuss the matter further. A complete staff of peons, inspectors, Assistant Commissioners and Deputy Commissioners would also be necessary to supervise such an establishment and it would be quite impossible for me to undertake so large an addition to my work. After all there would be no possibility of guarding against fraud as there would be nothing to distinguish between illicit and licit tobacco. As far as I can see no tax less than Re. 1 per lb. would do more than pay for the cost of collection and this of course would be ruinous having regard to the cost of the article.

18. In conclusion I can see nothing in favour of the tax or any possibility of working it. A tax on Indian cheroots made in power-driven factories might be possible. There are only two, viz.: Spencer's at Dindigul and Oakes & Co. at Guindy—employing 700 persons between them. But it seems very hard to discriminate against them, even if the tax was only one anna a lb. and anything more would probably drive them out of the Indian market altogether. I cannot say what the output of these two factories is, but excluding the amount manufactured in bond for Europe I doubt if it exceeds 500,000 lb. and the duty at one anna per lb. would yield only Rs. 31,250.

19. Another possible course would be to put an export duty on manufactured tobacco. In that case I should exclude cigars exported to the United Kingdom which have to pay heavy and enhanced duties there and have already sufferred by the tariff. There are not the same administrative objections to an export duty, at all events on exports by sea, as the establishment exists and evasion would be practically impossible. Exports by sea to foreign countries, excluding the United Kingdom, amounted to 853,731 lb. in 1914–15 and exports to other provinces to 275,018 lb. Total 1,128,749 lb. A duty of one anna per lb. might bring in Rs. 62,500 without any extra cost and as the exported cigars at all events to the Straits Settlements are of fairly good quality a duty of even 2 annas a lb. might not ruin the trade and bring in about one and quarter lakhs. Still the amount is so small that I see no use in upsetting the trade at all for so very little result.

J. S. Brodie—26–12–15.

III

Demi-official from L. Davidson, Esq., I.C.S., to N. S. Brodie, Esq., I.C.S., dated 4th July 1916, No. 39-S. (Secret No. 183 A, dated 18th December 1916.)

I am desired to refer to your note of the 26th December 1915, on the subject of imposing an excise on locally manufactured cigars and cigarettes. The Government of India are disposed to agree that the taxation of locally-made cigars is not likely to prove of practical value. As regards cigarettes, however, they are unable to abandon the possibility of revenue from an article which is not only a luxury but also, to some extent, a harmful luxury; and they have asked this Government to consider the question at greater leisure.

2. Your note, referred to above, gives an approximate estimate of the total outturn of cigarettes in the Presidency, the number of factories and the prevailing wholesale prices. I am to ask whether you cannot now quietly obtain more precise information as to the number and location of factories, the met hods of manufacture, the outturn and the prices obtained. Collectors could possibly procure the information under the guise of income-tax or statistical inquiries without exciting attention.

3. The calculations in your note are based on the assumption that the excise to be imposed would be equivalent to an *ad valorem* tax of about 15 per cent, as was then suggested by the Government of India. I am to ask you now further to consider the effect of taxation on the industry and to favour Government with your opinion as to the maximum which could safely be imposed without seriously crippling the trade.

4. The Government of India lay stress on the strictly confidential nature of this further reference, but say 'there is no objection to consulting any officer of Government whose advice would be of special value.'

Demi-official from N. S. Brodie, Esq., I.C.S., to L. Davidson, Esq., I.C.S., dated Ennore, 12th November 1916.

With reference to your demi-official No. 39-S., dated 4th July 1916, I have now made further inquiries into the subject of the production and sale of cigarettes in this Presidency both personally and through Collectors. I cannot say that I have elicited much additional information and the remarks which I made in my note of the 26th December 1915 continue to hold good. It appears, however, that I was wrong in stating that there were no cigarette factories in the Presidency equipped with power-driven machinery as it was found on further inspection that McDowell's factory in Moor street, Madras, had some cutting machines worked by an oil-engine recently set up.

2. The estimate of outturn may very well remain at 250,000 lb. The only details I have been able to get are from the Universal Tobacco Company in Madras which is believed to turn out about 30 lakhs of cigarettes per mensem and from McDowell's factory, also in Madras, which is believed to turn out about 20 lakhs. McDowell's factory does not use Indian tobacco exclusively and some of the brands contain imported tobacco to the extent, it is said, of 25 per cent on the whole. I have tested numerous brands from all parts of the Presidency and find that as a rule they weigh about 2½ lb. per 1,000, a little more or less. This gives the total Madras production about 150,000 lb. per annum. Allowing for the imported tobacco used in McDowell's factory the quantity of Indian cigarettes is about 135,000 lb. The only other factories appear to be Oakes & Co.'s factory at Gujndy, a new factory started by Barry & Co. in Cocanada just recently and one or two small factories in Coimbatore. There was a factory at Guntur but it seems to have failed after working a few months. The Collector of Coimbatore has not yet replied to my letter on the subject but I made some inquiries in the course of my last tour and find that there are one and probably two factories in Coimbatore but they use imported tobacco for their cigarettes as does Pappadopoulos in Madras. Allowing for all these factories I should say 115,000 lb. per annum was a very liberal estimate, making 250,000 for the Presidency.

3. Retail prices seem to vary very considerably but on the whole I see no reason to modify my original calculations. The cheapest cigarettes are sold in packets of 5 or

6 and a slightly more expensive lot in packets of 10. The dealers' profit seems to be about eight annas a thousand and the trade discount about 20 per cent. Some cigarettes* are sold as cheaply as Re. 1 per 1,000 wholesale or allowing for the trade discount about thirteen annas per 1,000. This is less than half the price I estimated for the cheapest cigarettes in my last note (Rs. 1-12-0). I doubt if there are many of this brand sold, but there are numerous other brands at Re. 1-4-0, Re. 1-6-0 and Rs. 1-8-0 sold by McDowell & Co. However all other information tends to confirm the view that the cheapest cigarettes are sold at Rs. 2 to Rs. 2-12-0 by the wholesale dealers and consequently must cost somewhere about Rs. 1-12-0 per 1,000 from the manufacturers. These cheap cigarettes are manufactured in this Presidency by McDowell & Co., and the Universal Tobacco Company only. Those turned out by Oakes & Co., and the new factory started by Barry & Co., at Cocanada are much more expensive and work out at Rs. 11 to Rs. 14 per 1,000.

* By the Universal Tobacco Company, 1/6, Patters Road, Royapetta—'Bazaar' brand.

4. The method of manufacture is probably the same everywhere. The tobacco selected has all the main nibs cut out and the leaves are then laid one above the other to a considerable depth. They are then cut into small pieces by a cutting machine, the tabacco rolled in cagarette paper, gummed and cut into lengths. As far as I know the cutting and gumming, etc., machines are all worked by hand except in McDowell's factory above referred to.

5. In this connexion I should, however, bring to notice one or two facts which I have ascertained in the course of my inquiries. It is a common practice I understand for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale especially at the various shandies and markets in the Presidency. This is common in Malabar, Coimbatore and the Nilgiris at all events and probably elsewhere. Most Collectors have, however, reported that cigarette papers are not commonly sold in the bazaars. I believe the practice of individual consumers rolling their own cigarettes is not common at present though it is said to have been customary in Salem before the shop-made cigarettes became so cheap. It would be clearly impossible to levy an excise duty on cigarettes made by hawkers or private individuals and it may be expected that the practice would be much more largely resorted to if a duty were imposed on the manufactured article. This might perhaps be met by imposing a customs duty on cigarette paper which would have to be determined in accordance with the duty imposed on cigarettes, such customs duty to be refunded on paper actually used by the wholesale manufacturers. It seems that cigarette paper was formerly imported mostly from Austria and Germany—at present it is obtained from France.

6. As regards the duty to be imposed I find it difficult to express an opinion. The heavy rates imposed in 1910-11 practically killed the cheap American cigarettes but then the enhancement of rates was probably more than 100 per cent of the value so that this result was quite intelligible. My inquiries show that my estimate of the cost of collection was much too large. One Sub-Inspector would, I think, be required for each factory but as there seem to be only four or possibly five factories the cost would be only about Rs. 2,400 per annum. As observed in my previous note, a duty of one and a half annas per pound represents 15 per cent of the value of the cheap cigarette. This amounts to 3 annas 9 pies per 1,000 and could hardly affect the retail price at all. The usual retail price per packet of 10 cigarettes seems to be about 4 pies. A duty of 8 annas 4 pies per 1,000 should raise the retail price by one pie and this would probably not seriously affect the trade though even one pie is a consideration in a country like India. I do not think we could safely raise the duty beyond Re. 1 per 1,000 which would raise the retail price about 2 pies or 50 per cent. This would be 6·4 annas per pound and roughly about 60 per cent of the value. Although cheap cigarettes do not seem to vary much in weight I would prefer to levy the duty by the pound rather than by the number as being the only fair way of assessing it. A duty of 6½ annas per pound would, if the production remained at 250,000 lb., yield Rs. 1,01,562½ but if the consumption fell, as it probably would, to about 200,000 lb. the tax would yield Rs. 81,250. As far as this Presidency is concerned, the result would, therefore, be insignificant, but, no doubt, the revenue

from the whole of India would be very considerable and I cannot see any serious objection to the proposal except that it would greatly encourage the smoking of bidies and press rather hardly on the poorest class of the population who smoke cheap cigarettes at present and regard them as a great luxury.

Demi-official from F. J. Richards, Esq., I.C.S., to Ley, Esq., I.C.S., dated the 18th December 1916, No. 75-S.

I am directed to reply to Mr. Low's Confidential demi-official letter No. 4493, dated 14th June 1916, on the subject of the expediency of imposing an excise on cigarettes manufactured in India from indigenous tobacco.

2. In the first place, I am to point out that the correspondence of 1910, to which reference is made in the first paragraph of Mr. Low's letter, did not turn on the present question, for at that time there was no manufacture of cigarettes from indigenous tobacco in this Presidency. It is stated that the question of an excise on manufacture was then dropped because the local cigarette industry was in its infancy and it was considered that the imposition of an excise would deal it a death-blow. So far as this Presidency is concerned, the position is virtually unaltered; for, as stated in Mr. Butterworth's demi-official letter No. A.A.-1, dated 11th January 1916, the local output of cigarettes does not exceed some 250,000 lb. annually. This estimate has been confirmed by subsequent enquiries, though the number of factories to be taken into account is found to be smaller than was thought to be the case. There are probably not more than 5 or 6, of which the two largest are those owned by Messrs. McDowell & Co., and the Universal Tobacco Company both in Madras City. The former has recently been equipped with an oil-engine for driving its cutting machines. The average wholesale price for the cheapest class of ciagarettes quoted in Mr. Butterworth's letter, viz. Rs. 1-12-0 per 1,000, may be taken as correct. These cheap cigarettes are manufactured only by Messrs. McDowell & Co. and the Universal Tobacco Company. Those turned out by Messrs. Oakes & Co., at Guindy and by Messrs. Barry & Co., at Cocanada are much more expensive, costing from Rs. 11 to Rs. 14 per 1,000.

3. The maximum rate of duty which is considered compatible with the survival of the industry is Re. 1 per 1,000 or approximately $6\frac{1}{2}$ annas per lb. This duty would if the production remained 250,000 lb. yield a revenue of a little over a lakh. The imposition of such a tax, however, is almost certain to preclude any expansion of the industry and would very probably strangle that which already exists; for it would either drive the masses to revert to *bidi* smoking or compel the manufacturers to transfer their factories to French territory or to Native States. I may here point out that the Director-General of Commercial Intelligence has incorrectly assumed that the tax realisable from the Peninsular Tobacco Company's factory in the Civil and Military Station, Bangalore, would be credited to Imperial revenues. By the terms of rendition, the Mysore Government is entitled to the whole of the surplus revenue of the Assigned Tract, after the cost of the administration of the tract is defrayed. This fact seriously affects the estimate formed of the probable receipts from the tax.

4. Another factor to be taken into consideration is the practice, common in several districts of this Presidency, for petty hawkers to buy cigarette papers, cut up small quantities of tobacco and roll cigarettes for sale, especially at local markets. Individual consumers do not usually roll their own cigarettes, though it is said to have been customary for them to do so in Salem before the shop-made cigarettes became so cheap. It would obviously be impossible to levy an excise duty on cigarettes made by hawkers or private individuals; and it may be expected that the practice would be much more largely resorted to, if a duty were imposed on the manufactured article. Cigarette paper was formerly imported from Germany and Austria; now France is the chief source of supply. A customs duty might be imposed on it, such duty to be refunded on paper actually used by the wholesale manufacturers; but this expedient would not be free from difficulties and would almost certainly result in the use of a local substitute.

5. In these circumstances, I am to say that the Government of Madras are entirely opposed to the proposal. They can suggest no alternative scheme for internal taxation of tobacco, apart from those already rejected.

IV

Letter from C. R. Watkins, Esq., C.I.E., Officiating Collector of Customs, Madras, to the Under Secretary to Government, Finance Department, dated 1st May 1925, No. L. Dis. Nil.

I forward herewith a statement showing the foreign imports into, and exports from, the Madras Presidency of tobacco since the year 1920–21.

2. The rates of customs duty at present in force are given below:—

Name of article.	Per	Tariff valuation.	Duty.
Cigars	.....	Ad valorem.	75 per cent.
Cigarettes of value.—Not exceeding Rs. 10-8-0 per thousand.	Thousand ...	.....	Rs. 7.
Exceeding Rs. 10-8-0 per thousand ...	Do.	.....	,, 10-8-0.
Tobacco, unmanufactured	Lb. ...	.....	,, 1.
All other sorts of tobacco manufactured	,, ...	.....	,, 2-4-0.

Enclosure.

Foreign imports and exports of 'Tobacco' at the Presidency of Madras for the past five years ending 1924–25.

	1920–21.		1921–22.		1922–23.		1923–24.		1924–25.	
	Quantity.	Value.	Quantity	Value.	Quantity.	Value.	Quantity.	Value.	Quantity.	Value.
	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.	LB.	RS.
FOREIGN IMPORTS.										
Tobacco—Unmanufactured ..	77,507	1,45,703	489,693	13,17,036	742,412	14,07,436	3,105,459	34,57,277	3,485,871	29,29,162
Cigars	12,815	43,430	701	2,922	81	238	94	156	215	473
Cigarettes	500,267	16,39,198	186,750	9,40,779	278,384	12,34,116	296,516	13,54,712	1,86,952	8,34,717
Tobacco for pipes and cigarettes	304	1,296	5,293	54,393	22,524	1,19,720	18,155	97,606	$\frac{1}{2}$	3
Other sorts	28,058	1,46,309	9,590	39,508	852	3,891	12,402	40,892	20,564	1,06,279
Total ..	618,951	19,75,936	692,027	23,54,638	1,044,253	27,65,401	3,432,626	49,50,643	3,693,602	38,70,634
FOREIGN EXPORTS.										
Tobacco—Unmanufactured ..	3,118,784	13,57,807	4,650,985	16,84,266	4,258,743	17,68,621	9,953,877	37,65,684	14,366,170	42,49,345
Cigars	75,540	1,04,792	94,905	1,17,671	99,244	1,32,490	1,11,541	1,20,174	88,199	1,25,560
Cigarettes	..	..	129	615	31,230	30,049	1,574	1,492	72,086	81,746
Other sorts	34,166	27,373	48,237	46,322	45,300	44,918	110,903	1,03,645	99,555	49,769
Total ..	3,228,490	14,89,972	4,794,256	18,48,874	4,434,517	19,76,078	10,177,895	39,90,995	14,626,010	45,06,420

V

Statement showing the area under cultivation of tobacco in the Madras Presidency in 1923–24.

	ACS.		ACS.
Ganjam	3,299	Salem	3,737
Vizagapatam	48,285	Coimbatore	25,544
Godavari	11,591	Trichinopoly	4,032
Kistna	13,301	Tanjore	2,223
Guntur	64,481	Madura	7,400
Kurnool	11,542	Ramnad	3,889
Bellary	2,658	Tinnevelly	1,048
Anantapur	4,785	Malabar	17
Cuddapah	1,868	South Kanara	1,623
Nellore	2,625	The Nilgiris	72
Chingleput	62		
South Arcot	2,985	Total ...	219,841
Chittoor	595		
North Arcot	2,179		