CONFIDENTIAL.

Revenue (1899) Department.

MISCELLANEOUS SERIES.

G.O., No. 1796
Confidential № 62

Dated 17th May

[Despatch Abstract.]

Passing orders on Messrs. Pary & Co's petition protesting against the alteration in the maximum price for liquor issued from distilleries.

BACK PAPERS.

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

FURTHER PAPERS.

~~G.O.~~	No.	Department.	Date.	G.O	No.	Department.	Date.
3654 9.99	2204						
	19.6.99						
c.no. 43	12.9.99						

Government {1899} of Madras.

REVENUE.

CONFIDENTIAL.

(FOR OFFICE USE ONLY.)

Recd. } *1899.* *Enclosures*

Regd. } *1899.* *Spare copies*

G.O., No. 1796 (Confdl. No. 62), 17th May 1899.

MAY.

Passing orders on Messrs. Parry & Co.'s petition protesting against the alteration in the maximum price for liquor issued from distilleries.

CONFIDENTIAL.

GOVERNMENT OF MADRAS.

REVENUE DEPARTMENT.

Read—the following Proceedings of the Board of Revenue (Separate Revenue), Mis. No. 791, dated 25th February 1899 :—

Read—the following letter from Messrs. PARRY & CO., Managing Agents, The East India Distilleries and Sugar Factories (Limited), to the Secretary to the Board of Revenue (Separate Revenue), dated Madras, 7th February 1899 :—

In continuation of our letter of 30th ultimo and in response to the Board's request in their letter of that date, we have now the honour to make the following further observations on the proposals then indicated, which we note are to establish differential prices against us as follows :—

(1) to reduce the maximum sale price of molasses spirit ex-distillery from $10\frac{1}{2}$ to $8\frac{1}{2}$ annas per gallon, or say by over 20 per cent. ;

(2) to reduce the price of palmyra jaggery liquor by an amount not stated ;

(3) to leave cane jaggery spirit price as at present.

2. The above proposal has fairly astounded us and in case it may have arisen in connection with a recent demi-official offer made by our Mr. W. Shaw to Mr. Thomson we would first clear that up. Mr. Shaw's offer stipulated not only for a contract for a term of years but also for terms which would have enabled us to largely reduce our staff both up-country and in Madras and so generally cheapen and simplify our working.

These advantages, with the desire to show Government that we did not propose to force prices to any excessive level, led us to offer to supply at $8\frac{1}{2}$ annas, but we must strongly protest against that rate being forced upon us as a maximum price without the counterbalancing advantages referred to.

3. Next we have to remark that the scheme would probably be found difficult to work if eventually attempted, because liquor is not made only from one class of material at a time but, in a greater or less degree for fermentation purposes, there is a mixture of materials in the vats, so that without hampering the business and deranging the ordinary course of work it would be impossible to say exactly what liquor is made from each individual class of material.

4. With regard to the opening paragraph of the letter under reply, it appears to us that the Board allow excessive weight to the effect on consumption of the, say, 2 annas per gallon difference of rates under reference. It has to be remembered that on a 10 annas basis for spirit ex-duty the shopkeeper will generally have to pay, say,—

	Rs.	A.	P.
As first cost	0	10	0
As duty	3	1	0
As transport wastage	0	2	0
Total cost ..	3	13	0

2 annas on that equals only, say, $3\frac{1}{4}$ per cent.—a difference not sufficient to have any marked effect on consumption, especially seeing that the actual consumer buys by the dram when the difference in price is scarcely appreciable.

5. We have not before us the figures on which the Board goes when stating that the consumption of the country arrack is diminishing, so we cannot well discuss that point as we should like to, but meanwhile we may mention that since 1894 the rate of duty has been raised 7 annas per gallon and upwards, practically all over the Presidency.

During 1895, 1896 and 1897 this rise in duty may not have been felt since: during that period, owing to extreme competition between the Nellikuppam and Ránipéttai distilleries, sale rates were cut down, eventually to below cost of production. From 1898, this competition having ceased, the rise in duty referred to is perhaps making itself felt on consumption, but there is no ground for asserting that hitherto we have forced prices to an unduly high pitch and certainly, so far, they are not so high as they will at once rule if by unjust legislation we are forced out of the spirit business.

6. Government appear to us to be acting in blind fear of the small rise in price necessary for us—manufacturers—to earn a fair profit on our capital and skill employed, while it overlooks or ignores the real hindrance to consumption which results when shopkeepers join together to raise retail prices to the consumers.

Cases in point are Madras and Kistna districts, in both of which wholesale prices are relatively low, while in both, owing to combination among shopkeepers, consumption has fallen off.

When asked to assign reason for such decreased consumption, shopkeepers are no doubt glad to put forward the reasons apparently accepted by the Board, but such will not bear investigation.

7. We would wish to remind Government that the existing abkári free-supply system, which has been worked with such financial success to Government for the last fifteen years, was orginally inaugurated only after much consultation of our then senior partner Mr. J. C. Shaw by Mr. (now Sir Henry) Stokes, and Mr. Shaw then wrote to Mr. Stokes as follows, under date 20th May 1884 :—

"As I said to you when here we will undertake to support you in carrying this through provided we are satisfied that there will be no throwing us over on the plea that we should be securing too many districts." It was then, we believe, that the $10\frac{1}{2}$ maximum rate ex-distillery for spirit was settled on and Mr. Shaw's fear, as expressed above, was met by the understanding that, subject to the said maximum, Government was indifferent as to how much of the Presidency we might supply. Our firm then gave all the assistance in its power and insured the successful start of the then new order of things. But now it would appear that our services then rendered are forgotten and Government by its differentiation of prices against us is wishing to throw us over exactly as Mr. Shaw foresaw might be the case.

8. In conclusion, we have the honour to submit that this scheme of differential rates, if carried out, will amount to a direct attack upon all capital invested in the sugar industry of this Presidency, of which industry the utilisation of molasses for spirit-making is, of course, a material branch. The reduction of price proposed would involve peculiar hardship to the shareholders who have so recently acquired an interest in this Company, and the injustice becomes the more apparent when it is remembered that only this year we have completed the erection of a large expensive new distillery at the express instigation of the late Abkári Commissioner, now Senior Member of Council. Had any indication been given us that a radical change of system was intended, such as this differentiation of rates against molasses spirit, we could not have thought of meeting Mr. Arundel's wishes and sunk the capital involved in the new distillery at Nellikuppam, nor could this Company have taken over its business on the terms it did. We can scarcely credit that on consideration Government will definitely decide upon practically confiscating in this way capital invested on the faith of the stability of long established revenue regulations, no change in which can equitably be made save after notice proportionate to the capital sunk in the business concerned.

Resolution—Mis. No. 791, dated 25th February 1899.

Messrs. Parry & Co.'s letter will be forwarded to Government with the following remarks.

2. *Paragraph 2.*—The Board was fully aware that Mr. Shaw's offer to contract for a term of years at $8\frac{1}{2}$ annas would, if accepted, improve even the present position of the Company by making that a fixed price for all-comers within the area contracted for and enable it to effect savings in various ways accordingly. The only advantage it promised for Government was that shopkeepers would be certain of the price they would have to pay, but the reduction therein under the maximum which the last rule allowed would be of small advantage to those at any distance from the only distillery—Nellikuppam—which the Company would have continued to maintain within the tract. Under competition it may be doubtful if the Company could force prices beyond $8\frac{1}{2}$ annas: its endeavour for some years now has been to kill competition; and the Board's proposal, while it did not ignore the fact of Mr. Shaw's offer, attached less value thereto than the Company seems to infer.

3. *Paragraph 3.*—The Board does not anticipate any difficulty in determining from what material liquor has been made. The Company distils only from molasses, minor distillers generally from only one class of material at a time, and the latter are not likely to find any objection to the differential rates. The uniformity of the distillery price for liquor without reference to material placed these latter at an enormous disadvantage in the competition. Admixture of materials, if tried at all (except to meet very temporary emergencies), can be so for no purpose, but the evasion of the present regulation and the Board would meet it by treating the resultant spirit as though made from material of the lowest class used.

4. *Paragraph 4.*—The effect on consumption of the difference of 2 annas per gallon may not be very appreciable when applied to the dram. But the Board is, for the present, most concerned regarding the competing distiller and the shopkeeper —the final agent in distribution—and from the point of view of the latter the decrease in first cost is a matter of very considerable moment.

5. *Paragraph 5.*—There is no reason for believing that the rise in duty since 1894 is making itself felt on consumption; the Board's administration reports negative such an opinion: but there is every reason to believe that the rise of price consequent on the want of competition in supply will intensify any such tendency if it exists, and the absence of competition is a current explanation of the fact of decrease in consumption. Reduction of consumption can be countervailed in its effect on the revenue by enhanced duty; but with a high maximum price up to which a distiller might work the danger lay in the anticipation of shopkeepers that prices would eventually be enhanced by this Company to the extreme limit the previous notification allowed, and the difference was the profit of the Company. The declared intention was to get rid of all competitors, and with that the maximum distillery price would certainly have been given effect to as far at least as was consistent with an output which would have satisfied the Company's view of its own possible profits. It is difficult to see how it can be forced out of the spirit business except by its own mismanagement: the present rate of $8\frac{1}{2}$ annas most distinctly cannot bring that about unless the business has been so reconstructed as to permit of it. If that is the case the Company and not Government is to blame.

6. *Paragraph 6.*—The Board is not aware of any hindrance to consumption from combination of shopkeepers to raise their prices to consumers; when the privileges of vend fall into the hands of single persons or syndicates, prices of course can be raised, no maximum price having been imposed; the remedy applicable is obvious if not always easy. Shopkeepers in any case must have a certain turn-over and make an income for themselves and when and if the country is adequately supplied with shops it cannot but follow that prices therein will be fixed in the main so as to yield the ordinary rate of profit.

7. *Paragraph 7.*—There is no information before the Board that leads it to believe that the $10\frac{1}{2}$ annas maximum rate was ever regarded as unalterable. Reference is requested to Mr. Stokes' note of 5th April 1884, the Commissioner's letter in Board's Proceedings, No. 3227, of 25th November 1885, and Board's Proceedings, No. 2095, of 17th September 1886, from which it would appear that the point was treated tentatively and the danger of monopoly always kept in view. Sir Henry Bliss in 1898 certainly entertained no idea of fixity of price, but on the contrary regarded Government's present action as the first course open to it. No such ground was hitherto taken by the firm so far as the Board is aware; on the contrary the point was not even referred to when the firm was consulted a year ago and more recently as to a reduction. If Government has benefited by the firm in the past the firm may well admit that it has reaped a plentiful return from its operations under Government patronage. There is no desire to curtail its legitimate rate of profit, but the Company is not content therewith and would evidently desire to dictate its own terms to Government.

8. *Paragraph 8.*—The Board distinctly joins issue with the statement that this scheme of differential rates is a direct attack on all capital invested in the sugar industry. On the contrary Government is aware of how a sugar industry is being instituted in the north which is willing to work at even lower rates for its spirit produce than Government has now directed. That the new rule will limit profits to the East India Distilleries and Sugar Factories (Limited) is no doubt true, but the Government of Madras was not consulted in the creation of that Company, and if it proceeded without due caution and overcapitalized itself the error cannot be laid at the doors of Government. The Board observes moreover from the Company's prospectus that the rate of profit on spirit on which the calculations therein are based is 2 annas a gallon. That probably was, and, if it was not, ought to have been, arrived at on past working and ought to be obtainable under the price now fixed. The prospectus further shows that Messrs. Parry & Co., before the amalgamation, were reaping enormous profits at a time when, on their own showing, their price averaged well under 7 annas, but how much of these profits was due to spirits and how much to sugar is of course unknown. The Board assumes that Government has not committed itself to the permanency of the former distillery rate; the Company makes no assertion that it has; but its complaint is virtually that it has been deceived by Government and is not the victim of its own financial shrewdness or incapacity. The Board has no reason to think that Government ever contemplated a time when the firm would assume the control of a large portion of the abkári administration by constituting itself the sole purveyor of spirit to the Presidency, but its recent action might fairly be ascribed to such a misconception.

9. As to the want of due notice, it is sufficient to say that the Company had clear notice a year ago that Government deliberated moving in the direction of reducing the distillery price and if the Company required a distinct assurance to the contrary then that should have been asked for. The Company's letter of 23rd April 1898, read with the Board's Proceedings, Mis. No. 1690, of 30th idem, does not, in the Board's opinion, give them room to complain of want of notice or of a change in Government policy. The Company knew what remedy lay in the hands of Government and apparently counted on Government's supineness while it pursued its policy of extermination of competitors. The differential rate is injurious to the Company only from the fact that it will prevent that policy; it cannot otherwise affect their legitimate profits on spirit as it will not in any degree alter or affect their methods of distillation from sugar refuse.

(True Extract.)

(Signed) EDMUND MILLETT,
Assistant Secretary.

To the Secretary to Government, Revenue Department,
with one enclosure.

Read—petition from Messrs. PARRY & CO., dated 15th February 1899.

Order—No. 1796 (Confdl. No. 62), Revenue, dated 17th May 1899.

Miscellaneous.

The Government concurs with the Board in its remarks in the first of the papers read above. Messrs. Parry & Co. should accordingly be informed that the Government sees no reason to reconsider the orders sanctioning a reduction of the maximum price of palmyra-jaggery arrack and molasses arrack issued from distilleries. With regard to the reference in the concluding paragraph of their letter to the Board, dated 7th February 1899, to "the stability of long-established Revenue Regulations," the attention of Messrs. Parry & Co. should be drawn to rule 65 of the Distillery and Warehouse Rules which provides that "the Commissioner may, subject to the orders of Government, fix *from time to time* the maximum prices to be charged by distillers for spirits issued from a distillery." It should also be pointed out to them that they act under a license granted annually the terms of which alone can be held to bind them and Government.

2. Adverting to the remarks in paragraph 3 of the Board's Proceedings, the Government presumes that the lower appropriate maximum rate will be enforced only if a substantial portion of the mixture be made from the lower classes of materials.

3. The Government desires that the Board of Revenue should investigate further the suggestion made by Messrs. Parry & Co. that combination among shopkeepers is partly the cause of the rise in the retail price to the consumer.

4. Messrs. Parry & Co. will be referred to the Board of Revenue for orders on their petition.

(True Extract.)

(Signed) G. S. FORBES,
Secretary to Government.

To the Board of Revenue (Separate Revenue),
with petition, to be returned.
„ Messrs. Parry & Co. (paragraph 4 only).

Exd. W. D'Moss.

20 Copies.

CONFIDENTIAL.

Revenue Department.

NOTES CONNECTED WITH G.O., No. 1796, REVENUE, DATED 17th MAY 1899.

Reduction of maximum prices of liquor at distilleries.

Board's Proceedings (Separate Revenue), Mis. No. 791, dated 25th February 1899.
Letter from Messrs. Parry & Co., dated 28th February 1899.

To Secretary.

In G.O., No. 95, dated 6th February 1899, the Government authorized the Board of Revenue to reduce the maximum price to be charged by distillers for molasses arrack from 10½ annas to 8½ annas a gallon of 30° U.P., and a notification * was accordingly published by it on 7th February 1899 under the power conferred by rule 65 of the Distillery Rules.

* G.O., No. 617, dated 10th February 1899.

In the above Proceedings the Board forwards with its remarks a protest from Messrs. Parry & Co. against the reduction, while the letter is a similar protest addressed direct to Government.

2. In paragraph 2 of its first letter, the firm admits that a proposal to supply country spirits at 8½ annas a gallon was made by Mr. Shaw, but that it was coupled with a stipulation to be given the monopoly of supply for a term of years in certain districts. The firm expected that under such an arrangement it could reduce its staff in Madras and up-country and thereby cheapen its working. It therefore protests against the forcing of that rate upon it without the counterbalancing advantage. The Board remarks that it did not ignore Mr. Shaw's offer, but that it attached less value to it than the firm seems to infer. The proposal of the latter was prompted by a desire to kill competition and could not therefore be accepted.

But if they volunteered an 8½-anna rate for a term of years, it was naturally a rate which would well protect them from the vicissitudes of the sugar market during the period. The fluctuations might have been very large, and yet an 8½-anna rate was deemed by the firm to cover them sufficiently.

G.S.F.

Yes, believed to be.

A. T. A[rundel].

3. The firm's second objection is that as liquor is not made from only one class of material at a time, it would be difficult to work the scheme of differential rates. The Board does not anticipate any difficulty on the subject. The East India Distilleries and Sugar Factories Company distills from molasses only, while other distillers use only one class of material at a time. It is possible that to evade the present regulation an admixture of materials may be attempted; but the Board proposes to treat liquor so distilled as made from material of the lowest class used.

If, I suppose, a *substantial* portion of the mixture were of the low class?

G.S.F.

A.T.A.

4. Messrs. Parry & Co.'s third objection is that a difference of 2 annas in the maximum price at the distillery would only be 3¼ per cent. of the price to be paid by the shopkeeper including duty; that as the consumer buys by the dram, the difference in price would scarcely be appreciable; and that consumption cannot be materially affected. The Board is concerned not with the consumer directly, but with the shopkeeper, as against the distiller, and regards a decrease of 2 annas in first cost as a matter of very considerable moment to him.

5. Messrs. Parry & Co.'s fourth objection is that the decrease in consumption of liquor, if any, has been brought about by the enhancement of the tax, or by combination among retailers, and that the effect of the first measure has begun to be felt after the extinction of the "extreme competition" between the Nellikuppam

Of course they know this better than we do.
G.S.F.
Draw their attention to this.
A.T.A.

"to the orders of Government, *fix from* "*time to time* the maximum prices to be "charged by distillers for spirits issued "from a distillery, etc." This distinctly negatives the assumption that the maximum rate once prescribed would be permanent.

9. In their letter, dated 15th February 1899, Messrs. Parry & Co. appeal to Government that the Board, after inducing them upon certain terms to engage on a large scale in the business of distillers, has suddenly, and without due notice, introduced a very serious modification of the terms. They add "our "present feeling is that rather than submit to what we consider a gross "breach of faith we must, even at some pecuniary loss to ourselves, close our "distilleries so far as the manufacture of what is known as country spirit is "concerned," and they call attention to the question of the attraction of capital to India. Whether the firm will carry out the threat, it is impossible to say. If it does, the Government may then consider what course should be adopted. In regard to the charge of breach of faith, it is not clear what terms were offered by the Board. As to want of notice, please see paragraph 8 above.

Not an idea of it.
G.S.F.
A.T.A.

V.K.R.
20-3-99.

To the Honourable Member.
To His Excellency the Governor.

I have noted on the margin.

G. S. FORBES.
21-3-99.

Briefly put: Messrs. Parry & Co. want to get a monopoly of supply for the presidency or as much of it as possible by underselling other distilleries and so forcing their owners to give up the business. Government must retain power to prevent this and the distillery rules under which Messrs. Parry & Co. hold their license give Government the necessary means.

A. T. A[RUNDEL].
10-4-99.

I must accept the Honourable Member's conclusion, that we must stick to the previous order, though I think our having thus to reduce the maximum price is unfortunate. Perhaps it would be worth while to enquire further into the suggestion made by the Company that the combination of shopkeepers is partly the cause of the rise in price.

A. E. H[AVELOCK].
4-5-99.

To Secretary.

Please see draft below.

A.K.
8-5-99.

To the Honourable Member.

G.S.F.
11-5-99.
A.T.A.
15-5-99.

Issue.

G.S.F.
19-5-99.

CONFIDENTIAL.

2

Revenue (1899) Department.

CURRENT No. 1496

Confdl no 32

From

The Secretary to the Commissioner of Salt, Abkari & Separate Revenue, Madras.

Order

Mis No. 791

Dated 25th February 1899.

Received 1st mar 99

Registered do do

Enclosures /

Spare copies

SUBJECT.

Submitting to Government, with remarks, letter from Messrs. Parry & Co: protesting against the alteration in the maximum price for liquor issued from distilleries.

BACK PAPERS.

G.O.	No.	Department.	Date.
95 / 6-2-99.		617 / 11-2-99.	
394 / 18-3-84			
1362 / 18-12-85			

FURTHER PAPERS.

G.O.	No.	Department.	Date.
C. No. 4312 799			

1

PRICE 1 pie. 2,000 / 1-9-98.

3P

REVENUE BOARD OFFICE MADRAS.

Read the following

Proceedings of the Board of Revenue

(Separate Revenue),

Dated 25th February 1899. ~~189~~ .

Mis No. 791

Read petition from Messrs. Parry & Co., Madras, dated 7th February 1899.

6P

Resolution:-

Messrs. Parry & Co's letter will be forwarded to Government with the following remarks.

2. Para 2. The board was fully aware that Mr. Shaw's offer to contract for a term of years at 8½ annas would, if accepted, improve even the present position of the Company by making that a fixed price for all comers within the area contracted for and enable it to effect savings in various ways accordingly. The only advantage it promised for Government was that shopkeepers would be certain of the price they would have to pay, but the reduction therein under the maximum which the last rule allowed would be of small advantage to those at any distance from the only distillery - Nellikuppam - which the Company would have continued to maintain within the tract. Under competition it may be doubtful if the Company could force prices beyond 8½ annas: its endeavour for some years now has been to kill competition; and the Board's proposal, while it did not ignore the fact of Mr. Shaw's offer, attached less value thereto than the Company seems to infer.

3. Para 3. The Board does not anticipate any difficulty in determining from what material liquor has been made. The Company distils only from molasses, minor distillers generally from

from only one class of material at a time; and the latter are not likely to find any objection to the differential rates. The uniformity of the distillery price for liquor without reference to material placed these latter at an enormous disadvantage in the competition. Admixture of materials, if tried at all (except to meet very temporary emergencies), can be so for no purpose but the evasion of the present regulation, and the Board would meet it by treating the resultant spirit as though made from material of the lowest class used.

4. Para 4. The effect on consumption of the difference of 2 annas per gallon may not be very appreciable when applied to the dram. But the Board is, for the present, most concerned regarding the competing distiller and the shopkeeper - the final agent in distribution - and from the point of view of the latter the decrease in first cost is a matter of very considerable moment.

5. Para 5. There is no reason for believing that the rise in duty since 1894 is making itself felt on consumption; the Board's Administration Reports negative such an opinion: but there is every reason to believe that the rise of price consequent on the want of competition in supply will intensify any such tendency if it exists, and the absence of competition is a current explanation of the fact of decrease in consumption. Reduction of consumption can be countervailed in its effect on the revenue by enhanced duty; but with a high maximum price up to which a distiller might work the danger lay in the anticipation of shopkeepers that prices would eventually be enhanced by this Company to the extreme limit the previous notification allowed, and the difference was the profit of the Company. The declared intention was to get rid of all competitors, and with that the maximum distillery price would certainly have been given effect to as far at least as was consistent with an output which would have satisfied the Company's view of its own possible profits. It is difficult to see how it can be forced out of the spirit business except by its own mismanagement: the present rate of 8½ annas most distinctly cannot bring that about unless the business has been so reconstructed as to

to permit of it. If that is the case the Company and not Government is to blame.

6. Para 6. The Board is not aware of any hindrance to consumption from combination of shopkeepers to raise their prices to consumer; when the privileges of vend fall into the hands of single persons or syndicates prices of course can be raised no maximum price having been imposed; the remedy applicable is obvious if not always easy. Shopkeepers in any case must have a certain turnover and make an income for themselves and when and if the country is adequately supplied with shops it cannot but follow that prices therein will be fixed in the main so as to yield the ordinary rate of profit.

7. Para 7. There is no information before the Board that leads it to believe that the 10½ annas maximum rate was ever regarded as unalterable. Reference is requested to Mr. Stokes' note of 5th April 1884, the Commissioner's letter in B.P. No. 3227 of 28th November 1885 and B.P. No. 2095 of 17th September 1886; from which it would appear that the point was treated tentatively and the danger of monopoly always kept in view. Sir Henry Bliss in 1898 certainly entertained no idea of fixity of price, but on the contrary regarded Government's present action as the first course open to it. No such ground was hitherto taken by the firm so far as the Board is aware; on the contrary the point was not even referred to when the firm was consulted a year ago and more recently as to a reduction. If Government has benefited by the firm in the past the firm may well admit that it has reaped a plentiful return from its operations under Government patronage. There is no desire to curtail its legitimate rate of profit but the Company is not content therewith and would evidently desire to dictate its own terms to Government.

B

with G.O. 394 18-3-84 para 8.
para 16 on page 3 of G.O. 1362 Rev 10-12-85.
Paras 3 & 4 on page 4 of G.O. 924 Rev 25-10-86.

8. Para 8. The Board distinctly joins issue with the statement that this scheme of differential rates is a direct attack on all capital invested in the sugar industry. On the contrary Government is aware of how a sugar industry is being instituted in the north which is willing to work at even lower rates

Samuel Kate?

V

from only one class of material at a time; and the latter are not likely to find any objection to the differential rates. The uniformity of the distillery price for liquor without reference to material placed these latter at an enormous disadvantage in the competition. Admixture of materials, if tried at all (except to meet very temporary emergencies), can be so for no purpose but the evasion of the present regulation, and the Board would meet it by treating the resultant spirit as though made from material of the lowest class used.

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3

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B

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V

from only one class of material at a time; and the latter are not likely to find any objection to the differential rates. The uniformity of the distillery price for liquor without reference to material placed these latter at an enormous disadvantage in the competition. Admixture of materials, if tried at all (except to meet very temporary emergencies), can be so for no purpose but the evasion of the present regulation, and the Board would meet it by treating the resultant spirit as though made from material of the lowest class used.

4. Para 4. The effect on consumption of the difference of 2 annas per gallon may not be very appreciable when applied to the dram. But the Board is, for the present, most concerned regarding the competing distiller and the shopkeeper - the final agent in distribution - and from the point of view of the latter the decrease in first cost is a matter of very considerable moment.

5. Para 5. There is no reason for believing that the rise in duty since 1894 is making itself felt on consumption; the Board's Administration Reports negative such an opinion; but there is every reason to believe that the rise of price consequent on the want of competition in supply will intensify any such tendency if it exists, and the absence of competition is a current explanation of the fact of decrease in consumption. Reduction of consumption can be countervailed in its effect on the revenue by enhanced duty; but with a high maximum price up to which a distiller might work the danger lay in the anticipation of shopkeepers that prices would eventually be enhanced by this Company to the extreme limit the previous notification allowed, and the difference was the profit of the Company. The declared intention was to get rid of all competitors, and with that the maximum distillery price would certainly have been given effect to as far at least as was consistent with an output which would have satisfied the Company's view of its own possible profits. It is difficult to see how it can be forced out of the spirit business except by its own mismanagement the present rate of 8½ annas most distinctly cannot bring that about unless the business has been so reconstructed as to

to permit of it. If that is the case the Company and not Government is to blame.

6. Para 6. The Board is not aware of any hindrence to consumption from combination of shopkeepers to raise their prices to consumer; when the privileges of vend fall into the hands of single persons or syndicates prices of course can be raised no maximum price having been imposed; the remedy applicable is obvious if not always easy. Shopkeepers in any case must have a certain turnover and make an income for themselves and when and if the country is adequately supplied with shops it cannot but follow that prices therein will be fixed in the main so as to yield the ordinary rate of profit.

7. Para 7. There is no information before the Board that leads it to believe that the 10½ annas maximum rate was ever regarded as unalterable. Reference is requested to Mr. Stokes' note of 5th April 1884, the Commissioner's letter in B.P. No. 3227 of 28th November 1885 and B.P. No. 209 of 17th September 1886; from which it would appear that the point was treated tentatively and the danger of monopoly always kept in view. Sir Henry Elliss in 1898 certainly entertained no idea of fixity of price, but on the contrary regarded Government's present action as the first course open to it. No such ground was hitherto taken by the firm so far as the Board is aware; on the contrary the point was not even referred to when the firm was consulted a year ago and more recently as to a reduction. If Government has benefitted by the firm in the past the firm may well admit that it has reaped a plentiful return from its operations under Government patronage. There is no desire to curtail its legitimate rate of profit but the Company is not content therewith and would evidently desire to dictate its own terms to Government.

8. Para 8. The Board distinctly joins issue with the statement that this scheme of differential rates is a direct attack on all capital invested in the sugar industry. On the contrary Government is aware of how a sugar industry is being instituted in the north which is willing to work at very low

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Do with Ep 394 18-3-84 para 8.

* para 6 on page 3 of Ep 1362 Rev 10-12-85.

** Paras 3 & 4 on page 4 of Ep 924 Rev 25-10-86.

rates for its spirit produce than Government has now directed. That the new rule will limit profits to the East India Distilleries and Sugar Factories, Limited, is no doubt true but the Government of Madras was not consulted in the creation of that Company, and if it proceeded without due caution and over- - capitalized itself the error cannot be laid at the doors of Government. The Board observes moreover from the Company's prospectus that the rate of profit on spirit on which the calculations therein are based is 2 annas a gallon. That probably was, and, if it was not, ought to have been, arrived at on past working and ought to be obtainable under the price now fixed. The prospectus further shows that Messrs. Parry and Company before the amalgamation were reaping enormous profits at a time when, on their own showing, their price averaged well under 7 annas but how much of these profits was due to spirits and how much to sugar is of course unknown. The Board assumes that Government has not committed itself to the permanency of the former distillery rate; the Company makes no assertion that it has; but its complaint is virtually that it has been deceived by Government and is not the victim of its own financial shrewdness or incapacity. The Board has no reason to think that Government ever contemplated a time when the firm would assume the control of a large portion of the Abkari Administration by constituting itself the sole purveyor of spirit to the Presidency, but its recent action might fairly be ascribed to such a misconception.

9. As to the want of due notice it is sufficient to say that the Company had clear notice a year ago that Government deliberated moving in the direction of reducing the distillery price and if the Company required a distinct assurance to the contrary then that should have been asked for. The Company's letter of 23rd April 1898 read with the Board's Proceedings, Rev., No.1690 of 30th idem does not in the Board's opinion give them room to complain of want of notice or of a change in Government policy. The Company knew what remedy lay in the hands of Government and apparently counted on Government's supineness whil

Page 8 of G.O. 625 27-10-98

while it pursued its policy of extermination of competitors. The differential rate is injurious to the Company only from the fact that it will prevent that policy; it cannot - otherwise affect their legitimate profits on spirit as it will not in any degree alter or affect their methods of distillation from sugar refuse.

(True Extract.)

Assistant Secretary.

To the Secretary to Government,
Revenue Department, with 1 enclosure.

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4P

The East India Distilleries &
Sugar Factories, Limited,
Perry & Co., Managing Agents,

Madras, 7th February 1899.

The Secretary,
Board of Revenue,
(Separate Revenue),
M A D R A S.

Sir,

In continuation of our letter of 30th ultimo and in response to the Board's request in their letter of that date, we have now the honor to make the following further observations on the proposals then indicated, which we note are to establish differential prices against us as follows:-

with G.O. 95 6-2-99 A

ibid B

(1.) To reduce the maximum sale price of molasses spirit Ex Distillery from 10½ to 8½ annas per gallon, or say by over 20 %.

(2.) To reduce the price of Palmyra Jaggery liquor by an amount not stated.

(3.) To leave Cane Jaggery spirit price as at present.

2. The above proposal has fairly astounded us and in case it may have arisen in connection with a recent D/O offer made by our Mr. W. Shaw to Mr. Thomson we would first clear that up. Mr. Shaw's offer stipulated not only for a contract for a term of years but also for terms which would have enabled us to largely reduce our staff both up-country and in Madras and so generally cheapen and simplify our working.

under G.O. 95 6-2-99 C

These advantages, with the desire to show Government that we did not propose to force prices to any excessive level, led us to offer to supply at 8½ annas but we must strongly protest against that rate being

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forced

To be stitched with app. in 9 p 199

The Lists will open on Thursday, December 16th, and will close on or before Saturday, December 18th; for Town and Country.

The East India Distilleries and Sugar Factories, Limited

(Incorporated under the Companies Acts, 1862 to 1893.)

Share Capital - - - - £2,50,000.

Divided into 150,000 £7 percent. Cumulative Preference Shares of £1 each, and 100,000 Ordinary Shares of £1 each.

The Preference Shares rank, both as regards Dividends and Capital, before the Ordinary Shares,

And after payment of 7 percent on the Preference Shares and 10 percent on the Ordinary Shares, the surplus will be equally divided between the two classes of Shares.

5 percent Debenture Stock - - £150,000.

The Debenture Stock will be secured by a Trust Deed, constituting a First Specific Charge by way of Mortgage upon all the Freehold and Leasehold Property now to be acquired by the Company, and a First Floating Charge upon the undertaking and all the other assets. A Sinking Fund of 2 percent will be applied in each year, commencing January, 1899, for redeeming the Debenture Stock by drawings at 10 percent premium or by purchase at a lower price. After the year 1910, the Debenture Stock then outstanding is redeemable at £110 at the option of the Company on their giving six months' notice.

The Debenture Stock will be transferable in multiples of £1.

Of the above Issues the Vendors take the whole of the Ordinary Share Capital, £50,000 in Debentures and £50,000 Preference Shares in part payment of the Purchase Money.

There

forced upon us on a maximum price without the counter-balancing advantages referred to.

3. Next we have to remark that the scheme would probably be found difficult to work if eventually attempted because liquor is not made only from one class of material at a time but, in a greater or less degree for fermentation purposes, there is a mixture of materials in the vats so that without hampering the business and deranging the ordinary course of work it would be impossible to say exactly what liquor is made from each individual class of material.

4. With regard to the opening para of the letter under reply it appears to us that the Board allow excessive weight to the effect on consumption of the, say, 2 annas per gallon difference or rates under reference. It has to be remembered that on a 10 annas basis for spirit on duty the shopkeeper will generally have to pay say

Rs.	As.	Ps.	
0	10	0	as first cost.
3	1	0	" Duty
0	2	0	" Transport wastage
3	13	0	Total cost.

2 annas on that=only say 3½ %, a difference not sufficient to have any marked effect on consumption, especially seeing that the actual consumer buys by the dram when the difference in price is scarcely appreciable.

5. We have not before us the figures on which the Board goes when stating that the consumption of the country arrack is diminishing, so we cannot well discuss that point as we should like to, but meanwhile we may mention that since 1894 the rate of duty has been raised 7 annas per gallon and upwards, practically all over the Presidency.

During 1895, 1896 & 1897 this rise in duty may not have been felt since, during that period, owing to extreme competition between the Nellikuppam and Manipottai Distilleries, and

rates

rates were cut down, voluntarily to below cost of production. From 1898, this competition having ceased, the rise in duty referred to is perhaps making itself felt on consumption but there is no ground for asserting that it has yet led to forced prices to an unduly high pitch and certainly, so far, they are not so high as they will be once rule if by unwise legislation we are forced out of the spirit business.

6. The Government appear to us to be acting in their own interest in not sacrificing a necessary source of revenue to secure an increase in profit on our capital and skill employed, still to overlook or ignore the real influence to consumption which rules when shopkeepers join together to raise retail prices to the consumers.

Cases in point are Madras and Kistna districts where both of which wholesale prices are relatively low still both owing to combination among shopkeepers consumption has fallen off.

When asked to assign reason for such a great consumption shopkeepers are no doubt glad to put forward the reasons apparently accepted by the Board but such will not bear investigation.

7. We would wish to remind Government that the existing Abkari supply system, which has been worked with such financial success to Government for the last 15 years, was originally inaugurated only after much consultation of our then senior partner Mr. J.C. Sharp by Mr. (now Sir Henry) Stokes, and Mr. Sharp then wrote Mr. Stokes as follows under date 20th. May 1884.

"A. I said to you when here we will undertake to support you in carrying this through provided we are satisfied that there will be no throwing us over or playing that we should be securing too many Distilleries". It was true, I believe, that the 10½ minimum rate of duty for spirit was settled on and Mr. Sharp's views expressed above were met by the understanding that

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subject to the said maximum Government was indifferent as to how much of the Presidency we might supply. Our Firm then gave all the assistance in its power and insured the successful start of the then new order of things. But now it would appear that our services thus rendered are forgotten and Government by its differentiation of price against us is wishing to throw us over exactly as Mr. Shaw for one might be the case.

8. In conclusion we have the honor to submit that this scheme of differential rates if carried out will amount to a direct attack upon all capital invested in the sugar industry of this Presidency, of which industry the utilisation of molasses for spirit-making is, of course, a material branch. The reduction of price proposed would involve peculiar hardship to the shareholders who have so recently acquired an interest in this Company and the injustice becomes the more apparent when it is remembered that only this year we have completed the erection of a large, expensive New Distillery at the express instigation of the late Abkari Commissioner, now senior member of Council. Had any indication been given us that a radical change of system was intended, such as this differentiation of rates against molasses spirit, we could not have thought of meeting Mr. Arundel's wishes and sunk the capital involved in the New Distillery at Nellikuppam, nor could this Company have taken over its business on the terms it did. We can scarcely credit that on consideration Government will definitely decide upon practically confiscating in this way - capital invested on the faith of the stability of long established Excise regulations, no change in which can equitably be made save after notice proportionate to the capital sunk in the business concerned.

We have &c

(Signed) Parry & Co.

Managing Agents.

(True Copy).

Assistant Secretary.

To be Stated with effect from 9/1/13

The Lists will open on Thursday, December 16th, and will close on or before Saturday, December 18th, for Town and Country.

The East India Distilleries and Sugar Factories, Limited

(Incorporated under the Companies Acts, 1862 to 1893.)

Share Capital - - - - £250,000.

Divided into 150,000 £7 per cent. Cumulative Preference Shares of £1 each, and 100,000 Ordinary Shares of £1 each.

The Preference Shares rank, both as regards Dividends and Capital, before the Ordinary Shares,

And after payment of 7 per cent on the Preference Shares and 10 per cent on the Ordinary shares, the surplus will be equally divided between the two classes of Shares.

5 per Cent Debenture Stock - - £150,000.

The Debenture Stock will be secured by a Trust Deed constituting a First Specific Charge by way of Mortgage upon all the Freehold and Leasehold Property now to be acquired by the Company, and a First Floating Charge upon the undertaking and all the other assets. A Sinking Fund of 2 per cent will be applied in each year, commencing January, 1899, for redeeming the Debenture Stock by drawings at 10 per cent premium or by purchase at a lower price. After the year 1918, the Debenture Stock then outstanding is redeemable at £110 at the option of the Company on their giving six months' notice.

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10, Courtfield Gardens, S.W.

The Right Hon. The Earl of Denbigh, Newnham Paddox, Lutterworth.

E. S. Ormerod (Finsbury Distillery Company).

Colonel Hurlock Pritchard, C.S.I. (late Accountant-General Military Department, Government of India).

W. S. Shaw (of Parry and Co., Bankers and Merchants), London and Madras.

E. J. Stranack (The Commercial Bank of India, Ltd.)

Secretary and Offices.

J. R. Murray, 70, Gracechurch Street, E.C.

Advisory Board in India.

A. J. Yorke (Parry & Co.), Madras

Robt Gordon Orr, President, Commercial Bank of India, Limited.

Bankers in England.

The Bank of Scotland, Bishopsgate Street, London, E.C., and its Branches.

Bankers in India

The Commercial Bank of India, Limited, Madras, and its Branches.

Lobe Stitch
Without Pull

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5 per cent Stock - £150,000.

Calcutta: Peterson Steel & Co. Rangoon: Parry & Co.

Colombo: Parry & Co.

There are now offered for subscription at par

100,000 Preference Shares and £100,000 Debenture Stock,

payable as follows:—

	Share Capital	Debenture Stock
On Application	2s. 6d per Share	£10 for every £100 of Stock
On Allotment	2s. 6d ditto	£20 ditto
On January 20th, 1898.	5s. ditto	£20 ditto
On February 20th, 1898	5s. ditto	and the balance on March 1st 1898.
On March 20th, 1898.	5s. ditto	Three per cent per annum will be allowed on instalments paid in advance.

Trustees for the Debenture Stock holders.

Surgeon Major-General J. B. C. Reade, C.B. | G. S. Mackenzie, C.B.

Solicitors for the Trustees for the Debenture Stock holders.

Messrs. Rose, Norton and Co., 57½, Old Broad Street, E.C.

Directors in London.

John H. Ford (Director, Royal Insurance Company, London Board), 10, Courtfield Gardens, S.W. Chairman.

The Right Hon. The Earl of Denbigh, Newnham Paddox, Lutterworth.

E. E. Cruerod (Finsbury Distillery Company).

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Bankers in India

The Commercial Bank of India, Limited, Madras, and its Branches.

Solicitors.

Renshaw, Kekewich & Smith, 2, Suffolk Lane, London, E.C.

Barclay, Magan & Orr, Madras.

Auditors.

London: Welton, Jones & Co., 5, Moorgate Street, E.C.

Madras. Lowlock & Lewes, Chartered Accountants, Calcutta.

Brokers.

Basil Montgomery & Co., 19 Throgmorton Avenue, E.C. Coal Stock Exchange.

Consulting Engineers and Chemists.

Newlands Bros, 2, St. Dunstans Hill E.C.

Managing Agents, Madras.

Parry & Company.

Correspondents and Agents at Outports.

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Directors in London [illegible] Sugar Made [illegible]idency.

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4. The Factories are equipped with machinery, stills and plant erected upon the most scientific and practical principles. The Sugar Factories have an output capacity of 100 tons of Sugar per day, equal to 30000 tons per annum, whilst the Distilleries are capable of producing 15,000 gallons of spirit per day, equal to 4,500,000 gallons per annum.

5. Messrs. Parry & Co's business has been in successful operation some fifty years, and their Sugars have a high reputation throughout India, Burmah and Ceylon, where their trade marks are widely known and firmly established. The Arcot Distilleries have been in existence for some years, but were only placed upon a commercially sound and competitive basis when recently taken over by the Commercial

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Consulting Engineers and Chemists.

Newlands Bros, 2, St. Dunstan's Hill, E.C.

Managing Agents, Madras.

where the present Parry & Company.

9. The Company have estab[illegible] at Outports. the Madras Government, 140 depots, ag[illegible] the sale of spirits exceeds one million gallons, Brothers & Co., Ltd. a total sale of the Company's spirits in Madras and Mysore of 1,550,000 gallons a year. The magnitude and importance of this branch of the business, is evidenced by the fact that, the duty paid on the spirits manufactured by the Vendors to the Government of India and to His Highness the Maharajah of Mysore amounts to the very large sum of £250,000 annually.

10. The Company have the Contract for the supply to the Government of India for the whole of the Rectified Spirit required by the Medical Stores.

11. Mr. Henry Irwin, C.I.E., late Consulting Architect to the Government of Madras, reports as follows:— In accordance with your instructions I certify having inspected and valued the land, buildings, plant and stores of the Madras Consolidated Sugar and Spirit Factories, Limited, at Nellicoopum, Trivanellore, Rampettai, Salem, Bangalore, Palmanur, Tanjore, Trichinopoly, Tinnevelly, Tuticorin, and find the total value thirty-nine Lacs fifty-two thousand Rupees (£247,000).

Prospectus.

1. This Company is formed to acquire the well-known and old-established business of Distillers, Sugar Manufacturers and Refiners successfully carried on by Messrs Parry & Co., Bankers and Merchants of Madras, in their Nellicoopum and Trivanellore Factories, and that of the Arcot Distilleries and Sugar Works in Rampettai and Salem, lately taken over by the Commercial Bank of India. All these Factories are situated in the Madras Presidency and were recently amalgamated under the title of the Madras Consolidated Sugar and Spirits Factories, Limited.

2. The amalgamation was effected in order to end the competition between the two firms, and the Company will thus secure the practical control of the Spirit and Sugar trade throughout the Madras Presidency.

3. The property to be acquired consists of Twelve Establishments covering 276 Acres, all free hold except two Acres, Concessions and Contracts, as the same stand on October 1st, 1897, which is the date up to which the Vendors will discharge all debts and liabilities, and from which all profits will belong to the Company.

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Commercial Bank of India, who, shortly before the amalgamation, added Extensive Sugar Mills and Machinery to the business.

6. The Estimated annual consumption of Sugar in India is at least two and a half million tons, and the native Industry is protected against foreign imports by an imposition of a five percent Ad-valorem duty. So effective is this tariff that the import of foreign Sugar into the whole of the Madras Presidency did not for the year 1895–6 exceed 230 tons.

7. Under Government Contracts, the Vendors supply and have supplied for a number of years the sugar required for the whole of the troops throughout the Madras Presidency and Burmah.

8. The Company hold a concession for five years, from July 1st, 1897, from His Highness the Maharajah of Mysore for the exclusive manufacture and sale of all spirits throughout his territory, where the present consumption amounts to 550,000 gallons annually.

9. The Company have established, under special license from the Madras Government, 140 depots, agencies and branches where the sale of spirits exceeds one million gallons annually, making a total sale of the Company's spirits in Madras and Mysore of 1,550,000 gallons a year. The magnitude and importance of this branch of the business, is evidenced by the fact that, the duty paid on the spirits manufactured by the Vendors to the Government of India and to His Highness the Maharajah of Mysore amounts to the very large sum of £250,000 annually.

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4. The Factories are equipped with machinery, stills and plant erected upon the most scientific and practical principles. The Sugar Factories have an output capacity of 100 tons of Sugar per diem equal to 30000 tons per annum, whilst the Distilleries are capable of producing 15000 gallons of spirit per day, equal to 4,500,000 proof gallons per annum.

5. The Directors (or Managing Manager) and the Directors, through- and believe that the same are in every respect reliable and sound -out the Commercially under which the business has been in existence for some years on a sound and competitive basis which recently taken over by the Commercial Bank of India, who shortly before the amalgamation added Extensive Sugar Mills and Machinery to the business.

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10. The Company have the Contract for the supply to the Government of India for the whole of the Rectified Spirit required by the Medical Stores.

11. Mr Henry Irwin C.I.E. late Consulting Architect to the Government of Madras, reports as follows:- In accordance with your instructions I certify having inspected and valued the land, buildings, plant and stores of the Madras Distilleries Limited, at Nellicoopum which I find in every way well constructed and adapted for the interest of the business at present carried on. From the interest of the business at present carried on. From certain arrangements have been entered into by the Vendors connection with the incorporation and formation of the Company, I wish for guaranteeing the subscription of a portion of the Capital. Applicants for shares must be deemed to have had notice of any such Contracts and arrangements

12. Messrs Lovelock & Lewes, Chartered Accountants of Calcutta, have examined the books and accounts of Parry & Co. in connection with their Spirit and Sugar Business for the Five years ending 1896 and they certify that the average annual net profits earned during that period - after providing for an annual average expenditure of 11,000 Rupees (£ 733) on building and machinery and 67,000 Rupees (£ 4333) interest - amounted to 5,11,000 Rupees (£ 21,927).

13. The continued business, which does a steady increase, have the advantage of being conducted on a cash system, consequently there are no bad debts.

All the figures in the Prospectus are based upon the exchange of 15.3 Rupees.

14. The following (after providing for the cost of management and all other expenses) is a moderate and careful estimate of sales and profits based upon the recent increase of the business since the amalgamation:-

20000 tons of Refined Sugar, at a net profit of Rs 20 per ton. Rs 4,00,000 =		£ 25,000
2,00,000 gallons of Spirits at 2 annas per gallon	Rs 2,50,000 =	16,625
Proportion of Molasses at Rs 20 per ton	Rs 2,00,000 =	12,500
	Rs 8,52,000	£ 53,125
Interest on £ 150,000 of Debentures at £ 5 per cent will absorb		£ 7,500
2 per cent re Sinking Fund for Redemption of Debentures		£ 3,000
Interest on £ 50,000 5 per cent Preference Shares will absorb —		£ 2,500 £ 21,000
Leaving a Balance of Profit sufficient after making provision for Reserve and paying up on the Ordinary Shares to provide a further dividend on the present		£ 32,125

15. The above estimate and the statements and figures in this Prospectus are based upon documents, reports and statistics furnished by Messrs Parry & Co (of which Mr W. S. Shaw Director of this Company is a partner), and the Imperial Bank of India, Limited (of which Bank Mr C. F. Strange, a Director of this Company is the Chief

16. Messrs Parry & Co have for many years had almost the entire control for purchasing the raw material required for the manufacture of spirits and sugar and they have entered into a contract with this Company to act as its Managing Agents for a period of ten years, and they have agreed to accept 5 per cent on the net profits of the Company as their remuneration as Managing Agents.

17. The purchase price for the whole of the Property and Assets (with the exception of Cash in hand, Securities deposited with the Government of India, Credits, and Stock-in-trade, &c, which will be taken over at valuation) is the sum of £ 365,000 payable as to £ 165,000 in Cash, £ 50,000 in Debentures, £ 50,000 in Cumulative Preference Shares, and £ 100,000 in Ordinary Shares.

18. The Vendors will pay all costs, charges and expenses of every kind incidental to the formation and registration of the Company up to allotment, and will also convey and transfer their various properties to the Company free of all expense. The Company will therefore enter into the receipt of the entire profits of the business, as from October 1st, 1897, without having to bear any of the heavy expenses usually incidental to the establishment of a new Company.

19. The Contract for Amalgamation made between Messrs Parry and Co and the Commercial Bank of India, Limited, and dated the 30th September 1897. The only Contracts to which the Company is a party are dated 14th of December, 1897, and are:-

(1) Contract for Sale between The Madras Consolidated Sugar and Spirit Factories Company, Limited, of the first part, Messrs Parry & Co. of the second part, The Commercial Bank of India, Limited, of the third part, and this Company, of the fourth part, and

(2) Contract for the Management between this Company and Messrs Parry and Co. There are various trade Contracts which in the interest of the business it would be injudicious to specify and certain arrangements have been entered into by the Vendors in connection with the incorporation and formation of the Company, and for guaranteeing the subscription of a portion of the Capital. Applicants for shares must be deemed to have had notice of any such Contracts and Arrangements

12. Messrs Lovelock & Lewes, Chartered Accountants of Calcutta, have examined the books and accounts of Parry & Co. Madras in connection with their Spirit and Sugar Business for the five years ending 1896 and they certify that the average annual net profits earned during that period - after providing for an annual average expenditure of 112000 Rupees (£ 7,437) on building and machinery and 67,000 Rupees (£ 4312) interest - amounted to 5 11,000 Rupees (£ 21,937).

13. The contract business, which shows a steady increase, have the advantage of being conducted on a cash system, — consequently there are no bad debts.

All the figures in the Prospectus are based upon the exchange of 15 3d per Rupee.

14. The following (after providing for the cost of management and all other expenses) is a moderate and careful estimate of sales and profits based upon the recent increase of the business since the analysis shows:—

20000 tons of Refined Sugar, at a net profit of Rs 20 per ton	Rs 4,00,000 = £ 25,000	
2,00,000 gallons of Spirits at 2 annas per gallon	= 25,000 =	1625
10000 tons of Molasses at Rs 20 per ton	= 2,00,000 =	12500
	Rs 8,25,000	£ 53,125 £ 53,125
Interest on £ 150,000 of Debentures at £ 5 per cent will absorb		£ 7500
2 per cent to Sinking Fund for Redemption of Debentures		£ 3000
Interest on £ 150,000 6 per cent Preference Shares will absorb —		12500 £ 21,000
Leaving a Balance of Profit		£ 32,125

sufficient after making provision for Reserve and paying taxes upon the Ordinary Shares to provide a further dividend on the present Shares.

15. The above estimate and the statements and figures of the Prospectus are based upon documents, reports and statements furnished by Messrs Parry & Co (of which Mr. H. E. Shaw Bank of is a partner), and the Commercial of the Directors of this Company is a Director), and the Imperial and Bank of India, Limited (of which Bank Mr. E. F. Strange is Chief

16. Messrs Parry & Co have for many years had almost the entire control for purchasing the raw material required for the manufacture of spirits and sugar and they have entered into a contract with this Company to act as its Managing Agents for a period of ten years, and they have agreed to accept 5 per cent on the net profits of the Company as their remuneration as Managing Agents.

17. The purchase price for the whole of the Property and Assets (with the exception of Cash in hand, Securities deposited with the Government of India, Credits, and Stock-in-trade, &c) which will be taken over at valuation) is the sum of £ 265,000 payable as to £ 165,000 in Cash, £ 50,000 in Debentures, £ 50,000 in Cumulative Preference Shares, and £ 100,000 in Ordinary Shares.

18. The Vendors will pay all costs, charges and expenses of every kind incidental to the formation and registration of the Company up to allotment, and will also convey and transfer their various properties to the Company free of all expense. The Company will therefore enter into the receipt of the entire profits of the business, as from October 1st, 1897, without having to bear any of the heavy Expenses usually incident to the establishment of a new Company.

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(1) Contract for Sale between The Madras Consolidated Sugar and Spirit Factories Company, Limited, of the first part, Messrs Parry & Co, of the second part, The Commercial Bank of India, Limited, of the third part, and this Company, of the fourth part, and

(2) Contract for the Management between this Company and Messrs Parry and Co. There are various trade Contracts which in the interest of the business it would be injudicious to specify, and certain arrangements have been entered into by the Vendors in connection with the incorporation and formation of the Company and for guaranteeing the subscription of a portion of the Capital. Applicants for shares must be deemed to have had notice of any such Contracts and arrangements

the Company

12. Messrs Lovelock & Lewes, Chartered Accountants of Calcutta, have examined the books and accounts of Parry & Co's Madras in connection with their Spirit and Sugar Business for the five years ending 1896, and they certify that the average annual net profits earned during that period - after providing for an annual average expenditure of 119000 Rupees (£ 7,437) on buildings and machinery and 67,000 Rupees (£ 4,312) interest - amounted to 511,000 Rupees (£ 21,937).

13. The combined business, which shows a steady increase, have the advantage of being conducted on a cash system, consequently there are no bad debts.

All the figures in the Prospectus are based upon the exchange of 15 3/4 Rupees.

14. The following (after providing for the cost of management and all other expenses) is a moderate and careful estimate of sales and profits based upon the recent increase of the business since the amalgamation:-

20000 tons of Refined Sugar, at a net profit of Rs 20 per ton	Rs 400,000 = £	25000
2,000,000 gallons of Spirits at 2 annas per gallon		15625
10000 tons of Molasses at Rs 20 per ton		12500
	Rs 850,000	£ 53,125
Interest on £ 150,000 of Debentures at £ 5 per cent will absorb		7500
2 per cent on Sinking Fund for Redemption of Debentures		3000
Interest on £ 150,000 5 per cent Preference Shares will absorb		7500 £ 21,000
Leaving a Balance of Profit		£ 32,125

sufficient after making provision for Reserve and paying a dividend on the Preference Shares to provide a further dividend on the Ordinary Shares.

15. The above estimate and the statements and figures in the Prospectus are based upon documents, reports and statistics furnished by Messrs Parry & Co (of which Mr. W. L. Shaw of this Company is a partner), and the Commercial Bank of India, Limited (of which Bank Mr. E. L. Stranack, a Director of this Company is a Director), and the Directors believe them to be correct in every respect and reliable.

16. Messrs Parry & Co have for many years had almost the entire control for purchasing the raw material required for the manufacture of spirits and sugar and they have entered into a contract with this Company to act as its Managing Agents for a period of ten years, and they have agreed to accept 5 per cent on the net profits of the Company as their remuneration as Managing Agents.

17. The purchase price for the whole of the Property and Assets (with the exception of Cash in hand, Securities deposited with the Government of India, Credits, and Stock-in-trade, &c), which will be taken over at valuation) is the sum of £ 315,000 payable as to £ 165,000 in Cash, £ 30,000 in Debentures, £ 50,000 in Cumulative Preference Shares, and £ 100,000 in Ordinary Shares.

18. The Vendors will pay all costs, charges and expenses of every kind incidental to the formation and registration of the Company up to allotment, and will also convey and transfer their various properties to the Company free of all expense. The Company will therefore enter into the receipt of the entire profits of the business, as from October 1st, 1897, without having to bear any of the heavy expenses usually incident to the establishment of a new Company.

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(2) Contract for the Management between this Company and Messrs Parry and Co. There are various trade Contracts which in the interest of the business it would be injudicious to specify, and certain arrangements have been entered into by the Vendors in connection with the incorporation and formation of the Company, and for guaranteeing the subscription of a portion of the Capital. Applicants for shares must be deemed to have had notice of any such Contracts and arrangements

20. It is intended to apply to the Committee of the London Stock Exchange for a settlement and quotation of the Debenture Stock and Preference Shares.

21. Failure to pay any instalments on the Debenture Stock will render the previous payments liable to forfeiture.

22. Application for Shares and Debenture Stock should be made on the Forms accompanying the Prospectus, and can be sent to the Company's Bankers with the amount payable on application.

If no allotment is made the deposit will be returned in full, and where the number of shares allotted is less than the number applied for the balance will be applied towards the payment on allotment.

Copies of the Memorandum and Articles of Association and the Contracts above enumerated, the draft of the Trust Deed to secure Debenture Stock, the valuations of Mr. Irwin, C.I.E., and the report of Messrs. Lovelock & Lewes can be seen at the Offices of the Solicitors, and Prospectus and Forms of Application can be obtained from the Bankers and Stockbrokers of the Company and from the Secretary at the Offices of the Company.

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Memorandum of Association of the East India Distilleries and Sugar Factories, Limited.

1. The name of the Company is The East India Distilleries and Sugar Factories, Limited.

2. The Registered Office of the Company will be situate in England.

3. The objects for which the Company is established are:-

(1) To acquire, take over and carry on as a going concern all or any of the business of distillers, sugar manufacturers and refiners hereto for carried on by Messrs. Parry & Co., of Madras, at their factories at Nellicorpum and Trivanellore, and by the Commercial Bank of India, Limited, at their Arcot Distilleries and Sugar Works at Rampettai and Salem.

(2) To acquire, carry on and transact the trades and business of planters, general merchants and importers, manufacturers of and dealers in sugar, wine and spirits, and any produce or manufacture which can conveniently be carried on in conjunction with any of the matters aforesaid, or in or upon any of the premises of the Company, or may directly or indirectly enhance the value of or render profitable any of the Company's property and rights.

(3) To purchase, take on lease, or acquire by exchange, license, hire, or otherwise, lands, buildings, mining rights, water rights, patents or other rights or claims, whether absolute, exclusive, optional, conditional or limited, or any interest therein, or any other kind of property in any other part of the world.

(4) To improve, manage, develop, or otherwise turn to account or deal with any of the property and rights of the Company.

(5) To erect, establish or acquire by purchase, hire or otherwise, and carry out, maintain, improve, develop, manage, work, control, and superintend any roads, works, bridges, harbours, reservoirs, water works, gas works, farms, canals, tramways, railways, quays, wharves, furnaces, mills, crushing and hydraulic works, factories, warehouses, ships, steamers, tugs, barges, machinery, locomotives, wagons, appliances, apparatus, and other plant and works and to contribute to, subsidise or otherwise aid and take part in any such

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(2) To acquire, carry on and transact the trades and business of planters general merchants and importers manufacturers of and dealers in sugar, wine and spirits, and any produce or manufacture which can conveniently be carried on in conjunction with any of the matters aforesaid, or in or upon any of the premises of the Company, or may directly or indirectly enhance the value of or render profitable any of the Company's property and rights.

(3) To purchase, take on lease, or acquire by exchange, license, hire, or otherwise, lands, buildings, mining rights, water rights, patents or other rights or claims, whether absolute, exclusive, optional, conditional or limited, or any interest therein, or any other kind of property in any other part of the world.

(4) To improve, manage, develop, or otherwise turn to account or deal with [illegible] or any of the property and rights of the Company.

(5) To [illegible] trust, establish or acquire [illegible] purchase, hire or other [illegible] carry out, maintain, improve, [illegible] manage, [illegible] control, and superintend any roads [illegible] or bridges, harbours, reservoirs, water [illegible], gas works, [illegible] works, farms, canals, tramways, railways [illegible] wharves, furnaces, mills, crushing and hydraulic works [illegible] factories, warehouses, ships, steamers, tugs, barges, machinery, locomotives, wagons, appliances, apparatus, and other plant and works, and to contribute to, subsidise or otherwise aid and take part in any such

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(2) To acquire, carry on and transact the trades and business of planters general merchants and importers manufacturers of and dealers in sugar wine and spirits, and any produce or manufacture which can conveniently be carried on in conjunction with any of the matters aforesaid, or in or upon any of the premises of the Company, or may directly or indirectly enhance the value of or render profitable any of the Company's property and rights.

(3) To purchase, take on lease, or acquire by exchange, license, hire, or otherwise, lands, buildings, mining rights, water rights, patents or other rights or claims, whether absolute, exclusive, optional, conditional or limited, or any interest therein, or any other kind of property in any other part of the world.

(4) To im[illegible], manage, develop, or otherwise turn to account or deal [illegible] or any of the property and rights of the Company.

(5) To [illegible] construct, establish or acquire by purchase, hire or other[illegible] carry out maintain improve, develope manage, [illegible] control, and superintend any roads, [illegible] bridges, harbours, reservoirs, waterworks, gas [illegible] works, farms, canals, tramways, railways, [illegible] furnaces, mills, crushing and hydraulic [illegible] factories warehouses, ships, steamers, tugs, barges, machinery, [illegible] wagons, appliances, apparatus, and other plant and works and to contribute to, subsidise or otherwise aid and take part in any such

the Company

constructions, works or operations.

(6) To establish, form, and subsidise or otherwise assist in the establishment, promotion or formation of any other companies having for their objects, or some of them, any of the objects mentioned in this memorandum, or the prosecution of any other undertakings or enterprises of any description having objects which may advance directly or indirectly the objects of this Company, and to secure, by underwriting or otherwise, the subscription of all or any part of the share or loan Capital of any such Company, and to pay or receive any commission, brokerage or other remuneration in connection therewith.

(7) To contract with or aid any Sovereign or other power, Government a State, or any municipal or other body politic or corporate, or Company or person for or relative to the sale or purchase of any goods or for the prosecution of any works undertakings, projects or enterprises; also to contract for and act as agents or otherwise in relation to loans or securities issued or proposed to be issued by any Government or State, or municipal or other authority or Company or Corporation or person or persons.

(8) To lend or advance money on the security of any kind of property, rights, stocks, shares, bonds, debentures, stock, mortgages, debentures, obligations, bills, notes or other instruments or securities, or on the undertaking of any Company, part thereof.

(9) To guarantee the performance of any contracts or engagements and to become liable or responsible for money, or for the payment of any sum of money secured by or payable under or in respect of any such contracts or engagements, or for the issue or payment of the capital, dividends, interest, debentures, stock, bonds, obligations or other securities of any Company or public or local authority.

(10) To borrow or raise money without security, or to secure the payment of money borrowed or raised, and in particular by the issue of debentures or debenture stock (perpetual or terminable), bonds, mortgages or any other security upon such terms as to priority or discount or otherwise as shall be thought fit, and to secure the same if thought fit by mortgage or charge upon the undertaking of the Company and all or any of its real and personal property, present and future, and all or any of its uncalled capital, or in any other manner, and to purchase or redeem (at a premium, if deemed expedient) any debentures, debenture stock or securities of the Company.

(11) To borrow or raise money without security, or to secure the payment of money borrowed or raised, and in particular by the issue of debentures or debenture stock (perpetual or terminable), bonds, mortgages or any other security upon such terms as to priority or discount or otherwise as shall be thought fit, and to secure the same if thought fit by mortgage or charge upon the undertaking of the Company and all or any of its real and personal property, present and future, and all or any of its uncalled capital, or in any other manner, and to purchase or redeem (at a premium, if deemed expedient) any debentures, debenture stock or securities of the Company.

(12) To sell, lease, charter, or otherwise dispose of, absolutely, conditionally, or for any limited interest, the whole or any part of the undertaking, property, rights, concessions or privileges of the Company for such considerations as to cash, shares, debentures or otherwise, as the Company may think fit, and to distribute any part of the proceeds for the time being of the Company among the members in specie or otherwise, and to acquire or undertake the whole or any part of the business, property and liabilities of any person or persons falling within the objects of the Company, or any of such objects.

(13) To subscribe for, purchase or otherwise acquire the shares, stock (whether ordinary, preferred or deferred), or the debentures, bonds or other securities of any Company, and to exercise and comply with all rights and obligations in respect thereof, and to accept the same in payment for any property sold, or business undertaken, or services rendered by the Company, and to hold, sell or otherwise deal with the same.

(14) To pay for any rights or property acquired by the Company, or any services rendered to the Company, either wholly or partly in cash or in fully paid shares of stock, debentures or other securities of the Company and to make any such payments on account thereof by instalments or otherwise, and either in money or in any other manner as may from time to time be deemed expedient for information purposes.

(15) To pay all expenses incurred in connection with the formation, promotion and registration of the Company, or for services of any kind rendered to the Company; and to pay commission to any person or persons for introducing to the Company any business, or for underwriting, procuring or agreeing to procure subscriptions, whether absolute or conditional, for any shares, stock, debentures or other securities of the Company, or any of such objects.

(16) To procure the Company to be registered or recognised in any part of the world, and to establish and maintain agencies for the purpose of the Company.

(17) To enter into any arrangements with any Government or authorities, supreme, municipal, local or otherwise, that may seem conducive to the attainment of the objects of the Company, or any of them, and to obtain from any such Government or authority any rights, privileges and concessions which the Company may think desirable to obtain, and to carry out, exercise and comply with any such arrangements, rights, privileges and concessions.

(18) To establish and support or aid in the establishment and support of associations, institutions, funds, trusts and conveniences calculated to benefit employees or ex-employees of the Company (or its predecessors in business) or the dependants or connections of such persons, and to grant pensions and allowances, and to make payments towards insurance, and to subscribe or guarantee money for charitable or benevolent objects or for any exhibition or for any public, general or useful object.

(19) To promote any Company or companies for the purpose of acquiring all or any of the property and undertaking of the Company, or any of the shares or other securities thereof, or for any other purpose which may seem directly or indirectly calculated to benefit the Company.

(20) To do all or any of the above things in any part of the world, and as principals, agents, contractors, trustees or otherwise, and by or through trustees, agents or otherwise, and either alone or in conjunction with others.

(21) To do all such other things as are incidental or conducive to the attainment of the above objects.

(22) To do all or any of the above things and all or any of the powers conferred by any of the clauses of this memorandum of association in any part of the world as principals, agents, contractors, trustees or otherwise, and by or through trustees, agents or otherwise, and either alone or in conjunction with others.

(23) To do all such other things as are incidental or conducive to the attainment of the above objects.

the Company

constructions, works or operations.

(6.) To establish, form, and subsidise or otherwise assist in the establishment, promotion or formation of any other companies having for their objects, or some of them, any of the objects hereinafter in this memorandum, or the prosecution of any other undertakings or enterprises of any description having objects which may advance directly or indirectly the objects of this Company, and to secure, by underwriting or otherwise, the subscription of all or any part of the Share or Loan Capital of any such Company, and to pay or receive any commission, brokerage or other remuneration in connection therewith.

(7.) To contract with any Sovereign or other power, Government or State, or any municipal or other body politic or corporate, or Company or person for or as relating to the purchase of any goods or for the prosecution of shipping, carrying, mining, and other powers, and other persons or Company undertakings, projects or enterprises of any description, and to act as agents or brokers or develop any property or business of any kind, and to carry on work or develop any property or business of any kind, and to enter into arrangements with others in so doing, or employ others to do so, as may be found expedient.

(8.) To pay any commission or brokerage for the purpose of procuring the subscription of any part of the Share or Loan Capital of this Company, or of any company promoted by this Company or in which this Company is or intends to be interested, and generally to remunerate any persons for underwriting such capital, or for services rendered in placing or assisting to place, or guaranteeing the placing of any shares, debentures or other securities of this Company, or for promoting or guaranteeing the raising of capital for any other company, and to procure or otherwise guarantee the subscription for or placing of the whole or any part of the Share or other Capital of any other Company.

(9.) To procure this Company to be legalised, domiciled or recognised in any Dominion, country or Colony, and to procure its registration or incorporation or the like in any foreign country, and to establish and maintain agencies and offices for the transaction of any of the business of the Company, or any part thereof, and to

(11.) to borrow or raise money without or on security, or to secure the payment of money borrowed or raised, and in particular by the issue of debentures or debenture stock (perpetual or terminable), bonds, mortgages or any other security upon such terms as to priority or discount or otherwise as shall be thought fit, and to secure the same if thought fit by mortgage or charge upon the whole or any part of the property, present and future, and all or any of the uncalled Capital, or in any other manner, and to purchase or redeem such debentures, debenture stock or securities of the Company.

(12.) To sell, lease, charter, or otherwise dispose of, absolutely, conditionally or for any limited interest, the whole or any part of the undertaking, property, rights, concessions or powers of the Company for such considerations in cash, debentures or otherwise as may be thought fit, and to abandon any such part in exercise of the powers of this Company, and generally to carry into effect all or any of the objects hereinbefore set forth.

And it is hereby declared that the word "Company" in this clause shall be construed in the most extensive manner, and that the objects specified in each paragraph of this clause shall be in no wise limited or restricted by reference to or inference from the terms of any other paragraph, or by any inference drawn from the terms of any other paragraph.

(13.) The word "Company" in this clause, when not applied to this Company, shall be deemed to include any partnership or other body of persons, whether incorporated or not incorporated and whether domiciled in the United Kingdom or elsewhere, and whether existing or hereafter to be formed.

The liability of the members is limited.

The Capital is £ 250,000 divided into 100,000 Ordinary Shares of £1 each, 150,000 Preference Shares of £1 each.

Subject as hereinafter provided, the rights following shall be attached to the Preference Shares aforesaid:-

(1) The holders of the said Preference Shares shall be entitled to a fixed cumulative preferential dividend at the rate of 7 percent per annum on the capital for the time being paid up on such Preference Shares respectively, and to participate equally with the

the Company

constructions, works & operations.

(6.) To establish, form, and subsidise or otherwise assist in the establishment, promotion or formation of any other companies having for their objects, or some of them, any of the objects mentioned in this memorandum, or the prosecution of any other undertakings or enterprises of any description having objects which may advance directly or indirectly the objects of this Company, and to secure, by underwriting or otherwise, the subscription of all or any part of the Share or Loan Capital of any such Company, and to pay or receive any commission, brokerage or other remuneration in connection therewith.

(7.) To contract with and any Sovereign or other power, Government or State, or any municipal or other body, politic or corporate, or Company or person for or in relation to the purchase of any goods or for the providing of shipping, carriage, prosecution of undertakings, projects or works of all kinds, and all other powers, and other persons or Company as may seem to the Company expedient, and to carry on work or develop any property or business of any kind, either alone or in conjunction with others in any of the foregoing, or employ others to do so, as may be found expedient.

(8.) To pay any commission or brokerage for the purpose of securing the subscription of any part of the share or loan capital of this Company, or of any company promoted by this Company, or in which this Company is or intends to be interested, and generally to remunerate any persons for underwriting such capital, or for services rendered in placing or assisting to place, or guaranteeing the placing of any shares, debentures or other securities of this Company, or for promoting or guaranteeing the raising of capital for any other company and the subscription for or placing of the whole or any part of the capital of any other company.

(9.) To procure this Company to be legalised, domiciled or recognised in any foreign country or colony, and to procure its incorporation or registration in any other manner, and to open and maintain offices and places of business in any part of the world, and to act as agents of any company or companies, and generally to carry on any of the operations of any company or companies as aforesaid in any foreign country or colony, or elsewhere, and to act as agents or attorneys for the management of any business of this Company, or any part thereof in any

(10.) To borrow or raise money without or on security, or to secure the payment of money borrowed or raised, and in particular by the issue of debentures & debenture stock (perpetual or terminable), bonds, mortgages or any other security upon such terms as to priority or discount or otherwise as shall be thought fit, and to secure the same if thought fit by mortgage or charge upon the undertaking of the Company and all or any of its real and personal property, present and future, and all or any of its uncalled capital, or in any other manner, and to purchase or redeem (at a premium, if deemed expedient) any debentures, debenture stock or securities of the Company.

(11.) To sell, lease, charter, or otherwise dispose of, absolutely, conditionally or for any limited interest, the whole or any part of the undertaking, property, rights, concessions or powers of this Company for such considerations as cash, shares, debentures or securities of any other company, and generally to deal with the property of this Company in such manner as the Directors may think fit, and to abandon any property of this Company, and the exercise of any of the powers conferred by this clause shall be construed as independent powers, and shall be in no wise limited or restricted by reference to or inference from the terms of any other paragraph, or by any inference to be drawn from the terms of any other paragraph.

(12.) The word "Company" in this clause, when not applied to this Company, shall be deemed to include any partnership or other body of persons, whether incorporated or not incorporated and whether domiciled in the United Kingdom or elsewhere, and whether existing or hereafter to be formed.

The liability of the members is limited.

The capital is £ 250,000, divided into 100,000 Ordinary Shares of £1 each, 150,000 Preference Shares of £1 each

Subject as hereinafter provided, the rights following shall be attached to the Preference Shares aforesaid:-

(1) The holders of the said Preference Shares shall be entitled to a fixed cumulative preferential dividend at the rate of 7 percent per annum on the capital for the time being paid up on such Preference Shares respectively, and to participate equally with the

considered by the Directors in the interests or directly or indirectly to the benefit of the Company to do so.

(15) To promote any company for the purpose of acquiring all or any part of the undertaking, property and liabilities of the Company. Also to acquire the undertaking and assets and undertake the liabilities of any now existing or future Company, and to conduct, liquidate, or wind up the business of any such Company.

(16) To enter into partnership or into any arrangements for sharing profits, co-operation, reciprocal concession or otherwise, with any person or company, and to remunerate any person or persons, joint stock or other company, by fixed salary or specified remuneration, or by a share of profits present, past or future, or part one way and part the other.

(17) To make and carry into effect or determine arrangements with British or foreign manufacturers for railway and shipping companies, proprietors or charterers of the [illegible] shipping, carriers, proprietors of steam or other mechanical power, and other persons or Company [illegible] on work or develop any property or business of any kind, issued or [illegible] with others in so doing, or employ others to do so, as may be found expedient.

(19) To pay any commission or brokerage [illegible] the purpose of securing the subscription of any part of the [illegible] or loan capital of this Company, or of any company promoted by this Company, or in which this Company is or intends to be interested, and generally to remunerate any persons for underwriting such capital, or for services rendered in placing or assisting to place, or guaranteeing the placing of any shares, debentures or other securities of the Company, or for promoting [illegible] guaranteeing the raising of capital for any other company, and [illegible] write or otherwise guarantee the subscription for or placing of the [illegible] or other capital of any other Company.

Bank of [illegible] cure this Company to be legalised, domiciled or recognised of the Direc[illegible] country or colony, and to procure its incorporation in a [illegible] of any company is a Société Anonyme in any foreign country, [illegible] ness of the Company, or any part thereof in any

foreign country or colony or dependency of the United Kingdom or in any part of the world, under any other style or name.

(21) To draw, accept, make, indorse, discount, and negotiate bills of exchange, promissory notes, warrants and other negotiable instruments other than bank notes.

(22) To distribute among the Members in specie any property of the Company, or any proceeds of sale or disposal of any property of the Company, but so that no distribution amounting [illegible] reduction of capital be made except with the sanction (if any) [illegible] the time being required by law.

(23) To exercise the powers given by "The Companies Seals Act, 1864" and "The Companies (Colonial Registers) Act, 1883."

(24) [illegible] such acts and things as are incidental or conducive to [illegible] above objects.

(25) [illegible] expressly declared that the intention is that the objects [illegible] fourth [illegible] each of the foregoing paragraphs of this Clause shall be construed in the most liberal way, and shall be in no wise limited or restricted by reference to any other paragraph, or by any inference drawn from the [illegible] of any other paragraph.

(26) The word "Company" in this clause, when not applied to this Company, shall be deemed to include any partnership or other body of persons, whether incorporated or not incorporated and whether [illegible] in the United Kingdom or elsewhere, and whether [illegible] or hereafter to be formed.

The liability of the Members is limited.

The Capital is £ 250,000, divided into 100,000 Ordinary Shares of £ 1 each, 150,000 Preference Shares of £ 1 each.

Subject as hereinafter provided, the rights following shall be attached to the Preference Shares aforesaid:-

(1) The holders of the said Preference Shares shall be entitled to a fixed cumulative preferential dividend at the rate of 7 percent per annum on the capital for the time being paid up on such Preference Shares respectively, and to participate equally with the

executed by the Director in the interests or during
to the benefit of the Company to do so.

(16) To promote any Company for the purpose of acquiring all or any
part of the undertaking, property and liabilities of the Company.

(17) To acquire the undertaking and assets and undertake the
liabilities of any existing or future Company, and to conduct,
administer, or wind up the business of any such Company.

(18) To enter into partnership or into any arrangements for sharing
profits, co-operation, reciprocal concession or otherwise, with any
person or company, and to remunerate any person or persons, part-
nership or company, and to remunerate any person or persons, part-
nership or company, in fixed salary or specified remuneration,
stock or other Company by a share of profits present, past or future, or partly one way
and partly the other.

(19) To make and carry into effect determine arrangements
with British, foreign, manufacturing, railway and shipping
companies, proprietary or chartered, Shipping, Carrying, proprietor
companies, proprietary or chartered, Shipping, Carrying, proprietor
of steam or other mechanical power, and other persons or Company
and to carry on work or develop any property or business of any kind,
and to enter into partnership or into any arrangement for sharing
profits, co-operation, reciprocal concession or otherwise with any
such persons or company, and to remunerate any person or persons,
company in cash or shares, debentures or debenture stock of this Company, or otherwise,
as may be found expedient.

(20) To pay any commission or brokerage for the purpose of procuring
the subscription of any part of the capital or loan capital of this
Company, or of any company promoted by this Company, or in which this
Company is or intends to be interested, and generally to remunerate
any persons for underwriting such capital or for services rendered
in placing or agreeing to place or guaranteeing the placing of any
shares, debentures or other securities of this Company, or for promoting
guaranteeing the raising of capital for any other company, and
in such manner or otherwise guarantee the subscription for or placing
of the whole or any part of the capital or other capital of any other Company
Boards of Directors of this Company to be legalised, countenanced or recognised
in any part of the world, under any other style or name.

(21) To draw, accept, make, indorse, discount, and negotiate bills
of exchange, promissory notes, warrants and other negotiable instru-
ments other than bank notes.

(22) To distribute among the members in specie any property of the
Company, or any proceeds of sale or disposal of any property of the
Company, but so that no distribution amounting to a reduction of
capital be made except with the sanction (if any) for the time
being required by law.

(23) To exercise the powers conferred by the Companies Seals Act, 1864,
and the Companies (Colonial Registers) Act, 1883.

(24) To do all such acts and things as are incidental or conducive
to the attainment of the above objects.

(25) It is hereby declared that the intention is that the
objects specified in each of the foregoing paragraphs of
this clause shall be construed in the most liberal way, and
that the objects specified in each paragraph of this clause shall
shall be in no wise limited or restricted by reference to any other
paragraph, or by any inference drawn from the terms of any other
paragraph.

(26) The word "Company" in this clause, when not applied to this
Company, shall be deemed to include any partnership or other body
of persons, whether incorporated or not incorporated and whether
carrying on business in the United Kingdom or elsewhere, and whether
existing or hereafter to be formed.

The liability of the members is limited.

The Capital is £ 250,000 divided into 100,000 Ordinary
Shares of £1 each, 150,000 Preference Shares of £1 each.

Subject as hereinafter provided, the rights following shall be
attached to the Preference Shares aforesaid:—

(1) The holders of the said Preference Shares shall be entitled to a
fixed cumulative preferential dividend at the rate of 7 per cent
per annum on the capital for the time being paid up on the
Preference Shares respectively, and to participate equally

the Ordinary Shares in the profits which in respect of each year it shall from time to time be determined to distribute remaining after paying or providing for the payment of a dividend for each year at the rate of 10 percent per annum on the capital for the time being paid up on the Ordinary Shares.

(2) The holders of the said Preference Shares shall have priority as to return of capital in the winding up over all other shares in the capital for the time being of the Company, but shall not have any further right to participate in profits or assets.

(3) The rights hereby attached to the said Preference Shares may be modified in accordance with Clause [illegible] of the accompanying Articles of Association, but not otherwise, and those clauses and Clauses 125 and 126 of the said Articles shall be deemed to be incorporated herein with effect accordingly.

Subject as aforesaid, Shares created upon an increase of capital may be divided into several classes, and preferential, deferred, qualified or special rights, privileges, or restrictions may be attached to the Shares in any such class.

the [illegible] London, E.C., the Bankers of the Company

THE EAST INDIA DISTILLERIES AND SUGAR FACTORIES,

Limited.

APPLICATION FORM FOR DEBENTURE STOCK.

To the Directors of

THE EAST INDIA DISTILLERIES & SUGAR FACTORIES, LIMITED.

Gentlemen,

Having paid to your Bankers the sum of £_____ being a deposit of £10 per cent. on an application for £_____ Debenture Stock in the above named Company, I request you to allot me that amount of Debenture Stock, and I agree to accept the same or any smaller amount that may be allotted to me, subject to the Memorandum and Articles of Association, and upon the terms of the Prospectus issued by you, dated the 15th day of December, 1897, and I agree to pay the further instalments as the same shall become due.

Name (in full)_____

Address_____

_____

Description_____

Date_____1897

Signature_____

All Cheques to be made payable to the Bankers.

.....

THE EAST INDIA DISTILLERIES AND SUGAR FACTORIES, LIMITED.

Bankers' Receipt for Deposit.

RECEIVED this_____day of_____1897,

from_____the sum

of_____Pounds, being a deposit of £10 per cent. on

application for £_____Debenture Stock in the above-named

Company.

For THE BANK OF SCOTLAND,

_____

Cashier.

£ : :

This form to be filled up and forwarded ENTIRE, with Cheque or Cash, to the Bank of Scotland, Bishopsgate Street, London, E.C., the Bankers of the Company.

THE EAST INDIA DISTILLERIES AND SUGAR FACTORIES,

Limited.

APPLICATION FORM FOR PREFERENCE SHARES.

To the Director of

The East India Distilleries & Sugar Factories, Limited.

Gentlemen,

Having paid to your Bankers the sum of £ ------- being a deposit of 2s. 6d. per share on an application for ----------Preference Shares of £.1 each in the above-named Company, I request you to allot me that number of Preference Shares, and I agree to accept the same or any smaller number that may be allotted to me, subject to the Memorandum of Articles of Association, and upon the terms of the Prospectus issued by you, dated the 15th day of December, 1897, and I agree to pay the further instalments as the same shall become due; and I agree with the Company, as Trustee for the Directors and other persons liable, to waive any claims I may have against them for not more fully complying in the said Prospectus with the requirements of Section 38 of "The Companies Act, 1867".

Name (in full) _____

Address _____

_____

Description _____

Date _____ 1897

Signature _____

All Cheques to be made payable to the Bankers.

.....

THE EAST INDIA DISTILLERIES AND SUGAR FACTORIES, LIMITED.

Bankers' Receipt for Deposit.

RECEIVED this _____ day of _____ 1897,

from _____ the sum

of _____ Pounds, being a deposit of 2s. 6d. per Share on

application for _____ Preference Shares of £.1 each

in the above-named Company.

For THE BANK OF SCOTLAND,

_____

Cashier.

£ : :

This Form to be filled up and forwarded ENTIRE, with Cheque or Cash, to the Bank of Scotland, Bishopsgate Street, London, E.C., the Bankers of the Company.

Revenue (1899) Department.

CURRENT No. 1732

From

H. A Sim Esqre I.C.S
Private Secretary to
H.E. the Governor

Order

No.

Camp Darjeeling
Dated 25th February 1899.

Received 10 March 99
Registered

Enclosures 4

Spare copies.

SUBJECT.

Transfers a petition dated 15th February 1899 from Messrs Parry & Co. Madras, regarding the Reduction of the Maximum price for Molasses liquor at distilleries &c.

By order

Private Secretary

BACK PAPERS.

G.O.	No.	Department.	Date.

FURTHER PAPERS.

G.O.	No.	Department.	Date.

1

9P

D 1,000—8-4-97.

Mis.NO.353.

Revenue Board's Office (Separate Revenue)
Madras, 30th January 1899.

From,

C.G.Todhunter, Esquire., I.C.S.,
Ag. Secretary to the Commissioner of Salt,
Abkari and Separate Revenue,

To,

Messrs.Parry & Co.,
Madras.

Copy under G.O. 95 6-2-99

Gentlemen,

Having regard to the largely diminishing consumption of country liquor- arrack - the enhancement of price it is undergoing in certain Districts, and the fall in rentals which is being brought about by the shopkeepers regarding further risesin price as inevitable, the Government has it in view to reduce the maximum price for molasses liquor at distilleries to a figure which will not be under 8 As. 6 pies per gallon of 30 under-proof and to fix corresponding prices at Ware--houses and wholesale depots. The price of liquor distilled from Pal--myra jaggery would also be reduced slightly - that from sugar cane jaggery continuing as it is. Before making any reduction Government wishes to consider any observations you may have to offer on this proposal and I am directed to request that you will favor me with your remarks on the same before tomorrow morning.

I have the honor to be,
Gentlemen,
Your most obedient servant,

(Sd).C.G.Todhunter.

Ag. Secretary.
30-1-99.

(True Copy).

[illegible] [illegible]

page 7 of current

to Govt.

2. In para 2 of its first letter, the fir[illegible]

that a proposal to supply cou[illegible]

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BACK PAPERS.

G.O.	No.	Department.	Date.

1899

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1732

9P

D/4 1,000—8-4-97.

Revenue Board's Office (Separate Revenue)
Madras, 30th January 1899.

The Secretary, Esquire., I.C.S.,
Board of Revenue, y to the Commissioner of Salt,
ari and Separate Revenue,
Separate Revenue,
MADRAS.

Copy under 95 6-2-99

Sir,

We have the honor to acknowledge re diminishing consumption of ce it is the communication Mis.353, of this date, and in reply beg to say that the matter is of such importance to us, that we are not prepared to offer our remarks atlength thereon at such very short notice. It will moreover be necessary for us to consult our Directors in London, as proposals already under consideration by them for the utilization of their bye-products will be affected by the contemplated action of Government. We may, however, submit for your consideration our opinion that while such reduction in price as is contemplated will no doubt diminish the output of arrack from our distilleries, it will almost certainly cause the smaller concerns to cease working.

The proposal of Government appears to us to be peculiarly inopportune in view of the present depressed condition of the local sugar industry.

We have the honor to be,
Sir,
Your obedient servants,

(Sd).Parry & Co.

Managing Agents.

(True Copy).

Info P.W.P.

to Govt.

page 7 of current

2. In para 2 of its first letter, the fir lations" ention

that a proposal to supply cou rry & co

BACK PAPERS.

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9P

D 1,000—8-4-97.

PARRY & CO., MADRAS,
Managing Agents.
Telegraphic Address
"DISTIMULO."

The East India Distilleries and Sugar Factories, Ld.

Madras, 7th February 1899

The Secretary,

Board of Revenue,

Separate Revenue,

M A D R A S .

copy under cto 14/6/99

Sir,

In continuation of our letter of 30th ulto and in response to the Board's request in their letter of that date, we have now the honor to make the following further observations on the proposals then indicated which we note are to establish differential prices against us as follows:-

1. To reduce the maximum sale price of molasses spirit ex Distillery from 10½ to 8½ annas per gallon, or say by over 20 %.

2. To reduce the price of Palmyra Jaggery liquor by an amount not stated.

3. To leave Cane Jaggery spirit price as at present.

The above proposal has fairly astounded us and in case it may have arisen in connection with a recent D/O offer made by our Mr.W.Shaw to Mr.Thomson we would first clear that up. Mr.Shaw's offer stipulated not only for a contract for a term of years but also for terms which would have enabled us to largely reduce our staff both up-country and in Mad-ras and so generally cheapen and simplify our working.

These advantages, with the desire to show Government that we did not propose to force prices to any excessive level, led us to offer to

supply

to Govt.

page 7 of current

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19

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D/4 1,000—8-4-97.

PARRY & CO., MADRAS,
Managing Agents.
Telegraphic Address
"DISTIMULO."

The East India Distilleries and Sugar Factories, Ld.

189

4.

among shopkeepers consumption has fallen off.

When asked to assign reason for such decreased consumption shop-keepers are no doubt glad to put forward the reasons apparently accepted by the Board, but such will not bear investigation.

We would wish to remind Government that the existing Abkari Free supply system which has been worked with such financial success to Government for the last 15 years, was originally inaugurated only after much consultation of our then senior partner Mr.J.C.Shaw by Mr (now Sir Henry) Stokes, and Mr.Shaw then wrote Mr.Stokes as follows under date 20th May 1884.

"As I said to you when here we will undertake to support you in "carrying this through provided we are satisfied that there will be no "throwing us over on the plea that we should be securing too many "Districts". It was then we believe, that the 10½ annas maximum rate ex distillery for spirit was settled on and Mr.Shaw's fear as expressed above was met by the understanding that subject to the said maximum Government was indifferent as to how much of the Presidency we might supply. Our firm then gave all the assistance in its power and insured the successful start of the then new order of things. But now it would appear that our services then rendered are forgotten and Governmentin its differentiation of prices against us is wishing to throw us over exactly as Mr.Shaw foresaw might be the case.

In

to Govt.

page 7 of current

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BACK PAPERS.

D 1,000—8-4-97.

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9P

PARRY & CO., MADRAS,
Managing Agents.
Telegraphic Address
"DISTIMULO."

The East India Distilleries and Sugar Factories, Ld.

189

5.

In conclusion we have the honor to submit that this scheme of differential rates if carried out will amount to a direct attack upon all capital invested in the sugar industry of this Presidency, of which industry the utilization of molasses for spirit making is, of course, a material branch. The reduction of prices proposed would involve peculiar harship to the shareholders who have so recently acquired an interest in this Company and the injustice becomes the more apparent when it is remembered that only this year we have completed the erection of a large, expensive new Distillery at the express instigation of the late Abkari Commissioner, now senior member of the Council. Had any indica-tion been given us that a radical change of system was intended such as this differentiation of rates against molasses spirit, we could not have thought of meeting Mr. Arundel's wishes and sunk the capital invol-ved in the New Distillery at Nellicoopam nor could this Company have taken over its business on the terms it did. We can scarcely credit that on consideration Government will definitely decide upon practically confiscating in this way capital invested on the faith of the stability of long established Revenue Regulations no change in which can equitably be made save after notice proportionate to the capital sunk in the business concerned.

We have the honor &,.

(Sd).Parry & Co.

(True Copy) [illegible]

page 7 of current

to Govt.

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that a proposal to supply cou[illegible]

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BACK PAPERS.

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D 1,000—8-4-97.

Extract from Fort Saint George Gazette dated 7th February 1899.

NO.8. In exercise of the power conferred on him under rule 65 of the Distillery and Warehouse Rules as amended by Government Notification NO.35 dated 24th January 1899, published on page 101 of the Fort St. George Gazette of the same date, Part I, and in supersession of existing orders on the subject, the Commissioner of Salt, Abkari and Separate Revenue hereby fixes the following maximum prices to be charged by Distillers supplying the private distillery supply tracts for spirits issued from their distilleries to-

(i) licensed arrack vend monopoly farmers;

(ii) licensed shopkeepers in districts and towns in which arrack shops are separately sold; and

(iii) licensed wholesale vendors of country spirits:-

Kinds of spirits.	per gallon of 20.Under-proof	per gallon of 30.Under-proof	per gallon of 60.Under-proof.
	RS.- AS.-PS.	RS.-AS.-PS.	RS.-AS.-Ps.
Sugar Cane jaggery arrack	0 -12- 0	0 -10- 6	0 - 6- 0
Palmyra Jaggery arrack	0 -11- 5	0 -10- 0	0 - 5- 9
Molasses.	0 - 9- 9	0 - 8- 6	0 - 4-10

This order will have effect from the 1st April 1899. Maximum prices for Warehouses will be fixed individually at the time of issue of licenses.

Board of Revenue, Separate Revenue,)
Madras, 7th February 1899)

(Sd.) C.G.Todhunter.
Ag. Secretary.

(True Copy)

to Govt.

2. In para 2 of its first letter, the fi[illegible] that a proposal to supply cou[illegible]

page 7 of current

BACK PAPERS.

D/4 1,000—8-4-97.

REVENUE DEPARTMENT.

No. 1795 / 1799.

From the Board of Revenue, (Separate Revenue),

Misc. No. 791 Dated 25th February 1899.
(C.No.1496).
and from Messrs. Parry & Co. d/ 28-2-99 (C.No. 1732).
~~F O R O R D E R S.~~ Rec'd 16-3-99.

To Secy.

In G.O.No. 95 d/ 6-2-99 the Govt. authorized the Board of Revenue to reduce the maximum price to be charged by distillers for molasses arrack from as. 10½ to as. 8½ a gallon of 30 U.P., and a notification was accordingly published by them on 7-2-99 under the power conferred by rule 65 of the Distillery rules.

With the first paper read above, the Board forward with their remarks a protest from Messrs. Parry & Co. against the reduction, while the second curr-o. is a similar protest addressed dir to Govt.

2. In para 2 of letter, the fi that a proposal to supply cou

spirits at 8½ annas a gallon was made by Mr. Shaw, but that it was coupled with a stipulation to be given the monopoly of supply for a term of years in certain districts. The firm expected that under such an arrangement ~~they~~ it could reduce ~~their~~ its staff in Madras and up-country and thereby cheapen ~~their~~ its working. It therefore protests against the forcing of that rate upon it, without the counterbalancing advantage. The Board remark that they did not ignore Mr. Shaw's offer, but that they attached less value to it than the firm seems to infer. ~~Its~~ The proposal of the latter was prompted by a desire to kill competition, and could not therefore be accepted.

3. The firm's second objection is that as liquor is not made from only one class of material at a time, it would be difficult to work the scheme of differential [illegible]s. The Board does not anticipate any [illegible]culty on the subject. The East India [illegible]leries and Sugar factories Company [illegible]rom molasses only, while other

FOR ORDERS.

But if they volunteered an 8½ an. rate for a term of years, it was naturally a rate wh. wd. well protect them from the vicissitudes of the sugar market during the period. The fluctuations might have been very large, & yet an 8½ an. rate was deemed by the firm to cover them sufficiently.

para 2 on page 1 of current.

8/2

yes. believed to be

AA

para 3 on page 8 ibid

para 3 on page 1 ibid

I suppose, a substantial [illegible]ion of the mixture were of low class? 8/2

AA. para 4 on page 8 of current.

para 4 on page 2 of current.

paras 5 & 6 on pages 8 & 9 ibid.

distillers use only one class of material at a time. It is possible that to evade the present regulation an admixture of materials may be attempted; ~~xx~~ but the Board proposes to treat liquor so distilled as made from materials of the lowest class used.

4. Messrs. Parry & Co.'s third objection is that a difference of two annas in the maximum price at the distillery would only be 3¼ per cent of the price to be paid by the shopkeeper including duty, ~~and~~ that as the consumer buys by the dram, the difference in price would ~~xxxxxxxxx~~ scarcely be appreciable, and that consumption cannot be materially affected. The Board ~~is~~ are concerned not with the consumer directly, but with the shopkeeper, as against the distiller, and regard a decrease of two annas in first cost ~~is~~ as a matter of very considerable moment to him.

5. Messrs. Parry & Co.'s fourth o[illegible]tion is that the decrease in c[illegible]tion of liquor, if any, has [illegible]

-2-99 [illegible]lations [illegible]tention [illegible]rry & co

brought about by the enhancement of the tax, or by combination among retailers, and that the effect of the first measure has begun to be felt after the extinction of the " extreme competition" between the Nellikuppam and Ranipettai distilleries. These assertions are traversed by the Board in paras 5 and 6 of ~~its~~ their Proceedings. The firm anticipates that when the East India distilleries and Sugar Factories Company is forced out of the spirit business by " unjust legislation", the price of liquor would rise very high. The Board have no fear that the Company will be forced out except by its own mismanagement, for which Govt: cannot be blamed.

6. In para 7 of their letter Messrs: Parry and Co: claim to have helped the Govt: in introducing the private distillery upply system, and complain that their services e now forgotten, and that they are over. They refer to a letter ad- y Mr: Shaw, their ~~the~~ Senior part- ner

a D.S.

para 5 on page 2 of current

page 9 ibid

Does this ~~[illegible]~~ mean that the present system enables them to make an excessive profit as a reward?

S.H.

?

× This was 15 years ago

S.H.

This is absurd. The firm ~~[illegible]~~ acts under a license the terms of wh. are what bids them & Govt. N.A.

para 7 on page 3 of current

Page 10 of Sir Henry Stokes' note d/5-4-'84, under G.O.No: 394, d/18-3-'84.

Para 16 of the Commissioner's letter on page 3 of G.O.1362, d/ 10-12-85.

× not traceable vide note of record office 8-5-99

~~[illegible]~~ to Sir Henry Stokes on the 20th May 1884, and to an understanding arrived at with reference thereto to the effect that subject to the maximum of 10½ annas a gallon the Govt: was indifferent as to how much of the Presidency they supplied. They infer presumably that the rate was unalterable. The Board observe that if Govt: has in the past benefited from the firm's help, ~~it~~ the latter has reaped a plentiful return from its operations under Govt: patronage, and that though there is no desire to curtail its legitimate rate of profit, it cannot expect to dictate terms to Govt:. The Board ~~is~~ are not aware of any correspondence to show that the 10½ annas was ever regarded as unalterable. The papers available in ~~this~~ this office are noted on the margin. The D.O. letter referred to by Messrs: Parry and Co: cannot be traced nor the reply to it, if any. The Search is being ~~made~~ continued. In a note dated the 5th 1884 suggesting changes in the tion of the Abkari Revenue, S

-2-99 lations tention rry & co

9

Stokes stated " In these districts it is necessary to fix a maximum rate beyond which the distillers shall not charge, and also to pitch the still-head duty a ~~still~~ little higher than Rupee 1/-. I would make it Rs1-2-0 for taluk vendors in those districts, and fix 14 annas per gallon as the maximum charge to taluk vendors". From the previous portion of the note this rate appears to have been intended to apply to 30° Undr Proof. By G.O. No:394,d/18th March 1884, a Committee was appointed to consider the changes proposed; but ~~their~~ its report (which will be found printed in G.O.No:570,d/30th April 1884) is silent on the point. But one of the notifications drafted by them, Committee stated " The " former(persons authorized to establish " distilleries) will be bound to supply ——— " at any prices agreed upon, subject to " maximum prices of one rupee two annas, one rupee, and nine annas per gallon ovirits of strengths 20° under-proof, y r-proof, and 60° under-proof res- ". These maxima rates were approved.

condition 4 of not. Pt IV on page 13 of G.O. 570 Rev 30-4-84

para 1 of G.O. cit

para 9 of Govt's letter on page 2 of G.O. 23 Rev 9-1-85
para 3 of G.O. cited
condition 11 on page 3 of G.O. 124 Rev 30-1-85

Para 16 of his letter on page 3 of G.O. 1362 10-12-85

page 28 of G.O. cit

This could not be done with a formal G.O. which was passed not to be objected to by Govt as soon they knew it. MA 10.4.99

* Do not mean there but for subsequent Period

For the Kurnool Dt: during the ~~next~~ from 1885-86 lease a maximum rate of twelve ~~xix~~ annas a gallon of 30 Under proof was prescribed. In submitting proposals for the lease for 1886-87, the Commissioner (Sir Henry Bliss) after observing that the maxima rates then in force were unnecessarily high- twelve annas in Kurnool and one rupee elsewhere- proposed a reduction to ten annas and a half. The proposal was approved by the Board (para 10-I(h)). The foregoing precis, it will be observed, shows that there was no intention to fix unalterable maxima rates, and that the rate of ten annas and a half a gallon of 30° Under proof was prescribed in December 1885 and not at the time of Mr. Shaw's letter of 20-5-84. The G.O. is signed by Sir F. Price, and not by Sir Henry Stokes, who, it is understood, was then on leave. To be on the safe side it is perhaps desirable that Messrs. & Co. may be asked to state de[illegible] 1-2-99 Letter no. tention what ~~that~~ the understanding was to [illegible] & Co

refer and to forward a copy of the papers on which they rely. ~~Further~~ The Govt. has no objection, it is presumed, to the supply of any district by Messrs. Parry & Co. ~~(and this is what they appear to claim)~~. The real objection is to their enhancement of prices.

7. Lastly, Messrs. Parry & Co. complain that as the utilization of molasses for spirit making is a material branch of the sugar industry, the imposition of differential rates is a direct attack on the capital invested in that industry. The Board denies the validity of this complaint, as a sugar industry is being instituted in the north(presumably in Godavari), the persons interested in which are willing to work for lower rates for the spirit produce than those now fixed by Govt.

8. Messrs. Parry & Co. state that on the faith of the stability of long standing [rules] regulations they have only recently completed the erection of a large new distillery at Nellikuppam

and that the ~~Sugar~~ East India Distilleries and Sugar Factories Company took over its business, and that a change in the abkari policy of Govt. cannot equitably be made until after notice proportionate to the capital sunk in the business. The Board observed that the Company had a year's notice. Messrs. Parry & Co. enquired of the Board under date the 23rd April 1898 whether the abkari policy "was to re-"ceive any important modification ma-"king distilling possibly less attrac-"tive from a trader's point of view." The Board replied that "no alteration "in the Govt. abkari policy in its "main features" was contemplated, but that Govt. was bound to protect itself against the firms attempt to obtain a monopoly of supply. Messrs Parry & Co. appear to consider that a reduction of the maximum rate for molasses arrack as an important change, while the Board appear to think differently. Whether the length of notice

10

was not sufficient in the present case depends on how the question is ~~received~~ [illegible].

As to the alleged dependence on the stability of revenue regulations, attention is solicited to rule 65 of the distillery rules published in the Fort St. George Gazette d/ 5-5-91, Part I.-- "The Commr. may, subject to the orders of Govt. fix from time to time the maximum prices to be charged by distillers for spirits issued from a distillery etc." This distinctly negatives the assumption that the maximum rate once prescribed would be permanent.

9. In their letter d/ 15-2-99, Messrs. Parry & Co. appeal to Govt. that the Board after inducing them upon certain terms to engage on a large scale in the business of distillers, have suddenly and without due notice introduced a very serious modification of the terms. They add "our present feeling is that rather [illegible] submit to what we consider a gross [illegible] of faith we must, even at some [illegible] loss to ourselves, close our

The firm was invited to give its views before the order was passed. The present letter was written after the first reply was received. vide page 70 of the excise manual. ALA

Of course they knew this better than we do. SB Draw their attention to this. ALA

C No. 1732/99

page 2 of [illegible]

11

Not an idea of it. AL. SB

HM

1 H.E. the Governor

[illegible] put Messrs P & Co [illegible] to get a monopoly of [illegible] for the Presidency or [illegible] much of it as possible [illegible] Govt. must [illegible] power to prevent this [illegible] the Distillery rules under wh. [illegible] P & Co. hold their license [illegible] Govt. the power necessary [illegible]. ALA 10.4.99.

140

"distilleries so far as the manufacture "of what is known as country spirit is "concerned", and they call attention to the question of the attraction of capital to India. Whether the firm will carry out the threat it is impossible to say. If it does, the Govt. may then consider what course should be adopted. In regard to the charge of breach of faith it is not clear what terms were offered by the Board. As to want of notice, please see para 8 above.

KO
20-3-99

HM.

I have noted on the margin.

SB 21/3/99

[illegible] by underselling other distilleries & so forcing their owners to give up the business

I must accept the Hon. Member's conclusion, that we must stick to the previous order, though I think our having thus to reduce the maximum price is unfortunate.

Perhaps it must be worth while to [illegible] the suggestion made by the Company [illegible] combination of shop keepers is [illegible] the rise in price. A.G.H.

[illegible] 1-2-99 [illegible] lations [illegible] tention [illegible] Parry & Co

12.

To secretary

Please see draft below

SAW 7/5/99

15.5.99

17.5.99

To be stitched with note on Ltr. 14.96/99.

Note for Mr V of the Arama Cuya.

—

Mr Shaw's D.O. to Mr Stokes of 20th May 1884 and the reply thereto are not traceable.

[illegible]

8/5/99

-2-99
lations
ention
ry & co

12

Revenue Department

Read

full

P.P.(S.R) mis No. 791 d 25-2-99
(C.No. 1496 of 99)

No. 8 date only

Petition from Messrs Parry & Co. d. 15-2-99
(C.No. 1732 of 99)

G.O. Mis. No. 1796 d/ 11.5.99
Confid. No. 62.

Disp'd 19.5.99

NA 15.5.99

The Govt concurs with the Board's remarks in the first of the papers read above. Messrs Parry & Co should accordingly be informed that the Govt sees no reason to reconsider the orders sanctioning a reduction of the maximum price of palmyra-jaggery arrack and molasses arrack issued from distilleries. With regard ~~reference~~ to the reference ~~allusion~~ in the concluding para of their letter to the Board d. 7-2-99 "to the stability of long established Revenue Regulations" the ~~special~~ attention of Messrs Parry & Co

page 10 of C.No. 1496

16

should be drawn to Rule 65 of the Distillery and Warehouse rules, which provides that "the Comr. may, subject "to the orders of Govt. fix "from time to time the "maximum prices to be "charged by distillers "for spirits issued from "a distillery" It should also be pointed out to them that they act under a license granted annually the terms of which alone can be held to bind them and Govt.

2. Adverting to the remarks in para 3 of the B.P., the Govt presumes that the lower appropriate maximum rate will be enforced only if a substantial portion of the mixture be made from the lower classes of materials.

2

Hm's note on page 5 of note.

Secy's remark concurred in by Hm on page 3 of note.

3

H.E.'s remark on page 11 of note

17P

3. The Govt desires that the Board of Revenue should further investigate the suggestion made by Messrs Parry & Co. that combination among shopkeepers is partly the cause of the rise in the retail price to the consumer.

4. Messrs Parry & Co. will be referred to the Board of Revenue for orders on their petition

SB 14/5

Dept 19/5/99

To the Board SR.
(A & O) with petition to be sent.
— Messrs Parry & Co.
(para 4 only)

WR
8/5/99

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14

should be drawn to Rule 65 of the Distillery and Warehouse rules, which provides that "the Comr. may, subject "to the orders of Govt. fix "from time to time the "maximum prices to be "charged by distillers "for spirits issued from "a distillery" It should also be pointed out to them that they act under a license granted annually the terms of which alone can be held to bind them and Govt.

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2

Note
The underlining is by the office
ak

Hm's note on page 5 of note.

Secy's remark concurred in by Hm on page 3 of note.

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H.E.'s remark on page 11 of note

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SB 14/5/

Dec'd 9/5/99

To the Board SR (A & O) with petition to be sent.

- - Messrs Parry & Co. (para 4 only)

WR
8/5/99

17P

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a Suars

16

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...AGAIN G.O., No. 189 ,	DATED							
...RRENT No.								
ENCLOSURES TO C. No.								
ORDER OF GOVERNMENT		A	A	A	A	A	A	A
LETTER OF GOVERNMENT.								
STATEMENT WITH DITTO.								
PAPERS NOT FILED UP, BEING MEANT FOR DESPATCH IN ORIGINAL.								

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Government {1899} of Madras.

REVENUE.

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Recd.

Regd.

} *1899.* *Enclosures*

Spare copies

G.O., No. 1796 (Confdl. No. 62), 17th May 1899.

MAY.

Passing orders on Messrs. Parry & Co.'s petition protesting against the alteration in the maximum price for liquor issued from distilleries.

CONFIDENTIAL.

GOVERNMENT OF MADRAS.

REVENUE DEPARTMENT.

Read—the following Proceedings of the Board of Revenue (Separate Revenue), Mis. No. 791, dated 25th February 1899 :—

Read—the following letter from Messrs. PARRY & CO., Managing Agents, The East India Distilleries and Sugar Factories (Limited), to the Secretary to the Board of Revenue (Separate Revenue), dated Madras, 7th February 1899 :—

In continuation of our letter of 30th ultimo and in response to the Board's request in their letter of that date, we have now the honour to make the following further observations on the proposals then indicated, which we note are to establish differential prices against us as follows :—

(1) to reduce the maximum sale price of molasses spirit ex-distillery from $10\frac{1}{2}$ to $8\frac{1}{2}$ annas per gallon, or say by over 20 per cent. ;
(2) to reduce the price of palmyra jaggery liquor by an amount not stated ;
(3) to leave cane jaggery spirit price as at present.

2. The above proposal has fairly astounded us and in case it may have arisen in connection with a recent demi-official offer made by our Mr. W. Shaw to Mr. Thomson we would first clear that up. Mr. Shaw's offer stipulated not only for a contract for a term of years but also for terms which would have enabled us to largely reduce our staff both up-country and in Madras and so generally cheapen and simplify our working.

These advantages, with the desire to show Government that we did not propose to force prices to any excessive level, led us to offer to supply at $8\frac{1}{2}$ annas, but we must strongly protest against that rate being forced upon us as a maximum price without the counterbalancing advantages referred to.

3. Next we have to remark that the scheme would probably be found difficult to work if eventually attempted, because liquor is not made only from one class of material at a time but, in a greater or less degree for fermentation purposes, there is a mixture of materials in the vats, so that without hampering the business and deranging the ordinary course of work it would be impossible to say exactly what liquor is made from each individual class of material.

4. With regard to the opening paragraph of the letter under reply, it appears to us that the Board allow excessive weight to the effect on consumption of the, say, 2 annas per gallon difference of rates under reference. It has to be remembered that on a 10 annas basis for spirit ex-duty the shopkeeper will generally have to pay, say,—

	Rs.	A.	P.
As first cost	0	10	0
As duty	3	1	0
As transport wastage	0	2	0
Total cost ..	3	13	0

2 annas on that equals only, say, $3\frac{1}{4}$ per cent.—a difference not sufficient to have any marked effect on consumption, especially seeing that the actual consumer buys by the dram when the difference in price is scarcely appreciable.

5. We have not before us the figures on which the Board goes when stating that the consumption of the country arrack is diminishing, so we cannot well discuss that point as we should like to, but meanwhile we may mention that since 1894 the rate of duty has been raised 7 annas per gallon and upwards, practically all over the Presidency.

During 1895, 1896 and 1897 this rise in duty may not have been felt since: during that period, owing to extreme competition between the Nellikuppam and Ránipéttai distilleries, sale rates were cut down, eventually to below cost of production. From 1898, this competition having ceased, the rise in duty referred to is perhaps making itself felt on consumption, but there is no ground for asserting that hitherto we have forced prices to an unduly high pitch and certainly, so far, they are not so high as they will at once rule if by unjust legislation we are forced out of the spirit business.

6. Government appear to us to be acting in blind fear of the small rise in price necessary for us—manufacturers—to earn a fair profit on our capital and skill employed, while it overlooks or ignores the real hindrance to consumption which results when shopkeepers join together to raise retail prices to the consumers.

Cases in point are Madras and Kistna districts, in both of which wholesale prices are relatively low, while in both, owing to combination among shopkeepers, consumption has fallen off.

When asked to assign reason for such decreased consumption, shopkeepers are no doubt glad to put forward the reasons apparently accepted by the Board, but such will not bear investigation.

7. We would wish to remind Government that the existing abkári free-supply system, which has been worked with such financial success to Government for the last fifteen years, was orginally inaugurated only after much consultation of our then senior partner Mr. J. C. Shaw by Mr. (now Sir Henry) Stokes, and Mr. Shaw then wrote to Mr. Stokes as follows, under date 20th May 1884 :—

"As I said to you when here we will undertake to support you in carrying this through provided we are satisfied that there will be no throwing us over on the plea that we should be securing too many districts." It was then, we believe, that the $10\frac{1}{2}$ maximum rate ex-distillery for spirit was settled on and Mr. Shaw's fear, as expressed above, was met by the understanding that, subject to the said maximum, Government was indifferent as to how much of the Presidency we might supply. Our firm then gave all the assistance in its power and insured the successful start of the then new order of things. But now it would appear that our services then rendered are forgotten and Government by its differentiation of prices against us is wishing to throw us over exactly as Mr. Shaw foresaw might be the case.

8. In conclusion, we have the honour to submit that this scheme of differential rates, if carried out, will amount to a direct attack upon all capital invested in the sugar industry of this Presidency, of which industry the utilisation of molasses for spirit-making is, of course, a material branch. The reduction of price proposed would involve peculiar hardship to the shareholders who have so recently acquired an interest in this Company, and the injustice becomes the more apparent when it is remembered that only this year we have completed the erection of a large expensive new distillery at the express instigation of the late Abkári Commissioner, now Senior Member of Council. Had any indication been given us that a radical change of system was intended, such as this differentiation of rates against molasses spirit, we could not have thought of meeting Mr. Arundel's wishes and sunk the capital involved in the new distillery at Nellikuppam, nor could this Company have taken over its business on the terms it did. We can scarcely credit that on consideration Government will definitely decide upon practically confiscating in this way capital invested on the faith of the stability of long established revenue regulations, no change in which can equitably be made save after notice proportionate to the capital sunk in the business concerned.

Resolution—Mis. No. 791, dated 25th February 1899.

Messrs. Parry & Co.'s letter will be forwarded to Government with the following remarks.

2. *Paragraph 2.*—The Board was fully aware that Mr. Shaw's offer to contract for a term of years at $8\frac{1}{2}$ annas would, if accepted, improve even the present position of the Company by making that a fixed price for all-comers within the area contracted for and enable it to effect savings in various ways accordingly. The only advantage it promised for Government was that shopkeepers would be certain of the price they would have to pay, but the reduction therein under the maximum which the last rule allowed would be of small advantage to those at any distance from the only distillery—Nellikuppam—which the Company would have continued to maintain within the tract. Under competition it may be doubtful if the Company could force prices beyond $8\frac{1}{2}$ annas: its endeavour for some years now has been to kill competition; and the Board's proposal, while it did not ignore the fact of Mr. Shaw's offer, attached less value thereto than the Company seems to infer.

3. *Paragraph 3.*—The Board does not anticipate any difficulty in determining from what material liquor has been made. The Company distils only from molasses, minor distillers generally from only one class of material at a time, and the latter are not likely to find any objection to the differential rates. The uniformity of the distillery price for liquor without reference to material placed these latter at an enormous disadvantage in the competition. Admixture of materials, if tried at all (except to meet very temporary emergencies), can be so for no purpose, but the evasion of the present regulation and the Board would meet it by treating the resultant spirit as though made from material of the lowest class used.

4. *Paragraph 4.*—The effect on consumption of the difference of 2 annas per gallon may not be very appreciable when applied to the dram. But the Board is, for the present, most concerned regarding the competing distiller and the shopkeeper —the final agent in distribution—and from the point of view of the latter the decrease in first cost is a matter of very considerable moment.

5. *Paragraph 5.*—There is no reason for believing that the rise in duty since 1894 is making itself felt on consumption; the Board's administration reports negative such an opinion: but there is every reason to believe that the rise of price consequent on the want of competition in supply will intensify any such tendency if it exists, and the absence of competition is a current explanation of the fact of decrease in consumption. Reduction of consumption can be countervailed in its effect on the revenue by enhanced duty; but with a high maximum price up to which a distiller might work the danger lay in the anticipation of shopkeepers that prices would eventually be enhanced by this Company to the extreme limit the previous notification allowed, and the difference was the profit of the Company. The declared intention was to get rid of all competitors, and with that the maximum distillery price would certainly have been given effect to as far at least as was consistent with an output which would have satisfied the Company's view of its own possible profits. It is difficult to see how it can be forced out of the spirit business except by its own mismanagement: the present rate of $8\frac{1}{2}$ annas most distinctly cannot bring that about unless the business has been so reconstructed as to permit of it. If that is the case the Company and not Government is to blame.

6. *Paragraph 6.*—The Board is not aware of any hindrance to consumption from combination of shopkeepers to raise their prices to consumers; when the privileges of vend fall into the hands of single persons or syndicates, prices of course can be raised, no maximum price having been imposed; the remedy applicable is obvious if not always easy. Shopkeepers in any case must have a certain turn-over and make an income for themselves and when and if the country is adequately supplied with shops it cannot but follow that prices therein will be fixed in the main so as to yield the ordinary rate of profit.

7. *Paragraph 7.*—There is no information before the Board that leads it to believe that the $10\frac{1}{2}$ annas maximum rate was ever regarded as unalterable. Reference is requested to Mr. Stokes' note of 5th April 1884, the Commissioner's letter in Board's Proceedings, No. 3227, of 25th November 1885, and Board's Proceedings, No. 2095, of 17th September 1886, from which it would appear that the point was treated tentatively and the danger of monopoly always kept in view. Sir Henry Bliss in 1898 certainly entertained no idea of fixity of price, but on the contrary regarded Government's present action as the first course open to it. No such ground was hitherto taken by the firm so far as the Board is aware; on the contrary the point was not even referred to when the firm was consulted a year ago and more recently as to a reduction. If Government has benefited by the firm in the past the firm may well admit that it has reaped a plentiful return from its operations under Government patronage. There is no desire to curtail its legitimate rate of profit, but the Company is not content therewith and would evidently desire to dictate its own terms to Government.

8. *Paragraph 8.*—The Board distinctly joins issue with the statement that this scheme of differential rates is a direct attack on all capital invested in the sugar industry. On the contrary Government is aware of how a sugar industry is being instituted in the north which is willing to work at even lower rates for its spirit produce than Government has now directed. That the new rule will limit profits to the East India Distilleries and Sugar Factories (Limited) is no doubt true, but the Government of Madras was not consulted in the creation of that Company, and if it proceeded without due caution and overcapitalized itself the error cannot be laid at the doors of Government. The Board observes moreover from the Company's prospectus that the rate of profit on spirit on which the calculations therein are based is 2 annas a gallon. That probably was, and, if it was not, ought to have been, arrived at on past working and ought to be obtainable under the price now fixed. The prospectus further shows that Messrs. Parry & Co., before the amalgamation, were reaping enormous profits at a time when, on their own showing, their price averaged well under 7 annas, but how much of these profits was due to spirits and how much to sugar is of course unknown. The Board assumes that Government has not committed itself to the permanency of the former distillery rate; the Company makes no assertion that it has; but its complaint is virtually that it has been deceived by Government and is not the victim of its own financial shrewdness or incapacity. The Board has no reason to think that Government ever contemplated a time when the firm would assume the control of a large portion of the abkári administration by constituting itself the sole purveyor of spirit to the Presidency, but its recent action might fairly be ascribed to such a misconception.

9. As to the want of due notice, it is sufficient to say that the Company had clear notice a year ago that Government deliberated moving in the direction of reducing the distillery price and if the Company required a distinct assurance to the contrary then that should have been asked for. The Company's letter of 23rd April 1898, read with the Board's Proceedings, Mis. No. 1690, of 30th idem, does not, in the Board's opinion, give them room to complain of want of notice or of a change in Government policy. The Company knew what remedy lay in the hands of Government and apparently counted on Government's supineness while it pursued its policy of extermination of competitors. The differential rate is injurious to the Company only from the fact that it will prevent that policy; it cannot otherwise affect their legitimate profits on spirit as it will not in any degree alter or affect their methods of distillation from sugar refuse.

(True Extract.)

(Signed) EDMUND MILLETT,
Assistant Secretary.

To the Secretary to Government, Revenue Department,
with one enclosure.

Read—petition from Messrs. PARRY & CO., dated 15th February 1899.

Order—No. 1796 (Confdl. No. 62), Revenue, dated 17th May 1899.

Miscellaneous.

The Government concurs with the Board in its remarks in the first of the papers read above. Messrs. Parry & Co. should accordingly be informed that the Government sees no reason to reconsider the orders sanctioning a reduction of the maximum price of palmyra-jaggery arrack and molasses arrack issued from distilleries. With regard to the reference in the concluding paragraph of their letter to the Board, dated 7th February 1899, to "the stability of long-established Revenue Regulations," the attention of Messrs. Parry & Co. should be drawn to rule 65 of the Distillery and Warehouse Rules which provides that "the Commissioner may, subject to the orders of Government, fix *from time to time* the maximum prices to be charged by distillers for spirits issued from a distillery." It should also be pointed out to them that they act under a license granted annually the terms of which alone can be held to bind them and Government.

2. Adverting to the remarks in paragraph 3 of the Board's Proceedings, the Government presumes that the lower appropriate maximum rate will be enforced only if a substantial portion of the mixture be made from the lower classes of materials.

3. The Government desires that the Board of Revenue should investigate further the suggestion made by Messrs. Parry & Co. that combination among shopkeepers is partly the cause of the rise in the retail price to the consumer.

4. Messrs. Parry & Co. will be referred to the Board of Revenue for orders on their petition.

(True Extract.)

(Signed) G. S. FORBES,
Secretary to Government.

To the Board of Revenue (Separate Revenue),
with petition, to be returned.
„ Messrs. Parry & Co. (paragraph 4 only).

Exd. W. D'Moss.

20 Copies.

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Revenue Department.

NOTES CONNECTED WITH G.O., No. 1796, REVENUE, DATED 17th MAY 1899.

Reduction of maximum prices of liquor at distilleries.

Board's Proceedings (Separate Revenue), Mis. No. 791, dated 25th February 1899.
Letter from Messrs. Parry & Co., dated 28th February 1899.

To Secretary.

In G.O., No. 95, dated 6th February 1899, the Government authorized the Board of Revenue to reduce the maximum price to be charged by distillers for molasses arrack from $10\frac{1}{2}$ annas to $8\frac{1}{2}$ annas a gallon of 30° U.P., and a notification * was accordingly published by it on 7th February 1899 under the power conferred by rule 65 of the Distillery Rules.

* G.O., No. 617, dated 10th February 1899.

In the above Proceedings the Board forwards with its remarks a protest from Messrs. Parry & Co. against the reduction, while the letter is a similar protest addressed direct to Government.

2. In paragraph 2 of its first letter, the firm admits that a proposal to supply country spirits at $8\frac{1}{2}$ annas a gallon was made by Mr. Shaw, but that it was coupled with a stipulation to be given the monopoly of supply for a term of years in certain districts. The firm expected that under such an arrangement it could reduce its staff in Madras and up-country and thereby cheapen its working. It therefore protests against the forcing of that rate upon it without the counterbalancing advantage. The Board remarks that it did not ignore Mr. Shaw's offer, but that it attached less value to it than the firm seems to infer. The proposal of the latter was prompted by a desire to kill competition and could not therefore be accepted.

But if they volunteered an $8\frac{1}{2}$-anna rate for a term of years, it was naturally a rate which would well protect them from the vicissitudes of the sugar market during the period. The fluctuations might have been very large, and yet an $8\frac{1}{2}$-anna rate was deemed by the firm to cover them sufficiently.

G.S.F.

Yes, believed to be.

A. T. A[rundel].

3. The firm's second objection is that as liquor is not made from only one class of material at a time, it would be difficult to work the scheme of differential rates. The Board does not anticipate any difficulty on the subject. The East India Distilleries and Sugar Factories Company distills from molasses only, while other distillers use only one class of material at a time. It is possible that to evade the present regulation an admixture of materials may be attempted; but the Board proposes to treat liquor so distilled as made from material of the lowest class used.

If, I suppose, a *substantial* portion of the mixture were of the low class?

G.S.F.

A.T.A.

4. Messrs. Parry & Co.'s third objection is that a difference of 2 annas in the maximum price at the distillery would only be $3\frac{1}{4}$ per cent. of the price to be paid by the shopkeeper including duty; that as the consumer buys by the dram, the difference in price would scarcely be appreciable; and that consumption cannot be materially affected. The Board is concerned not with the consumer directly, but with the shopkeeper, as against the distiller, and regards a decrease of 2 annas in first cost as a matter of very considerable moment to him.

5. Messrs. Parry & Co.'s fourth objection is that the decrease in consumption of liquor, if any, has been brought about by the enhancement of the tax, or by combination among retailers, and that the effect of the first measure has begun to be felt after the extinction of the "extreme competition" between the Nellikuppam

and Ránipéttai distilleries. These assertions are traversed by the Board in paragraphs 5 and 6 of its Proceedings. The firm states that when the East India Distilleries and Sugar Factories Company is forced out of the spirit business by "unjust legislation," the price of liquor would rise very high. The Board has no fear that the Company will be forced out except by its own mismanagement, for which Government cannot be blamed.

6. In paragraph 7 of their letter Messrs. Parry & Co. claim to have helped the Government in introducing the private distillery supply system, and complain that their services are now forgotten, and that they are thrown over. They refer to a letter addressed by Mr. Shaw, their senior partner, to Sir Henry Stokes on the 20th May 1884, * and to an understanding arrived at with reference thereto to the effect that, subject to the maximum of 10½ annas a gallon, the Government was indifferent as to how much of the Presidency they supplied. They infer presumably that the rate was unalterable. The Board observes that if Government has in the past benefited from the firm's help, the latter has reaped a plentiful return from its operations under Government patronage, and that though there is no desire to curtail its legitimate rate of profit, it cannot expect to dictate terms to Government. The Board is not aware of any correspondence to show that the 10½ annas was ever regarded as unalterable. The papers available in this office are noted in the margin. The demi-official letter referred to by Messrs. Parry & Co. cannot be traced nor the reply to it, if any. The search is being continued.† In a note dated the 5th April 1884 suggesting changes in the administration of the abkári revenue, Sir Henry Stokes stated: "In these districts it is necessary to fix "a *maximum rate* beyond which the distillers shall not charge, and also to pitch the "still-head duty a little higher than Re. 1. I would make it Rs. 1-2-0 for taluk "vendors in those districts, and fix 14 annas per gallon as the *maximum charge* to "taluk vendors." From the previous portion of the note this rate appears to have been intended to apply to *30° U.P.* By G.O., No. 394, dated 18th March 1884, a committee was appointed to consider the changes proposed; but its report (which will be found printed in G.O., No. 570, dated 30th April 1884) is silent on the point. But one of the notifications drafted by the committee stated: "The former [*i.e.*, "persons authorized to establish distil-"leries] will be bound to supply at any "prices agreed upon . . . . subject to maximum prices of one rupee two annas, "one rupee, and nine annas per gallon for spirits of strengths 20° U.P., 30° U.P., and "60° U.P. respectively." These maxima rates were approved. For the Kurnool district during the lease for 1885–86 a maximum rate of twelve annas a gallon of 30° U.P. was prescribed. In submitting proposals for the lease for 1886–87, the Commissioner (Sir Henry Bliss) after observing that the maxima rates then in force were unnecessarily high—twelve annas in Kurnool and one rupee elsewhere—proposed a reduction to ten annas and-a-half. The proposal was approved by the Board [paragraph 10-I(*h*)]. The foregoing précis, it will be observed, shows that there was no intention to fix unalterable maxima rates, and that the rate of ten annas and-a-half a gallon of 30° U.P. was prescribed in December 1885 and not at the time of Mr. Shaw's letter of 20th May 1884. The Government order is signed by Sir Frederick Price and not by Sir Henry Stokes, who, it is understood, was then on leave. To be on the safe side it is perhaps desirable that Messrs. Parry & Co. may be asked to state definitely what the understanding was to which they refer and to forward a copy of the papers on which they replied. The Government has no objection, it is presumed, to the supply of any district by Messrs. Parry & Co. The real objection is to their enhancement of prices.

Does this mean that the present system enables them to make an excessive profit as a reward?

G.S.F.

* This was 15 years ago.

G.S.F.

This is absurd. The firm acts under a license the terms of which are what binds them and Government.

A.T.A.

Page 10 of Sir Henry Stokes' note, dated 5th April 1884, in G.O., No. 594, dated 18th March 1884.

Paragraph 16 of the Commissioner's letter on page 3 of G.O., No. 1362, dated 10th December 1885.

† Not traceable—*vide* note of Record office, dated 8th May 1899.

Condition 4 of Notification IV on page 13 of G.O., No. 570, Revenue, dated 30th April 1884.

Paragraph 1 of G.O., *ibid.*

Paragraph 9 of Commissioner's letter on page 2 of G.O., No. 23, Revenue, dated 9th January 1885, and paragraph 3 of G.O.

Condition 11 on page 3 of G.O., No. 124, Revenue, dated 30th January 1885.

Paragraph 16 of his letter on page 3 of G.O., No. 1362, dated 10th December 1885.

Page 28 of G.O., *ibid.*

This could not be done without a formal G.O. which, if ever passed, would be objected to by India as soon they knew of it.

A.T.A.
10-4-99.

No: they do not mean there was any contract or binding agreement: we have no record of any agreement: and they do not produce any which of course they would have done at once if it had been in existence or of any value beyond vague talk.

G.S.F.

I agree. Besides no such private note could invalidate the action of Government.

A.T.A.

7. Lastly, Messrs. Parry & Co. complain that as the utilization of molasses for spirit-making is a material branch of the sugar industry, the imposition of differential rates is a direct attack on the capital invested in that industry. The Board denies the validity of this complaint, as a sugar industry is being instituted in the north (presumably in Gódávari), the persons interested in which are willing to work for lower rates for the spirit produce than those now fixed by Government.

The Government of India are about to give special protection to sugar.

G.S.F.

They have now done so.

A.T.A.

8. Messrs. Parry & Co. state that, on the faith of the stability of long-standing revenue regulations, they have only recently completed the erection of a large expensive new distillery at Nellikuppam and that the East India Distilleries and Sugar Factories Company took over its business, and that a change in the abkári policy of Government cannot equitably be made until after notice proportionate* to the capital sunk in the business. The Board observes that the Company had a year's notice. Messrs. Parry & Co. enquired of the Board, under date the 23rd April 1898, whether the abkári policy "was to receive any important modi-"fication making distilling possibly "less attractive from a trader's point "of view." The Board replied that "no alteration in the Government abkári "policy in its *main* features" was contemplated, but that Government was bound to protect itself against the firm's attempt to obtain a monopoly of supply. Messrs. Parry & Co. appear to consider that the reduction of the maximum rate for molasses arrack as an important change, while the Board appears to think differently. Whether the length of notice was or was not sufficient in the present case depends on how the question is viewed.

Messrs. Parry & Co have always been perfectly well aware of the powers of Government to introduce changes of the maximum rates, and of the risks consequent thereon. At the time they were enlarging or building their distilleries they were themselves offering an 8½-anna rate.

G.S.F.

* This contention of Messrs. Parry & Co. cannot of course be admitted.

A.T.A.

Vide paragraphs 16 and 17 of Board's Proceedings, No. 1690, dated 30th April 1898, on page 8 of G.O., No. 625, dated 27th October 1898.

Page 8 of G.O., *ibid.*

The firm was invited to give its views before the order was passed. The present letter was written after the first reply was received.

A.T.A.

As to the alleged dependence on the stability of revenue regulations, attention is solicited to rule 65 of the Distillery Rules published in the *Fort St. George Gazette*, dated 5th May 1899, Part I: "The Commissioner may, subject

Of course they know this better than we do.
G.S.F.
Draw their attention to this.
A.T.A.

"to the orders of Government, *fix from "time to time* the maximum prices to be "charged by distillers for spirits issued "from a distillery, etc." This distinctly negatives the assumption that the maximum rate once prescribed would be permanent.

9. In their letter, dated 15th February 1899, Messrs. Parry & Co. appeal to Government that the Board, after inducing them upon certain terms to engage on a large scale in the business of distillers, has suddenly, and without due notice, introduced a very serious modification of the terms. They add "our "present feeling is that rather than submit to what we consider a gross "breach of faith we must, even at some pecuniary loss to ourselves, close our "distilleries so far as the manufacture of what is known as country spirit is "concerned," and they call attention to the question of the attraction of capital to India. Whether the firm will carry out the threat, it is impossible to say. If it does, the Government may then consider what course should be adopted. In regard to the charge of breach of faith, it is not clear what terms were offered by the Board. As to want of notice, please see paragraph 8 above.

Not an idea of it.
G.S.F.
A.T.A.

V.K.R.
20–3–99.

To the Honourable Member.
To His Excellency the Governor.

I have noted on the margin.

G. S. FORBES.
21–3–99.

Briefly put: Messrs. Parry & Co. want to get a monopoly of supply for the presidency or as much of it as possible by underselling other distilleries and so forcing their owners to give up the business. Government must retain power to prevent this and the distillery rules under which Messrs. Parry & Co. hold their license give Government the necessary means.

A. T. A[RUNDEL].
10–4–99.

I must accept the Honourable Member's conclusion, that we must stick to the previous order, though I think our having thus to reduce the maximum price is unfortunate. Perhaps it would be worth while to enquire further into the suggestion made by the Company that the combination of shopkeepers is partly the cause of the rise in price.

A. E. H[AVELOCK].
4–5–99.

To Secretary.

Please see draft below.

A.K.
8–5–99.

To the Honourable Member.

G.S.F.
11–5–99.
A.T.A.
15–5–99.

Issue.

G.S.F.
19–5–99.

Government {1899} of Madras.

REVENUE.

CONFIDENTIAL.

(FOR OFFICE USE ONLY.)

Recd. *Regd.* } *1899.* *Enclosures* *Spare copies*

G.O., No. 1796 (Confdl. No. 62), 17th May 1899.

MAY.

Passing orders on Messrs. Parry & Co.'s petition protesting against the alteration in the maximum price for liquor issued from distilleries.

CONFIDENTIAL.

GOVERNMENT OF MADRAS.

REVENUE DEPARTMENT.

Read—the following Proceedings of the Board of Revenue (Separate Revenue), Mis. No. 791, dated 25th February 1899 :—

Read—the following letter from Messrs. PARRY & CO., Managing Agents, The East India Distilleries and Sugar Factories (Limited), to the Secretary to the Board of Revenue (Separate Revenue), dated Madras, 7th February 1899 :—

In continuation of our letter of 30th ultimo and in response to the Board's request in their letter of that date, we have now the honour to make the following further observations on the proposals then indicated, which we note are to establish differential prices against us as follows :—

(1) to reduce the maximum sale price of molasses spirit ex-distillery from $10\frac{1}{2}$ to $8\frac{1}{2}$ annas per gallon, or say by over 20 per cent. ;
(2) to reduce the price of palmyra jaggery liquor by an amount not stated ;
(3) to leave cane jaggery spirit price as at present.

2. The above proposal has fairly astounded us and in case it may have arisen in connection with a recent demi-official offer made by our Mr. W. Shaw to Mr. Thomson we would first clear that up. Mr. Shaw's offer stipulated not only for a contract for a term of years but also for terms which would have enabled us to largely reduce our staff both up-country and in Madras and so generally cheapen and simplify our working.

These advantages, with the desire to show Government that we did not propose to force prices to any excessive level, led us to offer to supply at $8\frac{1}{2}$ annas, but we must strongly protest against that rate being forced upon us as a maximum price without the counterbalancing advantages referred to.

3. Next we have to remark that the scheme would probably be found difficult to work if eventually attempted, because liquor is not made only from one class of material at a time but, in a greater or less degree for fermentation purposes, there is a mixture of materials in the vats, so that without hampering the business and deranging the ordinary course of work it would be impossible to say exactly what liquor is made from each individual class of material.

4. With regard to the opening paragraph of the letter under reply, it appears to us that the Board allow excessive weight to the effect on consumption of the, say, 2 annas per gallon difference of rates under reference. It has to be remembered that on a 10 annas basis for spirit ex-duty the shopkeeper will generally have to pay, say,—

	Rs.	A.	P.
As first cost	0	10	0
As duty	3	1	0
As transport wastage	0	2	0
Total cost ..	3	13	0

2 annas on that equals only, say, $3\frac{1}{4}$ per cent.—a difference not sufficient to have any marked effect on consumption, especially seeing that the actual consumer buys by the dram when the difference in price is scarcely appreciable.

5. We have not before us the figures on which the Board goes when stating that the consumption of the country arrack is diminishing, so we cannot well discuss that point as we should like to, but meanwhile we may mention that since 1894 the rate of duty has been raised 7 annas per gallon and upwards, practically all over the Presidency.

During 1895, 1896 and 1897 this rise in duty may not have been felt since : during that period, owing to extreme competition between the Nellikuppam and Ránipéttai distilleries, sale rates were cut down, eventually to below cost of production. From 1898, this competition having ceased, the rise in duty referred to is perhaps making itself felt on consumption, but there is no ground for asserting that hitherto we have forced prices to an unduly high pitch and certainly, so far, they are not so high as they will at once rule if by unjust legislation we are forced out of the spirit business.

6. Government appear to us to be acting in blind fear of the small rise in price necessary for us—manufacturers—to earn a fair profit on our capital and skill employed, while it overlooks or ignores the real hindrance to consumption which results when shopkeepers join together to raise retail prices to the consumers.

Cases in point are Madras and Kistna districts, in both of which wholesale prices are relatively low, while in both, owing to combination among shopkeepers, consumption has fallen off.

When asked to assign reason for such decreased consumption, shopkeepers are no doubt glad to put forward the reasons apparently accepted by the Board, but such will not bear investigation.

7. We would wish to remind Government that the existing abkári free-supply system, which has been worked with such financial success to Government for the last fifteen years, was orginally inaugurated only after much consultation of our then senior partner Mr. J. C. Shaw by Mr. (now Sir Henry) Stokes, and Mr. Shaw then wrote to Mr. Stokes as follows, under date 20th May 1884 :—

"As I said to you when here we will undertake to support you in carrying this through provided we are satisfied that there will be no throwing us over on the plea that we should be securing too many districts." It was then, we believe, that the $10\frac{1}{2}$ maximum rate ex-distillery for spirit was settled on and Mr. Shaw's fear, as expressed above, was met by the understanding that, subject to the said maximum, Government was indifferent as to how much of the Presidency we might supply. Our firm then gave all the assistance in its power and insured the successful start of the then new order of things. But now it would appear that our services then rendered are forgotten and Government by its differentiation of prices against us is wishing to throw us over exactly as Mr. Shaw foresaw might be the case.

8. In conclusion, we have the honour to submit that this scheme of differential rates, if carried out, will amount to a direct attack upon all capital invested in the sugar industry of this Presidency, of which industry the utilisation of molasses for spirit-making is, of course, a material branch. The reduction of price proposed would involve peculiar hardship to the shareholders who have so recently acquired an interest in this Company, and the injustice becomes the more apparent when it is remembered that only this year we have completed the erection of a large expensive new distillery at the express instigation of the late Abkári Commissioner, now Senior Member of Council. Had any indication been given us that a radical change of system was intended, such as this differentiation of rates against molasses spirit, we could not have thought of meeting Mr. Arundel's wishes and sunk the capital involved in the new distillery at Nellikuppam, nor could this Company have taken over its business on the terms it did. We can scarcely credit that on consideration Government will definitely decide upon practically confiscating in this way capital invested on the faith of the stability of long established revenue regulations, no change in which can equitably be made save after notice proportionate to the capital sunk in the business concerned.

Resolution—Mis. No. 791, dated 25th February 1899.

Messrs. Parry & Co.'s letter will be forwarded to Government with the following remarks.

2. *Paragraph 2.*—The Board was fully aware that Mr. Shaw's offer to contract for a term of years at $8\frac{1}{2}$ annas would, if accepted, improve even the present position of the Company by making that a fixed price for all-comers within the area contracted for and enable it to effect savings in various ways accordingly. The only advantage it promised for Government was that shopkeepers would be certain of the price they would have to pay, but the reduction therein under the maximum which the last rule allowed would be of small advantage to those at any distance from the only distillery—Nellikuppam—which the Company would have continued to maintain within the tract. Under competition it may be doubtful if the Company could force prices beyond $8\frac{1}{2}$ annas: its endeavour for some years now has been to kill competition; and the Board's proposal, while it did not ignore the fact of Mr. Shaw's offer, attached less value thereto than the Company seems to infer.

3. *Paragraph 3.*—The Board does not anticipate any difficulty in determining from what material liquor has been made. The Company distils only from molasses, minor distillers generally from only one class of material at a time, and the latter are not likely to find any objection to the differential rates. The uniformity of the distillery price for liquor without reference to material placed these latter at an enormous disadvantage in the competition. Admixture of materials, if tried at all (except to meet very temporary emergencies), can be so for no purpose, but the evasion of the present regulation and the Board would meet it by treating the resultant spirit as though made from material of the lowest class used.

4. *Paragraph 4.*—The effect on consumption of the difference of 2 annas per gallon may not be very appreciable when applied to the dram. But the Board is, for the present, most concerned regarding the competing distiller and the shopkeeper —the final agent in distribution—and from the point of view of the latter the decrease in first cost is a matter of very considerable moment.

5. *Paragraph 5.*—There is no reason for believing that the rise in duty since 1894 is making itself felt on consumption; the Board's administration reports negative such an opinion: but there is every reason to believe that the rise of price consequent on the want of competition in supply will intensify any such tendency if it exists, and the absence of competition is a current explanation of the fact of decrease in consumption. Reduction of consumption can be countervailed in its effect on the revenue by enhanced duty; but with a high maximum price up to which a distiller might work the danger lay in the anticipation of shopkeepers that prices would eventually be enhanced by this Company to the extreme limit the previous notification allowed, and the difference was the profit of the Company. The declared intention was to get rid of all competitors, and with that the maximum distillery price would certainly have been given effect to as far at least as was consistent with an output which would have satisfied the Company's view of its own possible profits. It is difficult to see how it can be forced out of the spirit business except by its own mismanagement: the present rate of $8\frac{1}{2}$ annas most distinctly cannot bring that about unless the business has been so reconstructed as to permit of it. If that is the case the Company and not Government is to blame.

6. *Paragraph 6.*—The Board is not aware of any hindrance to consumption from combination of shopkeepers to raise their prices to consumers; when the privileges of vend fall into the hands of single persons or syndicates, prices of course can be raised, no maximum price having been imposed; the remedy applicable is obvious if not always easy. Shopkeepers in any case must have a certain turn-over and make an income for themselves and when and if the country is adequately supplied with shops it cannot but follow that prices therein will be fixed in the main so as to yield the ordinary rate of profit.

7. *Paragraph 7.*—There is no information before the Board that leads it to believe that the $10\frac{1}{2}$ annas maximum rate was ever regarded as unalterable. Reference is requested to Mr. Stokes' note of 5th April 1884, the Commissioner's letter in Board's Proceedings, No. 3227, of 25th November 1885, and Board's Proceedings, No. 2095, of 17th September 1886, from which it would appear that the point was treated tentatively and the danger of monopoly always kept in view. Sir Henry Bliss in 1898 certainly entertained no idea of fixity of price, but on the contrary regarded Government's present action as the first course open to it. No such ground was hitherto taken by the firm so far as the Board is aware; on the contrary the point was not even referred to when the firm was consulted a year ago and more recently as to a reduction. If Government has benefited by the firm in the past the firm may well admit that it has reaped a plentiful return from its operations under Government patronage. There is no desire to curtail its legitimate rate of profit, but the Company is not content therewith and would evidently desire to dictate its own terms to Government.

8. *Paragraph 8.*—The Board distinctly joins issue with the statement that this scheme of differential rates is a direct attack on all capital invested in the sugar industry. On the contrary Government is aware of how a sugar industry is being instituted in the north which is willing to work at even lower rates for its spirit produce than Government has now directed. That the new rule will limit profits to the East India Distilleries and Sugar Factories (Limited) is no doubt true, but the Government of Madras was not consulted in the creation of that Company, and if it proceeded without due caution and overcapitalized itself the error cannot be laid at the doors of Government. The Board observes moreover from the Company's prospectus that the rate of profit on spirit on which the calculations therein are based is 2 annas a gallon. That probably was, and, if it was not, ought to have been, arrived at on past working and ought to be obtainable under the price now fixed. The prospectus further shows that Messrs. Parry & Co., before the amalgamation, were reaping enormous profits at a time when, on their own showing, their price averaged well under 7 annas, but how much of these profits was due to spirits and how much to sugar is of course unknown. The Board assumes that Government has not committed itself to the permanency of the former distillery rate; the Company makes no assertion that it has; but its complaint is virtually that it has been deceived by Government and is not the victim of its own financial shrewdness or incapacity. The Board has no reason to think that Government ever contemplated a time when the firm would assume the control of a large portion of the abkári administration by constituting itself the sole purveyor of spirit to the Presidency, but its recent action might fairly be ascribed to such a misconception.

9. As to the want of due notice, it is sufficient to say that the Company had clear notice a year ago that Government deliberated moving in the direction of reducing the distillery price and if the Company required a distinct assurance to the contrary then that should have been asked for. The Company's letter of 23rd April 1898, read with the Board's Proceedings, Mis. No. 1690, of 30th idem, does not, in the Board's opinion, give them room to complain of want of notice or of a change in Government policy. The Company knew what remedy lay in the hands of Government and apparently counted on Government's supineness while it pursued its policy of extermination of competitors. The differential rate is injurious to the Company only from the fact that it will prevent that policy; it cannot otherwise affect their legitimate profits on spirit as it will not in any degree alter or affect their methods of distillation from sugar refuse.

(True Extract.)

(Signed) EDMUND MILLETT,
Assistant Secretary.

To the Secretary to Government, Revenue Department,
with one enclosure.

Read—petition from Messrs. PARRY & CO., dated 15th February 1899.

Order—No. 1796 (Confdl. No. 62), Revenue, dated 17th May 1899.

Miscellaneous.

The Government concurs with the Board in its remarks in the first of the papers read above. Messrs. Parry & Co. should accordingly be informed that the Government sees no reason to reconsider the orders sanctioning a reduction of the maximum price of palmyra-jaggery arrack and molasses arrack issued from distilleries. With regard to the reference in the concluding paragraph of their letter to the Board, dated 7th February 1899, to "the stability of long-established Revenue Regulations," the attention of Messrs. Parry & Co. should be drawn to rule 65 of the Distillery and Warehouse Rules which provides that "the Commissioner may, subject to the orders of Government, fix *from time to time* the maximum prices to be charged by distillers for spirits issued from a distillery." It should also be pointed out to them that they act under a license granted annually the terms of which alone can be held to bind them and Government.

2. Adverting to the remarks in paragraph 3 of the Board's Proceedings, the Government presumes that the lower appropriate maximum rate will be enforced only if a substantial portion of the mixture be made from the lower classes of materials.

3. The Government desires that the Board of Revenue should investigate further the suggestion made by Messrs. Parry & Co. that combination among shopkeepers is partly the cause of the rise in the retail price to the consumer.

4. Messrs. Parry & Co. will be referred to the Board of Revenue for orders on their petition.

(True Extract.)

(Signed) G. S. FORBES,
Secretary to Government.

To the Board of Revenue (Separate Revenue),
with petition, to be returned.
„ Messrs. Parry & Co. (paragraph 4 only).

Exd. W. D'Moss.

20 Copies.

CONFIDENTIAL.

Revenue Department.

NOTES CONNECTED WITH G.O., No. 1796, REVENUE, DATED 17th MAY 1899.

Reduction of maximum prices of liquor at distilleries.

Board's Proceedings (Separate Revenue), Mis. No. 791, *dated 25th February* 1899.
Letter from Messrs. Parry & Co., dated 28th February 1899.

To Secretary.

In G.O., No. 95, dated 6th February 1899, the Government authorized the Board of Revenue to reduce the maximum price to be charged by distillers for molasses arrack from 10½ annas to 8½ annas a gallon of 30° U.P., and a notification * was accordingly published by it on 7th February 1899 under the power conferred by rule 65 of the Distillery Rules.

* G.O., No. 617, dated 10th February 1899.

In the above Proceedings the Board forwards with its remarks a protest from Messrs. Parry & Co. against the reduction, while the letter is a similar protest addressed direct to Government.

2. In paragraph 2 of its first letter, the firm admits that a proposal to supply country spirits at 8½ annas a gallon was made by Mr. Shaw, but that it was coupled with a stipulation to be given the monopoly of supply for a term of years in certain districts. The firm expected that under such an arrangement it could reduce its staff in Madras and up-country and thereby cheapen its working. It therefore protests against the forcing of that rate upon it without the counterbalancing advantage. The Board remarks that it did not ignore Mr. Shaw's offer, but that it attached less value to it than the firm seems to infer. The proposal of the latter was prompted by a desire to kill competition and could not therefore be accepted.

But if they volunteered an 8½-anna rate for a term of years, it was naturally a rate which would well protect them from the vicissitudes of the sugar market during the period. The fluctuations might have been very large, and yet an 8½-anna rate was deemed by the firm to cover them sufficiently.

G.S.F.

Yes, believed to be.

A. T. A[rundel].

3. The firm's second objection is that as liquor is not made from only one class of material at a time, it would be difficult to work the scheme of differential rates. The Board does not anticipate any difficulty on the subject. The East India Distilleries and Sugar Factories Company distills from molasses only, while other distillers use only one class of material at a time. It is possible that to evade the present regulation an admixture of materials may be attempted; but the Board proposes to treat liquor so distilled as made from material of the lowest class used.

If, I suppose, a *substantial* portion of the mixture were of the low class?

G.S.F.

A.T.A.

4. Messrs. Parry & Co.'s third objection is that a difference of 2 annas in the maximum price at the distillery would only be 3¼ per cent. of the price to be paid by the shopkeeper including duty; that as the consumer buys by the dram, the difference in price would scarcely be appreciable; and that consumption cannot be materially affected. The Board is concerned not with the consumer directly, but with the shopkeeper, as against the distiller, and regards a decrease of 2 annas in first cost as a matter of very considerable moment to him.

5. Messrs. Parry & Co.'s fourth objection is that the decrease in consumption of liquor, if any, has been brought about by the enhancement of the tax, or by combination among retailers, and that the effect of the first measure has begun to be felt after the extinction of the "extreme competition" between the Nellikuppam

Read—petition from Messrs. PARRY & CO., dated 15th February 1899.

Order—No. 1796 (Confdl. No. 62), Revenue, dated 17th May 1899.

Miscellaneous.

The Government concurs with the Board in its remarks in the first of the papers read above. Messrs. Parry & Co. should accordingly be informed that the Government sees no reason to reconsider the orders sanctioning a reduction of the maximum price of palmyra-jaggery arrack and molasses arrack issued from distilleries. With regard to the reference in the concluding paragraph of their letter to the Board, dated 7th February 1899, to "the stability of long-established Revenue Regulations," the attention of Messrs. Parry & Co. should be drawn to rule 65 of the Distillery and Warehouse Rules which provides that "the Commissioner may, subject to the orders of Government, fix *from time to time* the maximum prices to be charged by distillers for spirits issued from a distillery." It should also be pointed out to them that they act under a license granted annually the terms of which alone can be held to bind them and Government.

2. Adverting to the remarks in paragraph 3 of the Board's Proceedings, the Government presumes that the lower appropriate maximum rate will be enforced only if a substantial portion of the mixture be made from the lower classes of materials.

3. The Government desires that the Board of Revenue should investigate further the suggestion made by Messrs. Parry & Co. that combination among shopkeepers is partly the cause of the rise in the retail price to the consumer.

4. Messrs. Parry & Co. will be referred to the Board of Revenue for orders on their petition.

(True Extract.)

(Signed) G. S. FORBES,
Secretary to Government.

To the Board of Revenue (Separate Revenue),
with petition, to be returned.
„ Messrs. Parry & Co. (paragraph 4 only).

Exd. W. D'Moss.

20 Copies.

CONFIDENTIAL.

Revenue Department.

NOTES CONNECTED WITH G.O., No. 1796, REVENUE, DATED 17th MAY 1899.

Reduction of maximum prices of liquor at distilleries.

Board's Proceedings (Separate Revenue), Mis. No. 791, *dated 25th February* 1899.
Letter from Messrs. Parry & Co., dated 28th February 1899.

To Secretary.

In G.O., No. 95, dated 6th February 1899, the Government authorized the Board of Revenue to reduce the maximum price to be charged by distillers for molasses arrack from 10½ annas to 8½ annas a gallon of 30° U.P., and a notification * was accordingly published by it on 7th February 1899 under the power conferred by rule 65 of the Distillery Rules.

* G.O., No. 617, dated 10th February 1899.

In the above Proceedings the Board forwards with its remarks a protest from Messrs. Parry & Co. against the reduction, while the letter is a similar protest addressed direct to Government.

2. In paragraph 2 of its first letter, the firm admits that a proposal to supply country spirits at 8½ annas a gallon was made by Mr. Shaw, but that it was coupled with a stipulation to be given the monopoly of supply for a term of years in certain districts. The firm expected that under such an arrangement it could reduce its staff in Madras and up-country and thereby cheapen its working. It therefore protests against the forcing of that rate upon it without the counterbalancing advantage. The Board remarks that it did not ignore Mr. Shaw's offer, but that it attached less value to it than the firm seems to infer. The proposal of the latter was prompted by a desire to kill competition and could not therefore be accepted.

But if they volunteered an 8½-anna rate for a term of years, it was naturally a rate which would well protect them from the vicissitudes of the sugar market during the period. The fluctuations might have been very large, and yet an 8½-anna rate was deemed by the firm to cover them sufficiently.

G.S.F.

Yes, believed to be.

A. T. A[rundel].

3. The firm's second objection is that as liquor is not made from only one class of material at a time, it would be difficult to work the scheme of differential rates. The Board does not anticipate any difficulty on the subject. The East India Distilleries and Sugar Factories Company distills from molasses only, while other distillers use only one class of material at a time. It is possible that to evade the present regulation an admixture of materials may be attempted; but the Board proposes to treat liquor so distilled as made from material of the lowest class used.

If, I suppose, a *substantial* portion of the mixture were of the low class?

G.S.F.

A.T.A.

4. Messrs. Parry & Co.'s third objection is that a difference of 2 annas in the maximum price at the distillery would only be 3¼ per cent. of the price to be paid by the shopkeeper including duty; that as the consumer buys by the dram, the difference in price would scarcely be appreciable; and that consumption cannot be materially affected. The Board is concerned not with the consumer directly, but with the shopkeeper, as against the distiller, and regards a decrease of 2 annas in first cost as a matter of very considerable moment to him.

5. Messrs. Parry & Co.'s fourth objection is that the decrease in consumption of liquor, if any, has been brought about by the enhancement of the tax, or by combination among retailers, and that the effect of the first measure has begun to be felt after the extinction of the "extreme competition" between the Nellikuppam

and Ránipéttai distilleries. These assertions are traversed by the Board in paragraphs 5 and 6 of its Proceedings. The firm states that when the East India Distilleries and Sugar Factories Company is forced out of the spirit business by "unjust legislation," the price of liquor would rise very high. The Board has no fear that the Company will be forced out except by its own mismanagement, for which Government cannot be blamed.

6. In paragraph 7 of their letter Messrs. Parry & Co. claim to have helped the Government in introducing the private distillery supply system, and complain that their services are now forgotten, and that they are thrown over. They refer to a letter addressed by Mr. Shaw, their senior partner, to Sir Henry Stokes on the 20th May 1884, * and to an understanding arrived at with reference thereto to the effect that, subject to the maximum of 10½ annas a gallon, the Government was indifferent as to how much of the Presidency they supplied. They infer presumably that the rate was unalterable. The Board observes that if Government has in the past benefited from the firm's help, the latter has reaped a plentiful return from its operations under Government patronage, and that though there is no desire to curtail its legitimate rate of profit, it cannot expect to dictate terms to Government. The Board is not aware of any correspondence to show that the 10½ annas was ever regarded as unalterable. The papers available in this office are noted in the margin. The demi-official letter referred to by Messrs. Parry & Co. cannot be traced nor the reply to it, if any. The search is being continued.† In a note dated the 5th April 1884 suggesting changes in the administration of the abkári revenue, Sir Henry Stokes stated: "In these districts it is necessary to fix "a *maximum rate* beyond which the distillers shall not charge, and also to pitch the "still-head duty a little higher than Re. 1. I would make it Rs. 1-2-0 for taluk "vendors in those districts, and fix 14 annas per gallon as the *maximum charge* to "taluk vendors." From the previous portion of the note this rate appears to have been intended to apply to *30° U.P.* By G.O., No. 394, dated 18th March 1884, a committee was appointed to consider the changes proposed; but its report (which will be found printed in G.O., No. 570, dated 30th April 1884) is silent on the point. But one of the notifications drafted by the committee stated: "The former [*i.e.*, "persons authorized to establish distil-"leries] will be bound to supply at any "prices agreed upon . . . . subject to maximum prices of one rupee two annas, "one rupee, and nine annas per gallon for spirits of strengths 20° U.P., 30° U.P., and "60° U.P. respectively." These maxima rates were approved. For the Kurnool district during the lease for 1885-86 a maximum rate of twelve annas a gallon of 30° U.P. was prescribed. In submitting proposals for the lease for 1886-87, the Commissioner (Sir Henry Bliss) after observing that the maxima rates then in force were unnecessarily high—twelve annas in Kurnool and one rupee elsewhere—proposed a reduction to ten annas and-a-half. The proposal was approved by the Board [paragraph 10-I (*h*)]. The foregoing précis, it will be observed, shows that there was no intention to fix unalterable maxima rates, and that the rate of ten annas and-a-half a gallon of 30° U.P. was prescribed in December 1885 and not at the time of Mr. Shaw's letter of 20th May 1884. The Government order is signed by Sir Frederick Price and not by Sir Henry Stokes, who, it is understood, was then on leave. To be on the safe side it is perhaps desirable that Messrs. Parry & Co. may be asked to state definitely what the understanding was to which they refer and to forward a copy of the papers on which they replied. The Government has no objection, it is presumed, to the supply of any district by Messrs. Parry & Co. The real objection is to their enhancement of prices.

Does this mean that the present system enables them to make an excessive profit as a reward?

G.S.F.

* This was 15 years ago.

G.S.F.

This is absurd. The firm acts under a license the terms of which are what binds them and Government.

A.T.A.

Page 10 of Sir Henry Stokes' note, dated 5th April 1884, in G.O., No. 594, dated 18th March 1884.

Paragraph 16 of the Commissioner's letter on page 3 of G.O., No. 1362, dated 10th December 1885.

† Not traceable—*vide* note of Record office, dated 8th May 1899.

Condition 4 of Notification IV on page 13 of G.O., No. 570, Revenue, dated 30th April 1884.

Paragraph 1 of G.O., *ibid.*

Paragraph 9 of Commissioner's letter on page 2 of G.O., No. 23, Revenue, dated 9th January 1885, and paragraph 3 of G.O.

Condition 11 on page 3 of G.O., No. 124, Revenue, dated 30th January 1885.

Paragraph 16 of his letter on page 3 of G.O., No. 1362, dated 10th December 1885.

Page 28 of G.O., *ibid.*

This could not be done without a formal G.O. which, if ever passed, would be objected to by India as soon they knew of it.

A.T.A.
10-4-99.

No: they do not mean there was any contract or binding agreement: we have no record of any agreement: and they do not produce any which of course they would have done at once if it had been in existence or of any value beyond vague talk.

G.S.F.

I agree. Besides no such private note could invalidate the action of Government.

A.T.A.

7. Lastly, Messrs. Parry & Co. complain that as the utilization of molasses for spirit-making is a material branch of the sugar industry, the imposition of differential rates is a direct attack on the capital invested in that industry. The Board denies the validity of this complaint, as a sugar industry is being instituted in the north (presumably in Gódávari), the persons interested in which are willing to work for lower rates for the spirit produce than those now fixed by Government.

The Government of India are about to give special protection to sugar.

G.S.F.

They have now done so.

A.T.A.

8. Messrs. Parry & Co. state that, on the faith of the stability of long-standing revenue regulations, they have only recently completed the erection of a large expensive new distillery at Nellikuppam and that the East India Distilleries and Sugar Factories Company took over its business, and that a change in the abkári policy of Government cannot equitably be made until after notice proportionate* to the capital sunk in the business. The Board observes that the Company had a year's notice. Messrs. Parry & Co. enquired of the Board, under date the 23rd April 1898, whether the abkári policy "was to receive any important modi-"fication making distilling possibly "less attractive from a trader's point "of view." The Board replied that "no alteration in the Government abkári "policy in its *main* features" was contemplated, but that Government was bound to protect itself against the firm's attempt to obtain a monopoly of supply. Messrs. Parry & Co. appear to consider that the reduction of the maximum rate for molasses arrack as an important change, while the Board appears to think differently. Whether the length of notice was or was not sufficient in the present case depends on how the question is viewed.

As to the alleged dependence on the stability of revenue regulations, attention is solicited to rule 65 of the Distillery Rules published in the *Fort St. George Gazette*, dated 5th May 1899, Part I: "The Commissioner may, subject

Messrs. Parry & Co have always been perfectly well aware of the powers of Government to introduce changes of the maximum rates, and of the risks consequent thereon. At the time they were enlarging or building their distilleries they were themselves offering an 8½-anna rate.

G.S.F.

* This contention of Messrs. Parry & Co. cannot of course be admitted.

A.T.A.

Vide paragraphs 16 and 17 of Board's Proceedings, No. 1690, dated 30th April 1898, on page 8 of G.O., No. 625, dated 27th October 1898.

Page 8 of G.O., *ibid.*

The firm was invited to give its views before the order was passed. The present letter was written after the first reply was received.

A.T.A.

Of course they know this better than we do.
G.S.F.

Draw their attention to this.
A.T.A.

"to the orders of Government, *fix from "time to time* the maximum prices to be "charged by distillers for spirits issued "from a distillery, etc." This distinctly negatives the assumption that the maximum rate once prescribed would be permanent.

9. In their letter, dated 15th February 1899, Messrs. Parry & Co. appeal to Government that the Board, after inducing them upon certain terms to engage on a large scale in the business of distillers, has suddenly, and without due notice, introduced a very serious modification of the terms. They add "our "present feeling is that rather than submit to what we consider a gross "breach of faith we must, even at some pecuniary loss to ourselves, close our "distilleries so far as the manufacture of what is known as country spirit is "concerned," and they call attention to the question of the attraction of capital to India. Whether the firm will carry out the threat, it is impossible to say. If it does, the Government may then consider what course should be adopted. In regard to the charge of breach of faith, it is not clear what terms were offered by the Board. As to want of notice, please see paragraph 8 above.

Not an idea of it.
G.S.F.
A.T.A.

V.K.R.
20–3–99.

To the Honourable Member.
To His Excellency the Governor.

I have noted on the margin.

G. S. FORBES.
21–3–99.

Briefly put: Messrs. Parry & Co. want to get a monopoly of supply for the presidency or as much of it as possible by underselling other distilleries and so forcing their owners to give up the business. Government must retain power to prevent this and the distillery rules under which Messrs. Parry & Co. hold their license give Government the necessary means.

A. T. A[RUNDEL].
10–4–99.

I must accept the Honourable Member's conclusion, that we must stick to the previous order, though I think our having thus to reduce the maximum price is unfortunate. Perhaps it would be worth while to enquire further into the suggestion made by the Company that the combination of shopkeepers is partly the cause of the rise in price.

A. E. H[AVELOCK].
4–5–99.

To Secretary.

Please see draft below.

A.K.
8–5–99.

To the Honourable Member.

G.S.F.
11–5–99.

A.T.A.
15–5–99.

Issue.

G.S.F.
19–5–99.

Government {1899} of Madras.

REVENUE.

CONFIDENTIAL.

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G.O., No. 1796 (Confdl. No. 62), 17th May 1899.

MAY.

Passing orders on Messrs. Parry & Co.'s petition protesting against the alteration in the maximum price for liquor issued from distilleries.

CONFIDENTIAL.

GOVERNMENT OF MADRAS.

REVENUE DEPARTMENT.

Read—the following Proceedings of the Board of Revenue (Separate Revenue), Mis. No. 791, dated 25th February 1899 :—

Read—the following letter from Messrs. PARRY & CO., Managing Agents, The East India Distilleries and Sugar Factories (Limited), to the Secretary to the Board of Revenue (Separate Revenue), dated Madras, 7th February 1899 :—

In continuation of our letter of 30th ultimo and in response to the Board's request in their letter of that date, we have now the honour to make the following further observations on the proposals then indicated, which we note are to establish differential prices against us as follows :—

(1) to reduce the maximum sale price of molasses spirit ex-distillery from $10\frac{1}{2}$ to $8\frac{1}{2}$ annas per gallon, or say by over 20 per cent.;

(2) to reduce the price of palmyra jaggery liquor by an amount not stated;

(3) to leave cane jaggery spirit price as at present.

2. The above proposal has fairly astounded us and in case it may have arisen in connection with a recent demi-official offer made by our Mr. W. Shaw to Mr. Thomson we would first clear that up. Mr. Shaw's offer stipulated not only for a contract for a term of years but also for terms which would have enabled us to largely reduce our staff both up-country and in Madras and so generally cheapen and simplify our working.

These advantages, with the desire to show Government that we did not propose to force prices to any excessive level, led us to offer to supply at $8\frac{1}{2}$ annas, but we must strongly protest against that rate being forced upon us as a maximum price without the counterbalancing advantages referred to.

3. Next we have to remark that the scheme would probably be found difficult to work if eventually attempted, because liquor is not made only from one class of material at a time but, in a greater or less degree for fermentation purposes, there is a mixture of materials in the vats, so that without hampering the business and deranging the ordinary course of work it would be impossible to say exactly what liquor is made from each individual class of material.

4. With regard to the opening paragraph of the letter under reply, it appears to us that the Board allow excessive weight to the effect on consumption of the, say, 2 annas per gallon difference of rates under reference. It has to be remembered that on a 10 annas basis for spirit ex-duty the shopkeeper will generally have to pay, say,—

	Rs.	A.	P.
As first cost	0	10	0
As duty	3	1	0
As transport wastage	0	2	0
Total cost ..	3	13	0

2 annas on that equals only, say, $3\frac{1}{4}$ per cent.—a difference not sufficient to have any marked effect on consumption, especially seeing that the actual consumer buys by the dram when the difference in price is scarcely appreciable.

5. We have not before us the figures on which the Board goes when stating that the consumption of the country arrack is diminishing, so we cannot well discuss that point as we should like to, but meanwhile we may mention that since 1894 the rate of duty has been raised 7 annas per gallon and upwards, practically all over the Presidency.

During 1895, 1896 and 1897 this rise in duty may not have been felt since: during that period, owing to extreme competition between the Nellikuppam and Ránipéttai distilleries, sale rates were cut down, eventually to below cost of production. From 1898, this competition having ceased, the rise in duty referred to is perhaps making itself felt on consumption, but there is no ground for asserting that hitherto we have forced prices to an unduly high pitch and certainly, so far, they are not so high as they will at once rule if by unjust legislation we are forced out of the spirit business.

6. Government appear to us to be acting in blind fear of the small rise in price necessary for us—manufacturers—to earn a fair profit on our capital and skill employed, while it overlooks or ignores the real hindrance to consumption which results when shopkeepers join together to raise retail prices to the consumers.

Cases in point are Madras and Kistna districts, in both of which wholesale prices are relatively low, while in both, owing to combination among shopkeepers, consumption has fallen off.

When asked to assign reason for such decreased consumption, shopkeepers are no doubt glad to put forward the reasons apparently accepted by the Board, but such will not bear investigation.

7. We would wish to remind Government that the existing abkári free-supply system, which has been worked with such financial success to Government for the last fifteen years, was orginally inaugurated only after much consultation of our then senior partner Mr. J. C. Shaw by Mr. (now Sir Henry) Stokes, and Mr. Shaw then wrote to Mr. Stokes as follows, under date 20th May 1884 :—

"As I said to you when here we will undertake to support you in carrying this through provided we are satisfied that there will be no throwing us over on the plea that we should be securing too many districts." It was then, we believe, that the $10\frac{1}{2}$ maximum rate ex-distillery for spirit was settled on and Mr. Shaw's fear, as expressed above, was met by the understanding that, subject to the said maximum, Government was indifferent as to how much of the Presidency we might supply. Our firm then gave all the assistance in its power and insured the successful start of the then new order of things. But now it would appear that our services then rendered are forgotten and Government by its differentiation of prices against us is wishing to throw us over exactly as Mr. Shaw foresaw might be the case.

8. In conclusion, we have the honour to submit that this scheme of differential rates, if carried out, will amount to a direct attack upon all capital invested in the sugar industry of this Presidency, of which industry the utilisation of molasses for spirit-making is, of course, a material branch. The reduction of price proposed would involve peculiar hardship to the shareholders who have so recently acquired an interest in this Company, and the injustice becomes the more apparent when it is remembered that only this year we have completed the erection of a large expensive new distillery at the express instigation of the late Abkári Commissioner, now Senior Member of Council. Had any indication been given us that a radical change of system was intended, such as this differentiation of rates against molasses spirit, we could not have thought of meeting Mr. Arundel's wishes and sunk the capital involved in the new distillery at Nellikuppam, nor could this Company have taken over its business on the terms it did. We can scarcely credit that on consideration Government will definitely decide upon practically confiscating in this way capital invested on the faith of the stability of long established revenue regulations, no change in which can equitably be made save after notice proportionate to the capital sunk in the business concerned.

Resolution—Mis. No. 791, dated 25th February 1899.

Messrs. Parry & Co.'s letter will be forwarded to Government with the following remarks.

2. *Paragraph 2.*—The Board was fully aware that Mr. Shaw's offer to contract for a term of years at $8\frac{1}{2}$ annas would, if accepted, improve even the present position of the Company by making that a fixed price for all-comers within the area contracted for and enable it to effect savings in various ways accordingly. The only advantage it promised for Government was that shopkeepers would be certain of the price they would have to pay, but the reduction therein under the maximum which the last rule allowed would be of small advantage to those at any distance from the only distillery—Nellikuppam—which the Company would have continued to maintain within the tract. Under competition it may be doubtful if the Company could force prices beyond $8\frac{1}{2}$ annas: its endeavour for some years now has been to kill competition; and the Board's proposal, while it did not ignore the fact of Mr. Shaw's offer, attached less value thereto than the Company seems to infer.

3. *Paragraph 3.*—The Board does not anticipate any difficulty in determining from what material liquor has been made. The Company distils only from molasses, minor distillers generally from only one class of material at a time, and the latter are not likely to find any objection to the differential rates. The uniformity of the distillery price for liquor without reference to material placed these latter at an enormous disadvantage in the competition. Admixture of materials, if tried at all (except to meet very temporary emergencies), can be so for no purpose, but the evasion of the present regulation and the Board would meet it by treating the resultant spirit as though made from material of the lowest class used.

4. *Paragraph 4.*—The effect on consumption of the difference of 2 annas per gallon may not be very appreciable when applied to the dram. But the Board is, for the present, most concerned regarding the competing distiller and the shopkeeper —the final agent in distribution—and from the point of view of the latter the decrease in first cost is a matter of very considerable moment.

5. *Paragraph 5.*—There is no reason for believing that the rise in duty since 1894 is making itself felt on consumption; the Board's administration reports negative such an opinion: but there is every reason to believe that the rise of price consequent on the want of competition in supply will intensify any such tendency if it exists, and the absence of competition is a current explanation of the fact of decrease in consumption. Reduction of consumption can be countervailed in its effect on the revenue by enhanced duty; but with a high maximum price up to which a distiller might work the danger lay in the anticipation of shopkeepers that prices would eventually be enhanced by this Company to the extreme limit the previous notification allowed, and the difference was the profit of the Company. The declared intention was to get rid of all competitors, and with that the maximum distillery price would certainly have been given effect to as far at least as was consistent with an output which would have satisfied the Company's view of its own possible profits. It is difficult to see how it can be forced out of the spirit business except by its own mismanagement: the present rate of $8\frac{1}{2}$ annas most distinctly cannot bring that about unless the business has been so reconstructed as to permit of it. If that is the case the Company and not Government is to blame.

6. *Paragraph 6.*—The Board is not aware of any hindrance to consumption from combination of shopkeepers to raise their prices to consumers; when the privileges of vend fall into the hands of single persons or syndicates, prices of course can be raised, no maximum price having been imposed; the remedy applicable is obvious if not always easy. Shopkeepers in any case must have a certain turn-over and make an income for themselves and when and if the country is adequately supplied with shops it cannot but follow that prices therein will be fixed in the main so as to yield the ordinary rate of profit.

7. *Paragraph 7.*—There is no information before the Board that leads it to believe that the $10\frac{1}{2}$ annas maximum rate was ever regarded as unalterable. Reference is requested to Mr. Stokes' note of 5th April 1884, the Commissioner's letter in Board's Proceedings, No. 3227, of 25th November 1885, and Board's Proceedings, No. 2095, of 17th September 1886, from which it would appear that the point was treated tentatively and the danger of monopoly always kept in view. Sir Henry Bliss in 1898 certainly entertained no idea of fixity of price, but on the contrary regarded Government's present action as the first course open to it. No such ground was hitherto taken by the firm so far as the Board is aware; on the contrary the point was not even referred to when the firm was consulted a year ago and more recently as to a reduction. If Government has benefited by the firm in the past the firm may well admit that it has reaped a plentiful return from its operations under Government patronage. There is no desire to curtail its legitimate rate of profit, but the Company is not content therewith and would evidently desire to dictate its own terms to Government.

8. *Paragraph 8.*—The Board distinctly joins issue with the statement that this scheme of differential rates is a direct attack on all capital invested in the sugar industry. On the contrary Government is aware of how a sugar industry is being instituted in the north which is willing to work at even lower rates for its spirit produce than Government has now directed. That the new rule will limit profits to the East India Distilleries and Sugar Factories (Limited) is no doubt true, but the Government of Madras was not consulted in the creation of that Company, and if it proceeded without due caution and overcapitalized itself the error cannot be laid at the doors of Government. The Board observes moreover from the Company's prospectus that the rate of profit on spirit on which the calculations therein are based is 2 annas a gallon. That probably was, and, if it was not, ought to have been, arrived at on past working and ought to be obtainable under the price now fixed. The prospectus further shows that Messrs. Parry & Co., before the amalgamation, were reaping enormous profits at a time when, on their own showing, their price averaged well under 7 annas, but how much of these profits was due to spirits and how much to sugar is of course unknown. The Board assumes that Government has not committed itself to the permanency of the former distillery rate; the Company makes no assertion that it has; but its complaint is virtually that it has been deceived by Government and is not the victim of its own financial shrewdness or incapacity. The Board has no reason to think that Government ever contemplated a time when the firm would assume the control of a large portion of the abkári administration by constituting itself the sole purveyor of spirit to the Presidency, but its recent action might fairly be ascribed to such a misconception.

9. As to the want of due notice, it is sufficient to say that the Company had clear notice a year ago that Government deliberated moving in the direction of reducing the distillery price and if the Company required a distinct assurance to the contrary then that should have been asked for. The Company's letter of 23rd April 1898, read with the Board's Proceedings, Mis. No. 1690, of 30th idem, does not, in the Board's opinion, give them room to complain of want of notice or of a change in Government policy. The Company knew what remedy lay in the hands of Government and apparently counted on Government's supineness while it pursued its policy of extermination of competitors. The differential rate is injurious to the Company only from the fact that it will prevent that policy; it cannot otherwise affect their legitimate profits on spirit as it will not in any degree alter or affect their methods of distillation from sugar refuse.

(True Extract.)

(Signed) EDMUND MILLETT,
Assistant Secretary.

To the Secretary to Government, Revenue Department,
with one enclosure.

Read—petition from Messrs. PARRY & CO., dated 15th February 1899.

Order—No. 1796 (Confdl. No. 62), Revenue, dated 17th May 1899.

Miscellaneous.

The Government concurs with the Board in its remarks in the first of the papers read above. Messrs. Parry & Co. should accordingly be informed that the Government sees no reason to reconsider the orders sanctioning a reduction of the maximum price of palmyra-jaggery arrack and molasses arrack issued from distilleries. With regard to the reference in the concluding paragraph of their letter to the Board, dated 7th February 1899, to "the stability of long-established Revenue Regulations," the attention of Messrs. Parry & Co. should be drawn to rule 65 of the Distillery and Warehouse Rules which provides that "the Commissioner may, subject to the orders of Government, fix *from time to time* the maximum prices to be charged by distillers for spirits issued from a distillery." It should also be pointed out to them that they act under a license granted annually the terms of which alone can be held to bind them and Government.

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(True Extract.)

(Signed) G. S. FORBES,
Secretary to Government.

To the Board of Revenue (Separate Revenue),
with petition, to be returned.
„ Messrs. Parry & Co. (paragraph 4 only).

Exd. W. D'Moss.

20 Copies.

CONFIDENTIAL.

Revenue Department.

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* G.O., No. 617, dated 10th February 1899.

In the above Proceedings the Board forwards with its remarks a protest from Messrs. Parry & Co. against the reduction, while the letter is a similar protest addressed direct to Government.

2. In paragraph 2 of its first letter, the firm admits that a proposal to supply country spirits at 8½ annas a gallon was made by Mr. Shaw, but that it was coupled with a stipulation to be given the monopoly of supply for a term of years in certain districts. The firm expected that under such an arrangement it could reduce its staff in Madras and up-country and thereby cheapen its working. It therefore protests against the forcing of that rate upon it without the counterbalancing advantage. The Board remarks that it did not ignore Mr. Shaw's offer, but that it attached less value to it than the firm seems to infer. The proposal of the latter was prompted by a desire to kill competition and could not therefore be accepted.

But if they volunteered an 8½-anna rate for a term of years, it was naturally a rate which would well protect them from the vicissitudes of the sugar market during the period. The fluctuations might have been very large, and yet an 8½-anna rate was deemed by the firm to cover them sufficiently.

G.S.F.

Yes, believed to be.

A. T. A[rundel].

3. The firm's second objection is that as liquor is not made from only one class of material at a time, it would be difficult to work the scheme of differential rates. The Board does not anticipate any difficulty on the subject. The East India Distilleries and Sugar Factories Company distills from molasses only, while other distillers use only one class of material at a time. It is possible that to evade the present regulation an admixture of materials may be attempted; but the Board proposes to treat liquor so distilled as made from material of the lowest class used.

If, I suppose, a *substantial* portion of the mixture were of the low class?

G.S.F.

A.T.A.

4. Messrs. Parry & Co.'s third objection is that a difference of 2 annas in the maximum price at the distillery would only be 3¼ per cent. of the price to be paid by the shopkeeper including duty; that as the consumer buys by the dram, the difference in price would scarcely be appreciable; and that consumption cannot be materially affected. The Board is concerned not with the consumer directly, but with the shopkeeper, as against the distiller, and regards a decrease of 2 annas in first cost as a matter of very considerable moment to him.

5. Messrs. Parry & Co.'s fourth objection is that the decrease in consumption of liquor, if any, has been brought about by the enhancement of the tax, or by combination among retailers, and that the effect of the first measure has begun to be felt after the extinction of the "extreme competition" between the Nellikuppam

and Ránipéttai distilleries. These assertions are traversed by the Board in paragraphs 5 and 6 of its Proceedings. The firm states that when the East India Distilleries and Sugar Factories Company is forced out of the spirit business by "unjust legislation," the price of liquor would rise very high. The Board has no fear that the Company will be forced out except by its own mismanagement, for which Government cannot be blamed.

6. In paragraph 7 of their letter Messrs. Parry & Co. claim to have helped the Government in introducing the private distillery supply system, and complain that their services are now forgotten, and that they are thrown over. They refer to a letter addressed by Mr. Shaw, their senior partner, to Sir Henry Stokes on the 20th May 1884, * and to an understanding arrived at with reference thereto to the effect that, subject to the maximum of 10½ annas a gallon, the Government was indifferent as to how much of the Presidency they supplied. They infer presumably that the rate was unalterable. The Board observes that if Government has in the past benefited from the firm's help, the latter has reaped a plentiful return from its operations under Government patronage, and that though there is no desire to curtail its legitimate rate of profit, it cannot expect to dictate terms to Government. The Board is not aware of any correspondence to show that the 10½ annas was ever regarded as unalterable. The papers available in this office are noted in the margin. The demi-official letter referred to by Messrs. Parry & Co. cannot be traced nor the reply to it, if any. The search is being continued.† In a note dated the 5th April 1884 suggesting changes in the administration of the abkári revenue, Sir Henry Stokes stated: "In these districts it is necessary to fix "a *maximum rate* beyond which the distillers shall not charge, and also to pitch the "still-head duty a little higher than Re. 1. I would make it Rs. 1-2-0 for taluk "vendors in those districts, and fix 14 annas per gallon as the *maximum charge* to "taluk vendors." From the previous portion of the note this rate appears to have been intended to apply to *30° U.P.* By G.O, No. 394, dated 18th March 1884, a committee was appointed to consider the changes proposed; but its report (which will be found printed in G.O., No. 570, dated 30th April 1884) is silent on the point. But one of the notifications drafted by the committee stated: "The former [*i.e.*, "persons authorized to establish distil-"leries] will be bound to supply at any "prices agreed upon . . . . subject to maximum prices of one rupee two annas, "one rupee, and nine annas per gallon for spirits of strengths 20° U.P., 30° U.P., and "60° U.P. respectively." These maxima rates were approved. For the Kurnool district during the lease for 1885-86 a maximum rate of twelve annas a gallon of 30° U.P. was prescribed. In submitting proposals for the lease for 1886-87, the Commissioner (Sir Henry Bliss) after observing that the maxima rates then in force were unnecessarily high—twelve annas in Kurnool and one rupee elsewhere—proposed a reduction to ten annas and-a-half. The proposal was approved by the Board [paragraph 10-I (*h*)]. The

Does this mean that the present system enables them to make an excessive profit as a reward?

G.S.F.

* This was 15 years ago.

G.S.F.

This is absurd. The firm acts under a license the terms of which are what binds them and Government.

A.T.A.

Page 10 of Sir Henry Stokes' note, dated 5th April 1884, in G.O., No. 394, dated 18th March 1884.

Paragraph 16 of the Commissioner's letter on page 3 of G.O., No. 1362, dated 10th December 1885.

† Not traceable—*vide* note of Record office, dated 8th May 1899.

Condition 4 of Notification IV on page 13 of G.O., No. 570, Revenue, dated 30th April 1884.

Paragraph 1 of G.O., *ibid.*

Paragraph 9 of Commissioner's letter on page 2 of G.O., No. 23, Revenue, dated 9th January 1885, and paragraph 3 of G.O.

Condition 11 on page 3 of G.O., No. 124, Revenue, dated 30th January 1885.

Paragraph 16 of his letter on page 3 of G.O., No. 1362, dated 10th December 1885.

Page 28 of G.O., *ibid.*

This could not be done without a formal G.O. which, if ever passed, would be objected to by India as soon they knew of it.

A.T.A.
10-4-99.

No: they do not mean there was any contract or binding agreement: we have no record of any agreement: and they do not produce any which of course they would have done at once if it had been in existence or of any value beyond vague talk.

G.S.F.

I agree. Besides no such private note could invalidate the action of Government.

A.T.A.

foregoing précis, it will be observed, shows that there was no intention to fix unalterable maxima rates, and that the rate of ten annas and-a-half a gallon of 30° U.P. was prescribed in December 1885 and not at the time of Mr. Shaw's letter of 20th May 1884. The Government order is signed by Sir Frederick Price and not by Sir Henry Stokes, who, it is understood, was then on leave. To be on the safe side it is perhaps desirable that Messrs. Parry & Co. may be asked to state definitely what the understanding was to which they refer and to forward a copy of the papers on which they replied. The Government has no objection, it is presumed, to the supply of any district by Messrs. Parry & Co. The real objection is to their enhancement of prices.

7. Lastly, Messrs. Parry & Co. complain that as the utilization of molasses for spirit-making is a material branch of the sugar industry, the imposition of differential rates is a direct attack on the capital invested in that industry. The Board denies the validity of this complaint, as a sugar industry is being instituted in the north (presumably in Gódávari), the persons interested in which are willing to work for lower rates for the spirit produce than those now fixed by Government.

The Government of India are about to give special protection to sugar.

G.S.F.

They have now done so.

A.T.A.

8. Messrs. Parry & Co. state that, on the faith of the stability of long-standing revenue regulations, they have only recently completed the erection of a large expensive new distillery at Nellikuppam and that the East India Distilleries and Sugar Factories Company took over its business, and that a change in the abkári policy of Government cannot equitably be made until after notice proportionate* to the capital sunk in the business. The Board observes that the Company had a year's notice. Messrs. Parry & Co. enquired of the Board, under date the 23rd April 1898, whether the abkári policy "was to receive any important modi-"fication making distilling possibly "less attractive from a trader's point "of view." The Board replied that "no alteration in the Government abkári "policy in its *main* features" was contemplated, but that Government was bound to protect itself against the firm's attempt to obtain a monopoly of supply. Messrs. Parry & Co. appear to consider that the reduction of the maximum rate for molasses arrack as an important change, while the Board appears to think differently. Whether the length of notice was or was not sufficient in the present case depends on how the question is viewed.

As to the alleged dependence on the stability of revenue regulations, attention is solicited to rule 65 of the Distillery Rules published in the *Fort St. George Gazette*, dated 5th May 1899, Part I: "The Commissioner may, subject

Messrs. Parry & Co have always been perfectly well aware of the powers of Government to introduce changes of the maximum rates, and of the risks consequent thereon. At the time they were enlarging or building their distilleries they were themselves offering an 8½-anna rate.

G.S.F.

* This contention of Messrs. Parry & Co. cannot of course be admitted.

A.T.A.

Vide paragraphs 16 and 17 of Board's Proceedings, No. 1690, dated 30th April 1898, on page 8 of G.O., No. 625, dated 27th October 1898.

Page 8 of G.O., *ibid.*

The firm was invited to give its views before the order was passed. The present letter was written after the first reply was received.

A.T.A.

Of course they know this better than we do. G.S.F.

Draw their attention to this. A.T.A.

"to the orders of Government, *fix from "time to time* the maximum prices to be "charged by distillers for spirits issued "from a distillery, etc." This distinctly negatives the assumption that the maximum rate once prescribed would be permanent.

9. In their letter, dated 15th February 1899, Messrs. Parry & Co. appeal to Government that the Board, after inducing them upon certain terms to engage on a large scale in the business of distillers, has suddenly, and without due notice, introduced a very serious modification of the terms. They add "our "present feeling is that rather than submit to what we consider a gross "breach of faith we must, even at some pecuniary loss to ourselves, close our "distilleries so far as the manufacture of what is known as country spirit is "concerned," and they call attention to the question of the attraction of capital to India. Whether the firm will carry out the threat, it is impossible to say. If it does, the Government may then consider what course should be adopted. In regard to the charge of breach of faith, it is not clear what terms were offered by the Board. As to want of notice, please see paragraph 8 above.

Not an idea of it. G.S.F. A.T.A.

V.K.R.
20-3-99.

To the Honourable Member.
To His Excellency the Governor.

I have noted on the margin.

G. S. FORBES.
21-3-99.

Briefly put: Messrs. Parry & Co. want to get a monopoly of supply for the presidency or as much of it as possible by underselling other distilleries and so forcing their owners to give up the business. Government must retain power to prevent this and the distillery rules under which Messrs. Parry & Co. hold their license give Government the necessary means.

A. T. A[RUNDEL].
10-4-99.

I must accept the Honourable Member's conclusion, that we must stick to the previous order, though I think our having thus to reduce the maximum price is unfortunate. Perhaps it would be worth while to enquire further into the suggestion made by the Company that the combination of shopkeepers is partly the cause of the rise in price.

A. E. H[AVELOCK].
4-5-99.

To Secretary.

Please see draft below.

A.K.
8-5-99.

To the Honourable Member.

G.S.F.
11-5-99.

A.T.A.
15-5-99.

Issue.

G.S.F.
19-5-99.

Government {1899} of Madras.

REVENUE.

CONFIDENTIAL.

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G.O., No. 1796 (Confdl. No. 62), 17th May 1899.

MAY.

Passing orders on Messrs. Parry & Co.'s petition protesting against the alteration in the maximum price for liquor issued from distilleries.

Of course they know this better than we do.
G.S.F.

Draw their attention to this.
A.T.A.

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Government {1899} of Madras.

REVENUE.

1.

CONFIDENTIAL.

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Recd. } *1899.* *Enclosures*
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G.O., No. 1796 (Confdl. No. 62), 17th May 1899.

MAY.

Passing orders on Messrs. Parry & Co.'s petition protesting against the alteration in the maximum price for liquor issued from distilleries.

CONFIDENTIAL.

GOVERNMENT OF MADRAS.

REVENUE DEPARTMENT.

Read—the following Proceedings of the Board of Revenue (Separate Revenue), Mis. No. 791, dated 25th February 1899 :—

Read—the following letter from Messrs. PARRY & CO., Managing Agents, The East India Distilleries and Sugar Factories (Limited), to the Secretary to the Board of Revenue (Separate Revenue), dated Madras, 7th February 1899 :—

In continuation of our letter of 30th ultimo and in response to the Board's request in their letter of that date, we have now the honour to make the following further observations on the proposals then indicated, which we note are to establish differential prices against us as follows :—

(1) to reduce the maximum sale price of molasses spirit ex-distillery from $10\frac{1}{2}$ to $8\frac{1}{2}$ annas per gallon, or say by over 20 per cent. ;

(2) to reduce the price of palmyra jaggery liquor by an amount not stated ;

(3) to leave cane jaggery spirit price as at present.

2. The above proposal has fairly astounded us and in case it may have arisen in connection with a recent demi-official offer made by our Mr. W. Shaw to Mr. Thomson we would first clear that up. Mr. Shaw's offer stipulated not only for a contract for a term of years but also for terms which would have enabled us to largely reduce our staff both up-country and in Madras and so generally cheapen and simplify our working.

These advantages, with the desire to show Government that we did not propose to force prices to any excessive level, led us to offer to supply at $8\frac{1}{2}$ annas, but we must strongly protest against that rate being forced upon us as a maximum price without the counterbalancing advantages referred to.

3. Next we have to remark that the scheme would probably be found difficult to work if eventually attempted, because liquor is not made only from one class of material at a time but, in a greater or less degree for fermentation purposes, there is a mixture of materials in the vats, so that without hampering the business and deranging the ordinary course of work it would be impossible to say exactly what liquor is made from each individual class of material.

4. With regard to the opening paragraph of the letter under reply, it appears to us that the Board allow excessive weight to the effect on consumption of the, say, 2 annas per gallon difference of rates under reference. It has to be remembered that on a 10 annas basis for spirit ex-duty the shopkeeper will generally have to pay, say,—

	Rs.	A.	P.
As first cost	0	10	0
As duty	3	1	0
As transport wastage	0	2	0
Total cost ..	3	13	0

2 annas on that equals only, say, $3\frac{1}{4}$ per cent.—a difference not sufficient to have any marked effect on consumption, especially seeing that the actual consumer buys by the dram when the difference in price is scarcely appreciable.

5. We have not before us the figures on which the Board goes when stating that the consumption of the country arrack is diminishing, so we cannot well discuss that point as we should like to, but meanwhile we may mention that since 1894 the rate of duty has been raised 7 annas per gallon and upwards, practically all over the Presidency.

During 1895, 1896 and 1897 this rise in duty may not have been felt since : during that period, owing to extreme competition between the Nellikuppam and Ránipéttai distilleries, sale rates were cut down, eventually to below cost of production. From 1898, this competition having ceased, the rise in duty referred to is perhaps making itself felt on consumption, but there is no ground for asserting that hitherto we have forced prices to an unduly high pitch and certainly, so far, they are not so high as they will at once rule if by unjust legislation we are forced out of the spirit business.

6. Government appear to us to be acting in blind fear of the small rise in price necessary for us—manufacturers—to earn a fair profit on our capital and skill employed, while it overlooks or ignores the real hindrance to consumption which results when shopkeepers join together to raise retail prices to the consumers.

Cases in point are Madras and Kistna districts, in both of which wholesale prices are relatively low, while in both, owing to combination among shopkeepers, consumption has fallen off.

When asked to assign reason for such decreased consumption, shopkeepers are no doubt glad to put forward the reasons apparently accepted by the Board, but such will not bear investigation.

7. We would wish to remind Government that the existing abkári free-supply system, which has been worked with such financial success to Government for the last fifteen years, was orginally inaugurated only after much consultation of our then senior partner Mr. J. C. Shaw by Mr. (now Sir Henry) Stokes, and Mr. Shaw then wrote to Mr. Stokes as follows, under date 20th May 1884 :—

"As I said to you when here we will undertake to support you in carrying this through provided we are satisfied that there will be no throwing us over on the plea that we should be securing too many districts." It was then, we believe, that the $10\frac{1}{2}$ maximum rate ex-distillery for spirit was settled on and Mr. Shaw's fear, as expressed above, was met by the understanding that, subject to the said maximum, Government was indifferent as to how much of the Presidency we might supply. Our firm then gave all the assistance in its power and insured the successful start of the then new order of things. But now it would appear that our services then rendered are forgotten and Government by its differentiation of prices against us is wishing to throw us over exactly as Mr. Shaw foresaw might be the case.

8. In conclusion, we have the honour to submit that this scheme of differential rates, if carried out, will amount to a direct attack upon all capital invested in the sugar industry of this Presidency, of which industry the utilisation of molasses for spirit-making is, of course, a material branch. The reduction of price proposed would involve peculiar hardship to the shareholders who have so recently acquired an interest in this Company, and the injustice becomes the more apparent when it is remembered that only this year we have completed the erection of a large expensive new distillery at the express instigation of the late Abkári Commissioner, now Senior Member of Council. Had any indication been given us that a radical change of system was intended, such as this differentiation of rates against molasses spirit, we could not have thought of meeting Mr. Arundel's wishes and sunk the capital involved in the new distillery at Nellikuppam, nor could this Company have taken over its business on the terms it did. We can scarcely credit that on consideration Government will definitely decide upon practically confiscating in this way capital invested on the faith of the stability of long established revenue regulations, no change in which can equitably be made save after notice proportionate to the capital sunk in the business concerned.

Resolution—Mis. No. 791, dated 25th February 1899.

Messrs. Parry & Co.'s letter will be forwarded to Government with the following remarks.

2. *Paragraph 2.*—The Board was fully aware that Mr. Shaw's offer to contract for a term of years at $8\frac{1}{2}$ annas would, if accepted, improve even the present position of the Company by making that a fixed price for all-comers within the area contracted for and enable it to effect savings in various ways accordingly. The only advantage it promised for Government was that shopkeepers would be certain of the price they would have to pay, but the reduction therein under the maximum which the last rule allowed would be of small advantage to those at any distance from the only distillery—Nellikuppam—which the Company would have continued to maintain within the tract. Under competition it may be doubtful if the Company could force prices beyond $8\frac{1}{2}$ annas: its endeavour for some years now has been to kill competition; and the Board's proposal, while it did not ignore the fact of Mr. Shaw's offer, attached less value thereto than the Company seems to infer.

3. *Paragraph 3.*—The Board does not anticipate any difficulty in determining from what material liquor has been made. The Company distils only from molasses, minor distillers generally from only one class of material at a time, and the latter are not likely to find any objection to the differential rates. The uniformity of the distillery price for liquor without reference to material placed these latter at an enormous disadvantage in the competition. Admixture of materials, if tried at all (except to meet very temporary emergencies), can be so for no purpose, but the evasion of the present regulation and the Board would meet it by treating the resultant spirit as though made from material of the lowest class used.

4. *Paragraph 4.*—The effect on consumption of the difference of 2 annas per gallon may not be very appreciable when applied to the dram. But the Board is, for the present, most concerned regarding the competing distiller and the shopkeeper —the final agent in distribution—and from the point of view of the latter the decrease in first cost is a matter of very considerable moment.

5. *Paragraph 5.*—There is no reason for believing that the rise in duty since 1894 is making itself felt on consumption; the Board's administration reports negative such an opinion: but there is every reason to believe that the rise of price consequent on the want of competition in supply will intensify any such tendency if it exists, and the absence of competition is a current explanation of the fact of decrease in consumption. Reduction of consumption can be countervailed in its effect on the revenue by enhanced duty; but with a high maximum price up to which a distiller might work the danger lay in the anticipation of shopkeepers that prices would eventually be enhanced by this Company to the extreme limit the previous notification allowed, and the difference was the profit of the Company. The declared intention was to get rid of all competitors, and with that the maximum distillery price would certainly have been given effect to as far at least as was consistent with an output which would have satisfied the Company's view of its own possible profits. It is difficult to see how it can be forced out of the spirit business except by its own mismanagement: the present rate of $8\frac{1}{2}$ annas most distinctly cannot bring that about unless the business has been so reconstructed as to permit of it. If that is the case the Company and not Government is to blame.

6. *Paragraph 6.*—The Board is not aware of any hindrance to consumption from combination of shopkeepers to raise their prices to consumers; when the privileges of vend fall into the hands of single persons or syndicates, prices of course can be raised, no maximum price having been imposed; the remedy applicable is obvious if not always easy. Shopkeepers in any case must have a certain turn-over and make an income for themselves and when and if the country is adequately supplied with shops it cannot but follow that prices therein will be fixed in the main so as to yield the ordinary rate of profit.

7. *Paragraph 7.*—There is no information before the Board that leads it to believe that the $10\frac{1}{2}$ annas maximum rate was ever regarded as unalterable. Reference is requested to Mr. Stokes' note of 5th April 1884, the Commissioner's letter in Board's Proceedings, No. 3227, of 25th November 1885, and Board's Proceedings, No. 2095, of 17th September 1886, from which it would appear that the point was treated tentatively and the danger of monopoly always kept in view. Sir Henry Bliss in 1898 certainly entertained no idea of fixity of price, but on the contrary regarded Government's present action as the first course open to it. No such ground was hitherto taken by the firm so far as the Board is aware; on the contrary the point was not even referred to when the firm was consulted a year ago and more recently as to a reduction. If Government has benefited by the firm in the past the firm may well admit that it has reaped a plentiful return from its operations under Government patronage. There is no desire to curtail its legitimate rate of profit, but the Company is not content therewith and would evidently desire to dictate its own terms to Government.

8. *Paragraph 8.*—The Board distinctly joins issue with the statement that this scheme of differential rates is a direct attack on all capital invested in the sugar industry. On the contrary Government is aware of how a sugar industry is being instituted in the north which is willing to work at even lower rates for its spirit produce than Government has now directed. That the new rule will limit profits to the East India Distilleries and Sugar Factories (Limited) is no doubt true, but the Government of Madras was not consulted in the creation of that Company, and if it proceeded without due caution and overcapitalized itself the error cannot be laid at the doors of Government. The Board observes moreover from the Company's prospectus that the rate of profit on spirit on which the calculations therein are based is 2 annas a gallon. That probably was, and, if it was not, ought to have been, arrived at on past working and ought to be obtainable under the price now fixed. The prospectus further shows that Messrs. Parry & Co., before the amalgamation, were reaping enormous profits at a time when, on their own showing, their price averaged well under 7 annas, but how much of these profits was due to spirits and how much to sugar is of course unknown. The Board assumes that Government has not committed itself to the permanency of the former distillery rate; the Company makes no assertion that it has; but its complaint is virtually that it has been deceived by Government and is not the victim of its own financial shrewdness or incapacity. The Board has no reason to think that Government ever contemplated a time when the firm would assume the control of a large portion of the abkári administration by constituting itself the sole purveyor of spirit to the Presidency, but its recent action might fairly be ascribed to such a misconception.

9. As to the want of due notice, it is sufficient to say that the Company had clear notice a year ago that Government deliberated moving in the direction of reducing the distillery price and if the Company required a distinct assurance to the contrary then that should have been asked for. The Company's letter of 23rd April 1898, read with the Board's Proceedings, Mis. No. 1690, of 30th idem, does not, in the Board's opinion, give them room to complain of want of notice or of a change in Government policy. The Company knew what remedy lay in the hands of Government and apparently counted on Government's supineness while it pursued its policy of extermination of competitors. The differential rate is injurious to the Company only from the fact that it will prevent that policy; it cannot otherwise affect their legitimate profits on spirit as it will not in any degree alter or affect their methods of distillation from sugar refuse.

(True Extract.)

(Signed) EDMUND MILLETT,
Assistant Secretary.

To the Secretary to Government, Revenue Department,
with one enclosure.

Read—petition from Messrs. PARRY & CO., dated 15th February 1899.

Order—No. 1796 (Confdl. No. 62), Revenue, dated 17th May 1899.

Miscellaneous.

The Government concurs with the Board in its remarks in the first of the papers read above. Messrs. Parry & Co. should accordingly be informed that the Government sees no reason to reconsider the orders sanctioning a reduction of the maximum price of palmyra-jaggery arrack and molasses arrack issued from distilleries. With regard to the reference in the concluding paragraph of their letter to the Board, dated 7th February 1899, to "the stability of long-established Revenue Regulations," the attention of Messrs. Parry & Co. should be drawn to rule 65 of the Distillery and Warehouse Rules which provides that "the Commissioner may, subject to the orders of Government, fix *from time to time* the maximum prices to be charged by distillers for spirits issued from a distillery." It should also be pointed out to them that they act under a license granted annually the terms of which alone can be held to bind them and Government.

2. Adverting to the remarks in paragraph 3 of the Board's Proceedings, the Government presumes that the lower appropriate maximum rate will be enforced only if a substantial portion of the mixture be made from the lower classes of materials.

3. The Government desires that the Board of Revenue should investigate further the suggestion made by Messrs. Parry & Co. that combination among shopkeepers is partly the cause of the rise in the retail price to the consumer.

4. Messrs. Parry & Co. will be referred to the Board of Revenue for orders on their petition.

(True Extract.)

(Signed) G. S. FORBES,
Secretary to Government.

To the Board of Revenue (Separate Revenue),
with petition, to be returned.
„ Messrs. Parry & Co. (paragraph 4 only).

Exd. W. D'Moss.

20 Copies.

CONFIDENTIAL. Revenue Department.

NOTES CONNECTED WITH G.O., No. 1796, REVENUE, DATED 17th MAY 1899.

Reduction of maximum prices of liquor at distilleries.

Board's Proceedings (Separate Revenue), Mis. No. 791, *dated 25th February* 1899.
Letter from Messrs. Parry & Co., dated 28th February 1899.

To Secretary.

In G.O., No. 95, dated 6th February 1899, the Government authorized the Board of Revenue to reduce the maximum price to be charged by distillers for molasses arrack from 10½ annas to 8½ annas a gallon of 30° U.P., and a notification* was accordingly published by it on 7th February 1899 under the power conferred by rule 65 of the Distillery Rules.

* G.O., No. 617, dated 10th February 1899.

In the above Proceedings the Board forwards with its remarks a protest from Messrs. Parry & Co. against the reduction, while the letter is a similar protest addressed direct to Government.

2. In paragraph 2 of its first letter, the firm admits that a proposal to supply country spirits at 8½ annas a gallon was made by Mr. Shaw, but that it was coupled with a stipulation to be given the monopoly of supply for a term of years in certain districts. The firm expected that under such an arrangement it could reduce its staff in Madras and up-country and thereby cheapen its working. It therefore protests against the forcing of that rate upon it without the counterbalancing advantage. The Board remarks that it did not ignore Mr. Shaw's offer, but that it attached less value to it than the firm seems to infer. The proposal of the latter was prompted by a desire to kill competition and could not therefore be accepted.

But if they volunteered an 8½-anna rate for a term of years, it was naturally a rate which would well protect them from the vicissitudes of the sugar market during the period. The fluctuations might have been very large, and yet an 8½-anna rate was deemed by the firm to cover them sufficiently.

G.S.F.

Yes, believed to be.

A. T. A[rundel].

3. The firm's second objection is that as liquor is not made from only one class of material at a time, it would be difficult to work the scheme of differential rates. The Board does not anticipate any difficulty on the subject. The East India Distilleries and Sugar Factories Company distills from molasses only, while other distillers use only one class of material at a time. It is possible that to evade the present regulation an admixture of materials may be attempted; but the Board proposes to treat liquor so distilled as made from material of the lowest class used.

If, I suppose, a *substantial* portion of the mixture were of the low class?

G.S.F.

A.T.A.

4. Messrs. Parry & Co.'s third objection is that a difference of 2 annas in the maximum price at the distillery would only be 3¼ per cent. of the price to be paid by the shopkeeper including duty; that as the consumer buys by the dram, the difference in price would scarcely be appreciable; and that consumption cannot be materially affected. The Board is concerned not with the consumer directly, but with the shopkeeper, as against the distiller, and regards a decrease of 2 annas in first cost as a matter of very considerable moment to him.

5. Messrs. Parry & Co.'s fourth objection is that the decrease in consumption of liquor, if any, has been brought about by the enhancement of the tax, or by combination among retailers, and that the effect of the first measure has begun to be felt after the extinction of the "extreme competition" between the Nellikuppam

and Ránipéttai distilleries. These assertions are traversed by the Board in paragraphs 5 and 6 of its Proceedings. The firm states that when the East India Distilleries and Sugar Factories Company is forced out of the spirit business by "unjust legislation," the price of liquor would rise very high. The Board has no fear that the Company will be forced out except by its own mismanagement, for which Government cannot be blamed.

6. In paragraph 7 of their letter Messrs. Parry & Co. claim to have helped the Government in introducing the private distillery supply system, and complain that their services are now forgotten, and that they are thrown over. They refer to a letter addressed by Mr. Shaw, their senior partner, to Sir Henry Stokes on the 20th May 1884, * and to an understanding arrived at with reference thereto to the effect that, subject to the maximum of $10\frac{1}{2}$ annas a gallon, the Government was indifferent as to how much of the Presidency they supplied. They infer presumably that the rate was unalterable. The Board observes that if Government has in the past benefited from the firm's help, the latter has reaped a plentiful return from its operations under Government patronage, and that though there is no desire to curtail its legitimate rate of profit, it cannot expect to dictate terms to Government. The Board is not aware of any correspondence to show that the $10\frac{1}{2}$ annas was ever regarded as unalterable. The papers available in this office are noted in the margin. The demi-official letter referred to by Messrs. Parry & Co. cannot be traced nor the reply to it, if any. The search is being continued.† In a note dated the 5th April 1884 suggesting changes in the administration of the abkári revenue, Sir Henry Stokes stated: "In these districts it is necessary to fix "a *maximum rate* beyond which the distillers shall not charge, and also to pitch the "still-head duty a little higher than Re. 1. I would make it Rs. 1-2-0 for taluk "vendors in those districts, and fix 14 annas per gallon as the *maximum charge* to "taluk vendors." From the previous portion of the note this rate appears to have been intended to apply to *30° U.P.* By G.O., No. 394, dated 18th March 1884, a committee was appointed to consider the changes proposed; but its report (which will be found printed in G.O., No. 570, dated 30th April 1884) is silent on the point. But one of the notifications drafted by the committee stated: "The former [*i.e.*, "persons authorized to establish distil-"leries] will be bound to supply at any "prices agreed upon . . . . subject to maximum prices of one rupee two annas, "one rupee, and nine annas per gallon for spirits of strengths 20° U.P., 30° U.P., and "60° U.P. respectively." These maxima rates were approved. For the Kurnool district during the lease for 1885-86 a maximum rate of twelve annas a gallon of 30° U.P. was prescribed. In submitting proposals for the lease for 1886-87, the Commissioner (Sir Henry Bliss) after observing that the maxima rates then in force were unnecessarily high—twelve annas in Kurnool and one rupee elsewhere—proposed a reduction to ten annas and-a-half. The proposal was approved by the Board [paragraph 10-1 (*b*)]. The

Does this mean that the present system enables them to make an excessive profit as a reward?

G.S.F.

* This was 15 years ago.

G.S.F.

This is absurd. The firm acts under a license the terms of which are what binds them and Government.

A.T.A.

Page 10 of Sir Henry Stokes' note, dated 5th April 1884, in G.O., No. 594, dated 18th March 1884.

Paragraph 16 of the Commissioner's letter on page 3 of G.O., No. 1362, dated 10th December 1885.

† Not traceable—*vide* note of Record office, dated 8th May 1899.

Condition 4 of Notification IV on page 13 of G.O., No. 570, Revenue, dated 30th April 1884.

Paragraph 1 of G.O., *ibid.*

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This could not be done without a formal G.O. which, if ever passed, would be objected to by India as soon they knew of it.

A.T.A.
10-4-99.

No: they do not mean there was any contract or binding agreement: we have no record of any agreement: and they do not produce any which of course they would have done at once if it had been in existence or of any value beyond vague talk.

G.S.F.

I agree. Besides no such private note could invalidate the action of Government.

A.T.A.

The Government of India are about to give special protection to sugar.

G.S.F.

They have now done so.

A.T.A.

Messrs. Parry & Co have always been perfectly well aware of the powers of Government to introduce changes of the maximum rates, and of the risks consequent thereon. At the time they were enlarging or building their distilleries they were themselves offering an $8\frac{1}{2}$-anna rate.

G.S.F.

* This contention of Messrs. Parry & Co. cannot of course be admitted.

A.T.A.

Vide paragraphs 16 and 17 of Board's Proceedings, No. 1690, dated 30th April 1898, on page 8 of G.O., No. 625, dated 27th October 1898.

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The firm was invited to give its views before the order was passed. The present letter was written after the first reply was received.

A.T.A.

foregoing précis, it will be observed, shows that there was no intention to fix unalterable maxima rates, and that the rate of ten annas and-a-half a gallon of 30° U.P. was prescribed in December 1885 and not at the time of Mr. Shaw's letter of 20th May 1884. The Government order is signed by Sir Frederick Price and not by Sir Henry Stokes, who, it is understood, was then on leave. To be on the safe side it is perhaps desirable that Messrs. Parry & Co. may be asked to state definitely what the understanding was to which they refer and to forward a copy of the papers on which they replied. The Government has no objection, it is presumed, to the supply of any district by Messrs. Parry & Co. The real objection is to their enhancement of prices.

7. Lastly, Messrs. Parry & Co. complain that as the utilization of molasses for spirit-making is a material branch of the sugar industry, the imposition of differential rates is a direct attack on the capital invested in that industry. The Board denies the validity of this complaint, as a sugar industry is being instituted in the north (presumably in Gódávari), the persons interested in which are willing to work for lower rates for the spirit produce than those now fixed by Government.

8. Messrs. Parry & Co. state that, on the faith of the stability of long-standing revenue regulations, they have only recently completed the erection of a large expensive new distillery at Nellikuppam and that the East India Distilleries and Sugar Factories Company took over its business, and that a change in the abkári policy of Government cannot equitably be made until after notice proportionate* to the capital sunk in the business. The Board observes that the Company had a year's notice. Messrs. Parry & Co. enquired of the Board, under date the 23rd April 1898, whether the abkári policy "was to receive any important modi-"fication making distilling possibly "less attractive from a trader's point "of view." The Board replied that "no alteration in the Government abkári "policy in its *main* features" was contemplated, but that Government was bound to protect itself against the firm's attempt to obtain a monopoly of supply. Messrs. Parry & Co. appear to consider that the reduction of the maximum rate for molasses arrack as an important change, while the Board appears to think differently. Whether the length of notice was or was not sufficient in the present case depends on how the question is viewed.

As to the alleged dependence on the stability of revenue regulations, attention is solicited to rule 65 of the Distillery Rules published in the *Fort St. George Gazette*, dated 5th May 1899, Part I: "The Commissioner may, subject

and Ránipéttai distilleries. These assertions are traversed by the Board in paragraphs 5 and 6 of its Proceedings. The firm states that when the East India Distilleries and Sugar Factories Company is forced out of the spirit business by "unjust legislation," the price of liquor would rise very high. The Board has no fear that the Company will be forced out except by its own mismanagement, for which Government cannot be blamed.

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A.T.A.
10-4-99.

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A.T.A.

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The firm was invited to give its views before the order was passed. The present letter was written after the first reply was received.

A.T.A.

As to the alleged dependence on the stability of revenue regulations, attention is solicited to rule 65 of the Distillery Rules published in the *Fort St. George Gazette*, dated 5th May 1899, Part I: "The Commissioner may, subject

Of course they know this better than we do.
G.S.F.
Draw their attention to this.
A.T.A.

"to the orders of Government, *fix from* "*time to time* the maximum prices to be "charged by distillers for spirits issued "from a distillery, etc." This distinctly negatives the assumption that the maximum rate once prescribed would be permanent.

9. In their letter, dated 15th February 1899, Messrs. Parry & Co. appeal to Government that the Board, after inducing them upon certain terms to engage on a large scale in the business of distillers, has suddenly, and without due notice, introduced a very serious modification of the terms. They add "our "present feeling is that rather than submit to what we consider a gross "breach of faith we must, even at some pecuniary loss to ourselves, close our "distilleries so far as the manufacture of what is known as country spirit is "concerned," and they call attention to the question of the attraction of capital to India. Whether the firm will carry out the threat, it is impossible to say. If it does, the Government may then consider what course should be adopted. In regard to the charge of breach of faith, it is not clear what terms were offered by the Board. As to want of notice, please see paragraph 8 above.

Not an idea of it.
G.S.F.
A.T.A.

V.K.R.
20-3-99.

To the Honourable Member.
To His Excellency the Governor.

I have noted on the margin.

G. S. FORBES.
21-3-99.

Briefly put: Messrs. Parry & Co. want to get a monopoly of supply for the presidency or as much of it as possible by underselling other distilleries and so forcing their owners to give up the business. Government must retain power to prevent this and the distillery rules under which Messrs. Parry & Co. hold their license give Government the necessary means.

A. T. A[RUNDEL].
10-4-99.

I must accept the Honourable Member's conclusion, that we must stick to the previous order, though I think our having thus to reduce the maximum price is unfortunate. Perhaps it would be worth while to enquire further into the suggestion made by the Company that the combination of shopkeepers is partly the cause of the rise in price.

A. E. H[AVELOCK].
4-5-99.

To Secretary.

Please see draft below.

A.K.
8-5-99.

To the Honourable Member.

G.S.F.
11-5-99.
A.T.A.
15-5-99.

Issue.

G.S.F.
19-5-99.

Government {1899} of Madras.
REVENUE.

CONFIDENTIAL.

(FOR OFFICE USE ONLY.)

Recd.	*1899.*	*Enclosures*
Regd.		*Spare copies*

G.O., No. 1796 (Confdl. No. 62), 17th May 1899.

MAY.

Passing orders on Messrs. Parry & Co.'s petition protesting against the alteration in the maximum price for liquor issued from distilleries.

CONFIDENTIAL.

GOVERNMENT OF MADRAS.

REVENUE DEPARTMENT.

Read—the following Proceedings of the Board of Revenue (Separate Revenue), Mis. No. 791, dated 25th February 1899 :—

Read—the following letter from Messrs. PARRY & CO., Managing Agents, The East India Distilleries and Sugar Factories (Limited), to the Secretary to the Board of Revenue (Separate Revenue), dated Madras, 7th February 1899 :—

In continuation of our letter of 30th ultimo and in response to the Board's request in their letter of that date, we have now the honour to make the following further observations on the proposals then indicated, which we note are to establish differential prices against us as follows :—

(1) to reduce the maximum sale price of molasses spirit ex-distillery from $10\frac{1}{2}$ to $8\frac{1}{2}$ annas per gallon, or say by over 20 per cent. ;
(2) to reduce the price of palmyra jaggery liquor by an amount not stated ;
(3) to leave cane jaggery spirit price as at present.

2. The above proposal has fairly astounded us and in case it may have arisen in connection with a recent demi-official offer made by our Mr. W. Shaw to Mr. Thomson we would first clear that up. Mr. Shaw's offer stipulated not only for a contract for a term of years but also for terms which would have enabled us to largely reduce our staff both up-country and in Madras and so generally cheapen and simplify our working.

These advantages, with the desire to show Government that we did not propose to force prices to any excessive level, led us to offer to supply at $8\frac{1}{2}$ annas, but we must strongly protest against that rate being forced upon us as a maximum price without the counterbalancing advantages referred to.

3. Next we have to remark that the scheme would probably be found difficult to work if eventually attempted, because liquor is not made only from one class of material at a time but, in a greater or less degree for fermentation purposes, there is a mixture of materials in the vats, so that without hampering the business and deranging the ordinary course of work it would be impossible to say exactly what liquor is made from each individual class of material.

4. With regard to the opening paragraph of the letter under reply, it appears to us that the Board allow excessive weight to the effect on consumption of the, say, 2 annas per gallon difference of rates under reference. It has to be remembered that on a 10 annas basis for spirit ex-duty the shopkeeper will generally have to pay, say,—

	Rs.	A.	P.
As first cost	0	10	0
As duty	3	1	0
As transport wastage	0	2	0
Total cost ..	3	13	0

2 annas on that equals only, say, $3\frac{1}{4}$ per cent.—a difference not sufficient to have any marked effect on consumption, especially seeing that the actual consumer buys by the dram when the difference in price is scarcely appreciable.

5. We have not before us the figures on which the Board goes when stating that the consumption of the country arrack is diminishing, so we cannot well discuss that point as we should like to, but meanwhile we may mention that since 1894 the rate of duty has been raised 7 annas per gallon and upwards, practically all over the Presidency.

During 1895, 1896 and 1897 this rise in duty may not have been felt since : during that period, owing to extreme competition between the Nellikuppam and Ránipéttai distilleries, sale rates were cut down, eventually to below cost of production. From 1898, this competition having ceased, the rise in duty referred to is perhaps making itself felt on consumption, but there is no ground for asserting that hitherto we have forced prices to an unduly high pitch and certainly, so far, they are not so high as they will at once rule if by unjust legislation we are forced out of the spirit business.

6. Government appear to us to be acting in blind fear of the small rise in price necessary for us—manufacturers—to earn a fair profit on our capital and skill employed, while it overlooks or ignores the real hindrance to consumption which results when shopkeepers join together to raise retail prices to the consumers.

Cases in point are Madras and Kistna districts, in both of which wholesale prices are relatively low, while in both, owing to combination among shopkeepers, consumption has fallen off.

When asked to assign reason for such decreased consumption, shopkeepers are no doubt glad to put forward the reasons apparently accepted by the Board, but such will not bear investigation.

7. We would wish to remind Government that the existing abkári free-supply system, which has been worked with such financial success to Government for the last fifteen years, was orginally inaugurated only after much consultation of our then senior partner Mr. J. C. Shaw by Mr. (now Sir Henry) Stokes, and Mr. Shaw then wrote to Mr. Stokes as follows, under date 20th May 1884 :—

"As I said to you when here we will undertake to support you in carrying this through provided we are satisfied that there will be no throwing us over on the plea that we should be securing too many districts." It was then, we believe, that the $10\frac{1}{2}$ maximum rate ex-distillery for spirit was settled on and Mr. Shaw's fear, as expressed above, was met by the understanding that, subject to the said maximum, Government was indifferent as to how much of the Presidency we might supply. Our firm then gave all the assistance in its power and insured the successful start of the then new order of things. But now it would appear that our services then rendered are forgotten and Government by its differentiation of prices against us is wishing to throw us over exactly as Mr. Shaw foresaw might be the case.

8. In conclusion, we have the honour to submit that this scheme of differential rates, if carried out, will amount to a direct attack upon all capital invested in the sugar industry of this Presidency, of which industry the utilisation of molasses for spirit-making is, of course, a material branch. The reduction of price proposed would involve peculiar hardship to the shareholders who have so recently acquired an interest in this Company, and the injustice becomes the more apparent when it is remembered that only this year we have completed the erection of a large expensive new distillery at the express instigation of the late Abkári Commissioner, now Senior Member of Council. Had any indication been given us that a radical change of system was intended, such as this differentiation of rates against molasses spirit, we could not have thought of meeting Mr. Arundel's wishes and sunk the capital involved in the new distillery at Nellikuppam, nor could this Company have taken over its business on the terms it did. We can scarcely credit that on consideration Government will definitely decide upon practically confiscating in this way capital invested on the faith of the stability of long established revenue regulations, no change in which can equitably be made save after notice proportionate to the capital sunk in the business concerned.

Resolution—Mis. No. 791, dated 25th February 1899.

Messrs. Parry & Co.'s letter will be forwarded to Government with the following remarks.

2. *Paragraph 2.*—The Board was fully aware that Mr. Shaw's offer to contract for a term of years at 8½ annas would, if accepted, improve even the present position of the Company by making that a fixed price for all-comers within the area contracted for and enable it to effect savings in various ways accordingly. The only advantage it promised for Government was that shopkeepers would be certain of the price they would have to pay, but the reduction therein under the maximum which the last rule allowed would be of small advantage to those at any distance from the only distillery—Nellikuppam—which the Company would have continued to maintain within the tract. Under competition it may be doubtful if the Company could force prices beyond 8½ annas: its endeavour for some years now has been to kill competition; and the Board's proposal, while it did not ignore the fact of Mr. Shaw's offer, attached less value thereto than the Company seems to infer.

3. *Paragraph 3.*—The Board does not anticipate any difficulty in determining from what material liquor has been made. The Company distils only from molasses, minor distillers generally from only one class of material at a time, and the latter are not likely to find any objection to the differential rates. The uniformity of the distillery price for liquor without reference to material placed these latter at an enormous disadvantage in the competition. Admixture of materials, if tried at all (except to meet very temporary emergencies), can be so for no purpose, but the evasion of the present regulation and the Board would meet it by treating the resultant spirit as though made from material of the lowest class used.

4. *Paragraph 4.*—The effect on consumption of the difference of 2 annas per gallon may not be very appreciable when applied to the dram. But the Board is, for the present, most concerned regarding the competing distiller and the shopkeeper—the final agent in distribution—and from the point of view of the latter the decrease in first cost is a matter of very considerable moment.

5. *Paragraph 5.*—There is no reason for believing that the rise in duty since 1894 is making itself felt on consumption; the Board's administration reports negative such an opinion: but there is every reason to believe that the rise of price consequent on the want of competition in supply will intensify any such tendency if it exists, and the absence of competition is a current explanation of the fact of decrease in consumption. Reduction of consumption can be countervailed in its effect on the revenue by enhanced duty; but with a high maximum price up to which a distiller might work the danger lay in the anticipation of shopkeepers that prices would eventually be enhanced by this Company to the extreme limit the previous notification allowed, and the difference was the profit of the Company. The declared intention was to get rid of all competitors, and with that the maximum distillery price would certainly have been given effect to as far at least as was consistent with an output which would have satisfied the Company's view of its own possible profits. It is difficult to see how it can be forced out of the spirit business except by its own mismanagement: the present rate of 8½ annas most distinctly cannot bring that about unless the business has been so reconstructed as to permit of it. If that is the case the Company and not Government is to blame.

6. *Paragraph 6.*—The Board is not aware of any hindrance to consumption from combination of shopkeepers to raise their prices to consumers; when the privileges of vend fall into the hands of single persons or syndicates, prices of course can be raised, no maximum price having been imposed; the remedy applicable is obvious if not always easy. Shopkeepers in any case must have a certain turn-over and make an income for themselves and when and if the country is adequately supplied with shops it cannot but follow that prices therein will be fixed in the main so as to yield the ordinary rate of profit.

7. *Paragraph 7.*—There is no information before the Board that leads it to believe that the 10½ annas maximum rate was ever regarded as unalterable. Reference is requested to Mr. Stokes' note of 5th April 1884, the Commissioner's letter in Board's Proceedings, No. 3227, of 25th November 1885, and Board's Proceedings, No. 2095, of 17th September 1886, from which it would appear that the point was treated tentatively and the danger of monopoly always kept in view. Sir Henry Bliss in 1898 certainly entertained no idea of fixity of price, but on the contrary regarded Government's present action as the first course open to it. No such ground was hitherto taken by the firm so far as the Board is aware; on the contrary the point was not even referred to when the firm was consulted a year ago and more recently as to a reduction. If Government has benefited by the firm in the past the firm may well admit that it has reaped a plentiful return from its operations under Government patronage. There is no desire to curtail its legitimate rate of profit, but the Company is not content therewith and would evidently desire to dictate its own terms to Government.

8. *Paragraph 8.*—The Board distinctly joins issue with the statement that this scheme of differential rates is a direct attack on all capital invested in the sugar industry. On the contrary Government is aware of how a sugar industry is being instituted in the north which is willing to work at even lower rates for its spirit produce than Government has now directed. That the new rule will limit profits to the East India Distilleries and Sugar Factories (Limited) is no doubt true, but the Government of Madras was not consulted in the creation of that Company, and if it proceeded without due caution and overcapitalized itself the error cannot be laid at the doors of Government. The Board observes moreover from the Company's prospectus that the rate of profit on spirit on which the calculations therein are based is 2 annas a gallon. That probably was, and, if it was not, ought to have been, arrived at on past working and ought to be obtainable under the price now fixed. The prospectus further shows that Messrs. Parry & Co., before the amalgamation, were reaping enormous profits at a time when, on their own showing, their price averaged well under 7 annas, but how much of these profits was due to spirits and how much to sugar is of course unknown. The Board assumes that Government has not committed itself to the permanency of the former distillery rate; the Company makes no assertion that it has; but its complaint is virtually that it has been deceived by Government and is not the victim of its own financial shrewdness or incapacity. The Board has no reason to think that Government ever contemplated a time when the firm would assume the control of a large portion of the abkári administration by constituting itself the sole purveyor of spirit to the Presidency, but its recent action might fairly be ascribed to such a misconception.

9. As to the want of due notice, it is sufficient to say that the Company had clear notice a year ago that Government deliberated moving in the direction of reducing the distillery price and if the Company required a distinct assurance to the contrary then that should have been asked for. The Company's letter of 23rd April 1898, read with the Board's Proceedings, Mis. No. 1690, of 30th idem, does not, in the Board's opinion, give them room to complain of want of notice or of a change in Government policy. The Company knew what remedy lay in the hands of Government and apparently counted on Government's supineness while it pursued its policy of extermination of competitors. The differential rate is injurious to the Company only from the fact that it will prevent that policy; it cannot otherwise affect their legitimate profits on spirit as it will not in any degree alter or affect their methods of distillation from sugar refuse.

(True Extract.)

(Signed) EDMUND MILLETT,
Assistant Secretary.

To the Secretary to Government, Revenue Department,
with one enclosure.

Read—petition from Messrs. PARRY & CO., dated 15th February 1899.

Order—No. 1796 (Confdl. No. 62), Revenue, dated 17th May 1899.

Miscellaneous.

The Government concurs with the Board in its remarks in the first of the papers read above. Messrs. Parry & Co. should accordingly be informed that the Government sees no reason to reconsider the orders sanctioning a reduction of the maximum price of palmyra-jaggery arrack and molasses arrack issued from distilleries. With regard to the reference in the concluding paragraph of their letter to the Board, dated 7th February 1899, to "the stability of long-established Revenue Regulations," the attention of Messrs. Parry & Co. should be drawn to rule 65 of the Distillery and Warehouse Rules which provides that "the Commissioner may, subject to the orders of Government, fix *from time to time* the maximum prices to be charged by distillers for spirits issued from a distillery." It should also be pointed out to them that they act under a license granted annually the terms of which alone can be held to bind them and Government.

2. Adverting to the remarks in paragraph 3 of the Board's Proceedings, the Government presumes that the lower appropriate maximum rate will be enforced only if a substantial portion of the mixture be made from the lower classes of materials.

3. The Government desires that the Board of Revenue should investigate further the suggestion made by Messrs. Parry & Co. that combination among shopkeepers is partly the cause of the rise in the retail price to the consumer.

4. Messrs. Parry & Co. will be referred to the Board of Revenue for orders on their petition.

(True Extract.)

(Signed) G. S. FORBES,
Secretary to Government.

To the Board of Revenue (Separate Revenue),
with petition, to be returned.
„ Messrs. Parry & Co. (paragraph 4 only).

Exd. W. D'Moss.

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CONFIDENTIAL.

Revenue Department.

NOTES CONNECTED WITH G.O., No. 1796, REVENUE, DATED 17th MAY 1899.

Reduction of maximum prices of liquor at distilleries.

Board's Proceedings (Separate Revenue), Mis. No. 791, dated 25th February 1899.
Letter from Messrs. Parry & Co., dated 28th February 1899.

To Secretary.

In G.O., No. 95, dated 6th February 1899, the Government authorized the Board of Revenue to reduce the maximum price to be charged by distillers for molasses arrack from $10\frac{1}{2}$ annas to $8\frac{1}{2}$ annas a gallon of 30° U.P., and a notification* was accordingly published by it on 7th February 1899 under the power conferred by rule 65 of the Distillery Rules.

* G.O., No. 617, dated 10th February 1899.

In the above Proceedings the Board forwards with its remarks a protest from Messrs. Parry & Co. against the reduction, while the letter is a similar protest addressed direct to Government.

2. In paragraph 2 of its first letter, the firm admits that a proposal to supply country spirits at $8\frac{1}{2}$ annas a gallon was made by Mr. Shaw, but that it was coupled with a stipulation to be given the monopoly of supply for a term of years in certain districts. The firm expected that under such an arrangement it could reduce its staff in Madras and up-country and thereby cheapen its working. It therefore protests against the forcing of that rate upon it without the counterbalancing advantage. The Board remarks that it did not ignore Mr. Shaw's offer, but that it attached less value to it than the firm seems to infer. The proposal of the latter was prompted by a desire to kill competition and could not therefore be accepted.

But if they volunteered an $8\frac{1}{2}$-anna rate for a term of years, it was naturally a rate which would well protect them from the vicissitudes of the sugar market during the period. The fluctuations might have been very large, and yet an $8\frac{1}{2}$-anna rate was deemed by the firm to cover them sufficiently.

G.S.F.

Yes, believed to be.

A. T. A[rundel].

3. The firm's second objection is that as liquor is not made from only one class of material at a time, it would be difficult to work the scheme of differential rates. The Board does not anticipate any difficulty on the subject. The East India Distilleries and Sugar Factories Company distills from molasses only, while other distillers use only one class of material at a time. It is possible that to evade the present regulation an admixture of materials may be attempted; but the Board proposes to treat liquor so distilled as made from material of the lowest class used.

If, I suppose, a *substantial* portion of the mixture were of the low class?

G.S.F.

A.T.A.

4. Messrs. Parry & Co.'s third objection is that a difference of 2 annas in the maximum price at the distillery would only be $3\frac{1}{4}$ per cent. of the price to be paid by the shopkeeper including duty; that as the consumer buys by the dram, the difference in price would scarcely be appreciable; and that consumption cannot be materially affected. The Board is concerned not with the consumer directly, but with the shopkeeper, as against the distiller, and regards a decrease of 2 annas in first cost as a matter of very considerable moment to him.

5. Messrs. Parry & Co.'s fourth objection is that the decrease in consumption of liquor, if any, has been brought about by the enhancement of the tax, or by combination among retailers, and that the effect of the first measure has begun to be felt after the extinction of the "extreme competition" between the Nellikuppam

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The Government concurs with the Board in its remarks in the first of the papers read above. Messrs. Parry & Co. should accordingly be informed that the Government sees no reason to reconsider the orders sanctioning a reduction of the maximum price of palmyra-jaggery arrack and molasses arrack issued from distilleries. With regard to the reference in the concluding paragraph of their letter to the Board, dated 7th February 1899, to "the stability of long-established Revenue Regulations," the attention of Messrs. Parry & Co. should be drawn to rule 65 of the Distillery and Warehouse Rules which provides that "the Commissioner may, subject to the orders of Government, fix *from time to time* the maximum prices to be charged by distillers for spirits issued from a distillery." It should also be pointed out to them that they act under a license granted annually the terms of which alone can be held to bind them and Government.

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(Signed) G. S. FORBES,
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Exd. W. D'Moss.

20 Copies.

CONFIDENTIAL.

Revenue Department.

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In the above Proceedings the Board forwards with its remarks a protest from Messrs. Parry & Co. against the reduction, while the letter is a similar protest addressed direct to Government.

2. In paragraph 2 of its first letter, the firm admits that a proposal to supply country spirits at 8½ annas a gallon was made by Mr. Shaw, but that it was coupled with a stipulation to be given the monopoly of supply for a term of years in certain districts. The firm expected that under such an arrangement it could reduce its staff in Madras and up-country and thereby cheapen its working. It therefore protests against the forcing of that rate upon it without the counterbalancing advantage. The Board remarks that it did not ignore Mr. Shaw's offer, but that it attached less value to it than the firm seems to infer. The proposal of the latter was prompted by a desire to kill competition and could not therefore be accepted.

But if they volunteered an 8½-anna rate for a term of years, it was naturally a rate which would well protect them from the vicissitudes of the sugar market during the period. The fluctuations might have been very large, and yet an 8½-anna rate was deemed by the firm to cover them sufficiently.

G.S.F.

Yes, believed to be.

A. T. A[rundel].

3. The firm's second objection is that as liquor is not made from only one class of material at a time, it would be difficult to work the scheme of differential rates. The Board does not anticipate any difficulty on the subject. The East India Distilleries and Sugar Factories Company distills from molasses only, while other distillers use only one class of material at a time. It is possible that to evade the present regulation an admixture of materials may be attempted; but the Board proposes to treat liquor so distilled as made from material of the lowest class used.

If, I suppose, a *substantial* portion of the mixture were of the low class?

G.S.F.
A.T.A.

4. Messrs. Parry & Co.'s third objection is that a difference of 2 annas in the maximum price at the distillery would only be 3¼ per cent. of the price to be paid by the shopkeeper including duty; that as the consumer buys by the dram, the difference in price would scarcely be appreciable; and that consumption cannot be materially affected. The Board is concerned not with the consumer directly, but with the shopkeeper, as against the distiller, and regards a decrease of 2 annas in first cost as a matter of very considerable moment to him.

5. Messrs. Parry & Co.'s fourth objection is that the decrease in consumption of liquor, if any, has been brought about by the enhancement of the tax, or by combination among retailers, and that the effect of the first measure has begun to be felt after the extinction of the "extreme competition" between the Nellikuppam

and Ránipéttai distilleries. These assertions are traversed by the Board in paragraphs 5 and 6 of its Proceedings. The firm states that when the East India Distilleries and Sugar Factories Company is forced out of the spirit business by "unjust legislation," the price of liquor would rise very high. The Board has no fear that the Company will be forced out except by its own mismanagement, for which Government cannot be blamed.

6. In paragraph 7 of their letter Messrs. Parry & Co. claim to have helped the Government in introducing the private distillery supply system, and complain that their services are now forgotten, and that they are thrown over. They refer to a letter addressed by Mr. Shaw, their senior partner, to Sir Henry Stokes on the 20th May 1884, * and to an understanding arrived at with reference thereto to the effect that, subject to the maximum of 10½ annas a gallon, the Government was indifferent as to how much of the Presidency they supplied. They infer presumably that the rate was unalterable. The Board observes that if Government has in the past benefited from the firm's help, the latter has reaped a plentiful return from its operations under Government patronage, and that though there is no desire to curtail its legitimate rate of profit, it cannot expect to dictate terms to Government. The Board is not aware of any correspondence to show that the 10½ annas was ever regarded as unalterable. The papers available in this office are noted in the margin. The demi-official letter referred to by Messrs. Parry & Co. cannot be traced nor the reply to it, if any. The search is being continued.† In a note dated the 5th April 1884 suggesting changes in the administration of the abkári revenue, Sir Henry Stokes stated: "In these districts it is necessary to fix "a *maximum rate* beyond which the distillers shall not charge, and also to pitch the "still-head duty a little higher than Re. 1. I would make it Rs. 1-2-0 for taluk "vendors in those districts, and fix 14 annas per gallon as the *maximum charge* to "taluk vendors." From the previous portion of the note this rate appears to have been intended to apply to *30° U.P.* By G.O., No. 394, dated 18th March 1884, a committee was appointed to consider the changes proposed; but its report (which will be found printed in G.O., No. 570, dated 30th April 1884) is silent on the point. But one of the notifications drafted by the committee stated: "The former [*i.e.*, "persons authorized to establish distil-"leries] will be bound to supply at any "prices agreed upon . . . . subject to maximum prices of one rupee two annas, "one rupee, and nine annas per gallon for spirits of strengths 20° U.P., 30° U.P., and "60° U.P. respectively." These maxima rates were approved. For the Kurnool district during the lease for 1885–86 a maximum rate of twelve annas a gallon of 30° U.P. was prescribed. In submitting proposals for the lease for 1886–87, the Commissioner (Sir Henry Bliss) after observing that the maxima rates then in force were unnecessarily high—twelve annas in Kurnool and one rupee elsewhere—proposed a reduction to ten annas and-a-half. The proposal was approved by the Board [paragraph 10-I (*h*)]. The foregoing précis, it will be observed, shows that there was no intention to fix unalterable maxima rates, and that the rate of ten annas and-a-half a gallon of 30° U.P. was prescribed in December 1885 and not at the time of Mr. Shaw's letter of 20th May 1884. The Government order is signed by Sir Frederick Price and not by Sir Henry Stokes, who, it is understood, was then on leave. To be on the safe side it is perhaps desirable that Messrs. Parry & Co. may be asked to state definitely what the understanding was to which they refer and to forward a copy of the papers on which they replied. The Government has no objection, it is presumed, to the supply of any district by Messrs. Parry & Co. The real objection is to their enhancement of prices.

Does this mean that the present system enables them to make an excessive profit as a reward?

G.S.F.

* This was 15 years ago.

G.S.F.

This is absurd. The firm acts under a license the terms of which are what binds them and Government.

A.T.A.

Page 10 of Sir Henry Stokes' note, dated 5th April 1884, in G.O., No. 594, dated 18th March 1884.

Paragraph 16 of the Commissioner's letter on page 3 of G.O., No. 1362, dated 10th December 1885.

† Not traceable—*vide* note of Record office, dated 8th May 1899.

Condition 4 of Notification IV on page 13 of G.O., No. 570, Revenue, dated 30th April 1884.

Paragraph 1 of G.O., *ibid.*

Paragraph 9 of Commissioner's letter on page 2 of G.O., No. 24, Revenue, dated 9th January 1885, and paragraph 3 of G.O.

Condition 11 on page 3 of G.O., No. 124, Revenue, dated 30th January 1885.

Paragraph 16 of his letter on page 3 of G.O., No. 1362, dated 10th December 1885.

Page 28 of G.O., *ibid.*

This could not be done without a formal G.O. which, if ever passed, would be objected to by India as soon they knew of it.

A.T.A.
10-4-99.

No: they do not mean there was any contract or binding agreement: we have no record of any agreement: and they do not produce any which of course they would have done at once if it had been in existence or of any value beyond vague talk.

G.S.F.

I agree. Besides no such private note could invalidate the action of Government.

A.T.A.

7. Lastly, Messrs. Parry & Co. complain that as the utilization of molasses for spirit-making is a material branch of the sugar industry, the imposition of differential rates is a direct attack on the capital invested in that industry. The Board denies the validity of this complaint, as a sugar industry is being instituted in the north (presumably in Gódávari), the persons interested in which are willing to work for lower rates for the spirit produce than those now fixed by Government.

The Government of India are about to give special protection to sugar.

G.S.F.

They have now done so.

A.T.A.

8. Messrs. Parry & Co. state that, on the faith of the stability of long-standing revenue regulations, they have only recently completed the erection of a large expensive new distillery at Nellikuppam and that the East India Distilleries and Sugar Factories Company took over its business, and that a change in the abkári policy of Government cannot equitably be made until after notice proportionate* to the capital sunk in the business. The Board observes that the Company had a year's notice. Messrs. Parry & Co. enquired of the Board, under date the 23rd April 1898, whether the abkári policy "was to receive any important modi-"fication making distilling possibly "less attractive from a trader's point "of view." The Board replied that "no alteration in the Government abkári "policy in its *main* features" was contemplated, but that Government was bound to protect itself against the firm's attempt to obtain a monopoly of supply. Messrs. Parry & Co. appear to consider that the reduction of the maximum rate for molasses arrack as an important change, while the Board appears to think differently. Whether the length of notice was or was not sufficient in the present case depends on how the question is viewed.

Messrs. Parry & Co have always been perfectly well aware of the powers of Government to introduce changes of the maximum rates, and of the risks consequent thereon. At the time they were enlarging or building their distilleries they were themselves offering an 8¼-anna rate.

G.S.F.

* This contention of Messrs. Parry & Co. cannot of course be admitted.

A.T.A.

Vide paragraphs 16 and 17 of Board's Proceedings, No. 1690, dated 30th April 1898, on page 8 of G.O., No. 625, dated 27th October 1898.

Page 8 of G.O., *ibid.*

The firm was invited to give its views before the order was passed. The present letter was written after the first reply was received.

A.T.A.

As to the alleged dependence on the stability of revenue regulations, attention is solicited to rule 65 of the Distillery Rules published in the *Fort St. George Gazette*, dated 5th May 1899, Part I: "The Commissioner may, subject

Of course they know this better than we do. G.S.F.

Draw their attention to this. A.T.A.

"to the orders of Government, *fix from "time to time* the maximum prices to be "charged by distillers for spirits issued "from a distillery, etc." This distinctly negatives the assumption that the maximum rate once prescribed would be permanent.

9. In their letter, dated 15th February 1899, Messrs. Parry & Co. appeal to Government that the Board, after inducing them upon certain terms to engage on a large scale in the business of distillers, has suddenly, and without due notice, introduced a very serious modification of the terms. They add "our "present feeling is that rather than submit to what we consider a gross "breach of faith we must, even at some pecuniary loss to ourselves, close our "distilleries so far as the manufacture of what is known as country spirit is "concerned," and they call attention to the question of the attraction of capital to India. Whether the firm will carry out the threat, it is impossible to say. If it does, the Government may then consider what course should be adopted. In regard to the charge of breach of faith, it is not clear what terms were offered by the Board. As to want of notice, please see paragraph 8 above.

Not an idea of it. G.S.F. A.T.A.

V.K.R.
20–3–99.

To the Honourable Member.
To His Excellency the Governor.

I have noted on the margin.

G. S. FORBES.
21–3–99.

Briefly put: Messrs. Parry & Co. want to get a monopoly of supply for the presidency or as much of it as possible by underselling other distilleries and so forcing their owners to give up the business. Government must retain power to prevent this and the distillery rules under which Messrs. Parry & Co. hold their license give Government the necessary means.

A. T. A[RUNDEL].
10–4–99.

I must accept the Honourable Member's conclusion, that we must stick to the previous order, though I think our having thus to reduce the maximum price is unfortunate. Perhaps it would be worth while to enquire further into the suggestion made by the Company that the combination of shopkeepers is partly the cause of the rise in price.

A. E. H[AVELOCK].
4–5–99.

To Secretary.

Please see draft below.

A.K.
8–5–99.

To the Honourable Member.

G.S.F.
11–5–99.

A.T.A.
15–5–99.

Issue.

G.S.F.
19–5–99.

Government {1899} of Madras.

REVENUE.

CONFIDENTIAL.

(FOR OFFICE USE ONLY.)

Recd. *Regd.* } *1899.* *Enclosures* *Spare copies*

G.O., No. 1796 (Confdl. No. 62), 17th May 1899.

MAY.

Passing orders on Messrs. Parry & Co.'s petition protesting against the alteration in the maximum price for liquor issued from distilleries.

CONFIDENTIAL.

GOVERNMENT OF MADRAS.

REVENUE DEPARTMENT.

Read—the following Proceedings of the Board of Revenue (Separate Revenue), Mis. No. 791, dated 25th February 1899 :—

Read—the following letter from Messrs. PARRY & CO., Managing Agents, The East India Distilleries and Sugar Factories (Limited), to the Secretary to the Board of Revenue (Separate Revenue), dated Madras, 7th February 1899 :—

In continuation of our letter of 30th ultimo and in response to the Board's request in their letter of that date, we have now the honour to make the following further observations on the proposals then indicated, which we note are to establish differential prices against us as follows :—

(1) to reduce the maximum sale price of molasses spirit ex-distillery from $10\frac{1}{2}$ to $8\frac{1}{2}$ annas per gallon, or say by over 20 per cent. ;

(2) to reduce the price of palmyra jaggery liquor by an amount not stated ;

(3) to leave cane jaggery spirit price as at present.

2. The above proposal has fairly astounded us and in case it may have arisen in connection with a recent demi-official offer made by our Mr. W. Shaw to Mr. Thomson we would first clear that up. Mr. Shaw's offer stipulated not only for a contract for a term of years but also for terms which would have enabled us to largely reduce our staff both up-country and in Madras and so generally cheapen and simplify our working.

These advantages, with the desire to show Government that we did not propose to force prices to any excessive level, led us to offer to supply at $8\frac{1}{2}$ annas, but we must strongly protest against that rate being forced upon us as a maximum price without the counterbalancing advantages referred to.

3. Next we have to remark that the scheme would probably be found difficult to work if eventually attempted, because liquor is not made only from one class of material at a time but, in a greater or less degree for fermentation purposes, there is a mixture of materials in the vats, so that without hampering the business and deranging the ordinary course of work it would be impossible to say exactly what liquor is made from each individual class of material.

4. With regard to the opening paragraph of the letter under reply, it appears to us that the Board allow excessive weight to the effect on consumption of the, say, 2 annas per gallon difference of rates under reference. It has to be remembered that on a 10 annas basis for spirit ex-duty the shopkeeper will generally have to pay, say,—

	Rs.	A.	P.
As first cost	0	10	0
As duty	3	1	0
As transport wastage	0	2	0
Total cost ..	3	13	0

2 annas on that equals only, say, $3\frac{1}{4}$ per cent.—a difference not sufficient to have any marked effect on consumption, especially seeing that the actual consumer buys by the dram when the difference in price is scarcely appreciable.

5. We have not before us the figures on which the Board goes when stating that the consumption of the country arrack is diminishing, so we cannot well discuss that point as we should like to, but meanwhile we may mention that since 1894 the rate of duty has been raised 7 annas per gallon and upwards, practically all over the Presidency.

During 1895, 1896 and 1897 this rise in duty may not have been felt since : during that period, owing to extreme competition between the Nellikuppam and Ránipéttai distilleries, sale rates were cut down, eventually to below cost of production. From 1898, this competition having ceased, the rise in duty referred to is perhaps making itself felt on consumption, but there is no ground for asserting that hitherto we have forced prices to an unduly high pitch and certainly, so far, they are not so high as they will at once rule if by unjust legislation we are forced out of the spirit business.

6. Government appear to us to be acting in blind fear of the small rise in price necessary for us—manufacturers—to earn a fair profit on our capital and skill employed, while it overlooks or ignores the real hindrance to consumption which results when shopkeepers join together to raise retail prices to the consumers.

Cases in point are Madras and Kistna districts, in both of which wholesale prices are relatively low, while in both, owing to combination among shopkeepers, consumption has fallen off.

When asked to assign reason for such decreased consumption, shopkeepers are no doubt glad to put forward the reasons apparently accepted by the Board, but such will not bear investigation.

7. We would wish to remind Government that the existing abkári free-supply system, which has been worked with such financial success to Government for the last fifteen years, was orginally inaugurated only after much consultation of our then senior partner Mr. J. C. Shaw by Mr. (now Sir Henry) Stokes, and Mr. Shaw then wrote to Mr. Stokes as follows, under date 20th May 1884 :—

"As I said to you when here we will undertake to support you in carrying this through provided we are satisfied that there will be no throwing us over on the plea that we should be securing too many districts." It was then, we believe, that the $10\frac{1}{2}$ maximum rate ex-distillery for spirit was settled on and Mr. Shaw's fear, as expressed above, was met by the understanding that, subject to the said maximum, Government was indifferent as to how much of the Presidency we might supply. Our firm then gave all the assistance in its power and insured the successful start of the then new order of things. But now it would appear that our services then rendered are forgotten and Government by its differentiation of prices against us is wishing to throw us over exactly as Mr. Shaw foresaw might be the case.

8. In conclusion, we have the honour to submit that this scheme of differential rates, if carried out, will amount to a direct attack upon all capital invested in the sugar industry of this Presidency, of which industry the utilisation of molasses for spirit-making is, of course, a material branch. The reduction of price proposed would involve peculiar hardship to the shareholders who have so recently acquired an interest in this Company, and the injustice becomes the more apparent when it is remembered that only this year we have completed the erection of a large expensive new distillery at the express instigation of the late Abkári Commissioner, now Senior Member of Council. Had any indication been given us that a radical change of system was intended, such as this differentiation of rates against molasses spirit, we could not have thought of meeting Mr. Arundel's wishes and sunk the capital involved in the new distillery at Nellikuppam, nor could this Company have taken over its business on the terms it did. We can scarcely credit that on consideration Government will definitely decide upon practically confiscating in this way capital invested on the faith of the stability of long established revenue regulations, no change in which can equitably be made save after notice proportionate to the capital sunk in the business concerned.

Resolution—Mis. No. 791, dated 25th February 1899.

Messrs. Parry & Co.'s letter will be forwarded to Government with the following remarks.

2. *Paragraph 2.*—The Board was fully aware that Mr. Shaw's offer to contract for a term of years at $8\frac{1}{2}$ annas would, if accepted, improve even the present position of the Company by making that a fixed price for all-comers within the area contracted for and enable it to effect savings in various ways accordingly. The only advantage it promised for Government was that shopkeepers would be certain of the price they would have to pay, but the reduction therein under the maximum which the last rule allowed would be of small advantage to those at any distance from the only distillery—Nellikuppam—which the Company would have continued to maintain within the tract. Under competition it may be doubtful if the Company could force prices beyond $8\frac{1}{2}$ annas: its endeavour for some years now has been to kill competition; and the Board's proposal, while it did not ignore the fact of Mr. Shaw's offer, attached less value thereto than the Company seems to infer.

3. *Paragraph 3.*—The Board does not anticipate any difficulty in determining from what material liquor has been made. The Company distils only from molasses, minor distillers generally from only one class of material at a time, and the latter are not likely to find any objection to the differential rates. The uniformity of the distillery price for liquor without reference to material placed these latter at an enormous disadvantage in the competition. Admixture of materials, if tried at all (except to meet very temporary emergencies), can be so for no purpose, but the evasion of the present regulation and the Board would meet it by treating the resultant spirit as though made from material of the lowest class used.

4. *Paragraph 4.*—The effect on consumption of the difference of 2 annas per gallon may not be very appreciable when applied to the dram. But the Board is, for the present, most concerned regarding the competing distiller and the shopkeeper—the final agent in distribution—and from the point of view of the latter the decrease in first cost is a matter of very considerable moment.

5. *Paragraph 5.*—There is no reason for believing that the rise in duty since 1894 is making itself felt on consumption; the Board's administration reports negative such an opinion: but there is every reason to believe that the rise of price consequent on the want of competition in supply will intensify any such tendency if it exists, and the absence of competition is a current explanation of the fact of decrease in consumption. Reduction of consumption can be countervailed in its effect on the revenue by enhanced duty; but with a high maximum price up to which a distiller might work the danger lay in the anticipation of shopkeepers that prices would eventually be enhanced by this Company to the extreme limit the previous notification allowed, and the difference was the profit of the Company. The declared intention was to get rid of all competitors, and with that the maximum distillery price would certainly have been given effect to as far at least as was consistent with an output which would have satisfied the Company's view of its own possible profits. It is difficult to see how it can be forced out of the spirit business except by its own mismanagement: the present rate of $8\frac{1}{2}$ annas most distinctly cannot bring that about unless the business has been so reconstructed as to permit of it. If that is the case the Company and not Government is to blame.

6. *Paragraph 6.*—The Board is not aware of any hindrance to consumption from combination of shopkeepers to raise their prices to consumers; when the privileges of vend fall into the hands of single persons or syndicates, prices of course can be raised, no maximum price having been imposed; the remedy applicable is obvious if not always easy. Shopkeepers in any case must have a certain turn-over and make an income for themselves and when and if the country is adequately supplied with shops it cannot but follow that prices therein will be fixed in the main so as to yield the ordinary rate of profit.

7. *Paragraph 7.*—There is no information before the Board that leads it to believe that the $10\frac{1}{2}$ annas maximum rate was ever regarded as unalterable. Reference is requested to Mr. Stokes' note of 5th April 1884, the Commissioner's letter in Board's Proceedings, No. 3227, of 25th November 1885, and Board's Proceedings, No. 2095, of 17th September 1886, from which it would appear that the point was treated tentatively and the danger of monopoly always kept in view. Sir Henry Bliss in 1898 certainly entertained no idea of fixity of price, but on the contrary regarded Government's present action as the first course open to it. No such ground was hitherto taken by the firm so far as the Board is aware; on the contrary the point was not even referred to when the firm was consulted a year ago and more recently as to a reduction. If Government has benefited by the firm in the past the firm may well admit that it has reaped a plentiful return from its operations under Government patronage. There is no desire to curtail its legitimate rate of profit, but the Company is not content therewith and would evidently desire to dictate its own terms to Government.

8. *Paragraph 8.*—The Board distinctly joins issue with the statement that this scheme of differential rates is a direct attack on all capital invested in the sugar industry. On the contrary Government is aware of how a sugar industry is being instituted in the north which is willing to work at even lower rates for its spirit produce than Government has now directed. That the new rule will limit profits to the East India Distilleries and Sugar Factories (Limited) is no doubt true, but the Government of Madras was not consulted in the creation of that Company, and if it proceeded without due caution and overcapitalized itself the error cannot be laid at the doors of Government. The Board observes moreover from the Company's prospectus that the rate of profit on spirit on which the calculations therein are based is 2 annas a gallon. That probably was, and, if it was not, ought to have been, arrived at on past working and ought to be obtainable under the price now fixed. The prospectus further shows that Messrs. Parry & Co., before the amalgamation, were reaping enormous profits at a time when, on their own showing, their price averaged well under 7 annas, but how much of these profits was due to spirits and how much to sugar is of course unknown. The Board assumes that Government has not committed itself to the permanency of the former distillery rate; the Company makes no assertion that it has; but its complaint is virtually that it has been deceived by Government and is not the victim of its own financial shrewdness or incapacity. The Board has no reason to think that Government ever contemplated a time when the firm would assume the control of a large portion of the abkári administration by constituting itself the sole purveyor of spirit to the Presidency, but its recent action might fairly be ascribed to such a misconception.

9. As to the want of due notice, it is sufficient to say that the Company had clear notice a year ago that Government deliberated moving in the direction of reducing the distillery price and if the Company required a distinct assurance to the contrary then that should have been asked for. The Company's letter of 23rd April 1898, read with the Board's Proceedings, Mis. No. 1690, of 30th idem, does not, in the Board's opinion, give them room to complain of want of notice or of a change in Government policy. The Company knew what remedy lay in the hands of Government and apparently counted on Government's supineness while it pursued its policy of extermination of competitors. The differential rate is injurious to the Company only from the fact that it will prevent that policy; it cannot otherwise affect their legitimate profits on spirit as it will not in any degree alter or affect their methods of distillation from sugar refuse.

(True Extract.)

(Signed) EDMUND MILLETT,
Assistant Secretary.

To the Secretary to Government, Revenue Department,
with one enclosure.

Read—petition from Messrs. PARRY & CO., dated 15th February 1899.

Order—No. 1796 (Confdl. No. 62), Revenue, dated 17th May 1899.

Miscellaneous.

The Government concurs with the Board in its remarks in the first of the papers read above. Messrs. Parry & Co. should accordingly be informed that the Government sees no reason to reconsider the orders sanctioning a reduction of the maximum price of palmyra-jaggery arrack and molasses arrack issued from distilleries. With regard to the reference in the concluding paragraph of their letter to the Board, dated 7th February 1899, to "the stability of long-established Revenue Regulations," the attention of Messrs. Parry & Co. should be drawn to rule 65 of the Distillery and Warehouse Rules which provides that "the Commissioner may, subject to the orders of Government, fix *from time to time* the maximum prices to be charged by distillers for spirits issued from a distillery." It should also be pointed out to them that they act under a license granted annually the terms of which alone can be held to bind them and Government.

2. Adverting to the remarks in paragraph 3 of the Board's Proceedings, the Government presumes that the lower appropriate maximum rate will be enforced only if a substantial portion of the mixture be made from the lower classes of materials.

3. The Government desires that the Board of Revenue should investigate further the suggestion made by Messrs. Parry & Co. that combination among shopkeepers is partly the cause of the rise in the retail price to the consumer.

4. Messrs. Parry & Co. will be referred to the Board of Revenue for orders on their petition.

(True Extract.)

(Signed) G. S. FORBES,
Secretary to Government.

To the Board of Revenue (Separate Revenue),
with petition, to be returned.
„ Messrs. Parry & Co. (paragraph 4 only).

Exd. W. D'Moss.

20 Copies.

CONFIDENTIAL.

Revenue Department.

NOTES CONNECTED WITH G.O., No. 1796, REVENUE, DATED 17th MAY 1899.

Reduction of maximum prices of liquor at distilleries.

Board's Proceedings (Separate Revenue), Mis. No. 791, *dated* 25*th February* 1899.
Letter from Messrs. Parry & Co., dated 28*th February* 1899.

To Secretary.

In G.O., No. 95, dated 6th February 1899, the Government authorized the Board of Revenue to reduce the maximum price to be charged by distillers for molasses arrack from $10\frac{1}{2}$ annas to $8\frac{1}{2}$ annas a gallon of 30° U.P., and a notification * was accordingly published by it on 7th February 1899 under the power conferred by rule 65 of the Distillery Rules.

* G.O., No. 617, dated 10th February 1899.

In the above Proceedings the Board forwards with its remarks a protest from Messrs. Parry & Co. against the reduction, while the letter is a similar protest addressed direct to Government.

2. In paragraph 2 of its first letter, the firm admits that a proposal to supply country spirits at $8\frac{1}{2}$ annas a gallon was made by Mr. Shaw, but that it was coupled with a stipulation to be given the monopoly of supply for a term of years in certain districts. The firm expected that under such an arrangement it could reduce its staff in Madras and up-country and thereby cheapen its working. It therefore protests against the forcing of that rate upon it without the counterbalancing advantage. The Board remarks that it did not ignore Mr. Shaw's offer, but that it attached less value to it than the firm seems to infer. The proposal of the latter was prompted by a desire to kill competition and could not therefore be accepted.

But if they volunteered an $8\frac{1}{2}$-anna rate for a term of years, it was naturally a rate which would well protect them from the vicissitudes of the sugar market during the period. The fluctuations might have been very large, and yet an $8\frac{1}{2}$-anna rate was deemed by the firm to cover them sufficiently.

G.S.F.

Yes, believed to be.

A. T. A[rundel].

3. The firm's second objection is that as liquor is not made from only one class of material at a time, it would be difficult to work the scheme of differential rates. The Board does not anticipate any difficulty on the subject. The East India Distilleries and Sugar Factories Company distills from molasses only, while other distillers use only one class of material at a time. It is possible that to evade the present regulation an admixture of materials may be attempted; but the Board proposes to treat liquor so distilled as made from material of the lowest class used.

If, I suppose, a *substantial* portion of the mixture were of the low class?

G.S.F.

A.T.A.

4. Messrs. Parry & Co.'s third objection is that a difference of 2 annas in the maximum price at the distillery would only be $3\frac{1}{4}$ per cent. of the price to be paid by the shopkeeper including duty; that as the consumer buys by the dram, the difference in price would scarcely be appreciable; and that consumption cannot be materially affected. The Board is concerned not with the consumer directly, but with the shopkeeper, as against the distiller, and regards a decrease of 2 annas in first cost as a matter of very considerable moment to him.

5. Messrs. Parry & Co.'s fourth objection is that the decrease in consumption of liquor, if any, has been brought about by the enhancement of the tax, or by combination among retailers, and that the effect of the first measure has begun to be felt after the extinction of the "extreme competition" between the Nellikuppam

and Ránipéttai distilleries. These assertions are traversed by the Board in paragraphs 5 and 6 of its Proceedings. The firm states that when the East India Distilleries and Sugar Factories Company is forced out of the spirit business by "unjust legislation," the price of liquor would rise very high. The Board has no fear that the Company will be forced out except by its own mismanagement, for which Government cannot be blamed.

6. In paragraph 7 of their letter Messrs. Parry & Co. claim to have helped the Government in introducing the private distillery supply system, and complain that their services are now forgotten, and that they are thrown over. They refer to a letter addressed by Mr. Shaw, their senior partner, to Sir Henry Stokes on the 20th May 1884, * and to an understanding arrived at with reference thereto to the effect that, subject to the maximum of 10½ annas a gallon, the Government was indifferent as to how much of the Presidency they supplied. They infer presumably that the rate was unalterable. The Board observes that if Government has in the past benefited from the firm's help, the latter has reaped a plentiful return from its operations under Government patronage, and that though there is no desire to curtail its legitimate rate of profit, it cannot expect to dictate terms to Government. The Board is not aware of any correspondence to show that the 10½ annas was ever regarded as unalterable. The papers available in this office are noted in the margin. The demi-official letter referred to by Messrs. Parry & Co. cannot be traced nor the reply to it, if any. The search is being continued.† In a note dated the 5th April 1884 suggesting changes in the administration of the abkári revenue, Sir Henry Stokes stated: "In these districts it is necessary to fix "a *maximum rate* beyond which the distillers shall not charge, and also to pitch the "still-head duty a little higher than Re. 1. I would make it Rs. 1-2-0 for taluk "vendors in those districts, and fix 14 annas per gallon as the *maximum charge* to "taluk vendors." From the previous portion of the note this rate appears to have been intended to apply to *30° U.P.* By G.O, No. 394, dated 18th March 1884, a committee was appointed to consider the changes proposed; but its report (which will be found printed in G.O., No. 570, dated 30th April 1884) is silent on the point. But one of the notifications drafted by the committee stated: "The former [*i.e.*, "persons authorized to establish distil-"leries] will be bound to supply at any "prices agreed upon . . . . subject to maximum prices of one rupee two annas, "one rupee, and nine annas per gallon for spirits of strengths 20° U.P., 30° U.P., and "60° U.P. respectively." These maxima rates were approved. For the Kurnool district during the lease for 1885-86 a maximum rate of twelve annas a gallon of 30° U.P. was prescribed. In submitting proposals for the lease for 1886-87, the Commissioner (Sir Henry Bliss) after observing that the maxima rates then in force were unnecessarily high—twelve annas in Kurnool and one rupee elsewhere—proposed a reduction to ten annas and-a-half. The proposal was approved by the Board [paragraph 10-I (*h*)]. The

Does this mean that the present system enables them to make an excessive profit as a reward?

G.S.F.

* This was 15 years ago.

G.S.F.

This is absurd. The firm acts under a license the terms of which are what binds them and Government.

A.T.A.

Page 10 of Sir Henry Stokes' note, dated 5th April 1884, in G.O., No. 394, dated 18th March 1884.

Paragraph 16 of the Commissioner's letter on page 3 of G.O., No. 1362, dated 10th December 1885.

† Not traceable—*vide* note of Record office, dated 8th May 1899.

Condition 4 of Notification IV on page 13 of G.O., No. 570, Revenue, dated 30th April 1884.

Paragraph 1 of G.O., *ibid.*

Paragraph 9 of Commissioner's letter on page 2 of G.O., No. 23, Revenue, dated 9th January 1885, and paragraph 3 of G.O.

Condition 11 on page 3 of G.O., No. 124, Revenue, dated 30th January 1885.

Paragraph 16 of his letter on page 3 of G.O., No. 1362, dated 10th December 1885.

Page 28 of G.O., *ibid.*

This could not be done without a formal G.O. which, if ever passed, would be objected to by India as soon they knew of it.

A.T.A.
10-4-99.

ment order is signed by Sir Frederick Price and not by Sir Henry Stokes, who, it is understood, was then on leave. To be on the safe side it is perhaps desirable that Messrs. Parry & Co. may be asked to state definitely what the understanding was to which they refer and to forward a copy of the papers on which they replied. The Government has no objection, it is presumed, to the supply of any district by Messrs. Parry & Co. The real objection is to their enhancement of prices.

No: they do not mean there was any contract or binding agreement: we have no record of any agreement: and they do not produce any which of course they would have done at once if it had been in existence or of any value beyond vague talk.

G.S.F.

I agree. Besides no such private note could invalidate the action of Government.

A.T.A.

7. Lastly, Messrs. Parry & Co. complain that as the utilization of molasses for spirit-making is a material branch of the sugar industry, the imposition of differential rates is a direct attack on the capital invested in that industry. The Board denies the validity of this complaint, as a sugar industry is being instituted in the north (presumably in Gódávari), the persons interested in which are willing to work for lower rates for the spirit produce than those now fixed by Government.

The Government of India are about to give special protection to sugar.

G.S.F.

They have now done so.

A.T.A.

8. Messrs. Parry & Co. state that, on the faith of the stability of long-standing revenue regulations, they have only recently completed the erection of a large expensive new distillery at Nellikuppam and that the East India Distilleries and Sugar Factories Company took over its business, and that a change in the abkári policy of Government cannot equitably be made until after notice proportionate* to the capital sunk in the business. The Board observes that the Company had a year's notice. Messrs. Parry & Co. enquired of the Board, under date the 23rd April 1898, whether the abkári policy "was to receive any important modi-"fication making distilling possibly "less attractive from a trader's point "of view." The Board replied that "no alteration in the Government abkári "policy in its *main* features" was contemplated, but that Government was bound to protect itself against the firm's attempt to obtain a monopoly of supply. Messrs. Parry & Co. appear to consider that the reduction of the maximum rate for molasses arrack as an important change, while the Board appears to think differently. Whether the length of notice was or was not sufficient in the present case depends on how the question is viewed.

As to the alleged dependence on the stability of revenue regulations, attention is solicited to rule 65 of the Distillery Rules published in the *Fort St. George Gazette*, dated 5th May 1899, Part I: "The Commissioner may, subject

Messrs. Parry & Co have always been perfectly well aware of the powers of Government to introduce changes of the maximum rates, and of the risks consequent thereon. At the time they were enlarging or building their distilleries they were themselves offering an 8½-anna rate.

G.S.F.

* This contention of Messrs. Parry & Co. cannot of course be admitted.

A.T.A.

Vide paragraphs 16 and 17 of Board's Proceedings, No. 1690, dated 30th April 1898, on page 8 of G.O., No. 625, dated 27th October 1898.

Page 8 of G.O., *ibid.*

The firm was invited to give its views before the order was passed. The present letter was written after the first reply was received.

A.T.A.

Of course they know this better than we do.

G.S.F.

Draw their attention to this.

A.T.A.

"to the orders of Government, *fix from "time to time* the maximum prices to be "charged by distillers for spirits issued "from a distillery, etc." This distinctly negatives the assumption that the maximum rate once prescribed would be permanent.

9. In their letter, dated 15th February 1899, Messrs. Parry & Co. appeal to Government that the Board, after inducing them upon certain terms to engage on a large scale in the business of distillers, has suddenly, and without due notice, introduced a very serious modification of the terms. They add "our "present feeling is that rather than submit to what we consider a gross "breach of faith we must, even at some pecuniary loss to ourselves, close our "distilleries so far as the manufacture of what is known as country spirit is "concerned," and they call attention to the question of the attraction of capital to India. Whether the firm will carry out the threat, it is impossible to say. If it does, the Government may then consider what course should be adopted. In regard to the charge of breach of faith, it is not clear what terms were offered by the Board. As to want of notice, please see paragraph 8 above.

Not an idea of it.

G.S.F.

A.T.A.

V.K.R.
20–3–99.

To the Honourable Member.
To His Excellency the Governor.

I have noted on the margin.

G. S. FORBES.
21–3–99.

Briefly put: Messrs. Parry & Co. want to get a monopoly of supply for the presidency or as much of it as possible by underselling other distilleries and so forcing their owners to give up the business. Government must retain power to prevent this and the distillery rules under which Messrs. Parry & Co. hold their license give Government the necessary means.

A. T. A[RUNDEL].
10–4–99.

I must accept the Honourable Member's conclusion, that we must stick to the previous order, though I think our having thus to reduce the maximum price is unfortunate. Perhaps it would be worth while to enquire further into the suggestion made by the Company that the combination of shopkeepers is partly the cause of the rise in price.

A. E. H[AVELOCK].
4–5–99.

To Secretary.

Please see draft below.

A.K.
8–5–99.

To the Honourable Member.

G.S.F.
11–5–99.

A.T.A.
15–5–99.

Issue.

G.S.F.
19–5–99.

Government {1899} of Madras.

REVENUE.

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G.O., No. 1796 (Confdl. No. 62), 17th May 1899.

MAY.

Passing orders on Messrs. Parry & Co.'s petition protesting against the alteration in the maximum price for liquor issued from distilleries.

CONFIDENTIAL.

GOVERNMENT OF MADRAS.

REVENUE DEPARTMENT.

Read—the following Proceedings of the Board of Revenue (Separate Revenue), Mis. No. 791, dated 25th February 1899 :—

Read—the following letter from Messrs. PARRY & CO., Managing Agents, The East India Distilleries and Sugar Factories (Limited), to the Secretary to the Board of Revenue (Separate Revenue), dated Madras, 7th February 1899 :—

In continuation of our letter of 30th ultimo and in response to the Board's request in their letter of that date, we have now the honour to make the following further observations on the proposals then indicated, which we note are to establish differential prices against us as follows :—

(1) to reduce the maximum sale price of molasses spirit ex-distillery from $10\frac{1}{2}$ to $8\frac{1}{2}$ annas per gallon, or say by over 20 per cent. ;

(2) to reduce the price of palmyra jaggery liquor by an amount not stated ;

(3) to leave cane jaggery spirit price as at present.

2. The above proposal has fairly astounded us and in case it may have arisen in connection with a recent demi-official offer made by our Mr. W. Shaw to Mr. Thomson we would first clear that up. Mr. Shaw's offer stipulated not only for a contract for a term of years but also for terms which would have enabled us to largely reduce our staff both up-country and in Madras and so generally cheapen and simplify our working.

These advantages, with the desire to show Government that we did not propose to force prices to any excessive level, led us to offer to supply at $8\frac{1}{2}$ annas, but we must strongly protest against that rate being forced upon us as a maximum price without the counterbalancing advantages referred to.

3. Next we have to remark that the scheme would probably be found difficult to work if eventually attempted, because liquor is not made only from one class of material at a time but, in a greater or less degree for fermentation purposes, there is a mixture of materials in the vats, so that without hampering the business and deranging the ordinary course of work it would be impossible to say exactly what liquor is made from each individual class of material.

4. With regard to the opening paragraph of the letter under reply, it appears to us that the Board allow excessive weight to the effect on consumption of the, say, 2 annas per gallon difference of rates under reference. It has to be remembered that on a 10 annas basis for spirit ex-duty the shopkeeper will generally have to pay, say,—

	Rs.	A.	P.
As first cost	0	10	0
As duty	3	1	0
As transport wastage	0	2	0
Total cost ..	3	13	0

2 annas on that equals only, say, $3\frac{1}{4}$ per cent.—a difference not sufficient to have any marked effect on consumption, especially seeing that the actual consumer buys by the dram when the difference in price is scarcely appreciable.

5. We have not before us the figures on which the Board goes when stating that the consumption of the country arrack is diminishing, so we cannot well discuss that point as we should like to, but meanwhile we may mention that since 1894 the rate of duty has been raised 7 annas per gallon and upwards, practically all over the Presidency.

During 1895, 1896 and 1897 this rise in duty may not have been felt since : during that period, owing to extreme competition between the Nellikuppam and Ránipéttai distilleries, sale rates were cut down, eventually to below cost of production. From 1898, this competition having ceased, the rise in duty referred to is perhaps making itself felt on consumption, but there is no ground for asserting that hitherto we have forced prices to an unduly high pitch and certainly, so far, they are not so high as they will at once rule if by unjust legislation we are forced out of the spirit business.

6. Government appear to us to be acting in blind fear of the small rise in price necessary for us—manufacturers—to earn a fair profit on our capital and skill employed, while it overlooks or ignores the real hindrance to consumption which results when shopkeepers join together to raise retail prices to the consumers.

Cases in point are Madras and Kistna districts, in both of which wholesale prices are relatively low, while in both, owing to combination among shopkeepers, consumption has fallen off.

When asked to assign reason for such decreased consumption, shopkeepers are no doubt glad to put forward the reasons apparently accepted by the Board, but such will not bear investigation.

7. We would wish to remind Government that the existing abkári free-supply system, which has been worked with such financial success to Government for the last fifteen years, was orginally inaugurated only after much consultation of our then senior partner Mr. J. C. Shaw by Mr. (now Sir Henry) Stokes, and Mr. Shaw then wrote to Mr. Stokes as follows, under date 20th May 1884 :—

"As I said to you when here we will undertake to support you in carrying this through provided we are satisfied that there will be no throwing us over on the plea that we should be securing too many districts." It was then, we believe, that the $10\frac{1}{2}$ maximum rate ex-distillery for spirit was settled on and Mr. Shaw's fear, as expressed above, was met by the understanding that, subject to the said maximum, Government was indifferent as to how much of the Presidency we might supply. Our firm then gave all the assistance in its power and insured the successful start of the then new order of things. But now it would appear that our services then rendered are forgotten and Government by its differentiation of prices against us is wishing to throw us over exactly as Mr. Shaw foresaw might be the case.

8. In conclusion, we have the honour to submit that this scheme of differential rates, if carried out, will amount to a direct attack upon all capital invested in the sugar industry of this Presidency, of which industry the utilisation of molasses for spirit-making is, of course, a material branch. The reduction of price proposed would involve peculiar hardship to the shareholders who have so recently acquired an interest in this Company, and the injustice becomes the more apparent when it is remembered that only this year we have completed the erection of a large expensive new distillery at the express instigation of the late Abkári Commissioner, now Senior Member of Council. Had any indication been given us that a radical change of system was intended, such as this differentiation of rates against molasses spirit, we could not have thought of meeting Mr. Arundel's wishes and sunk the capital involved in the new distillery at Nellikuppam, nor could this Company have taken over its business on the terms it did. We can scarcely credit that on consideration Government will definitely decide upon practically confiscating in this way capital invested on the faith of the stability of long established revenue regulations, no change in which can equitably be made save after notice proportionate to the capital sunk in the business concerned.

Resolution—Mis. No. 791, dated 25th February 1899.

Messrs. Parry & Co.'s letter will be forwarded to Government with the following remarks.

2. *Paragraph 2.*—The Board was fully aware that Mr. Shaw's offer to contract for a term of years at $8\frac{1}{2}$ annas would, if accepted, improve even the present position of the Company by making that a fixed price for all-comers within the area contracted for and enable it to effect savings in various ways accordingly. The only advantage it promised for Government was that shopkeepers would be certain of the price they would have to pay, but the reduction therein under the maximum which the last rule allowed would be of small advantage to those at any distance from the only distillery—Nellikuppam—which the Company would have continued to maintain within the tract. Under competition it may be doubtful if the Company could force prices beyond $8\frac{1}{2}$ annas: its endeavour for some years now has been to kill competition; and the Board's proposal, while it did not ignore the fact of Mr. Shaw's offer, attached less value thereto than the Company seems to infer.

3. *Paragraph 3.*—The Board does not anticipate any difficulty in determining from what material liquor has been made. The Company distils only from molasses, minor distillers generally from only one class of material at a time, and the latter are not likely to find any objection to the differential rates. The uniformity of the distillery price for liquor without reference to material placed these latter at an enormous disadvantage in the competition. Admixture of materials, if tried at all (except to meet very temporary emergencies), can be so for no purpose, but the evasion of the present regulation and the Board would meet it by treating the resultant spirit as though made from material of the lowest class used.

4. *Paragraph 4.*—The effect on consumption of the difference of 2 annas per gallon may not be very appreciable when applied to the dram. But the Board is, for the present, most concerned regarding the competing distiller and the shopkeeper —the final agent in distribution—and from the point of view of the latter the decrease in first cost is a matter of very considerable moment.

5. *Paragraph 5.*—There is no reason for believing that the rise in duty since 1894 is making itself felt on consumption; the Board's administration reports negative such an opinion: but there is every reason to believe that the rise of price consequent on the want of competition in supply will intensify any such tendency if it exists, and the absence of competition is a current explanation of the fact of decrease in consumption. Reduction of consumption can be countervailed in its effect on the revenue by enhanced duty; but with a high maximum price up to which a distiller might work the danger lay in the anticipation of shopkeepers that prices would eventually be enhanced by this Company to the extreme limit the previous notification allowed, and the difference was the profit of the Company. The declared intention was to get rid of all competitors, and with that the maximum distillery price would certainly have been given effect to as far at least as was consistent with an output which would have satisfied the Company's view of its own possible profits. It is difficult to see how it can be forced out of the spirit business except by its own mismanagement: the present rate of $8\frac{1}{2}$ annas most distinctly cannot bring that about unless the business has been so reconstructed as to permit of it. If that is the case the Company and not Government is to blame.

6. *Paragraph 6.*—The Board is not aware of any hindrance to consumption from combination of shopkeepers to raise their prices to consumers; when the privileges of vend fall into the hands of single persons or syndicates, prices of course can be raised, no maximum price having been imposed; the remedy applicable is obvious if not always easy. Shopkeepers in any case must have a certain turn-over and make an income for themselves and when and if the country is adequately supplied with shops it cannot but follow that prices therein will be fixed in the main so as to yield the ordinary rate of profit.

7. *Paragraph 7.*—There is no information before the Board that leads it to believe that the $10\frac{1}{2}$ annas maximum rate was ever regarded as unalterable. Reference is requested to Mr. Stokes' note of 5th April 1884, the Commissioner's letter in Board's Proceedings, No. 3227, of 25th November 1885, and Board's Proceedings, No. 2095, of 17th September 1886, from which it would appear that the point was treated tentatively and the danger of monopoly always kept in view. Sir Henry Bliss in 1898 certainly entertained no idea of fixity of price, but on the contrary regarded Government's present action as the first course open to it. No such ground was hitherto taken by the firm so far as the Board is aware; on the contrary the point was not even referred to when the firm was consulted a year ago and more recently as to a reduction. If Government has benefited by the firm in the past the firm may well admit that it has reaped a plentiful return from its operations under Government patronage. There is no desire to curtail its legitimate rate of profit, but the Company is not content therewith and would evidently desire to dictate its own terms to Government.

8. *Paragraph 8.*—The Board distinctly joins issue with the statement that this scheme of differential rates is a direct attack on all capital invested in the sugar industry. On the contrary Government is aware of how a sugar industry is being instituted in the north which is willing to work at even lower rates for its spirit produce than Government has now directed. That the new rule will limit profits to the East India Distilleries and Sugar Factories (Limited) is no doubt true, but the Government of Madras was not consulted in the creation of that Company, and if it proceeded without due caution and overcapitalized itself the error cannot be laid at the doors of Government. The Board observes moreover from the Company's prospectus that the rate of profit on spirit on which the calculations therein are based is 2 annas a gallon. That probably was, and, if it was not, ought to have been, arrived at on past working and ought to be obtainable under the price now fixed. The prospectus further shows that Messrs. Parry & Co., before the amalgamation, were reaping enormous profits at a time when, on their own showing, their price averaged well under 7 annas, but how much of these profits was due to spirits and how much to sugar is of course unknown. The Board assumes that Government has not committed itself to the permanency of the former distillery rate; the Company makes no assertion that it has; but its complaint is virtually that it has been deceived by Government and is not the victim of its own financial shrewdness or incapacity. The Board has no reason to think that Government ever contemplated a time when the firm would assume the control of a large portion of the abkári administration by constituting itself the sole purveyor of spirit to the Presidency, but its recent action might fairly be ascribed to such a misconception.

9. As to the want of due notice, it is sufficient to say that the Company had clear notice a year ago that Government deliberated moving in the direction of reducing the distillery price and if the Company required a distinct assurance to the contrary then that should have been asked for. The Company's letter of 23rd April 1898, read with the Board's Proceedings, Mis. No. 1690, of 30th idem, does not, in the Board's opinion, give them room to complain of want of notice or of a change in Government policy. The Company knew what remedy lay in the hands of Government and apparently counted on Government's supineness while it pursued its policy of extermination of competitors. The differential rate is injurious to the Company only from the fact that it will prevent that policy; it cannot otherwise affect their legitimate profits on spirit as it will not in any degree alter or affect their methods of distillation from sugar refuse.

(True Extract.)

(Signed) EDMUND MILLETT,
Assistant Secretary.

To the Secretary to Government, Revenue Department,
with one enclosure.

Read—petition from Messrs. PARRY & CO., dated 15th February 1899.

Order—No. 1796 (Confdl. No. 62), Revenue, dated 17th May 1899.

Miscellaneous.

The Government concurs with the Board in its remarks in the first of the papers read above. Messrs. Parry & Co. should accordingly be informed that the Government sees no reason to reconsider the orders sanctioning a reduction of the maximum price of palmyra-jaggery arrack and molasses arrack issued from distilleries. With regard to the reference in the concluding paragraph of their letter to the Board, dated 7th February 1899, to "the stability of long-established Revenue Regulations," the attention of Messrs. Parry & Co. should be drawn to rule 65 of the Distillery and Warehouse Rules which provides that "the Commissioner may, subject to the orders of Government, fix *from time to time* the maximum prices to be charged by distillers for spirits issued from a distillery." It should also be pointed out to them that they act under a license granted annually the terms of which alone can be held to bind them and Government.

2. Adverting to the remarks in paragraph 3 of the Board's Proceedings, the Government presumes that the lower appropriate maximum rate will be enforced only if a substantial portion of the mixture be made from the lower classes of materials.

3. The Government desires that the Board of Revenue should investigate further the suggestion made by Messrs. Parry & Co. that combination among shopkeepers is partly the cause of the rise in the retail price to the consumer.

4. Messrs. Parry & Co. will be referred to the Board of Revenue for orders on their petition.

(True Extract.)

(Signed) G. S. FORBES,
Secretary to Government.

To the Board of Revenue (Separate Revenue),
with petition, to be returned.
" Messrs. Parry & Co. (paragraph 4 only).

Exd. W. D'Moss.

20 Copies.

CONFIDENTIAL.

Revenue Department.

NOTES CONNECTED WITH G.O., No. 1796, REVENUE, DATED 17th MAY 1899.

Reduction of maximum prices of liquor at distilleries.

Board's Proceedings (Separate Revenue), Mis. No. 791, dated 25th February 1899.
Letter from Messrs. Parry & Co., dated 28th February 1899.

To Secretary.

In G.O., No. 95, dated 6th February 1899, the Government authorized the Board of Revenue to reduce the maximum price to be charged by distillers for molasses arrack from 10½ annas to 8½ annas a gallon of 30° U.P., and a notification * was accordingly published by it on 7th February 1899 under the power conferred by rule 65 of the Distillery Rules.

* G.O., No. 617, dated 10th February 1899.

In the above Proceedings the Board forwards with its remarks a protest from Messrs. Parry & Co. against the reduction, while the letter is a similar protest addressed direct to Government.

2. In paragraph 2 of its first letter, the firm admits that a proposal to supply country spirits at 8½ annas a gallon was made by Mr. Shaw, but that it was coupled with a stipulation to be given the monopoly of supply for a term of years in certain districts. The firm expected that under such an arrangement it could reduce its staff in Madras and up-country and thereby cheapen its working. It therefore protests against the forcing of that rate upon it without the counterbalancing advantage. The Board remarks that it did not ignore Mr. Shaw's offer, but that it attached less value to it than the firm seems to infer. The proposal of the latter was prompted by a desire to kill competition and could not therefore be accepted.

But if they volunteered an 8½-anna rate for a term of years, it was naturally a rate which would well protect them from the vicissitudes of the sugar market during the period. The fluctuations might have been very large, and yet an 8½-anna rate was deemed by the firm to cover them sufficiently.

G.S.F.

Yes, believed to be.

A. T. A[rundel].

3. The firm's second objection is that as liquor is not made from only one class of material at a time, it would be difficult to work the scheme of differential rates. The Board does not anticipate any difficulty on the subject. The East India Distilleries and Sugar Factories Company distills from molasses only, while other distillers use only one class of material at a time. It is possible that to evade the present regulation an admixture of materials may be attempted; but the Board proposes to treat liquor so distilled as made from material of the lowest class used.

If, I suppose, a *substantial* portion of the mixture were of the low class?

G.S.F.

A.T.A.

4. Messrs. Parry & Co.'s third objection is that a difference of 2 annas in the maximum price at the distillery would only be 3¼ per cent. of the price to be paid by the shopkeeper including duty; that as the consumer buys by the dram, the difference in price would scarcely be appreciable; and that consumption cannot be materially affected. The Board is concerned not with the consumer directly, but with the shopkeeper, as against the distiller, and regards a decrease of 2 annas in first cost as a matter of very considerable moment to him.

5. Messrs. Parry & Co.'s fourth objection is that the decrease in consumption of liquor, if any, has been brought about by the enhancement of the tax, or by combination among retailers, and that the effect of the first measure has begun to be felt after the extinction of the "extreme competition" between the Nellikuppam

and Ránipéttai distilleries. These assertions are traversed by the Board in paragraphs 5 and 6 of its Proceedings. The firm states that when the East India Distilleries and Sugar Factories Company is forced out of the spirit business by "unjust legislation," the price of liquor would rise very high. The Board has no fear that the Company will be forced out except by its own mismanagement, for which Government cannot be blamed.

6. In paragraph 7 of their letter Messrs. Parry & Co. claim to have helped the Government in introducing the private distillery supply system, and complain that their services are now forgotten, and that they are thrown over. They refer to a letter addressed by Mr. Shaw, their senior partner, to Sir Henry Stokes on the 20th May 1884, * and to an understanding arrived at with reference thereto to the effect that, subject to the maximum of 10½ annas a gallon, the Government was indifferent as to how much of the Presidency they supplied. They infer presumably that the rate was unalterable. The Board observes that if Government has in the past benefited from the firm's help, the latter has reaped a plentiful return from its operations under Government patronage, and that though there is no desire to curtail its legitimate rate of profit, it cannot expect to dictate terms to Government. The Board is not aware of any correspondence to show that the 10½ annas was ever regarded as unalterable. The papers available in this office are noted in the margin. The demi-official letter referred to by Messrs. Parry & Co. cannot be traced nor the reply to it, if any. The search is being continued.† In a note dated the 5th April 1884 suggesting changes in the administration of the abkári revenue, Sir Henry Stokes stated: "In these districts it is necessary to fix "a *maximum rate* beyond which the distillers shall not charge, and also to pitch the "still-head duty a little higher than Re. 1. I would make it Rs. 1-2-0 for taluk "vendors in those districts, and fix 14 annas per gallon as the *maximum charge* to "taluk vendors." From the previous portion of the note this rate appears to have been intended to apply to *30° U.P.* By G.O., No. 394, dated 18th March 1884, a committee was appointed to consider the changes proposed; but its report (which will be found printed in G.O., No. 570, dated 30th April 1884) is silent on the point. But one of the notifications drafted by the committee stated: "The former [*i.e.*, "persons authorized to establish distil-"leries] will be bound to supply at any "prices agreed upon . . . . subject to maximum prices of one rupee two annas, "one rupee, and nine annas per gallon for spirits of strengths 20° U.P., 30° U.P., and "60° U.P. respectively." These maxima rates were approved. For the Kurnool district during the lease for 1885-86 a maximum rate of twelve annas a gallon of 30° U.P. was prescribed. In submitting proposals for the lease for 1886-87, the Commissioner (Sir Henry Bliss) after observing that the maxima rates then in force were unnecessarily high—twelve annas in Kurnool and one rupee elsewhere—proposed a reduction to ten annas and-a-half. The proposal was approved by the Board [paragraph 10-I (*h*)]. The

Does this mean that the present system enables them to make an excessive profit as a reward?

G.S.F.

* This was 15 years ago.

G.S.F.

This is absurd. The firm acts under a license the terms of which are what binds them and Government.

A.T.A.

Page 10 of Sir Henry Stokes' note, dated 5th April 1884, in G.O., No. 594, dated 18th March 1884.

Paragraph 16 of the Commissioner's letter on page 3 of G.O., No. 1362, dated 10th December 1885.

† Not traceable—*vide* note of Record office, dated 8th May 1899.

Condition 4 of Notification IV on page 13 of G.O., No. 570, Revenue, dated 30th April 1884.

Paragraph 1 of G.O., *ibid.*

Paragraph 9 of Commissioner's letter on page 2 of G.O., No. 23, Revenue, dated 9th January 1885, and paragraph 3 of G.O.

Condition 11 on page 3 of G.O., No. 124, Revenue, dated 30th January 1885.

Paragraph 16 of his letter on page 3 of G.O., No. 1362, dated 10th December 1885.

Page 28 of G.O., *ibid.*

This could not be done without a formal G.O. which, if ever passed, would be objected to by India as soon they knew of it.

A.T.A.
10-4-99.

foregoing précis, it will be observed, shows that there was no intention to fix unalterable maxima rates, and that the rate of ten annas and-a-half a gallon of 30° U.P. was prescribed in December 1885 and not at the time of Mr. Shaw's letter of 20th May 1884. The Government order is signed by Sir Frederick Price and not by Sir Henry Stokes, who, it is understood, was then on leave. To be on the safe side it is perhaps desirable that Messrs. Parry & Co. may be asked to state definitely what the understanding was to which they refer and to forward a copy of the papers on which they replied. The Government has no objection, it is presumed, to the supply of any district by Messrs. Parry & Co. The real objection is to their enhancement of prices.

No: they do not mean there was any contract or binding agreement: we have no record of any agreement: and they do not produce any which of course they would have done at once if it had been in existence or of any value beyond vague talk.

G.S.F.

I agree. Besides no such private note could invalidate the action of Government.

A.T.A.

7. Lastly, Messrs. Parry & Co. complain that as the utilization of molasses for spirit-making is a material branch of the sugar industry, the imposition of differential rates is a direct attack on the capital invested in that industry. The Board denies the validity of this complaint, as a sugar industry is being instituted in the north (presumably in Gódávari), the persons interested in which are willing to work for lower rates for the spirit produce than those now fixed by Government.

The Government of India are about to give special protection to sugar.

G.S.F.

They have now done so.

A.T.A.

8. Messrs. Parry & Co. state that, on the faith of the stability of long-standing revenue regulations, they have only recently completed the erection of a large expensive new distillery at Nellikuppam and that the East India Distilleries and Sugar Factories Company took over its business, and that a change in the abkári policy of Government cannot equitably be made until after notice proportionate* to the capital sunk in the business. The Board observes that the Company had a year's notice. Messrs. Parry & Co. enquired of the Board, under date the 23rd April 1898, whether the abkári policy "was to receive any important modi-"fication making distilling possibly "less attractive from a trader's point "of view." The Board replied that "no alteration in the Government abkári "policy in its *main* features" was contemplated, but that Government was bound to protect itself against the firm's attempt to obtain a monopoly of supply. Messrs. Parry & Co. appear to consider that the reduction of the maximum rate for molasses arrack as an important change, while the Board appears to think differently. Whether the length of notice was or was not sufficient in the present case depends on how the question is viewed.

Messrs. Parry & Co have always been perfectly well aware of the powers of Government to introduce changes of the maximum rates, and of the risks consequent thereon. At the time they were enlarging or building their distilleries they were themselves offering an 8½-anna rate.

G.S.F.

* This contention of Messrs. Parry & Co. cannot of course be admitted.

A.T.A.

Vide paragraphs 16 and 17 of Board's Proceedings, No. 1690, dated 30th April 1898, on page 8 of G.O., No. 625, dated 27th October 1898.

Page 8 of G.O., *ibid.*

The firm was invited to give its views before the order was passed. The present letter was written after the first reply was received.

A.T.A.

As to the alleged dependence on the stability of revenue regulations, attention is solicited to rule 65 of the Distillery Rules published in the *Fort St. George Gazette*, dated 5th May 1899, Part I: "The Commissioner may, subject

Of course they know this better than we do.
G.S.F.
Draw their attention to this.
A.T.A.

"to the orders of Government, *fix from time to time* the maximum prices to be "charged by distillers for spirits issued "from a distillery, etc." This distinctly negatives the assumption that the maximum rate once prescribed would be permanent.

9. In their letter, dated 15th February 1899, Messrs. Parry & Co. appeal to Government that the Board, after inducing them upon certain terms to engage on a large scale in the business of distillers, has suddenly, and without due notice, introduced a very serious modification of the terms. They add "our "present feeling is that rather than submit to what we consider a gross "breach of faith we must, even at some pecuniary loss to ourselves, close our "distilleries so far as the manufacture of what is known as country spirit is "concerned," and they call attention to the question of the attraction of capital to India. Whether the firm will carry out the threat, it is impossible to say. If it does, the Government may then consider what course should be adopted. In regard to the charge of breach of faith, it is not clear what terms were offered by the Board. As to want of notice, please see paragraph 8 above.

Not an idea of it.
G.S.F.
A.T.A.

V.K.R.
20–3–99.

To the Honourable Member.
To His Excellency the Governor.

I have noted on the margin.

G. S. FORBES.
21–3–99.

Briefly put: Messrs. Parry & Co. want to get a monopoly of supply for the presidency or as much of it as possible by underselling other distilleries and so forcing their owners to give up the business. Government must retain power to prevent this and the distillery rules under which Messrs. Parry & Co. hold their license give Government the necessary means.

A. T. A[RUNDEL].
10–4–99.

I must accept the Honourable Member's conclusion, that we must stick to the previous order, though I think our having thus to reduce the maximum price is unfortunate. Perhaps it would be worth while to enquire further into the suggestion made by the Company that the combination of shopkeepers is partly the cause of the rise in price.

A. E. H[AVELOCK].
4–5–99.

To Secretary.

Please see draft below.

A.K.
8–5–99.

To the Honourable Member.

G.S.F.
11–5–99.
A.T.A.
15–5–99.

Issue.

G.S.F.
19–5–99.

Government {1899} of Madras.
REVENUE.

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G.O., No. 1796 (Confdl. No. 62), 17th May 1899.

MAY.

Passing orders on Messrs. Parry & Co.'s petition protesting against the alteration in the maximum price for liquor issued from distilleries.

Of course they know this better than we do.
G.S.F.
Draw their attention to this.
A.T.A.

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MAY.

Passing orders on Messrs. Parry & Co.'s petition protesting against the alteration in the maximum price for liquor issued from distilleries.

CONFIDENTIAL.

GOVERNMENT OF MADRAS.

REVENUE DEPARTMENT.

Read—the following Proceedings of the Board of Revenue (Separate Revenue), Mis. No. 791, dated 25th February 1899 :—

Read—the following letter from Messrs. PARRY & CO., Managing Agents, The East India Distilleries and Sugar Factories (Limited), to the Secretary to the Board of Revenue (Separate Revenue), dated Madras, 7th February 1899 :—

In continuation of our letter of 30th ultimo and in response to the Board's request in their letter of that date, we have now the honour to make the following further observations on the proposals then indicated, which we note are to establish differential prices against us as follows :—

(1) to reduce the maximum sale price of molasses spirit ex-distillery from $10\frac{1}{2}$ to $8\frac{1}{2}$ annas per gallon, or say by over 20 per cent. ;
(2) to reduce the price of palmyra jaggery liquor by an amount not stated ;
(3) to leave cane jaggery spirit price as at present.

2. The above proposal has fairly astounded us and in case it may have arisen in connection with a recent demi-official offer made by our Mr. W. Shaw to Mr. Thomson we would first clear that up. Mr. Shaw's offer stipulated not only for a contract for a term of years but also for terms which would have enabled us to largely reduce our staff both up-country and in Madras and so generally cheapen and simplify our working.

These advantages, with the desire to show Government that we did not propose to force prices to any excessive level, led us to offer to supply at $8\frac{1}{2}$ annas, but we must strongly protest against that rate being forced upon us as a maximum price without the counterbalancing advantages referred to.

3. Next we have to remark that the scheme would probably be found difficult to work if eventually attempted, because liquor is not made only from one class of material at a time but, in a greater or less degree for fermentation purposes, there is a mixture of materials in the vats, so that without hampering the business and deranging the ordinary course of work it would be impossible to say exactly what liquor is made from each individual class of material.

4. With regard to the opening paragraph of the letter under reply, it appears to us that the Board allow excessive weight to the effect on consumption of the, say, 2 annas per gallon difference of rates under reference. It has to be remembered that on a 10 annas basis for spirit ex-duty the shopkeeper will generally have to pay, say,—

	Rs.	A.	P.
As first cost	0	10	0
As duty	3	1	0
As transport wastage	0	2	0
Total cost ..	3	13	0

2 annas on that equals only, say, $3\frac{1}{4}$ per cent.—a difference not sufficient to have any marked effect on consumption, especially seeing that the actual consumer buys by the dram when the difference in price is scarcely appreciable.

5. We have not before us the figures on which the Board goes when stating that the consumption of the country arrack is diminishing, so we cannot well discuss that point as we should like to, but meanwhile we may mention that since 1894 the rate of duty has been raised 7 annas per gallon and upwards, practically all over the Presidency.

During 1895, 1896 and 1897 this rise in duty may not have been felt since : during that period, owing to extreme competition between the Nellikuppam and Ránipéttai distilleries, sale rates were cut down, eventually to below cost of production. From 1898, this competition having ceased, the rise in duty referred to is perhaps making itself felt on consumption, but there is no ground for asserting that hitherto we have forced prices to an unduly high pitch and certainly, so far, they are not so high as they will at once rule if by unjust legislation we are forced out of the spirit business.

6. Government appear to us to be acting in blind fear of the small rise in price necessary for us—manufacturers—to earn a fair profit on our capital and skill employed, while it overlooks or ignores the real hindrance to consumption which results when shopkeepers join together to raise retail prices to the consumers.

Cases in point are Madras and Kistna districts, in both of which wholesale prices are relatively low, while in both, owing to combination among shopkeepers, consumption has fallen off.

When asked to assign reason for such decreased consumption, shopkeepers are no doubt glad to put forward the reasons apparently accepted by the Board, but such will not bear investigation.

7. We would wish to remind Government that the existing abkári free-supply system, which has been worked with such financial success to Government for the last fifteen years, was orginally inaugurated only after much consultation of our then senior partner Mr. J. C. Shaw by Mr. (now Sir Henry) Stokes, and Mr. Shaw then wrote to Mr. Stokes as follows, under date 20th May 1884 :—

"As I said to you when here we will undertake to support you in carrying this through provided we are satisfied that there will be no throwing us over on the plea that we should be securing too many districts." It was then, we believe, that the $10\frac{1}{2}$ maximum rate ex-distillery for spirit was settled on and Mr. Shaw's fear, as expressed above, was met by the understanding that, subject to the said maximum, Government was indifferent as to how much of the Presidency we might supply. Our firm then gave all the assistance in its power and insured the successful start of the then new order of things. But now it would appear that our services then rendered are forgotten and Government by its differentiation of prices against us is wishing to throw us over exactly as Mr. Shaw foresaw might be the case.

8. In conclusion, we have the honour to submit that this scheme of differential rates, if carried out, will amount to a direct attack upon all capital invested in the sugar industry of this Presidency, of which industry the utilisation of molasses for spirit-making is, of course, a material branch. The reduction of price proposed would involve peculiar hardship to the shareholders who have so recently acquired an interest in this Company, and the injustice becomes the more apparent when it is remembered that only this year we have completed the erection of a large expensive new distillery at the express instigation of the late Abkári Commissioner, now Senior Member of Council. Had any indication been given us that a radical change of system was intended, such as this differentiation of rates against molasses spirit, we could not have thought of meeting Mr. Arundel's wishes and sunk the capital involved in the new distillery at Nellikuppam, nor could this Company have taken over its business on the terms it did. We can scarcely credit that on consideration Government will definitely decide upon practically confiscating in this way capital invested on the faith of the stability of long established revenue regulations, no change in which can equitably be made save after notice proportionate to the capital sunk in the business concerned.

CONFIDENTIAL.

GOVERNMENT OF MADRAS.

REVENUE DEPARTMENT.

Read—the following Proceedings of the Board of Revenue (Separate Revenue), Mis. No. 791, dated 25th February 1899 :—

Read—the following letter from Messrs. PARRY & CO., Managing Agents, The East India Distilleries and Sugar Factories (Limited), to the Secretary to the Board of Revenue (Separate Revenue), dated Madras, 7th February 1899 :—

In continuation of our letter of 30th ultimo and in response to the Board's request in their letter of that date, we have now the honour to make the following further observations on the proposals then indicated, which we note are to establish differential prices against us as follows :—

(1) to reduce the maximum sale price of molasses spirit ex-distillery from $10\frac{1}{2}$ to $8\frac{1}{2}$ annas per gallon, or say by over 20 per cent. ;
(2) to reduce the price of palmyra jaggery liquor by an amount not stated ;
(3) to leave cane jaggery spirit price as at present.

2. The above proposal has fairly astounded us and in case it may have arisen in connection with a recent demi-official offer made by our Mr. W. Shaw to Mr. Thomson we would first clear that up. Mr. Shaw's offer stipulated not only for a contract for a term of years but also for terms which would have enabled us to largely reduce our staff both up-country and in Madras and so generally cheapen and simplify our working.

These advantages, with the desire to show Government that we did not propose to force prices to any excessive level, led us to offer to supply at $8\frac{1}{2}$ annas, but we must strongly protest against that rate being forced upon us as a maximum price without the counterbalancing advantages referred to.

3. Next we have to remark that the scheme would probably be found difficult to work if eventually attempted, because liquor is not made only from one class of material at a time but, in a greater or less degree for fermentation purposes, there is a mixture of materials in the vats, so that without hampering the business and deranging the ordinary course of work it would be impossible to say exactly what liquor is made from each individual class of material.

4. With regard to the opening paragraph of the letter under reply, it appears to us that the Board allow excessive weight to the effect on consumption of the, say, 2 annas per gallon difference of rates under reference. It has to be remembered that on a 10 annas basis for spirit ex-duty the shopkeeper will generally have to pay, say,—

	Rs.	A.	P.
As first cost	0	10	0
As duty	3	1	0
As transport wastage	0	2	0
Total cost ..	3	13	0

2 annas on that equals only, say, $3\frac{1}{4}$ per cent.—a difference not sufficient to have any marked effect on consumption, especially seeing that the actual consumer buys by the dram when the difference in price is scarcely appreciable.

5. We have not before us the figures on which the Board goes when stating that the consumption of the country arrack is diminishing, so we cannot well discuss that point as we should like to, but meanwhile we may mention that since 1894 the rate of duty has been raised 7 annas per gallon and upwards, practically all over the Presidency.

During 1895, 1896 and 1897 this rise in duty may not have been felt since : during that period, owing to extreme competition between the Nellikuppam and Ránipéttai distilleries, sale rates were cut down, eventually to below cost of production. From 1898, this competition having ceased, the rise in duty referred to is perhaps making itself felt on consumption, but there is no ground for asserting that hitherto we have forced prices to an unduly high pitch and certainly, so far, they are not so high as they will at once rule if by unjust legislation we are forced out of the spirit business.

6. Government appear to us to be acting in blind fear of the small rise in price necessary for us—manufacturers—to earn a fair profit on our capital and skill employed, while it overlooks or ignores the real hindrance to consumption which results when shopkeepers join together to raise retail prices to the consumers.

Cases in point are Madras and Kistna districts, in both of which wholesale prices are relatively low, while in both, owing to combination among shopkeepers, consumption has fallen off.

When asked to assign reason for such decreased consumption, shopkeepers are no doubt glad to put forward the reasons apparently accepted by the Board, but such will not bear investigation.

7. We would wish to remind Government that the existing abkári free-supply system, which has been worked with such financial success to Government for the last fifteen years, was orginally inaugurated only after much consultation of our then senior partner Mr. J. C. Shaw by Mr. (now Sir Henry) Stokes, and Mr. Shaw then wrote to Mr. Stokes as follows, under date 20th May 1884 :—

"As I said to you when here we will undertake to support you in carrying this through provided we are satisfied that there will be no throwing us over on the plea that we should be securing too many districts." It was then, we believe, that the $10\frac{1}{2}$ maximum rate ex-distillery for spirit was settled on and Mr. Shaw's fear, as expressed above, was met by the understanding that, subject to the said maximum, Government was indifferent as to how much of the Presidency we might supply. Our firm then gave all the assistance in its power and insured the successful start of the then new order of things. But now it would appear that our services then rendered are forgotten and Government by its differentiation of prices against us is wishing to throw us over exactly as Mr. Shaw foresaw might be the case.

8. In conclusion, we have the honour to submit that this scheme of differential rates, if carried out, will amount to a direct attack upon all capital invested in the sugar industry of this Presidency, of which industry the utilisation of molasses for spirit-making is, of course, a material branch. The reduction of price proposed would involve peculiar hardship to the shareholders who have so recently acquired an interest in this Company, and the injustice becomes the more apparent when it is remembered that only this year we have completed the erection of a large expensive new distillery at the express instigation of the late Abkári Commissioner, now Senior Member of Council. Had any indication been given us that a radical change of system was intended, such as this differentiation of rates against molasses spirit, we could not have thought of meeting Mr. Arundel's wishes and sunk the capital involved in the new distillery at Nellikuppam, nor could this Company have taken over its business on the terms it did. We can scarcely credit that on consideration Government will definitely decide upon practically confiscating in this way capital invested on the faith of the stability of long established revenue regulations, no change in which can equitably be made save after notice proportionate to the capital sunk in the business concerned.

Resolution—Mis. No. 791, dated 25th February 1899.

Messrs. Parry & Co.'s letter will be forwarded to Government with the following remarks.

2. *Paragraph 2.*—The Board was fully aware that Mr. Shaw's offer to contract for a term of years at $8\frac{1}{2}$ annas would, if accepted, improve even the present position of the Company by making that a fixed price for all-comers within the area contracted for and enable it to effect savings in various ways accordingly. The only advantage it promised for Government was that shopkeepers would be certain of the price they would have to pay, but the reduction therein under the maximum which the last rule allowed would be of small advantage to those at any distance from the only distillery—Nellikuppam—which the Company would have continued to maintain within the tract. Under competition it may be doubtful if the Company could force prices beyond $8\frac{1}{2}$ annas: its endeavour for some years now has been to kill competition; and the Board's proposal, while it did not ignore the fact of Mr. Shaw's offer, attached less value thereto than the Company seems to infer.

3. *Paragraph 3.*—The Board does not anticipate any difficulty in determining from what material liquor has been made. The Company distils only from molasses, minor distillers generally from only one class of material at a time, and the latter are not likely to find any objection to the differential rates. The uniformity of the distillery price for liquor without reference to material placed these latter at an enormous disadvantage in the competition. Admixture of materials, if tried at all (except to meet very temporary emergencies), can be so for no purpose, but the evasion of the present regulation and the Board would meet it by treating the resultant spirit as though made from material of the lowest class used.

4. *Paragraph 4.*—The effect on consumption of the difference of 2 annas per gallon may not be very appreciable when applied to the dram. But the Board is, for the present, most concerned regarding the competing distiller and the shopkeeper —the final agent in distribution—and from the point of view of the latter the decrease in first cost is a matter of very considerable moment.

5. *Paragraph 5.*—There is no reason for believing that the rise in duty since 1894 is making itself felt on consumption; the Board's administration reports negative such an opinion: but there is every reason to believe that the rise of price consequent on the want of competition in supply will intensify any such tendency if it exists, and the absence of competition is a current explanation of the fact of decrease in consumption. Reduction of consumption can be countervailed in its effect on the revenue by enhanced duty; but with a high maximum price up to which a distiller might work the danger lay in the anticipation of shopkeepers that prices would eventually be enhanced by this Company to the extreme limit the previous notification allowed, and the difference was the profit of the Company. The declared intention was to get rid of all competitors, and with that the maximum distillery price would certainly have been given effect to as far at least as was consistent with an output which would have satisfied the Company's view of its own possible profits. It is difficult to see how it can be forced out of the spirit business except by its own mismanagement: the present rate of $8\frac{1}{2}$ annas most distinctly cannot bring that about unless the business has been so reconstructed as to permit of it. If that is the case the Company and not Government is to blame.

6. *Paragraph 6.*—The Board is not aware of any hindrance to consumption from combination of shopkeepers to raise their prices to consumers; when the privileges of vend fall into the hands of single persons or syndicates, prices of course can be raised, no maximum price having been imposed; the remedy applicable is obvious if not always easy. Shopkeepers in any case must have a certain turn-over and make an income for themselves and when and if the country is adequately supplied with shops it cannot but follow that prices therein will be fixed in the main so as to yield the ordinary rate of profit.

7. *Paragraph 7.*—There is no information before the Board that leads it to believe that the $10\frac{1}{2}$ annas maximum rate was ever regarded as unalterable. Reference is requested to Mr. Stokes' note of 5th April 1884, the Commissioner's letter in Board's Proceedings, No. 3227, of 25th November 1885, and Board's Proceedings, No. 2095, of 17th September 1886, from which it would appear that the point was treated tentatively and the danger of monopoly always kept in view. Sir Henry Bliss in 1898 certainly entertained no idea of fixity of price, but on the contrary regarded Government's present action as the first course open to it. No such ground was hitherto taken by the firm so far as the Board is aware; on the contrary the point was not even referred to when the firm was consulted a year ago and more recently as to a reduction. If Government has benefited by the firm in the past the firm may well admit that it has reaped a plentiful return from its operations under Government patronage. There is no desire to curtail its legitimate rate of profit, but the Company is not content therewith and would evidently desire to dictate its own terms to Government.

8. *Paragraph 8.*—The Board distinctly joins issue with the statement that this scheme of differential rates is a direct attack on all capital invested in the sugar industry. On the contrary Government is aware of how a sugar industry is being instituted in the north which is willing to work at even lower rates for its spirit produce than Government has now directed. That the new rule will limit profits to the East India Distilleries and Sugar Factories (Limited) is no doubt true, but the Government of Madras was not consulted in the creation of that Company, and if it proceeded without due caution and overcapitalized itself the error cannot be laid at the doors of Government. The Board observes moreover from the Company's prospectus that the rate of profit on spirit on which the calculations therein are based is 2 annas a gallon. That probably was, and, if it was not, ought to have been, arrived at on past working and ought to be obtainable under the price now fixed. The prospectus further shows that Messrs. Parry & Co., before the amalgamation, were reaping enormous profits at a time when, on their own showing, their price averaged well under 7 annas, but how much of these profits was due to spirits and how much to sugar is of course unknown. The Board assumes that Government has not committed itself to the permanency of the former distillery rate; the Company makes no assertion that it has; but its complaint is virtually that it has been deceived by Government and is not the victim of its own financial shrewdness or incapacity. The Board has no reason to think that Government ever contemplated a time when the firm would assume the control of a large portion of the abkári administration by constituting itself the sole purveyor of spirit to the Presidency, but its recent action might fairly be ascribed to such a misconception.

9. As to the want of due notice, it is sufficient to say that the Company had clear notice a year ago that Government deliberated moving in the direction of reducing the distillery price and if the Company required a distinct assurance to the contrary then that should have been asked for. The Company's letter of 23rd April 1893, read with the Board's Proceedings, Mis. No. 1690, of 30th idem, does not, in the Board's opinion, give them room to complain of want of notice or of a change in Government policy. The Company knew what remedy lay in the hands of Government and apparently counted on Government's supineness while it pursued its policy of extermination of competitors. The differential rate is injurious to the Company only from the fact that it will prevent that policy; it cannot otherwise affect their legitimate profits on spirit as it will not in any degree alter or affect their methods of distillation from sugar refuse.

(True Extract.)

(Signed) EDMUND MILLETT,
Assistant Secretary.

To the Secretary to Government, Revenue Department,
with one enclosure.

Read—petition from Messrs. PARRY & CO., dated 15th February 1899.

Order—No. 1796 (Confdl. No. 62), Revenue, dated 17th May 1899.

Miscellaneous.

The Government concurs with the Board in its remarks in the first of the papers read above. Messrs. Parry & Co. should accordingly be informed that the Government sees no reason to reconsider the orders sanctioning a reduction of the maximum price of palmyra-jaggery arrack and molasses arrack issued from distilleries. With regard to the reference in the concluding paragraph of their letter to the Board, dated 7th February 1899, to "the stability of long-established Revenue Regulations," the attention of Messrs. Parry & Co. should be drawn to rule 65 of the Distillery and Warehouse Rules which provides that "the Commissioner may, subject to the orders of Government, fix *from time to time* the maximum prices to be charged by distillers for spirits issued from a distillery." It should also be pointed out to them that they act under a license granted annually the terms of which alone can be held to bind them and Government.

2. Adverting to the remarks in paragraph 3 of the Board's Proceedings, the Government presumes that the lower appropriate maximum rate will be enforced only if a substantial portion of the mixture be made from the lower classes of materials.

3. The Government desires that the Board of Revenue should investigate further the suggestion made by Messrs. Parry & Co. that combination among shopkeepers is partly the cause of the rise in the retail price to the consumer.

4. Messrs. Parry & Co. will be referred to the Board of Revenue for orders on their petition.

(True Extract.)

(Signed) G. S. FORBES,
Secretary to Government.

To the Board of Revenue (Separate Revenue),
with petition, to be returned.
„ Messrs. Parry & Co. (paragraph 4 only).

Exd. W. D'Moss.

20 Copies.

CONFIDENTIAL.

Revenue Department.

NOTES CONNECTED WITH G.O., No. 1796, REVENUE, DATED 17th MAY 1899.

Reduction of maximum prices of liquor at distilleries.

Board's Proceedings (Separate Revenue), Mis. No. 791, dated 25th February 1899.
Letter from Messrs. Parry & Co., dated 28th February 1899.

To Secretary.

In G.O., No. 95, dated 6th February 1899, the Government authorized the Board of Revenue to reduce the maximum price to be charged by distillers for molasses arrack from 10½ annas to 8½ annas a gallon of 30° U.P., and a notification* was accordingly published by it on 7th February 1899 under the power conferred by rule 65 of the Distillery Rules.

* G.O., No. 617, dated 10th February 1899.

In the above Proceedings the Board forwards with its remarks a protest from Messrs. Parry & Co. against the reduction, while the letter is a similar protest addressed direct to Government.

2. In paragraph 2 of its first letter, the firm admits that a proposal to supply country spirits at 8½ annas a gallon was made by Mr. Shaw, but that it was coupled with a stipulation to be given the monopoly of supply for a term of years in certain districts. The firm expected that under such an arrangement it could reduce its staff in Madras and up-country and thereby cheapen its working. It therefore protests against the forcing of that rate upon it without the counterbalancing advantage. The Board remarks that it did not ignore Mr. Shaw's offer, but that it attached less value to it than the firm seems to infer. The proposal of the latter was prompted by a desire to kill competition and could not therefore be accepted.

But if they volunteered an 8½-anna rate for a term of years, it was naturally a rate which would well protect them from the vicissitudes of the sugar market during the period. The fluctuations might have been very large, and yet an 8½-anna rate was deemed by the firm to cover them sufficiently.

G.S.F.

Yes, believed to be.

A. T. A[rundel].

3. The firm's second objection is that as liquor is not made from only one class of material at a time, it would be difficult to work the scheme of differential rates. The Board does not anticipate any difficulty on the subject. The East India Distilleries and Sugar Factories Company distills from molasses only, while other distillers use only one class of material at a time. It is possible that to evade the present regulation an admixture of materials may be attempted; but the Board proposes to treat liquor so distilled as made from material of the lowest class used.

If, I suppose, a *substantial* portion of the mixture were of the low class?

G.S.F.

A.T.A.

4. Messrs. Parry & Co.'s third objection is that a difference of 2 annas in the maximum price at the distillery would only be 3¼ per cent. of the price to be paid by the shopkeeper including duty; that as the consumer buys by the dram, the difference in price would scarcely be appreciable; and that consumption cannot be materially affected. The Board is concerned not with the consumer directly, but with the shopkeeper, as against the distiller, and regards a decrease of 2 annas in first cost as a matter of very considerable moment to him.

5. Messrs. Parry & Co.'s fourth objection is that the decrease in consumption of liquor, if any, has been brought about by the enhancement of the tax, or by combination among retailers, and that the effect of the first measure has begun to be felt after the extinction of the "extreme competition" between the Nellikuppam

and Ránipéttai distilleries. These assertions are traversed by the Board in paragraphs 5 and 6 of its Proceedings. The firm states that when the East India Distilleries and Sugar Factories Company is forced out of the spirit business by "unjust legislation," the price of liquor would rise very high. The Board has no fear that the Company will be forced out except by its own mismanagement, for which Government cannot be blamed.

6. In paragraph 7 of their letter Messrs. Parry & Co. claim to have helped the Government in introducing the private distillery supply system, and complain that their services are now forgotten, and that they are thrown over. They refer to a letter addressed by Mr. Shaw, their senior partner, to Sir Henry Stokes on the 20th May 1884, * and to an understanding arrived at with reference thereto to the effect that, subject to the maximum of 10½ annas a gallon, the Government was indifferent as to how much of the Presidency they supplied. They infer presumably that the rate was unalterable. The Board observes that if Government has in the past benefited from the firm's help, the latter has reaped a plentiful return from its operations under Government patronage, and that though there is no desire to curtail its legitimate rate of profit, it cannot expect to dictate terms to Government. The Board is not aware of any correspondence to show that the 10½ annas was ever regarded as unalterable. The papers available in this office are noted in the margin. The demi-official letter referred to by Messrs. Parry & Co. cannot be traced nor the reply to it, if any. The search is being continued.† In a note dated the 5th April 1884 suggesting changes in the administration of the abkári revenue, Sir Henry Stokes stated: "In these districts it is necessary to fix "a *maximum rate* beyond which the distillers shall not charge, and also to pitch the "still-head duty a little higher than Re. 1. I would make it Rs. 1-2-0 for taluk "vendors in those districts, and fix 14 annas per gallon as the *maximum charge* to "taluk vendors." From the previous portion of the note this rate appears to have been intended to apply to *30° U.P.* By G.O., No. 394, dated 18th March 1884, a committee was appointed to consider the changes proposed; but its report (which will be found printed in G.O., No. 570, dated 30th April 1884) is silent on the point. But one of the notifications drafted by the committee stated: "The former [*i.e.*, "persons authorized to establish distil-"leries] will be bound to supply at any "prices agreed upon . . . . subject to maximum prices of one rupee two annas, "one rupee, and nine annas per gallon for spirits of strengths 20° U.P., 30° U.P., and "60° U.P. respectively." These maxima rates were approved. For the Kurnool district during the lease for 1885–86 a maximum rate of twelve annas a gallon of 30° U.P. was prescribed. In submitting proposals for the lease for 1886–87, the Commissioner (Sir Henry Bliss) after observing that the maxima rates then in force were unnecessarily high—twelve annas in Kurnool and one rupee elsewhere—proposed a reduction to ten annas and-a-half. The proposal was approved by the Board [paragraph 10-I (*h*)]. The

Does this mean that the present system enables them to make an excessive profit as a reward?

G.S.F.

* This was 15 years ago.

G.S.F.

This is absurd. The firm acts under a license the terms of which are what binds them and Government.

A.T.A.

Page 10 of Sir Henry Stokes' note, dated 5th April 1884, in G.O., No. 394, dated 18th March 1884.

Paragraph 16 of the Commissioner's letter on page 3 of G.O., No. 1362, dated 10th December 1885.

† Not traceable—*vide* note of Record office, dated 8th May 1899.

Condition 4 of Notification IV on page 13 of G.O., No. 570, Revenue, dated 30th April 1884.

Paragraph 1 of G.O., *ibid.*

Paragraph 9 of Commissioner's letter on page 2 of G.O., No. 23, Revenue, dated 9th January 1885, and paragraph 3 of G.O.

Condition 11 on page 3 of G.O., No. 124, Revenue, dated 30th January 1885.

Paragraph 16 of his letter on page 3 of G.O., No. 1362, dated 10th December 1885.

Page 28 of G.O., *ibid.*

This could not be done without a formal G.O. which, if ever passed, would be objected to by India as soon they knew of it.

A.T.A.
10-4-99.

foregoing précis, it will be observed, shows that there was no intention to fix unalterable maxima rates, and that the rate of ten annas and-a-half a gallon of 30° U.P. was prescribed in December 1885 and not at the time of Mr. Shaw's letter of 20th May 1884. The Government order is signed by Sir Frederick Price and not by Sir Henry Stokes, who, it is understood, was then on leave. To be on the safe side it is perhaps desirable that Messrs. Parry & Co. may be asked to state definitely what the understanding was to which they refer and to forward a copy of the papers on which they replied. The Government has no objection, it is presumed, to the supply of any district by Messrs. Parry & Co. The real objection is to their enhancement of prices.

No: they do not mean there was any contract or binding agreement: we have no record of any agreement: and they do not produce any which of course they would have done at once if it had been in existence or of any value beyond vague talk.

G.S.F.

I agree. Besides no such private note could invalidate the action of Government.

A.T.A.

7. Lastly, Messrs. Parry & Co. complain that as the utilization of molasses for spirit-making is a material branch of the sugar industry, the imposition of differential rates is a direct attack on the capital invested in that industry. The Board denies the validity of this complaint, as a sugar industry is being instituted in the north (presumably in Gódávari), the persons interested in which are willing to work for lower rates for the spirit produce than those now fixed by Government.

The Government of India are about to give special protection to sugar.

G.S.F.

They have now done so.

A.T.A.

8. Messrs. Parry & Co. state that, on the faith of the stability of long-standing revenue regulations, they have only recently completed the erection of a large expensive new distillery at Nellikuppam and that the East India Distilleries and Sugar Factories Company took over its business, and that a change in the abkári policy of Government cannot equitably be made until after notice proportionate* to the capital sunk in the business. The Board observes that the Company had a year's notice. Messrs. Parry & Co. enquired of the Board, under date the 23rd April 1898, whether the abkári policy "was to receive any important modi-"fication making distilling possibly "less attractive from a trader's point "of view." The Board replied that "no alteration in the Government abkári "policy in its *main* features" was contemplated, but that Government was bound to protect itself against the firm's attempt to obtain a monopoly of supply. Messrs. Parry & Co. appear to consider that the reduction of the maximum rate for molasses arrack as an important change, while the Board appears to think differently. Whether the length of notice was or was not sufficient in the present case depends on how the question is viewed.

Messrs. Parry & Co have always been perfectly well aware of the powers of Government to introduce changes of the maximum rates, and of the risks consequent thereon. At the time they were enlarging or building their distilleries they were themselves offering an 8½-anna rate.

G.S.F.

* This contention of Messrs. Parry & Co. cannot of course be admitted.

A.T.A.

Vide paragraphs 16 and 17 of Board's Proceedings, No. 1690, dated 30th April 1898, on page 8 of G.O., No. 625, dated 27th October 1898.

Page 8 of G.O., *ibid.*

The firm was invited to give its views before the order was passed. The present letter was written after the first reply was received.

A.T.A.

As to the alleged dependence on the stability of revenue regulations, attention is solicited to rule 65 of the Distillery Rules published in the *Fort St. George Gazette*, dated 5th May 1899, Part I: "The Commissioner may, subject

Of course they know this better than we do.
G.S.F.

Draw their attention to this.
A.T.A.

"to the orders of Government, *fix from "time to time* the maximum prices to be "charged by distillers for spirits issued "from a distillery, etc." This distinctly negatives the assumption that the maximum rate once prescribed would be permanent.

9. In their letter, dated 15th February 1899, Messrs. Parry & Co. appeal to Government that the Board, after inducing them upon certain terms to engage on a large scale in the business of distillers, has suddenly, and without due notice, introduced a very serious modification of the terms. They add "our "present feeling is that rather than submit to what we consider a gross "breach of faith we must, even at some pecuniary loss to ourselves, close our "distilleries so far as the manufacture of what is known as country spirit is "concerned," and they call attention to the question of the attraction of capital to India. Whether the firm will carry out the threat, it is impossible to say. If it does, the Government may then consider what course should be adopted. In regard to the charge of breach of faith, it is not clear what terms were offered by the Board. As to want of notice, please see paragraph 8 above.

Not an idea of it.
G.S.F.
A.T.A.

V.K.R.
20–3–99.

To the Honourable Member.
To His Excellency the Governor.

I have noted on the margin.

G. S. FORBES.
21–3–99.

Briefly put: Messrs. Parry & Co. want to get a monopoly of supply for the presidency or as much of it as possible by underselling other distilleries and so forcing their owners to give up the business. Government must retain power to prevent this and the distillery rules under which Messrs. Parry & Co. hold their license give Government the necessary means.

A. T. A[RUNDEL].
10–4–99.

I must accept the Honourable Member's conclusion, that we must stick to the previous order, though I think our having thus to reduce the maximum price is unfortunate. Perhaps it would be worth while to enquire further into the suggestion made by the Company that the combination of shopkeepers is partly the cause of the rise in price.

A. E. H[AVELOCK].
4–5–99.

To Secretary.

Please see draft below.

A.K.
8–5–99.

To the Honourable Member.

G.S.F.
11–5–99.

A.T.A.
15–5–99.

Issue.

G.S.F.
19–5–99.

Government {1899} of Madras.

REVENUE.

CONFIDENTIAL.

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Regd. *Spare copies*

G.O., No. 1796 (Confdl. No. 62), 17th May 1899.

MAY.

Passing orders on Messrs. Parry & Co.'s petition protesting against the alteration in the maximum price for liquor issued from distilleries.

CONFIDENTIAL.

GOVERNMENT OF MADRAS.

REVENUE DEPARTMENT.

Read—the following Proceedings of the Board of Revenue (Separate Revenue), Mis. No. 791, dated 25th February 1899 :—

Read—the following letter from Messrs. PARRY & CO., Managing Agents, The East India Distilleries and Sugar Factories (Limited), to the Secretary to the Board of Revenue (Separate Revenue), dated Madras, 7th February 1899 :—

In continuation of our letter of 30th ultimo and in response to the Board's request in their letter of that date, we have now the honour to make the following further observations on the proposals then indicated, which we note are to establish differential prices against us as follows :—

(1) to reduce the maximum sale price of molasses spirit ex-distillery from $10\frac{1}{2}$ to $8\frac{1}{2}$ annas per gallon, or say by over 20 per cent. ;
(2) to reduce the price of palmyra jaggery liquor by an amount not stated ;
(3) to leave cane jaggery spirit price as at present.

2. The above proposal has fairly astounded us and in case it may have arisen in connection with a recent demi-official offer made by our Mr. W. Shaw to Mr. Thomson we would first clear that up. Mr. Shaw's offer stipulated not only for a contract for a term of years but also for terms which would have enabled us to largely reduce our staff both up-country and in Madras and so generally cheapen and simplify our working.

These advantages, with the desire to show Government that we did not propose to force prices to any excessive level, led us to offer to supply at $8\frac{1}{2}$ annas, but we must strongly protest against that rate being forced upon us as a maximum price without the counterbalancing advantages referred to.

3. Next we have to remark that the scheme would probably be found difficult to work if eventually attempted, because liquor is not made only from one class of material at a time but, in a greater or less degree for fermentation purposes, there is a mixture of materials in the vats, so that without hampering the business and deranging the ordinary course of work it would be impossible to say exactly what liquor is made from each individual class of material.

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6. Government appear to us to be acting in blind fear of the small rise in price necessary for us—manufacturers—to earn a fair profit on our capital and skill employed, while it overlooks or ignores the real hindrance to consumption which results when shopkeepers join together to raise retail prices to the consumers.

Cases in point are Madras and Kistna districts, in both of which wholesale prices are relatively low, while in both, owing to combination among shopkeepers, consumption has fallen off.

When asked to assign reason for such decreased consumption, shopkeepers are no doubt glad to put forward the reasons apparently accepted by the Board, but such will not bear investigation.

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8. In conclusion, we have the honour to submit that this scheme of differential rates, if carried out, will amount to a direct attack upon all capital invested in the sugar industry of this Presidency, of which industry the utilisation of molasses for spirit-making is, of course, a material branch. The reduction of price proposed would involve peculiar hardship to the shareholders who have so recently acquired an interest in this Company, and the injustice becomes the more apparent when it is remembered that only this year we have completed the erection of a large expensive new distillery at the express instigation of the late Abkári Commissioner, now Senior Member of Council. Had any indication been given us that a radical change of system was intended, such as this differentiation of rates against molasses spirit, we could not have thought of meeting Mr. Arundel's wishes and sunk the capital involved in the new distillery at Nellikuppam, nor could this Company have taken over its business on the terms it did. We can scarcely credit that on consideration Government will definitely decide upon practically confiscating in this way capital invested on the faith of the stability of long established revenue regulations, no change in which can equitably be made save after notice proportionate to the capital sunk in the business concerned.

Resolution—Mis. No. 791, dated 25th February 1899.

Messrs. Parry & Co.'s letter will be forwarded to Government with the following remarks.

2. *Paragraph 2.*—The Board was fully aware that Mr. Shaw's offer to contract for a term of years at $8\frac{1}{2}$ annas would, if accepted, improve even the present position of the Company by making that a fixed price for all-comers within the area contracted for and enable it to effect savings in various ways accordingly. The only advantage it promised for Government was that shopkeepers would be certain of the price they would have to pay, but the reduction therein under the maximum which the last rule allowed would be of small advantage to those at any distance from the only distillery—Nellikuppam—which the Company would have continued to maintain within the tract. Under competition it may be doubtful if the Company could force prices beyond $8\frac{1}{2}$ annas: its endeavour for some years now has been to kill competition; and the Board's proposal, while it did not ignore the fact of Mr. Shaw's offer, attached less value thereto than the Company seems to infer.

3. *Paragraph 3.*—The Board does not anticipate any difficulty in determining from what material liquor has been made. The Company distils only from molasses, minor distillers generally from only one class of material at a time, and the latter are not likely to find any objection to the differential rates. The uniformity of the distillery price for liquor without reference to material placed these latter at an enormous disadvantage in the competition. Admixture of materials, if tried at all (except to meet very temporary emergencies), can be so for no purpose, but the evasion of the present regulation and the Board would meet it by treating the resultant spirit as though made from material of the lowest class used.

4. *Paragraph 4.*—The effect on consumption of the difference of 2 annas per gallon may not be very appreciable when applied to the dram. But the Board is, for the present, most concerned regarding the competing distiller and the shopkeeper —the final agent in distribution—and from the point of view of the latter the decrease in first cost is a matter of very considerable moment.

5. *Paragraph 5.*—There is no reason for believing that the rise in duty since 1894 is making itself felt on consumption; the Board's administration reports negative such an opinion: but there is every reason to believe that the rise of price consequent on the want of competition in supply will intensify any such tendency if it exists, and the absence of competition is a current explanation of the fact of decrease in consumption. Reduction of consumption can be countervailed in its effect on the revenue by enhanced duty; but with a high maximum price up to which a distiller might work the danger lay in the anticipation of shopkeepers that prices would eventually be enhanced by this Company to the extreme limit the previous notification allowed, and the difference was the profit of the Company. The declared intention was to get rid of all competitors, and with that the maximum distillery price would certainly have been given effect to as far at least as was consistent with an output which would have satisfied the Company's view of its own possible profits. It is difficult to see how it can be forced out of the spirit business except by its own mismanagement: the present rate of $8\frac{1}{2}$ annas most distinctly cannot bring that about unless the business has been so reconstructed as to permit of it. If that is the case the Company and not Government is to blame.

6. *Paragraph 6.*—The Board is not aware of any hindrance to consumption from combination of shopkeepers to raise their prices to consumers; when the privileges of vend fall into the hands of single persons or syndicates, prices of course can be raised, no maximum price having been imposed; the remedy applicable is obvious if not always easy. Shopkeepers in any case must have a certain turn-over and make an income for themselves and when and if the country is adequately supplied with shops it cannot but follow that prices therein will be fixed in the main so as to yield the ordinary rate of profit.

7. *Paragraph 7.*—There is no information before the Board that leads it to believe that the $10\frac{1}{2}$ annas maximum rate was ever regarded as unalterable. Reference is requested to Mr. Stokes' note of 5th April 1884, the Commissioner's letter in Board's Proceedings, No. 3227, of 25th November 1885, and Board's Proceedings, No. 2095, of 17th September 1886, from which it would appear that the point was treated tentatively and the danger of monopoly always kept in view. Sir Henry Bliss in 1898 certainly entertained no idea of fixity of price, but on the contrary regarded Government's present action as the first course open to it. No such ground was hitherto taken by the firm so far as the Board is aware; on the contrary the point was not even referred to when the firm was consulted a year ago and more recently as to a reduction. If Government has benefited by the firm in the past the firm may well admit that it has reaped a plentiful return from its operations under Government patronage. There is no desire to curtail its legitimate rate of profit, but the Company is not content therewith and would evidently desire to dictate its own terms to Government.

8. *Paragraph 8.*—The Board distinctly joins issue with the statement that this scheme of differential rates is a direct attack on all capital invested in the sugar industry. On the contrary Government is aware of how a sugar industry is being instituted in the north which is willing to work at even lower rates for its spirit produce than Government has now directed. That the new rule will limit profits to the East India Distilleries and Sugar Factories (Limited) is no doubt true, but the Government of Madras was not consulted in the creation of that Company, and if it proceeded without due caution and overcapitalized itself the error cannot be laid at the doors of Government. The Board observes moreover from the Company's prospectus that the rate of profit on spirit on which the calculations therein are based is 2 annas a gallon. That probably was, and, if it was not, ought to have been, arrived at on past working and ought to be obtainable under the price now fixed. The prospectus further shows that Messrs. Parry & Co., before the amalgamation, were reaping enormous profits at a time when, on their own showing, their price averaged well under 7 annas, but how much of these profits was due to spirits and how much to sugar is of course unknown. The Board assumes that Government has not committed itself to the permanency of the former distillery rate; the Company makes no assertion that it has; but its complaint is virtually that it has been deceived by Government and is not the victim of its own financial shrewdness or incapacity. The Board has no reason to think that Government ever contemplated a time when the firm would assume the control of a large portion of the abkári administration by constituting itself the sole purveyor of spirit to the Presidency, but its recent action might fairly be ascribed to such a misconception.

9. As to the want of due notice, it is sufficient to say that the Company had clear notice a year ago that Government deliberated moving in the direction of reducing the distillery price and if the Company required a distinct assurance to the contrary then that should have been asked for. The Company's letter of 23rd April 189[illegible], read with the Board's Proceedings, Mis. No. 1690, of 30th idem, does not, in the Board's opinion, give them room to complain of want of notice or of a change in Government policy. The Company knew what remedy lay in the hands of Government and apparently counted on Government's supineness while it pursued its policy of extermination of competitors. The differential rate is injurious to the Company only from the fact that it will prevent that policy; it cannot otherwise affect their legitimate profits on spirit as it will not in any degree alter or affect their methods of distillation from sugar refuse.

(True Extract.)

(Signed) EDMUND MILLETT,
Assistant Secretary.

To the Secretary to Government, Revenue Department,
with one enclosure.

Read—petition from Messrs. PARRY & CO., dated 15th February 1899.

Order—No. 1796 (Confdl. No. 62), Revenue, dated 17th May 1899.

Miscellaneous.

The Government concurs with the Board in its remarks in the first of the papers read above. Messrs. Parry & Co. should accordingly be informed that the Government sees no reason to reconsider the orders sanctioning a reduction of the maximum price of palmyra-jaggery arrack and molasses arrack issued from distilleries. With regard to the reference in the concluding paragraph of their letter to the Board, dated 7th February 1899, to "the stability of long-established Revenue Regulations," the attention of Messrs. Parry & Co. should be drawn to rule 65 of the Distillery and Warehouse Rules which provides that "the Commissioner may, subject to the orders of Government, fix *from time to time* the maximum prices to be charged by distillers for spirits issued from a distillery." It should also be pointed out to them that they act under a license granted annually the terms of which alone can be held to bind them and Government.

2. Adverting to the remarks in paragraph 3 of the Board's Proceedings, the Government presumes that the lower appropriate maximum rate will be enforced only if a substantial portion of the mixture be made from the lower classes of materials.

3. The Government desires that the Board of Revenue should investigate further the suggestion made by Messrs. Parry & Co. that combination among shopkeepers is partly the cause of the rise in the retail price to the consumer.

4. Messrs. Parry & Co. will be referred to the Board of Revenue for orders on their petition.

(True Extract.)

(Signed) G. S. FORBES,
Secretary to Government.

To the Board of Revenue (Separate Revenue),
with petition, to be returned.
„ Messrs. Parry & Co. (paragraph 4 only).

Exd. W. D'Moss.

20 Copies.

Government {1899} of Madras.

REVENUE.

CONFIDENTIAL.

(FOR OFFICE USE ONLY.)

Recd. } *1899.* *Enclosures*

Regd. *Spare copies*

G.O., No. 1796 (Confdl. No. 62), 17th May 1899.

MAY.

Passing orders on Messrs. Parry & Co.'s petition protesting against the alteration in the maximum price for liquor issued from distilleries.

CONFIDENTIAL.

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(True Extract.)

(Signed) EDMUND MILLETT,
Assistant Secretary.

To the Secretary to Government, Revenue Department,
with one enclosure.

Read—petition from Messrs. PARRY & CO., dated 15th February 1899.

Order—No. 1796 (Confdl. No. 62), Revenue, dated 17th May 1899.

Miscellaneous.

The Government concurs with the Board in its remarks in the first of the papers read above. Messrs. Parry & Co. should accordingly be informed that the Government sees no reason to reconsider the orders sanctioning a reduction of the maximum price of palmyra-jaggery arrack and molasses arrack issued from distilleries. With regard to the reference in the concluding paragraph of their letter to the Board, dated 7th February 1899, to "the stability of long-established Revenue Regulations," the attention of Messrs. Parry & Co. should be drawn to rule 65 of the Distillery and Warehouse Rules which provides that "the Commissioner may, subject to the orders of Government, fix *from time to time* the maximum prices to be charged by distillers for spirits issued from a distillery." It should also be pointed out to them that they act under a license granted annually the terms of which alone can be held to bind them and Government.

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3. The Government desires that the Board of Revenue should investigate further the suggestion made by Messrs. Parry & Co. that combination among shopkeepers is partly the cause of the rise in the retail price to the consumer.

4. Messrs. Parry & Co. will be referred to the Board of Revenue for orders on their petition.

(True Extract.)

(Signed) G. S. FORBES,
Secretary to Government.

To the Board of Revenue (Separate Revenue),
" Messrs. Parry & Co. (paragraph 4 only). with petition, to be returned.

Exd. W. D'Moss.

20 Copies.

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REVENUE.

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G.O., No. 1796 (Confdl. No. 62), 17th May 1899.

MAY.

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CONFIDENTIAL.

GOVERNMENT OF MADRAS.

REVENUE DEPARTMENT.

Read—the following Proceedings of the Board of Revenue (Separate Revenue), Mis. No. 791, dated 25th February 1899 :—

Read—the following letter from Messrs. PARRY & CO., Managing Agents, The East India Distilleries and Sugar Factories (Limited), to the Secretary to the Board of Revenue (Separate Revenue), dated Madras, 7th February 1899 :—

In continuation of our letter of 30th ultimo and in response to the Board's request in their letter of that date, we have now the honour to make the following further observations on the proposals then indicated, which we note are to establish differential prices against us as follows :—

(1) to reduce the maximum sale price of molasses spirit ex-distillery from $10\frac{1}{2}$ to $8\frac{1}{2}$ annas per gallon, or say by over 20 per cent. ;

(2) to reduce the price of palmyra jaggery liquor by an amount not stated ;

(3) to leave cane jaggery spirit price as at present.

2. The above proposal has fairly astounded us and in case it may have arisen in connection with a recent demi-official offer made by our Mr. W. Shaw to Mr. Thomson we would first clear that up. Mr. Shaw's offer stipulated not only for a contract for a term of years but also for terms which would have enabled us to largely reduce our staff both up-country and in Madras and so generally cheapen and simplify our working.

These advantages, with the desire to show Government that we did not propose to force prices to any excessive level, led us to offer to supply at $8\frac{1}{2}$ annas, but we must strongly protest against that rate being forced upon us as a maximum price without the counterbalancing advantages referred to.

3. Next we have to remark that the scheme would probably be found difficult to work if eventually attempted, because liquor is not made only from one class of material at a time but, in a greater or less degree for fermentation purposes, there is a mixture of materials in the vats, so that without hampering the business and deranging the ordinary course of work it would be impossible to say exactly what liquor is made from each individual class of material.

4. With regard to the opening paragraph of the letter under reply, it appears to us that the Board allow excessive weight to the effect on consumption of the, say, 2 annas per gallon difference of rates under reference. It has to be remembered that on a 10 annas basis for spirit ex-duty the shopkeeper will generally have to pay, say,—

	Rs.	A.	P.
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2 annas on that equals only, say, $3\frac{1}{4}$ per cent.—a difference not sufficient to have any marked effect on consumption, especially seeing that the actual consumer buys by the dram when the difference in price is scarcely appreciable.

5. We have not before us the figures on which the Board goes when stating that the consumption of the country arrack is diminishing, so we cannot well discuss that point as we should like to, but meanwhile we may mention that since 1894 the rate of duty has been raised 7 annas per gallon and upwards, practically all over the Presidency.

During 1895, 1896 and 1897 this rise in duty may not have been felt since : during that period, owing to extreme competition between the Nellikuppam and Ránipéttai distilleries, sale rates were cut down, eventually to below cost of production. From 1898, this competition having ceased, the rise in duty referred to is perhaps making itself felt on consumption, but there is no ground for asserting that hitherto we have forced prices to an unduly high pitch and certainly, so far, they are not so high as they will at once rule if by unjust legislation we are forced out of the spirit business.

6. Government appear to us to be acting in blind fear of the small rise in price necessary for us—manufacturers—to earn a fair profit on our capital and skill employed, while it overlooks or ignores the real hindrance to consumption which results when shopkeepers join together to raise retail prices to the consumers.

Cases in point are Madras and Kistna districts, in both of which wholesale prices are relatively low, while in both, owing to combination among shopkeepers, consumption has fallen off.

When asked to assign reason for such decreased consumption, shopkeepers are no doubt glad to put forward the reasons apparently accepted by the Board, but such will not bear investigation.

7. We would wish to remind Government that the existing abkári free-supply system, which has been worked with such financial success to Government for the last fifteen years, was orginally inaugurated only after much consultation of our then senior partner Mr. J. C. Shaw by Mr. (now Sir Henry) Stokes, and Mr. Shaw then wrote to Mr. Stokes as follows, under date 20th May 1884 :—

"As I said to you when here we will undertake to support you in carrying this through provided we are satisfied that there will be no throwing us over on the plea that we should be securing too many districts." It was then, we believe, that the $10\frac{1}{2}$ maximum rate ex-distillery for spirit was settled on and Mr. Shaw's fear, as expressed above, was met by the understanding that, subject to the said maximum, Government was indifferent as to how much of the Presidency we might supply. Our firm then gave all the assistance in its power and insured the successful start of the then new order of things. But now it would appear that our services then rendered are forgotten and Government by its differentiation of prices against us is wishing to throw us over exactly as Mr. Shaw foresaw might be the case.

8. In conclusion, we have the honour to submit that this scheme of differential rates, if carried out, will amount to a direct attack upon all capital invested in the sugar industry of this Presidency, of which industry the utilisation of molasses for spirit-making is, of course, a material branch. The reduction of price proposed would involve peculiar hardship to the shareholders who have so recently acquired an interest in this Company, and the injustice becomes the more apparent when it is remembered that only this year we have completed the erection of a large expensive new distillery at the express instigation of the late Abkári Commissioner, now Senior Member of Council. Had any indication been given us that a radical change of system was intended, such as this differentiation of rates against molasses spirit, we could not have thought of meeting Mr. Arundel's wishes and sunk the capital involved in the new distillery at Nellikuppam, nor could this Company have taken over its business on the terms it did. We can scarcely credit that on consideration Government will definitely decide upon practically confiscating in this way capital invested on the faith of the stability of long established revenue regulations, no change in which can equitably be made save after notice proportionate to the capital sunk in the business concerned.

Resolution—Mis. No. 791, dated 25th February 1899.

Messrs. Parry & Co.'s letter will be forwarded to Government with the following remarks.

2. *Paragraph 2.*—The Board was fully aware that Mr. Shaw's offer to contract for a term of years at $8\frac{1}{2}$ annas would, if accepted, improve even the present position of the Company by making that a fixed price for all-comers within the area contracted for and enable it to effect savings in various ways accordingly. The only advantage it promised for Government was that shopkeepers would be certain of the price they would have to pay, but the reduction therein under the maximum which the last rule allowed would be of small advantage to those at any distance from the only distillery—Nellikuppam—which the Company would have continued to maintain within the tract. Under competition it may be doubtful if the Company could force prices beyond $8\frac{1}{2}$ annas: its endeavour for some years now has been to kill competition; and the Board's proposal, while it did not ignore the fact of Mr. Shaw's offer, attached less value thereto than the Company seems to infer.

3. *Paragraph 3.*—The Board does not anticipate any difficulty in determining from what material liquor has been made. The Company distils only from molasses, minor distillers generally from only one class of material at a time, and the latter are not likely to find any objection to the differential rates. The uniformity of the distillery price for liquor without reference to material placed these latter at an enormous disadvantage in the competition. Admixture of materials, if tried at all (except to meet very temporary emergencies), can be so for no purpose, but the evasion of the present regulation and the Board would meet it by treating the resultant spirit as though made from material of the lowest class used.

4. *Paragraph 4.*—The effect on consumption of the difference of 2 annas per gallon may not be very appreciable when applied to the dram. But the Board is, for the present, most concerned regarding the competing distiller and the shopkeeper —the final agent in distribution—and from the point of view of the latter the decrease in first cost is a matter of very considerable moment.

5. *Paragraph 5.*—There is no reason for believing that the rise in duty since 1894 is making itself felt on consumption; the Board's administration reports negative such an opinion: but there is every reason to believe that the rise of price consequent on the want of competition in supply will intensify any such tendency if it exists, and the absence of competition is a current explanation of the fact of decrease in consumption. Reduction of consumption can be countervailed in its effect on the revenue by enhanced duty; but with a high maximum price up to which a distiller might work the danger lay in the anticipation of shopkeepers that prices would eventually be enhanced by this Company to the extreme limit the previous notification allowed, and the difference was the profit of the Company. The declared intention was to get rid of all competitors, and with that the maximum distillery price would certainly have been given effect to as far at least as was consistent with an output which would have satisfied the Company's view of its own possible profits. It is difficult to see how it can be forced out of the spirit business except by its own mismanagement: the present rate of $8\frac{1}{2}$ annas most distinctly cannot bring that about unless the business has been so reconstructed as to permit of it. If that is the case the Company and not Government is to blame.

6. *Paragraph 6.*—The Board is not aware of any hindrance to consumption from combination of shopkeepers to raise their prices to consumers; when the privileges of vend fall into the hands of single persons or syndicates, prices of course can be raised, no maximum price having been imposed; the remedy applicable is obvious if not always easy. Shopkeepers in any case must have a certain turn-over and make an income for themselves and when and if the country is adequately supplied with shops it cannot but follow that prices therein will be fixed in the main so as to yield the ordinary rate of profit.

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8. *Paragraph 8.*—The Board distinctly joins issue with the statement that this scheme of differential rates is a direct attack on all capital invested in the sugar industry. On the contrary Government is aware of how a sugar industry is being instituted in the north which is willing to work at even lower rates for its spirit produce than Government has now directed. That the new rule will limit profits to the East India Distilleries and Sugar Factories (Limited) is no doubt true, but the Government of Madras was not consulted in the creation of that Company, and if it proceeded without due caution and overcapitalized itself the error cannot be laid at the doors of Government. The Board observes moreover from the Company's prospectus that the rate of profit on spirit on which the calculations therein are based is 2 annas a gallon. That probably was, and, if it was not, ought to have been, arrived at on past working and ought to be obtainable under the price now fixed. The prospectus further shows that Messrs. Parry & Co., before the amalgamation, were reaping enormous profits at a time when, on their own showing, their price averaged well under 7 annas, but how much of these profits was due to spirits and how much to sugar is of course unknown. The Board assumes that Government has not committed itself to the permanency of the former distillery rate; the Company makes no assertion that it has; but its complaint is virtually that it has been deceived by Government and is not the victim of its own financial shrewdness or incapacity. The Board has no reason to think that Government ever contemplated a time when the firm would assume the control of a large portion of the abkári administration by constituting itself the sole purveyor of spirit to the Presidency, but its recent action might fairly be ascribed to such a misconception.

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(True Extract.)

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Assistant Secretary.

To the Secretary to Government, Revenue Department,
with one enclosure.

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3. *Paragraph 3.*—The Board does not anticipate any difficulty in determining from what material liquor has been made. The Company distils only from molasses, minor distillers generally from only one class of material at a time, and the latter are not likely to find any objection to the differential rates. The uniformity of the distillery price for liquor without reference to material placed these latter at an enormous disadvantage in the competition. Admixture of materials, if tried at all (except to meet very temporary emergencies), can be so for no purpose, but the evasion of the present regulation and the Board would meet it by treating the resultant spirit as though made from material of the lowest class used.

4. *Paragraph 4.*—The effect on consumption of the difference of 2 annas per gallon may not be very appreciable when applied to the dram. But the Board is, for the present, most concerned regarding the competing distiller and the shopkeeper —the final agent in distribution—and from the point of view of the latter the decrease in first cost is a matter of very considerable moment.

5. *Paragraph 5.*—There is no reason for believing that the rise in duty since 1894 is making itself felt on consumption; the Board's administration reports negative such an opinion: but there is every reason to believe that the rise of price consequent on the want of competition in supply will intensify any such tendency if it exists, and the absence of competition is a current explanation of the fact of decrease in consumption. Reduction of consumption can be countervailed in its effect on the revenue by enhanced duty; but with a high maximum price up to which a distiller might work the danger lay in the anticipation of shopkeepers that prices would eventually be enhanced by this Company to the extreme limit the previous notification allowed, and the difference was the profit of the Company. The declared intention was to get rid of all competitors, and with that the maximum distillery price would certainly have been given effect to as far at least as was consistent with an output which would have satisfied the Company's view of its own possible profits. It is difficult to see how it can be forced out of the spirit business except by its own mismanagement: the present rate of $8\frac{1}{2}$ annas most distinctly cannot bring that about unless the business has been so reconstructed as to permit of it. If that is the case the Company and not Government is to blame.

6. *Paragraph 6.*—The Board is not aware of any hindrance to consumption from combination of shopkeepers to raise their prices to consumers; when the privileges of vend fall into the hands of single persons or syndicates, prices of course can be raised, no maximum price having been imposed; the remedy applicable is obvious if not always easy. Shopkeepers in any case must have a certain turn-over and make an income for themselves and when and if the country is adequately supplied with shops it cannot but follow that prices therein will be fixed in the main so as to yield the ordinary rate of profit.

7. *Paragraph 7.*—There is no information before the Board that leads it to believe that the $10\frac{1}{2}$ annas maximum rate was ever regarded as unalterable. Reference is requested to Mr. Stokes' note of 5th April 1884, the Commissioner's letter in Board's Proceedings, No. 3227, of 25th November 1885, and Board's Proceedings, No. 2095, of 17th September 1886, from which it would appear that the point was treated tentatively and the danger of monopoly always kept in view. Sir Henry Bliss in 1898 certainly entertained no idea of fixity of price, but on the contrary regarded Government's present action as the first course open to it. No such ground was hitherto taken by the firm so far as the Board is aware; on the contrary the point was not even referred to when the firm was consulted a year ago and more recently as to a reduction. If Government has benefited by the firm in the past the firm may well admit that it has reaped a plentiful return from its operations under Government patronage. There is no desire to curtail its legitimate rate of profit, but the Company is not content therewith and would evidently desire to dictate its own terms to Government.

8. *Paragraph 8.*—The Board distinctly joins issue with the statement that this scheme of differential rates is a direct attack on all capital invested in the sugar industry. On the contrary Government is aware of how a sugar industry is being instituted in the north which is willing to work at even lower rates for its spirit produce than Government has now directed. That the new rule will limit profits to the East India Distilleries and Sugar Factories (Limited) is no doubt true, but the Government of Madras was not consulted in the creation of that Company, and if it proceeded without due caution and overcapitalized itself the error cannot be laid at the doors of Government. The Board observes moreover from the Company's prospectus that the rate of profit on spirit on which the calculations therein are based is 2 annas a gallon. That probably was, and, if it was not, ought to have been, arrived at on past working and ought to be obtainable under the price now fixed. The prospectus further shows that Messrs. Parry & Co., before the amalgamation, were reaping enormous profits at a time when, on their own showing, their price averaged well under 7 annas, but how much of these profits was due to spirits and how much to sugar is of course unknown. The Board assumes that Government has not committed itself to the permanency of the former distillery rate; the Company makes no assertion that it has; but its complaint is virtually that it has been deceived by Government and is not the victim of its own financial shrewdness or incapacity. The Board has no reason to think that Government ever contemplated a time when the firm would assume the control of a large portion of the abkári administration by constituting itself the sole purveyor of spirit to the Presidency, but its recent action might fairly be ascribed to such a misconception.

9. As to the want of due notice, it is sufficient to say that the Company had clear notice a year ago that Government deliberated moving in the direction of reducing the distillery price and if the Company required a distinct assurance to the contrary then that should have been asked for. The Company's letter of 23rd April 1898, read with the Board's Proceedings, Mis. No. 1690, of 30th idem, does not, in the Board's opinion, give them room to complain of want of notice or of a change in Government policy. The Company knew what remedy lay in the hands of Government and apparently counted on Government's supineness while it pursued its policy of extermination of competitors. The differential rate is injurious to the Company only from the fact that it will prevent that policy; it cannot otherwise affect their legitimate profits on spirit as it will not in any degree alter or affect their methods of distillation from sugar refuse.

(True Extract.)

(Signed) EDMUND MILLETT,
Assistant Secretary.

To the Secretary to Government, Revenue Department,
with one enclosure.

Read—petition from Messrs. PARRY & CO., dated 15th February 1899.

Order—No. 1796 (Confdl. No. 62), Revenue, dated 17th May 1899.

Miscellaneous.

The Government concurs with the Board in its remarks in the first of the papers read above. Messrs. Parry & Co. should accordingly be informed that the Government sees no reason to reconsider the orders sanctioning a reduction of the maximum price of palmyra-jaggery arrack and molasses arrack issued from distilleries. With regard to the reference in the concluding paragraph of their letter to the Board, dated 7th February 1899, to "the stability of long-established Revenue Regulations," the attention of Messrs. Parry & Co. should be drawn to rule 65 of the Distillery and Warehouse Rules which provides that "the Commissioner may, subject to the orders of Government, fix *from time to time* the maximum prices to be charged by distillers for spirits issued from a distillery." It should also be pointed out to them that they act under a license granted annually the terms of which alone can be held to bind them and Government.

2. Adverting to the remarks in paragraph 3 of the Board's Proceedings, the Government presumes that the lower appropriate maximum rate will be enforced only if a substantial portion of the mixture be made from the lower classes of materials.

3. The Government desires that the Board of Revenue should investigate further the suggestion made by Messrs. Parry & Co. that combination among shopkeepers is partly the cause of the rise in the retail price to the consumer.

4. Messrs. Parry & Co. will be referred to the Board of Revenue for orders on their petition.

(True Extract.)

(Signed) G. S. FORBES,
Secretary to Government.

To the Board of Revenue (Separate Revenue),
with petition, to be returned.
„ Messrs. Parry & Co. (paragraph 4 only).

Exd. W. D'Moss.

20 Copies.

Government (1899) of Madras.

REVENUE.

CONFIDENTIAL.

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1899.
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G.O., No. 1796 (Confdl. No. 62), 17th May 1899.

MAY.

Passing orders on Messrs. Parry & Co.'s petition protesting against the alteration in the maximum price for liquor issued from distilleries.

CONFIDENTIAL.

GOVERNMENT OF MADRAS.

REVENUE DEPARTMENT.

Read—the following Proceedings of the Board of Revenue (Separate Revenue), Mis. No. 791, dated 25th February 1899 :—

Read—the following letter from Messrs. PARRY & CO., Managing Agents, The East India Distilleries and Sugar Factories (Limited), to the Secretary to the Board of Revenue (Separate Revenue), dated Madras, 7th February 1899 :—

In continuation of our letter of 30th ultimo and in response to the Board's request in their letter of that date, we have now the honour to make the following further observations on the proposals then indicated, which we note are to establish differential prices against us as follows :—

(1) to reduce the maximum sale price of molasses spirit ex-distillery from $10\frac{1}{2}$ to $8\frac{1}{2}$ annas per gallon, or say by over 20 per cent. ;
(2) to reduce the price of palmyra jaggery liquor by an amount not stated ;
(3) to leave cane jaggery spirit price as at present.

2. The above proposal has fairly astounded us and in case it may have arisen in connection with a recent demi-official offer made by our Mr. W. Shaw to Mr. Thomson we would first clear that up. Mr. Shaw's offer stipulated not only for a contract for a term of years but also for terms which would have enabled us to largely reduce our staff both up-country and in Madras and so generally cheapen and simplify our working.

These advantages, with the desire to show Government that we did not propose to force prices to any excessive level, led us to offer to supply at $8\frac{1}{2}$ annas, but we must strongly protest against that rate being forced upon us as a maximum price without the counterbalancing advantages referred to.

3. Next we have to remark that the scheme would probably be found difficult to work if eventually attempted, because liquor is not made only from one class of material at a time but, in a greater or less degree for fermentation purposes, there is a mixture of materials in the vats, so that without hampering the business and deranging the ordinary course of work it would be impossible to say exactly what liquor is made from each individual class of material.

4. With regard to the opening paragraph of the letter under reply, it appears to us that the Board allow excessive weight to the effect on consumption of the, say, 2 annas per gallon difference of rates under reference. It has to be remembered that on a 10 annas basis for spirit ex-duty the shopkeeper will generally have to pay, say,—

	Rs.	A.	P.
As first cost	0	10	0
As duty	3	1	0
As transport wastage	0	2	0
Total cost ..	3	13	0

2 annas on that equals only, say, $3\frac{1}{4}$ per cent.—a difference not sufficient to have any marked effect on consumption, especially seeing that the actual consumer buys by the dram when the difference in price is scarcely appreciable.

5. We have not before us the figures on which the Board goes when stating that the consumption of the country arrack is diminishing, so we cannot well discuss that point as we should like to, but meanwhile we may mention that since 1894 the rate of duty has been raised 7 annas per gallon and upwards, practically all over the Presidency.

During 1895, 1896 and 1897 this rise in duty may not have been felt since : during that period, owing to extreme competition between the Nellikuppam and Ránipéttai distilleries, sale rates were cut down, eventually to below cost of production. From 1898, this competition having ceased, the rise in duty referred to is perhaps making itself felt on consumption, but there is no ground for asserting that hitherto we have forced prices to an unduly high pitch and certainly, so far, they are not so high as they will at once rule if by unjust legislation we are forced out of the spirit business.

6. Government appear to us to be acting in blind fear of the small rise in price necessary for us—manufacturers—to earn a fair profit on our capital and skill employed, while it overlooks or ignores the real hindrance to consumption which results when shopkeepers join together to raise retail prices to the consumers.

Cases in point are Madras and Kistna districts, in both of which wholesale prices are relatively low, while in both, owing to combination among shopkeepers, consumption has fallen off.

When asked to assign reason for such decreased consumption, shopkeepers are no doubt glad to put forward the reasons apparently accepted by the Board, but such will not bear investigation.

7. We would wish to remind Government that the existing abkári free-supply system, which has been worked with such financial success to Government for the last fifteen years, was orginally inaugurated only after much consultation of our then senior partner Mr. J. C. Shaw by Mr. (now Sir Henry) Stokes, and Mr. Shaw then wrote to Mr. Stokes as follows, under date 20th May 1884 :—

" As I said to you when here we will undertake to support you in carrying this through provided we are satisfied that there will be no throwing us over on the plea that we should be securing too many districts." It was then, we believe, that the $10\frac{1}{2}$ maximum rate ex-distillery for spirit was settled on and Mr. Shaw's fear, as expressed above, was met by the understanding that, subject to the said maximum, Government was indifferent as to how much of the Presidency we might supply. Our firm then gave all the assistance in its power and insured the successful start of the then new order of things. But now it would appear that our services then rendered are forgotten and Government by its differentiation of prices against us is wishing to throw us over exactly as Mr. Shaw foresaw might be the case.

8. In conclusion, we have the honour to submit that this scheme of differential rates, if carried out, will amount to a direct attack upon all capital invested in the sugar industry of this Presidency, of which industry the utilisation of molasses for spirit-making is, of course, a material branch. The reduction of price proposed would involve peculiar hardship to the shareholders who have so recently acquired an interest in this Company, and the injustice becomes the more apparent when it is remembered that only this year we have completed the erection of a large expensive new distillery at the express instigation of the late Abkári Commissioner, now Senior Member of Council. Had any indication been given us that a radical change of system was intended, such as this differentiation of rates against molasses spirit, we could not have thought of meeting Mr. Arundel's wishes and sunk the capital involved in the new distillery at Nellikuppam, nor could this Company have taken over its business on the terms it did. We can scarcely credit that on consideration Government will definitely decide upon practically confiscating in this way capital invested on the faith of the stability of long established revenue regulations, no change in which can equitably be made save after notice proportionate to the capital sunk in the business concerned.

Resolution—Mis. No. 791, dated 25th February 1899.

Messrs. Parry & Co.'s letter will be forwarded to Government with the following remarks.

2. *Paragraph 2.*—The Board was fully aware that Mr. Shaw's offer to contract for a term of years at $8\frac{1}{2}$ annas would, if accepted, improve even the present position of the Company by making that a fixed price for all-comers within the area contracted for and enable it to effect savings in various ways accordingly. The only advantage it promised for Government was that shopkeepers would be certain of the price they would have to pay, but the reduction therein under the maximum which the last rule allowed would be of small advantage to those at any distance from the only distillery—Nellikuppam—which the Company would have continued to maintain within the tract. Under competition it may be doubtful if the Company could force prices beyond $8\frac{1}{2}$ annas: its endeavour for some years now has been to kill competition; and the Board's proposal, while it did not ignore the fact of Mr. Shaw's offer, attached less value thereto than the Company seems to infer.

3. *Paragraph 3.*—The Board does not anticipate any difficulty in determining from what material liquor has been made. The Company distils only from molasses, minor distillers generally from only one class of material at a time, and the latter are not likely to find any objection to the differential rates. The uniformity of the distillery price for liquor without reference to material placed these latter at an enormous disadvantage in the competition. Admixture of materials, if tried at all (except to meet very temporary emergencies), can be so for no purpose, but the evasion of the present regulation and the Board would meet it by treating the resultant spirit as though made from material of the lowest class used.

4. *Paragraph 4.*—The effect on consumption of the difference of 2 annas per gallon may not be very appreciable when applied to the dram. But the Board is, for the present, most concerned regarding the competing distiller and the shopkeeper —the final agent in distribution—and from the point of view of the latter the decrease in first cost is a matter of very considerable moment.

5. *Paragraph 5.*—There is no reason for believing that the rise in duty since 1894 is making itself felt on consumption; the Board's administration reports negative such an opinion: but there is every reason to believe that the rise of price consequent on the want of competition in supply will intensify any such tendency if it exists, and the absence of competition is a current explanation of the fact of decrease in consumption. Reduction of consumption can be countervailed in its effect on the revenue by enhanced duty; but with a high maximum price up to which a distiller might work the danger lay in the anticipation of shopkeepers that prices would eventually be enhanced by this Company to the extreme limit the previous notification allowed, and the difference was the profit of the Company. The declared intention was to get rid of all competitors, and with that the maximum distillery price would certainly have been given effect to as far at least as was consistent with an output which would have satisfied the Company's view of its own possible profits. It is difficult to see how it can be forced out of the spirit business except by its own mismanagement: the present rate of $8\frac{1}{2}$ annas most distinctly cannot bring that about unless the business has been so reconstructed as to permit of it. If that is the case the Company and not Government is to blame.

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8. *Paragraph 8.*—The Board distinctly joins issue with the statement that this scheme of differential rates is a direct attack on all capital invested in the sugar industry. On the contrary Government is aware of how a sugar industry is being instituted in the north which is willing to work at even lower rates for its spirit produce than Government has now directed. That the new rule will limit profits to the East India Distilleries and Sugar Factories (Limited) is no doubt true, but the Government of Madras was not consulted in the creation of that Company, and if it proceeded without due caution and overcapitalized itself the error cannot be laid at the doors of Government. The Board observes moreover from the Company's prospectus that the rate of profit on spirit on which the calculations therein are based is 2 annas a gallon. That probably was, and, if it was not, ought to have been, arrived at on past working and ought to be obtainable under the price now fixed. The prospectus further shows that Messrs. Parry & Co., before the amalgamation, were reaping enormous profits at a time when, on their own showing, their price averaged well under 7 annas, but how much of these profits was due to spirits and how much to sugar is of course unknown. The Board assumes that Government has not committed itself to the permanency of the former distillery rate; the Company makes no assertion that it has; but its complaint is virtually that it has been deceived by Government and is not the victim of its own financial shrewdness or incapacity. The Board has no reason to think that Government ever contemplated a time when the firm would assume the control of a large portion of the abkári administration by constituting itself the sole purveyor of spirit to the Presidency, but its recent action might fairly be ascribed to such a misconception.

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(True Extract.)

(Signed) EDMUND MILLETT,
Assistant Secretary.

To the Secretary to Government, Revenue Department,
with one enclosure.

Read—petition from Messrs. PARRY & CO., dated 15th February 1899.

Order—No. 1796 (Confdl. No. 62), Revenue, dated 17th May 1899.

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To the Board of Revenue (Separate Revenue),
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Exd. W. D'Moss.

20 Copies.

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MAY.

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GOVERNMENT OF MADRAS.

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(1) to reduce the maximum sale price of molasses spirit ex-distillery from $10\frac{1}{2}$ to $8\frac{1}{2}$ annas per gallon, or say by over 20 per cent. ;

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2. The above proposal has fairly astounded us and in case it may have arisen in connection with a recent demi-official offer made by our Mr. W. Shaw to Mr. Thomson we would first clear that up. Mr. Shaw's offer stipulated not only for a contract for a term of years but also for terms which would have enabled us to largely reduce our staff both up-country and in Madras and so generally cheapen and simplify our working.

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3. Next we have to remark that the scheme would probably be found difficult to work if eventually attempted, because liquor is not made only from one class of material at a time but, in a greater or less degree for fermentation purposes, there is a mixture of materials in the vats, so that without hampering the business and deranging the ordinary course of work it would be impossible to say exactly what liquor is made from each individual class of material.

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CONFIDENTIAL.

GOVERNMENT OF MADRAS.

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These advantages, with the desire to show Government that we did not propose to force prices to any excessive level, led us to offer to supply at $8\frac{1}{2}$ annas, but we must strongly protest against that rate being forced upon us as a maximum price without the counterbalancing advantages referred to.

3. Next we have to remark that the scheme would probably be found difficult to work if eventually attempted, because liquor is not made only from one class of material at a time but, in a greater or less degree for fermentation purposes, there is a mixture of materials in the vats, so that without hampering the business and deranging the ordinary course of work it would be impossible to say exactly what liquor is made from each individual class of material.

4. With regard to the opening paragraph of the letter under reply, it appears to us that the Board allow excessive weight to the effect on consumption of the, say, 2 annas per gallon difference of rates under reference. It has to be remembered that on a 10 annas basis for spirit ex-duty the shopkeeper will generally have to pay, say,—

	Rs.	A.	P.
As first cost	0	10	0
As duty	3	1	0
As transport wastage	0	2	0
Total cost ..	3	13	0

2 annas on that equals only, say, $3\frac{1}{4}$ per cent.—a difference not sufficient to have any marked effect on consumption, especially seeing that the actual consumer buys by the dram when the difference in price is scarcely appreciable.

5. We have not before us the figures on which the Board goes when stating that the consumption of the country arrack is diminishing, so we cannot well discuss that point as we should like to, but meanwhile we may mention that since 1894 the rate of duty has been raised 7 annas per gallon and upwards, practically all over the Presidency.

During 1895, 1896 and 1897 this rise in duty may not have been felt since: during that period, owing to extreme competition between the Nellikuppam and Ránipéttai distilleries, sale rates were cut down, eventually to below cost of production. From 1898, this competition having ceased, the rise in duty referred to is perhaps making itself felt on consumption, but there is no ground for asserting that hitherto we have forced prices to an unduly high pitch and certainly, so far, they are not so high as they will at once rule if by unjust legislation we are forced out of the spirit business.

6. Government appear to us to be acting in blind fear of the small rise in price necessary for us—manufacturers—to earn a fair profit on our capital and skill employed, while it overlooks or ignores the real hindrance to consumption which results when shopkeepers join together to raise retail prices to the consumers.

Cases in point are Madras and Kistna districts, in both of which wholesale prices are relatively low, while in both, owing to combination among shopkeepers, consumption has fallen off.

When asked to assign reason for such decreased consumption, shopkeepers are no doubt glad to put forward the reasons apparently accepted by the Board, but such will not bear investigation.

7. We would wish to remind Government that the existing abkári free-supply system, which has been worked with such financial success to Government for the last fifteen years, was orginally inaugurated only after much consultation of our then senior partner Mr. J. C. Shaw by Mr. (now Sir Henry) Stokes, and Mr. Shaw then wrote to Mr. Stokes as follows, under date 20th May 1884 :—

"As I said to you when here we will undertake to support you in carrying this through provided we are satisfied that there will be no throwing us over on the plea that we should be securing too many districts." It was then, we believe, that the $10\frac{1}{2}$ maximum rate ex-distillery for spirit was settled on and Mr. Shaw's fear, as expressed above, was met by the understanding that, subject to the said maximum, Government was indifferent as to how much of the Presidency we might supply. Our firm then gave all the assistance in its power and insured the successful start of the then new order of things. But now it would appear that our services then rendered are forgotten and Government by its differentiation of prices against us is wishing to throw us over exactly as Mr. Shaw foresaw might be the case.

8. In conclusion, we have the honour to submit that this scheme of differential rates, if carried out, will amount to a direct attack upon all capital invested in the sugar industry of this Presidency, of which industry the utilisation of molasses for spirit-making is, of course, a material branch. The reduction of price proposed would involve peculiar hardship to the shareholders who have so recently acquired an interest in this Company, and the injustice becomes the more apparent when it is remembered that only this year we have completed the erection of a large expensive new distillery at the express instigation of the late Abkári Commissioner, now Senior Member of Council. Had any indication been given us that a radical change of system was intended, such as this differentiation of rates against molasses spirit, we could not have thought of meeting Mr. Arundel's wishes and sunk the capital involved in the new distillery at Nellikuppam, nor could this Company have taken over its business on the terms it did. We can scarcely credit that on consideration Government will definitely decide upon practically confiscating in this way capital invested on the faith of the stability of long established revenue regulations, no change in which can equitably be made save after notice proportionate to the capital sunk in the business concerned.

Resolution—Mis. No. 791, dated 25th February 1899.

Messrs. Parry & Co.'s letter will be forwarded to Government with the following remarks.

2. *Paragraph 2.*—The Board was fully aware that Mr. Shaw's offer to contract for a term of years at $8\frac{1}{2}$ annas would, if accepted, improve even the present position of the Company by making that a fixed price for all-comers within the area contracted for and enable it to effect savings in various ways accordingly. The only advantage it promised for Government was that shopkeepers would be certain of the price they would have to pay, but the reduction therein under the maximum which the last rule allowed would be of small advantage to those at any distance from the only distillery—Nellikuppam—which the Company would have continued to maintain within the tract. Under competition it may be doubtful if the Company could force prices beyond $8\frac{1}{2}$ annas: its endeavour for some years now has been to kill competition; and the Board's proposal, while it did not ignore the fact of Mr. Shaw's offer, attached less value thereto than the Company seems to infer.

3. *Paragraph 3.*—The Board does not anticipate any difficulty in determining from what material liquor has been made. The Company distils only from molasses, minor distillers generally from only one class of material at a time, and the latter are not likely to find any objection to the differential rates. The uniformity of the distillery price for liquor without reference to material placed these latter at an enormous disadvantage in the competition. Admixture of materials, if tried at all (except to meet very temporary emergencies), can be so for no purpose, but the evasion of the present regulation and the Board would meet it by treating the resultant spirit as though made from material of the lowest class used.

4. *Paragraph 4.*—The effect on consumption of the difference of 2 annas per gallon may not be very appreciable when applied to the dram. But the Board is, for the present, most concerned regarding the competing distiller and the shopkeeper —the final agent in distribution—and from the point of view of the latter the decrease in first cost is a matter of very considerable moment.

5. *Paragraph 5.*—There is no reason for believing that the rise in duty since 1894 is making itself felt on consumption; the Board's administration reports negative such an opinion: but there is every reason to believe that the rise of price consequent on the want of competition in supply will intensify any such tendency if it exists, and the absence of competition is a current explanation of the fact of decrease in consumption. Reduction of consumption can be countervailed in its effect on the revenue by enhanced duty; but with a high maximum price up to which a distiller might work the danger lay in the anticipation of shopkeepers that prices would eventually be enhanced by this Company to the extreme limit the previous notification allowed, and the difference was the profit of the Company. The declared intention was to get rid of all competitors, and with that the maximum distillery price would certainly have been given effect to as far at least as was consistent with an output which would have satisfied the Company's view of its own possible profits. It is difficult to see how it can be forced out of the spirit business except by its own mismanagement: the present rate of $8\frac{1}{2}$ annas most distinctly cannot bring that about unless the business has been so reconstructed as to permit of it. If that is the case the Company and not Government is to blame.

6. *Paragraph 6.*—The Board is not aware of any hindrance to consumption from combination of shopkeepers to raise their prices to consumers; when the privileges of vend fall into the hands of single persons or syndicates, prices of course can be raised, no maximum price having been imposed; the remedy applicable is obvious if not always easy. Shopkeepers in any case must have a certain turn-over and make an income for themselves and when and if the country is adequately supplied with shops it cannot but follow that prices therein will be fixed in the main so as to yield the ordinary rate of profit.

7. *Paragraph 7.*—There is no information before the Board that leads it to believe that the $10\frac{1}{2}$ annas maximum rate was ever regarded as unalterable. Reference is requested to Mr. Stokes' note of 5th April 1884, the Commissioner's letter in Board's Proceedings, No. 3227, of 25th November 1885, and Board's Proceedings, No. 2095, of 17th September 1886, from which it would appear that the point was treated tentatively and the danger of monopoly always kept in view. Sir Henry Bliss in 1898 certainly entertained no idea of fixity of price, but on the contrary regarded Government's present action as the first course open to it. No such ground was hitherto taken by the firm so far as the Board is aware; on the contrary the point was not even referred to when the firm was consulted a year ago and more recently as to a reduction. If Government has benefited by the firm in the past the firm may well admit that it has reaped a plentiful return from its operations under Government patronage. There is no desire to curtail its legitimate rate of profit, but the Company is not content therewith and would evidently desire to dictate its own terms to Government.

8. *Paragraph 8.*—The Board distinctly joins issue with the statement that this scheme of differential rates is a direct attack on all capital invested in the sugar industry. On the contrary Government is aware of how a sugar industry is being instituted in the north which is willing to work at even lower rates for its spirit produce than Government has now directed. That the new rule will limit profits to the East India Distilleries and Sugar Factories (Limited) is no doubt true, but the Government of Madras was not consulted in the creation of that Company, and if it proceeded without due caution and overcapitalized itself the error cannot be laid at the doors of Government. The Board observes moreover from the Company's prospectus that the rate of profit on spirit on which the calculations therein are based is 2 annas a gallon. That probably was, and, if it was not, ought to have been, arrived at on past working and ought to be obtainable under the price now fixed. The prospectus further shows that Messrs. Parry & Co., before the amalgamation, were reaping enormous profits at a time when, on their own showing, their price averaged well under 7 annas, but how much of these profits was due to spirits and how much to sugar is of course unknown. The Board assumes that Government has not committed itself to the permanency of the former distillery rate; the Company makes no assertion that it has; but its complaint is virtually that it has been deceived by Government and is not the victim of its own financial shrewdness or incapacity. The Board has no reason to think that Government ever contemplated a time when the firm would assume the control of a large portion of the abkári administration by constituting itself the sole purveyor of spirit to the Presidency, but its recent action might fairly be ascribed to such a misconception.

9. As to the want of due notice, it is sufficient to say that the Company had clear notice a year ago that Government deliberated moving in the direction of reducing the distillery price and if the Company required a distinct assurance to the contrary then that should have been asked for. The Company's letter of 23rd April 189[illegible], read with the Board's Proceedings, Mis. No. 1690, of 30th idem, does not, in the Board's opinion, give them room to complain of want of notice or of a change in Government policy. The Company knew what remedy lay in the hands of Government and apparently counted on Government's supineness while it pursued its policy of extermination of competitors. The differential rate is injurious to the Company only from the fact that it will prevent that policy; it cannot otherwise affect their legitimate profits on spirit as it will not in any degree alter or affect their methods of distillation from sugar refuse.

(True Extract.)

(Signed) EDMUND MILLETT,
Assistant Secretary.

To the Secretary to Government, Revenue Department,
with one enclosure.

Read—petition from Messrs. PARRY & CO., dated 15th February 1899.

Order—No. 1796 (Confdl. No. 62), Revenue, dated 17th May 1899.

Miscellaneous.

The Government concurs with the Board in its remarks in the first of the papers read above. Messrs. Parry & Co. should accordingly be informed that the Government sees no reason to reconsider the orders sanctioning a reduction of the maximum price of palmyra-jaggery arrack and molasses arrack issued from distilleries. With regard to the reference in the concluding paragraph of their letter to the Board, dated 7th February 1899, to "the stability of long-established Revenue Regulations," the attention of Messrs. Parry & Co. should be drawn to rule 65 of the Distillery and Warehouse Rules which provides that "the Commissioner may, subject to the orders of Government, fix *from time to time* the maximum prices to be charged by distillers for spirits issued from a distillery." It should also be pointed out to them that they act under a license granted annually the terms of which alone can be held to bind them and Government.

2. Adverting to the remarks in paragraph 3 of the Board's Proceedings, the Government presumes that the lower appropriate maximum rate will be enforced only if a substantial portion of the mixture be made from the lower classes of materials.

3. The Government desires that the Board of Revenue should investigate further the suggestion made by Messrs. Parry & Co. that combination among shopkeepers is partly the cause of the rise in the retail price to the consumer.

4. Messrs. Parry & Co. will be referred to the Board of Revenue for orders on their petition.

(True Extract.)

(Signed) G. S. FORBES,
Secretary to Government.

To the Board of Revenue (Separate Revenue),
with petition, to be returned.
„ Messrs. Parry & Co. (paragraph 4 only).

Exd. W. D'Moss.

20 Copies.

Government {1899} of Madras.

REVENUE.

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G.O., No. 1796 (Confdl. No. 62), 17th May 1899.

MAY.

Passing orders on Messrs. Parry & Co.'s petition protesting against the alteration in the maximum price for liquor issued from distilleries.

CONFIDENTIAL.

GOVERNMENT OF MADRAS.

REVENUE DEPARTMENT.

Read—the following Proceedings of the Board of Revenue (Separate Revenue), Mis. No. 791, dated 25th February 1899 :—

Read—the following letter from Messrs. PARRY & CO., Managing Agents, The East India Distilleries and Sugar Factories (Limited), to the Secretary to the Board of Revenue (Separate Revenue), dated Madras, 7th February 1899 :—

In continuation of our letter of 30th ultimo and in response to the Board's request in their letter of that date, we have now the honour to make the following further observations on the proposals then indicated, which we note are to establish differential prices against us as follows :—

(1) to reduce the maximum sale price of molasses spirit ex-distillery from $10\frac{1}{2}$ to $8\frac{1}{2}$ annas per gallon, or say by over 20 per cent. ;
(2) to reduce the price of palmyra jaggery liquor by an amount not stated ;
(3) to leave cane jaggery spirit price as at present.

2. The above proposal has fairly astounded us and in case it may have arisen in connection with a recent demi-official offer made by our Mr. W. Shaw to Mr. Thomson we would first clear that up. Mr. Shaw's offer stipulated not only for a contract for a term of years but also for terms which would have enabled us to largely reduce our staff both up-country and in Madras and so generally cheapen and simplify our working.

These advantages, with the desire to show Government that we did not propose to force prices to any excessive level, led us to offer to supply at $8\frac{1}{2}$ annas, but we must strongly protest against that rate being forced upon us as a maximum price without the counterbalancing advantages referred to.

3. Next we have to remark that the scheme would probably be found difficult to work if eventually attempted, because liquor is not made only from one class of material at a time but, in a greater or less degree for fermentation purposes, there is a mixture of materials in the vats, so that without hampering the business and deranging the ordinary course of work it would be impossible to say exactly what liquor is made from each individual class of material.

4. With regard to the opening paragraph of the letter under reply, it appears to us that the Board allow excessive weight to the effect on consumption of the, say, 2 annas per gallon difference of rates under reference. It has to be remembered that on a 10 annas basis for spirit ex-duty the shopkeeper will generally have to pay, say,—

	Rs.	A.	P.
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2 annas on that equals only, say, $3\frac{1}{4}$ per cent.—a difference not sufficient to have any marked effect on consumption, especially seeing that the actual consumer buys by the dram when the difference in price is scarcely appreciable.

5. We have not before us the figures on which the Board goes when stating that the consumption of the country arrack is diminishing, so we cannot well discuss that point as we should like to, but meanwhile we may mention that since 1894 the rate of duty has been raised 7 annas per gallon and upwards, practically all over the Presidency.

During 1895, 1896 and 1897 this rise in duty may not have been felt since during that period, owing to extreme competition between the Nellikuppam and Ránipéttai distilleries, sale rates were cut down, eventually to below cost of production. From 1898, this competition having ceased, the rise in duty referred to is perhaps making itself felt on consumption, but there is no ground for asserting that hitherto we have forced prices to an unduly high pitch and certainly, so far, they are not so high as they will at once rule if by unjust legislation we are forced out of the spirit business.

6. Government appear to us to be acting in blind fear of the small rise in price necessary for us—manufacturers—to earn a fair profit on our capital and skill employed, while it overlooks or ignores the real hindrance to consumption which results when shopkeepers join together to raise retail prices to the consumers.

Cases in point are Madras and Kistna districts, in both of which wholesale prices are relatively low, while in both, owing to combination among shopkeepers, consumption has fallen off.

When asked to assign reason for such decreased consumption, shopkeepers are no doubt glad to put forward the reasons apparently accepted by the Board, but such will not bear investigation.

7. We would wish to remind Government that the existing abkári free-supply system, which has been worked with such financial success to Government for the last fifteen years, was orginally inaugurated only after much consultation of our then senior partner Mr. J. C. Shaw by Mr. (now Sir Henry) Stokes, and Mr. Shaw then wrote to Mr. Stokes as follows, under date 20th May 1884 :—

"As I said to you when here we will undertake to support you in carrying this through provided we are satisfied that there will be no throwing us over on the plea that we should be securing too many districts." It was then, we believe, that the $10\frac{1}{2}$ maximum rate ex-distillery for spirit was settled on and Mr. Shaw's fear, as expressed above, was met by the understanding that, subject to the said maximum, Government was indifferent as to how much of the Presidency we might supply. Our firm then gave all the assistance in its power and insured the successful start of the then new order of things. But now it would appear that our services then rendered are forgotten and Government by its differentiation of prices against us is wishing to throw us over exactly as Mr. Shaw foresaw might be the case.

8. In conclusion, we have the honour to submit that this scheme of differential rates, if carried out, will amount to a direct attack upon all capital invested in the sugar industry of this Presidency, of which industry the utilisation of molasses for spirit-making is, of course, a material branch. The reduction of price proposed would involve peculiar hardship to the shareholders who have so recently acquired an interest in this Company, and the injustice becomes the more apparent when it is remembered that only this year we have completed the erection of a large expensive new distillery at the express instigation of the late Abkári Commissioner, now Senior Member of Council. Had any indication been given us that a radical change of system was intended, such as this differentiation of rates against molasses spirit, we could not have thought of meeting Mr. Arundel's wishes and sunk the capital involved in the new distillery at Nellikuppam, nor could this Company have taken over its business on the terms it did. We can scarcely credit that on consideration Government will definitely decide upon practically confiscating in this way capital invested on the faith of the stability of long established revenue regulations, no change in which can equitably be made save after notice proportionate to the capital sunk in the business concerned.

Resolution—Mis. No. 791, dated 25th February 1899.

Messrs. Parry & Co.'s letter will be forwarded to Government with the following remarks.

2. *Paragraph 2.*—The Board was fully aware that Mr. Shaw's offer to contract for a term of years at 8½ annas would, if accepted, improve even the present position of the Company by making that a fixed price for all-comers within the area contracted for and enable it to effect savings in various ways accordingly. The only advantage it promised for Government was that shopkeepers would be certain of the price they would have to pay, but the reduction therein under the maximum which the last rule allowed would be of small advantage to those at any distance from the only distillery—Nellikuppam—which the Company would have continued to maintain within the tract. Under competition it may be doubtful if the Company could force prices beyond 8½ annas: its endeavour for some years now has been to kill competition; and the Board's proposal, while it did not ignore the fact of Mr. Shaw's offer, attached less value thereto than the Company seems to infer.

3. *Paragraph 3.*—The Board does not anticipate any difficulty in determining from what material liquor has been made. The Company distils only from molasses, minor distillers generally from only one class of material at a time, and the latter are not likely to find any objection to the differential rates. The uniformity of the distillery price for liquor without reference to material placed these latter at an enormous disadvantage in the competition. Admixture of materials, if tried at all (except to meet very temporary emergencies), can be so for no purpose, but the evasion of the present regulation and the Board would meet it by treating the resultant spirit as though made from material of the lowest class used.

4. *Paragraph 4.*—The effect on consumption of the difference of 2 annas per gallon may not be very appreciable when applied to the dram. But the Board is, for the present, most concerned regarding the competing distiller and the shopkeeper—the final agent in distribution—and from the point of view of the latter the decrease in first cost is a matter of very considerable moment.

5. *Paragraph 5.*—There is no reason for believing that the rise in duty since 1894 is making itself felt on consumption; the Board's administration reports negative such an opinion: but there is every reason to believe that the rise of price consequent on the want of competition in supply will intensify any such tendency if it exists, and the absence of competition is a current explanation of the fact of decrease in consumption. Reduction of consumption can be countervailed in its effect on the revenue by enhanced duty; but with a high maximum price up to which a distiller might work the danger lay in the anticipation of shopkeepers that prices would eventually be enhanced by this Company to the extreme limit the previous notification allowed, and the difference was the profit of the Company. The declared intention was to get rid of all competitors, and with that the maximum distillery price would certainly have been given effect to as far at least as was consistent with an output which would have satisfied the Company's view of its own possible profits. It is difficult to see how it can be forced out of the spirit business except by its own mismanagement: the present rate of 8½ annas most distinctly cannot bring that about unless the business has been so reconstructed as to permit of it. If that is the case the Company and not Government is to blame.

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8. *Paragraph 8.*—The Board distinctly joins issue with the statement that this scheme of differential rates is a direct attack on all capital invested in the sugar industry. On the contrary Government is aware of how a sugar industry is being instituted in the north which is willing to work at even lower rates for its spirit produce than Government has now directed. That the new rule will limit profits to the East India Distilleries and Sugar Factories (Limited) is no doubt true, but the Government of Madras was not consulted in the creation of that Company, and if it proceeded without due caution and overcapitalized itself the error cannot be laid at the doors of Government. The Board observes moreover from the Company's prospectus that the rate of profit on spirit on which the calculations therein are based is 2 annas a gallon. That probably was, and, if it was not, ought to have been, arrived at on past working and ought to be obtainable under the price now fixed. The prospectus further shows that Messrs. Parry & Co., before the amalgamation, were reaping enormous profits at a time when, on their own showing, their price averaged well under 7 annas, but how much of these profits was due to spirits and how much to sugar is of course unknown. The Board assumes that Government has not committed itself to the permanency of the former distillery rate; the Company makes no assertion that it has; but its complaint is virtually that it has been deceived by Government and is not the victim of its own financial shrewdness or incapacity. The Board has no reason to think that Government ever contemplated a time when the firm would assume the control of a large portion of the abkári administration by constituting itself the sole purveyor of spirit to the Presidency, but its recent action might fairly be ascribed to such a misconception.

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(True Extract.)

(Signed) EDMUND MILLETT,
Assistant Secretary.

To the Secretary to Government, Revenue Department,
with one enclosure.

Read—petition from Messrs. PARRY & CO., dated 15th February 1899.

Order—No. 1796 (Confdl. No. 62), Revenue, dated 17th May 1899.

Miscellaneous.

The Government concurs with the Board in its remarks in the first of the papers read above. Messrs. Parry & Co. should accordingly be informed that the Government sees no reason to reconsider the orders sanctioning a reduction of the maximum price of palmyra-jaggery arrack and molasses arrack issued from distilleries. With regard to the reference in the concluding paragraph of their letter to the Board, dated 7th February 1899, to "the stability of long-established Revenue Regulations," the attention of Messrs. Parry & Co. should be drawn to rule 65 of the Distillery and Warehouse Rules which provides that "the Commissioner may, subject to the orders of Government, fix *from time to time* the maximum prices to be charged by distillers for spirits issued from a distillery." It should also be pointed out to them that they act under a license granted annually the terms of which alone can be held to bind them and Government.

2. Adverting to the remarks in paragraph 3 of the Board's Proceedings, the Government presumes that the lower appropriate maximum rate will be enforced only if a substantial portion of the mixture be made from the lower classes of materials.

3. The Government desires that the Board of Revenue should investigate further the suggestion made by Messrs. Parry & Co. that combination among shopkeepers is partly the cause of the rise in the retail price to the consumer.

4. Messrs. Parry & Co. will be referred to the Board of Revenue for orders on their petition.

(True Extract.)

(Signed) G. S. FORBES,
Secretary to Government.

To the Board of Revenue (Separate Revenue),
with petition, to be returned.
„ Messrs. Parry & Co. (paragraph 4 only).

Exd. W. D'Mose.

20 Copies.

Government {1899} of Madras.

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G.O., No. 1796 (Confdl. No. 62), 17th May 1899.

MAY.

Passing orders on Messrs. Parry & Co.'s petition protesting against the alteration in the maximum price for liquor issued from distilleries.

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Read—the following Proceedings of the Board of Revenue (Separate Revenue), Mis. No. 791, dated 25th February 1899 :—

Read—the following letter from Messrs. PARRY & CO., Managing Agents, The East India Distilleries and Sugar Factories (Limited), to the Secretary to the Board of Revenue (Separate Revenue), dated Madras, 7th February 1899 :—

In continuation of our letter of 30th ultimo and in response to the Board's request in their letter of that date, we have now the honour to make the following further observations on the proposals then indicated, which we note are to establish differential prices against us as follows :—

(1) to reduce the maximum sale price of molasses spirit ex-distillery from $10\frac{1}{2}$ to $8\frac{1}{2}$ annas per gallon, or say by over 20 per cent. ;
(2) to reduce the price of palmyra jaggery liquor by an amount not stated ;
(3) to leave cane jaggery spirit price as at present.

2. The above proposal has fairly astounded us and in case it may have arisen in connection with a recent demi-official offer made by our Mr. W. Shaw to Mr. Thomson we would first clear that up. Mr. Shaw's offer stipulated not only for a contract for a term of years but also for terms which would have enabled us to largely reduce our staff both up-country and in Madras and so generally cheapen and simplify our working.

These advantages, with the desire to show Government that we did not propose to force prices to any excessive level, led us to offer to supply at $8\frac{1}{2}$ annas, but we must strongly protest against that rate being forced upon us as a maximum price without the counterbalancing advantages referred to.

3. Next we have to remark that the scheme would probably be found difficult to work if eventually attempted, because liquor is not made only from one class of material at a time but, in a greater or less degree for fermentation purposes, there is a mixture of materials in the vats, so that without hampering the business and deranging the ordinary course of work it would be impossible to say exactly what liquor is made from each individual class of material.

4. With regard to the opening paragraph of the letter under reply, it appears to us that the Board allow excessive weight to the effect on consumption of the, say, 2 annas per gallon difference of rates under reference. It has to be remembered that on a 10 annas basis for spirit ex-duty the shopkeeper will generally have to pay, say,—

	Rs.	A.	P.
As first cost	0	10	0
As duty	3	1	0
As transport wastage	0	2	0
Total cost ..	3	13	0

2 annas on that equals only, say, $3\frac{1}{4}$ per cent.—a difference not sufficient to have any marked effect on consumption, especially seeing that the actual consumer buys by the dram when the difference in price is scarcely appreciable.

5. We have not before us the figures on which the Board goes when stating that the consumption of the country arrack is diminishing, so we cannot well discuss that point as we should like to, but meanwhile we may mention that since 1894 the rate of duty has been raised 7 annas per gallon and upwards, practically all over the Presidency.

During 1895, 1896 and 1897 this rise in duty may not have been felt since : during that period, owing to extreme competition between the Nellikuppam and Ránipéttai distilleries, sale rates were cut down, eventually to below cost of production. From 1898, this competition having ceased, the rise in duty referred to is perhaps making itself felt on consumption, but there is no ground for asserting that hitherto we have forced prices to an unduly high pitch and certainly, so far, they are not so high as they will at once rule if by unjust legislation we are forced out of the spirit business.

6. Government appear to us to be acting in blind fear of the small rise in price necessary for us—manufacturers—to earn a fair profit on our capital and skill employed, while it overlooks or ignores the real hindrance to consumption which results when shopkeepers join together to raise retail prices to the consumers.

Cases in point are Madras and Kistna districts, in both of which wholesale prices are relatively low, while in both, owing to combination among shopkeepers, consumption has fallen off.

When asked to assign reason for such decreased consumption, shopkeepers are no doubt glad to put forward the reasons apparently accepted by the Board, but such will not bear investigation.

7. We would wish to remind Government that the existing abkári free-supply system, which has been worked with such financial success to Government for the last fifteen years, was orginally inaugurated only after much consultation of our then senior partner Mr. J. C. Shaw by Mr. (now Sir Henry) Stokes, and Mr. Shaw then wrote to Mr. Stokes as follows, under date 20th May 1884 :—

"As I said to you when here we will undertake to support you in carrying this through provided we are satisfied that there will be no throwing us over on the plea that we should be securing too many districts." It was then, we believe, that the $10\frac{1}{2}$ maximum rate ex-distillery for spirit was settled on and Mr. Shaw's fear, as expressed above, was met by the understanding that, subject to the said maximum, Government was indifferent as to how much of the Presidency we might supply. Our firm then gave all the assistance in its power and insured the successful start of the then new order of things. But now it would appear that our services then rendered are forgotten and Government by its differentiation of prices against us is wishing to throw us over exactly as Mr. Shaw foresaw might be the case.

8. In conclusion, we have the honour to submit that this scheme of differential rates, if carried out, will amount to a direct attack upon all capital invested in the sugar industry of this Presidency, of which industry the utilisation of molasses for spirit-making is, of course, a material branch. The reduction of price proposed would involve peculiar hardship to the shareholders who have so recently acquired an interest in this Company, and the injustice becomes the more apparent when it is remembered that only this year we have completed the erection of a large expensive new distillery at the express instigation of the late Abkári Commissioner, now Senior Member of Council. Had any indication been given us that a radical change of system was intended, such as this differentiation of rates against molasses spirit, we could not have thought of meeting Mr. Arundel's wishes and sunk the capital involved in the new distillery at Nellikuppam, nor could this Company have taken over its business on the terms it did. We can scarcely credit that on consideration Government will definitely decide upon practically confiscating in this way capital invested on the faith of the stability of long established revenue regulations, no change in which can equitably be made save after notice proportionate to the capital sunk in the business concerned.

Resolution—Mis. No. 791, dated 25th February 1899.

Messrs. Parry & Co.'s letter will be forwarded to Government with the following remarks.

2. *Paragraph 2.*—The Board was fully aware that Mr. Shaw's offer to contract for a term of years at $8\frac{1}{2}$ annas would, if accepted, improve even the present position of the Company by making that a fixed price for all-comers within the area contracted for and enable it to effect savings in various ways accordingly. The only advantage it promised for Government was that shopkeepers would be certain of the price they would have to pay, but the reduction therein under the maximum which the last rule allowed would be of small advantage to those at any distance from the only distillery—Nellikuppam—which the Company would have continued to maintain within the tract. Under competition it may be doubtful if the Company could force prices beyond $8\frac{1}{2}$ annas: its endeavour for some years now has been to kill competition; and the Board's proposal, while it did not ignore the fact of Mr. Shaw's offer, attached less value thereto than the Company seems to infer.

3. *Paragraph 3.*—The Board does not anticipate any difficulty in determining from what material liquor has been made. The Company distils only from molasses, minor distillers generally from only one class of material at a time, and the latter are not likely to find any objection to the differential rates. The uniformity of the distillery price for liquor without reference to material placed these latter at an enormous disadvantage in the competition. Admixture of materials, if tried at all (except to meet very temporary emergencies), can be so for no purpose, but the evasion of the present regulation and the Board would meet it by treating the resultant spirit as though made from material of the lowest class used.

4. *Paragraph 4.*—The effect on consumption of the difference of 2 annas per gallon may not be very appreciable when applied to the dram. But the Board is, for the present, most concerned regarding the competing distiller and the shopkeeper —the final agent in distribution—and from the point of view of the latter the decrease in first cost is a matter of very considerable moment.

5. *Paragraph 5.*—There is no reason for believing that the rise in duty since 1894 is making itself felt on consumption; the Board's administration reports negative such an opinion: but there is every reason to believe that the rise of price consequent on the want of competition in supply will intensify any such tendency if it exists, and the absence of competition is a current explanation of the fact of decrease in consumption. Reduction of consumption can be countervailed in its effect on the revenue by enhanced duty; but with a high maximum price up to which a distiller might work the danger lay in the anticipation of shopkeepers that prices would eventually be enhanced by this Company to the extreme limit the previous notification allowed, and the difference was the profit of the Company. The declared intention was to get rid of all competitors, and with that the maximum distillery price would certainly have been given effect to as far at least as was consistent with an output which would have satisfied the Company's view of its own possible profits. It is difficult to see how it can be forced out of the spirit business except by its own mismanagement: the present rate of $8\frac{1}{2}$ annas most distinctly cannot bring that about unless the business has been so reconstructed as to permit of it. If that is the case the Company and not Government is to blame.

6. *Paragraph 6.*—The Board is not aware of any hindrance to consumption from combination of shopkeepers to raise their prices to consumers; when the privileges of vend fall into the hands of single persons or syndicates, prices of course can be raised, no maximum price having been imposed; the remedy applicable is obvious if not always easy. Shopkeepers in any case must have a certain turn-over and make an income for themselves and when and if the country is adequately supplied with shops it cannot but follow that prices therein will be fixed in the main so as to yield the ordinary rate of profit.

7. *Paragraph 7.*—There is no information before the Board that leads it to believe that the $10\frac{1}{2}$ annas maximum rate was ever regarded as unalterable. Reference is requested to Mr. Stokes' note of 5th April 1884, the Commissioner's letter in Board's Proceedings, No. 3227, of 25th November 1885, and Board's Proceedings, No. 2095, of 17th September 1886, from which it would appear that the point was treated tentatively and the danger of monopoly always kept in view. Sir Henry Bliss in 1898 certainly entertained no idea of fixity of price, but on the contrary regarded Government's present action as the first course open to it. No such ground was hitherto taken by the firm so far as the Board is aware; on the contrary the point was not even referred to when the firm was consulted a year ago and more recently as to a reduction. If Government has benefited by the firm in the past the firm may well admit that it has reaped a plentiful return from its operations under Government patronage. There is no desire to curtail its legitimate rate of profit, but the Company is not content therewith and would evidently desire to dictate its own terms to Government.

8. *Paragraph 8.*—The Board distinctly joins issue with the statement that this scheme of differential rates is a direct attack on all capital invested in the sugar industry. On the contrary Government is aware of how a sugar industry is being instituted in the north which is willing to work at even lower rates for its spirit produce than Government has now directed. That the new rule will limit profits to the East India Distilleries and Sugar Factories (Limited) is no doubt true, but the Government of Madras was not consulted in the creation of that Company, and if it proceeded without due caution and overcapitalized itself the error cannot be laid at the doors of Government. The Board observes moreover from the Company's prospectus that the rate of profit on spirit on which the calculations therein are based is 2 annas a gallon. That probably was, and, if it was not, ought to have been, arrived at on past working and ought to be obtainable under the price now fixed. The prospectus further shows that Messrs. Parry & Co., before the amalgamation, were reaping enormous profits at a time when, on their own showing, their price averaged well under 7 annas, but how much of these profits was due to spirits and how much to sugar is of course unknown. The Board assumes that Government has not committed itself to the permanency of the former distillery rate; the Company makes no assertion that it has; but its complaint is virtually that it has been deceived by Government and is not the victim of its own financial shrewdness or incapacity. The Board has no reason to think that Government ever contemplated a time when the firm would assume the control of a large portion of the abkári administration by constituting itself the sole purveyor of spirit to the Presidency, but its recent action might fairly be ascribed to such a misconception.

9. As to the want of due notice, it is sufficient to say that the Company had clear notice a year ago that Government deliberated moving in the direction of reducing the distillery price and if the Company required a distinct assurance to the contrary then that should have been asked for. The Company's letter of 23rd April 1898, read with the Board's Proceedings, Mis. No. 1690, of 30th idem, does not, in the Board's opinion, give them room to complain of want of notice or of a change in Government policy. The Company knew what remedy lay in the hands of Government and apparently counted on Government's supineness while it pursued its policy of extermination of competitors. The differential rate is injurious to the Company only from the fact that it will prevent that policy; it cannot otherwise affect their legitimate profits on spirit as it will not in any degree alter or affect their methods of distillation from sugar refuse.

(True Extract.)

(Signed) EDMUND MILLETT,
Assistant Secretary.

To the Secretary to Government, Revenue Department,
with one enclosure.

Read—petition from Messrs. PARRY & CO., dated 15th February 1899.

Order—No. 1796 (Confdl. No. 62), Revenue, dated 17th May 1899.

Miscellaneous.

The Government concurs with the Board in its remarks in the first of the papers read above. Messrs. Parry & Co. should accordingly be informed that the Government sees no reason to reconsider the orders sanctioning a reduction of the maximum price of palmyra-jaggery arrack and molasses arrack issued from distilleries. With regard to the reference in the concluding paragraph of their letter to the Board, dated 7th February 1899, to "the stability of long-established Revenue Regulations," the attention of Messrs. Parry & Co. should be drawn to rule 65 of the Distillery and Warehouse Rules which provides that "the Commissioner may, subject to the orders of Government, fix *from time to time* the maximum prices to be charged by distillers for spirits issued from a distillery." It should also be pointed out to them that they act under a license granted annually the terms of which alone can be held to bind them and Government.

2. Adverting to the remarks in paragraph 3 of the Board's Proceedings, the Government presumes that the lower appropriate maximum rate will be enforced only if a substantial portion of the mixture be made from the lower classes of materials.

3. The Government desires that the Board of Revenue should investigate further the suggestion made by Messrs. Parry & Co. that combination among shopkeepers is partly the cause of the rise in the retail price to the consumer.

4. Messrs. Parry & Co. will be referred to the Board of Revenue for orders on their petition.

(True Extract.)

(Signed) G. S. FORBES,
Secretary to Government.

To the Board of Revenue (Separate Revenue),
with petition, to be returned.
„ Messrs. Parry & Co. (paragraph 4 only).

Exd. W. D'Moss.

20 Copies.

Government {1899} of Madras.

REVENUE.

CONFIDENTIAL.

(FOR OFFICE USE ONLY.)

Recd. *Regd.* } *1899.* *Enclosures* *Spare copies*

G.O., No. 1796 (Confdl. No. 62), 17th May 1899.

MAY.

Passing orders on Messrs. Parry & Co.'s petition protesting against the alteration in the maximum price for liquor issued from distilleries.

CONFIDENTIAL.

GOVERNMENT OF MADRAS.

REVENUE DEPARTMENT.

Read—the following Proceedings of the Board of Revenue (Separate Revenue), Mis. No. 791, dated 25th February 1899 :—

Read—the following letter from Messrs. PARRY & CO., Managing Agents, The East India Distilleries and Sugar Factories (Limited), to the Secretary to the Board of Revenue (Separate Revenue), dated Madras, 7th February 1899 :—

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(1) to reduce the maximum sale price of molasses spirit ex-distillery from $10\frac{1}{2}$ to $8\frac{1}{2}$ annas per gallon, or say by over 20 per cent. ;

(2) to reduce the price of palmyra jaggery liquor by an amount not stated ;

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2. The above proposal has fairly astounded us and in case it may have arisen in connection with a recent demi-official offer made by our Mr. W. Shaw to Mr. Thomson we would first clear that up. Mr. Shaw's offer stipulated not only for a contract for a term of years but also for terms which would have enabled us to largely reduce our staff both up-country and in Madras and so generally cheapen and simplify our working.

These advantages, with the desire to show Government that we did not propose to force prices to any excessive level, led us to offer to supply at $8\frac{1}{2}$ annas, but we must strongly protest against that rate being forced upon us as a maximum price without the counterbalancing advantages referred to.

3. Next we have to remark that the scheme would probably be found difficult to work if eventually attempted, because liquor is not made only from one class of material at a time but, in a greater or less degree for fermentation purposes, there is a mixture of materials in the vats, so that without hampering the business and deranging the ordinary course of work it would be impossible to say exactly what liquor is made from each individual class of material.

4. With regard to the opening paragraph of the letter under reply, it appears to us that the Board allow excessive weight to the effect on consumption of the, say, 2 annas per gallon difference of rates under reference. It has to be remembered that on a 10 annas basis for spirit ex-duty the shopkeeper will generally have to pay, say,—

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6. Government appear to us to be acting in blind fear of the small rise in price necessary for us—manufacturers—to earn a fair profit on our capital and skill employed, while it overlooks or ignores the real hindrance to consumption which results when shopkeepers join together to raise retail prices to the consumers.

Cases in point are Madras and Kistna districts, in both of which wholesale prices are relatively low, while in both, owing to combination among shopkeepers, consumption has fallen off.

When asked to assign reason for such decreased consumption, shopkeepers are no doubt glad to put forward the reasons apparently accepted by the Board, but such will not bear investigation.

7. We would wish to remind Government that the existing abkári free-supply system, which has been worked with such financial success to Government for the last fifteen years, was orginally inaugurated only after much consultation of our then senior partner Mr. J. C. Shaw by Mr. (now Sir Henry) Stokes, and Mr. Shaw then wrote to Mr. Stokes as follows, under date 20th May 1884 :—

"As I said to you when here we will undertake to support you in carrying this through provided we are satisfied that there will be no throwing us over on the plea that we should be securing too many districts." It was then, we believe, that the $10\frac{1}{2}$ maximum rate ex-distillery for spirit was settled on and Mr. Shaw's fear, as expressed above, was met by the understanding that, subject to the said maximum, Government was indifferent as to how much of the Presidency we might supply. Our firm then gave all the assistance in its power and insured the successful start of the then new order of things. But now it would appear that our services then rendered are forgotten and Government by its differentiation of prices against us is wishing to throw us over exactly as Mr. Shaw foresaw might be the case.

8. In conclusion, we have the honour to submit that this scheme of differential rates, if carried out, will amount to a direct attack upon all capital invested in the sugar industry of this Presidency, of which industry the utilisation of molasses for spirit-making is, of course, a material branch. The reduction of price proposed would involve peculiar hardship to the shareholders who have so recently acquired an interest in this Company, and the injustice becomes the more apparent when it is remembered that only this year we have completed the erection of a large expensive new distillery at the express instigation of the late Abkári Commissioner, now Senior Member of Council. Had any indication been given us that a radical change of system was intended, such as this differentiation of rates against molasses spirit, we could not have thought of meeting Mr. Arundel's wishes and sunk the capital involved in the new distillery at Nellikuppam, nor could this Company have taken over its business on the terms it did. We can scarcely credit that on consideration Government will definitely decide upon practically confiscating in this way capital invested on the faith of the stability of long established revenue regulations, no change in which can equitably be made save after notice proportionate to the capital sunk in the business concerned.

Resolution—Mis. No. 791, dated 25th February 1899.

Messrs. Parry & Co.'s letter will be forwarded to Government with the following remarks.

2. *Paragraph 2.*—The Board was fully aware that Mr. Shaw's offer to contract for a term of years at 8½ annas would, if accepted, improve even the present position of the Company by making that a fixed price for all-comers within the area contracted for and enable it to effect savings in various ways accordingly. The only advantage it promised for Government was that shopkeepers would be certain of the price they would have to pay, but the reduction therein under the maximum which the last rule allowed would be of small advantage to those at any distance from the only distillery—Nellikuppam—which the Company would have continued to maintain within the tract. Under competition it may be doubtful if the Company could force prices beyond 8½ annas: its endeavour for some years now has been to kill competition; and the Board's proposal, while it did not ignore the fact of Mr. Shaw's offer, attached less value thereto than the Company seems to infer.

3. *Paragraph 3.*—The Board does not anticipate any difficulty in determining from what material liquor has been made. The Company distils only from molasses, minor distillers generally from only one class of material at a time, and the latter are not likely to find any objection to the differential rates. The uniformity of the distillery price for liquor without reference to material placed these latter at an enormous disadvantage in the competition. Admixture of materials, if tried at all (except to meet very temporary emergencies), can be so for no purpose, but the evasion of the present regulation and the Board would meet it by treating the resultant spirit as though made from material of the lowest class used.

4. *Paragraph 4.*—The effect on consumption of the difference of 2 annas per gallon may not be very appreciable when applied to the dram. But the Board is, for the present, most concerned regarding the competing distiller and the shopkeeper —the final agent in distribution—and from the point of view of the latter the decrease in first cost is a matter of very considerable moment.

5. *Paragraph 5.*—There is no reason for believing that the rise in duty since 1894 is making itself felt on consumption; the Board's administration reports negative such an opinion: but there is every reason to believe that the rise of price consequent on the want of competition in supply will intensify any such tendency if it exists, and the absence of competition is a current explanation of the fact of decrease in consumption. Reduction of consumption can be countervailed in its effect on the revenue by enhanced duty; but with a high maximum price up to which a distiller might work the danger lay in the anticipation of shopkeepers that prices would eventually be enhanced by this Company to the extreme limit the previous notification allowed, and the difference was the profit of the Company. The declared intention was to get rid of all competitors, and with that the maximum distillery price would certainly have been given effect to as far at least as was consistent with an output which would have satisfied the Company's view of its own possible profits. It is difficult to see how it can be forced out of the spirit business except by its own mismanagement: the present rate of 8½ annas most distinctly cannot bring that about unless the business has been so reconstructed as to permit of it. If that is the case the Company and not Government is to blame.

6. *Paragraph 6.*—The Board is not aware of any hindrance to consumption from combination of shopkeepers to raise their prices to consumers; when the privileges of vend fall into the hands of single persons or syndicates, prices of course can be raised, no maximum price having been imposed; the remedy applicable is obvious if not always easy. Shopkeepers in any case must have a certain turn-over and make an income for themselves and when and if the country is adequately supplied with shops it cannot but follow that prices therein will be fixed in the main so as to yield the ordinary rate of profit.

7. *Paragraph 7.*—There is no information before the Board that leads it to believe that the 10½ annas maximum rate was ever regarded as unalterable. Reference is requested to Mr. Stokes' note of 5th April 1884, the Commissioner's letter in Board's Proceedings, No. 3227, of 25th November 1885, and Board's Proceedings, No. 2095, of 17th September 1886, from which it would appear that the point was treated tentatively and the danger of monopoly always kept in view. Sir Henry Bliss in 1898 certainly entertained no idea of fixity of price, but on the contrary regarded Government's present action as the first course open to it. No such ground was hitherto taken by the firm so far as the Board is aware; on the contrary the point was not even referred to when the firm was consulted a year ago and more recently as to a reduction. If Government has benefited by the firm in the past the firm may well admit that it has reaped a plentiful return from its operations under Government patronage. There is no desire to curtail its legitimate rate of profit, but the Company is not content therewith and would evidently desire to dictate its own terms to Government.

8. *Paragraph 8.*—The Board distinctly joins issue with the statement that this scheme of differential rates is a direct attack on all capital invested in the sugar industry. On the contrary Government is aware of how a sugar industry is being instituted in the north which is willing to work at even lower rates for its spirit produce than Government has now directed. That the new rule will limit profits to the East India Distilleries and Sugar Factories (Limited) is no doubt true, but the Government of Madras was not consulted in the creation of that Company, and if it proceeded without due caution and overcapitalized itself the error cannot be laid at the doors of Government. The Board observes moreover from the Company's prospectus that the rate of profit on spirit on which the calculations therein are based is 2 annas a gallon. That probably was, and, if it was not, ought to have been, arrived at on past working and ought to be obtainable under the price now fixed. The prospectus further shows that Messrs. Parry & Co., before the amalgamation, were reaping enormous profits at a time when, on their own showing, their price averaged well under 7 annas, but how much of these profits was due to spirits and how much to sugar is of course unknown. The Board assumes that Government has not committed itself to the permanency of the former distillery rate; the Company makes no assertion that it has; but its complaint is virtually that it has been deceived by Government and is not the victim of its own financial shrewdness or incapacity. The Board has no reason to think that Government ever contemplated a time when the firm would assume the control of a large portion of the abkári administration by constituting itself the sole purveyor of spirit to the Presidency, but its recent action might fairly be ascribed to such a misconception.

9. As to the want of due notice, it is sufficient to say that the Company had clear notice a year ago that Government deliberated moving in the direction of reducing the distillery price and if the Company required a distinct assurance to the contrary then that should have been asked for. The Company's letter of 23rd April 1898, read with the Board's Proceedings, Mis. No. 1690, of 30th idem, does not, in the Board's opinion, give them room to complain of want of notice or of a change in Government policy. The Company knew what remedy lay in the hands of Government and apparently counted on Government's supineness while it pursued its policy of extermination of competitors. The differential rate is injurious to the Company only from the fact that it will prevent that policy; it cannot otherwise affect their legitimate profits on spirit as it will not in any degree alter or affect their methods of distillation from sugar refuse.

(True Extract.)

(Signed) EDMUND MILLETT,
Assistant Secretary.

To the Secretary to Government, Revenue Department,
with one enclosure.

Read—petition from Messrs. PARRY & CO., dated 15th February 1899.

Order—No. 1796 (Confdl. No. 62), Revenue, dated 17th May 1899.

Miscellaneous.

The Government concurs with the Board in its remarks in the first of the papers read above. Messrs. Parry & Co. should accordingly be informed that the Government sees no reason to reconsider the orders sanctioning a reduction of the maximum price of palmyra-jaggery arrack and molasses arrack issued from distilleries. With regard to the reference in the concluding paragraph of their letter to the Board, dated 7th February 1899, to "the stability of long-established Revenue Regulations," the attention of Messrs. Parry & Co. should be drawn to rule 65 of the Distillery and Warehouse Rules which provides that "the Commissioner may, subject to the orders of Government, fix *from time to time* the maximum prices to be charged by distillers for spirits issued from a distillery." It should also be pointed out to them that they act under a license granted annually the terms of which alone can be held to bind them and Government.

2. Adverting to the remarks in paragraph 3 of the Board's Proceedings, the Government presumes that the lower appropriate maximum rate will be enforced only if a substantial portion of the mixture be made from the lower classes of materials.

3. The Government desires that the Board of Revenue should investigate further the suggestion made by Messrs. Parry & Co. that combination among shopkeepers is partly the cause of the rise in the retail price to the consumer.

4. Messrs. Parry & Co. will be referred to the Board of Revenue for orders on their petition.

(True Extract.)

(Signed) G. S. FORBES,
Secretary to Government.

To the Board of Revenue (Separate Revenue),
with petition, to be returned.
„ Messrs. Parry & Co. (paragraph 4 only).

Exd. W. D'Moss.

20 Copies.

CONFIDENTIAL.

Revenue Department.

NOTES CONNECTED WITH G.O., No. 1796, REVENUE, DATED 17th MAY 1899.

Reduction of maximum prices of liquor at distilleries.

Board's Proceedings (Separate Revenue), Mis. No. 791, dated 25th February 1899.
Letter from Messrs. Parry & Co., dated 28th February 1899.

To Secretary.

In G.O., No. 95, dated 6th February 1899, the Government authorized the Board of Revenue to reduce the maximum price to be charged by distillers for molasses arrack from 10½ annas to 8½ annas a gallon of 30° U.P., and a notification * was accordingly published by it on 7th February 1899 under the power conferred by rule 65 of the Distillery Rules.

* G.O., No. 617, dated 10th February 1899.

In the above Proceedings the Board forwards with its remarks a protest from Messrs. Parry & Co. against the reduction, while the letter is a similar protest addressed direct to Government.

2. In paragraph 2 of its first letter, the firm admits that a proposal to supply country spirits at 8½ annas a gallon was made by Mr. Shaw, but that it was coupled with a stipulation to be given the monopoly of supply for a term of years in certain districts. The firm expected that under such an arrangement it could reduce its staff in Madras and up-country and thereby cheapen its working. It therefore protests against the forcing of that rate upon it without the counterbalancing advantage. The Board remarks that it did not ignore Mr. Shaw's offer, but that it attached less value to it than the firm seems to infer. The proposal of the latter was prompted by a desire to kill competition and could not therefore be accepted.

But if they volunteered an 8½-anna rate for a term of years, it was naturally a rate which would well protect them from the vicissitudes of the sugar market during the period. The fluctuations might have been very large, and yet an 8½-anna rate was deemed by the firm to cover them sufficiently.
G.S.F.

Yes, believed to be.
A. T. A[rundel].

3. The firm's second objection is that as liquor is not made from only one class of material at a time, it would be difficult to work the scheme of differential rates. The Board does not anticipate any difficulty on the subject. The East India Distilleries and Sugar Factories Company distills from molasses only, while other distillers use only one class of material at a time. It is possible that to evade the present regulation an admixture of materials may be attempted; but the Board proposes to treat liquor so distilled as made from material of the lowest class used.

If, I suppose, a *substantial* portion of the mixture were of the low class?
G.S.F.
A.T.A.

4. Messrs. Parry & Co.'s third objection is that a difference of 2 annas in the maximum price at the distillery would only be 3¼ per cent. of the price to be paid by the shopkeeper including duty; that as the consumer buys by the dram, the difference in price would scarcely be appreciable; and that consumption cannot be materially affected. The Board is concerned not with the consumer directly, but with the shopkeeper, as against the distiller, and regards a decrease of 2 annas in first cost as a matter of very considerable moment to him.

5. Messrs. Parry & Co.'s fourth objection is that the decrease in consumption of liquor, if any, has been brought about by the enhancement of the tax, or by combination among retailers, and that the effect of the first measure has begun to be felt after the extinction of the "extreme competition" between the Nellikuppam

Read—petition from Messrs. PARRY & CO., dated 15th February 1899.

Order—No. 1796 (Confdl. No. 62), Revenue, dated 17th May 1899.

Miscellaneous.

The Government concurs with the Board in its remarks in the first of the papers read above. Messrs. Parry & Co. should accordingly be informed that the Government sees no reason to reconsider the orders sanctioning a reduction of the maximum price of palmyra-jaggery arrack and molasses arrack issued from distilleries. With regard to the reference in the concluding paragraph of their letter to the Board, dated 7th February 1899, to "the stability of long-established Revenue Regulations," the attention of Messrs. Parry & Co. should be drawn to rule 65 of the Distillery and Warehouse Rules which provides that "the Commissioner may, subject to the orders of Government, fix *from time to time* the maximum prices to be charged by distillers for spirits issued from a distillery." It should also be pointed out to them that they act under a license granted annually the terms of which alone can be held to bind them and Government.

2. Adverting to the remarks in paragraph 3 of the Board's Proceedings, the Government presumes that the lower appropriate maximum rate will be enforced only if a substantial portion of the mixture be made from the lower classes of materials.

3. The Government desires that the Board of Revenue should investigate further the suggestion made by Messrs. Parry & Co. that combination among shopkeepers is partly the cause of the rise in the retail price to the consumer.

4. Messrs. Parry & Co. will be referred to the Board of Revenue for orders on their petition.

(True Extract.)

(Signed) G. S. FORBES,
Secretary to Government.

To the Board of Revenue (Separate Revenue),
with petition, to be returned.
„ Messrs. Parry & Co. (paragraph 4 only).

Exd. W. D'Moss.

20 Copies.

CONFIDENTIAL. REVENUE DEPARTMENT.

NOTES CONNECTED WITH G.O., No. 1796, REVENUE, DATED 17TH MAY 1899.

Reduction of maximum prices of liquor at distilleries.

Board's Proceedings (Separate Revenue), Mis. No. 791, dated 25th February 1899.
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To Secretary.

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* G.O., No. 617, dated 10th February 1899.

In the above Proceedings the Board forwards with its remarks a protest from Messrs. Parry & Co. against the reduction, while the letter is a similar protest addressed direct to Government.

2. In paragraph 2 of its first letter, the firm admits that a proposal to supply country spirits at 8½ annas a gallon was made by Mr. Shaw, but that it was coupled with a stipulation to be given the monopoly of supply for a term of years in certain districts. The firm expected that under such an arrangement it could reduce its staff in Madras and up-country and thereby cheapen its working. It therefore protests against the forcing of that rate upon it without the counterbalancing advantage. The Board remarks that it did not ignore Mr. Shaw's offer, but that it attached less value to it than the firm seems to infer. The proposal of the latter was prompted by a desire to kill competition and could not therefore be accepted.

But if they volunteered an 8½-anna rate for a term of years, it was naturally a rate which would well protect them from the vicissitudes of the sugar market during the period. The fluctuations might have been very large, and yet an 8½-anna rate was deemed by the firm to cover them sufficiently.

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Yes, believed to be.

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and Ránipéttai distilleries. These assertions are traversed by the Board in paragraphs 5 and 6 of its Proceedings. The firm states that when the East India Distilleries and Sugar Factories Company is forced out of the spirit business by "unjust legislation," the price of liquor would rise very high. The Board has no fear that the Company will be forced out except by its own mismanagement, for which Government cannot be blamed.

6. In paragraph 7 of their letter Messrs. Parry & Co. claim to have helped the Government in introducing the private distillery supply system, and complain that their services are now forgotten, and that they are thrown over. They refer to a letter addressed by Mr. Shaw, their senior partner, to Sir Henry Stokes on the 20th May 1884, * and to an understanding arrived at with reference thereto to the effect that, subject to the maximum of 10½ annas a gallon, the Government was indifferent as to how much of the Presidency they supplied. They infer presumably that the rate was unalterable. The Board observes that if Government has in the past benefited from the firm's help, the latter has reaped a plentiful return from its operations under Government patronage, and that though there is no desire to curtail its legitimate rate of profit, it cannot expect to dictate terms to Government. The Board is not aware of any correspondence to show that the 10½ annas was ever regarded as unalterable. The papers available in this office are noted in the margin. The demi-official letter referred to by Messrs. Parry & Co. cannot be traced nor the reply to it, if any. The search is being continued.† In a note dated the 5th April 1884 suggesting changes in the administration of the abkári revenue, Sir Henry Stokes stated: "In these districts it is necessary to fix "a *maximum rate* beyond which the distillers shall not charge, and also to pitch the "still-head duty a little higher than Re. 1. I would make it Rs. 1-2-0 for taluk "vendors in those districts, and fix 14 annas per gallon as the *maximum charge* to "taluk vendors." From the previous portion of the note this rate appears to have been intended to apply to *30° U.P.* By G.O, No. 394, dated 18th March 1884, a committee was appointed to consider the changes proposed; but its report (which will be found printed in G.O., No. 570, dated 30th April 1884) is silent on the point. But one of the notifications drafted by the committee stated: "The former [*i.e.*, "persons authorized to establish distil-"leries] will be bound to supply at any "prices agreed upon . . . . subject to maximum prices of one rupee two annas, "one rupee, and nine annas per gallon for spirits of strengths 20° U.P., 30° U.P., and "60° U.P. respectively." These maxima rates were approved. For the Kurnool district during the lease for 1885-86 a maximum rate of twelve annas a gallon of 30° U.P. was prescribed. In submitting proposals for the lease for 1886-87, the Commissioner (Sir Henry Bliss) after observing that the maxima rates then in force were unnecessarily high—twelve annas in Kurnool and one rupee elsewhere—proposed a reduction to ten annas and-a-half. The proposal was approved by the Board [paragraph 10-I (*h*)]. The foregoing précis, it will be observed, shows that there was no intention to fix unalterable maxima rates, and that the rate of ten annas and-a-half a gallon of 30° U.P. was prescribed in December 1885 and not at the time of Mr. Shaw's letter of 20th May 1884. The Government order is signed by Sir Frederick Price and not by Sir Henry Stokes, who, it is understood, was then on leave. To be on the safe side it is perhaps desirable that Messrs. Parry & Co. may be asked to state definitely what the understanding was to which they refer and to forward a copy of the papers on which they replied. The Government has no objection, it is presumed, to the supply of any district by Messrs. Parry & Co. The real objection is to their enhancement of prices.

Does this mean that the present system enables them to make an excessive profit as a reward?

G.S.F.

* This was 15 years ago.

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This is absurd. The firm acts under a license the terms of which are what binds them and Government.

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This could not be done without a formal G.O. which, if ever passed, would be objected to by India as soon they knew of it.

A.T.A.
10-4-99.

No: they do not mean there was any contract or binding agreement: we have no record of any agreement: and they do not produce any which of course they would have done at once if it had been in existence or of any value beyond vague talk.

G.S.F.

I agree. Besides no such private note could invalidate the action of Government.

A.T.A.

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7. Lastly, Messrs. Parry & Co. complain that as the utilization of molasses for spirit-making is a material branch of the sugar industry, the imposition of differential rates is a direct attack on the capital invested in that industry. The Board denies the validity of this complaint, as a sugar industry is being instituted in the north (presumably in Gódávari), the persons interested in which are willing to work for lower rates for the spirit produce than those now fixed by Government.

The Government of India are about to give special protection to sugar.

G.S.F.

They have now done so.

A.T.A.

8. Messrs. Parry & Co. state that, on the faith of the stability of long-standing revenue regulations, they have only recently completed the erection of a large expensive new distillery at Nellikuppam and that the East India Distilleries and Sugar Factories Company took over its business, and that a change in the abkári policy of Government cannot equitably be made until after notice proportionate* to the capital sunk in the business. The Board observes that the Company had a year's notice. Messrs. Parry & Co. enquired of the Board, under date the 23rd April 1898, whether the abkári policy "was to receive any important modi-"fication making distilling possibly "less attractive from a trader's point "of view." The Board replied that "no alteration in the Government abkári "policy in its *main* features" was contemplated, but that Government was bound to protect itself against the firm's attempt to obtain a monopoly of supply. Messrs. Parry & Co. appear to consider that the reduction of the maximum rate for molasses arrack as an important change, while the Board appears to think differently. Whether the length of notice was or was not sufficient in the present case depends on how the question is viewed.

Messrs. Parry & Co have always been perfectly well aware of the powers of Government to introduce changes of the maximum rates, and of the risks consequent thereon. At the time they were enlarging or building their distilleries they were themselves offering an 8½-anna rate.

G.S.F.

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G.S.F.
A.T.A.

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20-3-99.

To the Honourable Member.
To His Excellency the Governor.

I have noted on the margin.

G. S. FORBES.
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Briefly put: Messrs. Parry & Co. want to get a monopoly of supply for the presidency or as much of it as possible by underselling other distilleries and so forcing their owners to give up the business. Government must retain power to prevent this and the distillery rules under which Messrs. Parry & Co. hold their license give Government the necessary means.

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I must accept the Honourable Member's conclusion, that we must stick to the previous order, though I think our having thus to reduce the maximum price is unfortunate. Perhaps it would be worth while to enquire further into the suggestion made by the Company that the combination of shopkeepers is partly the cause of the rise in price.

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CONFIDENTIAL.

REVENUE DEPARTMENT.

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But if they volunteered an $8\frac{1}{2}$-anna rate for a term of years, it was naturally a rate which would well protect them from the vicissitudes of the sugar market during the period. The fluctuations might have been very large, and yet an $8\frac{1}{2}$-anna rate was deemed by the firm to cover them sufficiently.
G.S.F.

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A. T. A[RUNDEL].

3. The firm's second objection is that as liquor is not made from only one class of material at a time, it would be difficult to work the scheme of differential rates. The Board does not anticipate any difficulty on the subject. The East India Distilleries and Sugar Factories Company distills from molasses only, while other distillers use only one class of material at a time. It is possible that to evade the present regulation an admixture of materials may be attempted; but the Board proposes to treat liquor so distilled as made from material of the lowest class used.

If, I suppose, a *substantial* portion of the mixture were of the low class?
G.S.F.
A.T.A.

4. Messrs. Parry & Co.'s third objection is that a difference of 2 annas in the maximum price at the distillery would only be $3\frac{1}{4}$ per cent. of the price to be paid by the shopkeeper including duty; that as the consumer buys by the dram, the difference in price would scarcely be appreciable; and that consumption cannot be materially affected. The Board is concerned not with the consumer directly, but with the shopkeeper, as against the distiller, and regards a decrease of 2 annas in first cost as a matter of very considerable moment to him.

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A.T.A.

"to the orders of Government, *fix from* "*time to time* the maximum prices to be "charged by distillers for spirits issued "from a distillery, etc." This distinctly negatives the assumption that the maximum rate once prescribed would be permanent.

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G.S.F.
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V.K.R.
20–3–99.

To the Honourable Member.
To His Excellency the Governor.

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21–3–99.

Briefly put: Messrs. Parry & Co. want to get a monopoly of supply for the presidency or as much of it as possible by underselling other distilleries and so forcing their owners to give up the business. Government must retain power to prevent this and the distillery rules under which Messrs. Parry & Co. hold their license give Government the necessary means.

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CONFIDENTIAL.

REVENUE DEPARTMENT.

NOTES CONNECTED WITH G.O., No. 1796, REVENUE, DATED 17TH MAY 1899.

Reduction of maximum prices of liquor at distilleries.

Board's Proceedings (Separate Revenue), Mis. No. 791, dated 25th February 1899.
Letter from Messrs. Parry & Co., dated 28th February 1899.

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and Ránipéttai distilleries. These assertions are traversed by the Board in paragraphs 5 and 6 of its Proceedings. The firm states that when the East India Distilleries and Sugar Factories Company is forced out of the spirit business by "unjust legislation," the price of liquor would rise very high. The Board has no fear that the Company will be forced out except by its own mismanagement, for which Government cannot be blamed.

6. In paragraph 7 of their letter Messrs. Parry & Co. claim to have helped the Government in introducing the private distillery supply system, and complain that their services are now forgotten, and that they are thrown over. They refer to a letter addressed by Mr. Shaw, their senior partner, to Sir Henry Stokes on the 20th May 1884, * and to an understanding arrived at with reference thereto to the effect that, subject to the maximum of 10½ annas a gallon, the Government was indifferent as to how much of the Presidency they supplied. They infer presumably that the rate was unalterable. The Board observes that if Government has in the past benefited from the firm's help, the latter has reaped a plentiful return from its operations under Government patronage, and that though there is no desire to curtail its legitimate rate of profit, it cannot expect to dictate terms to Government. The Board is not aware of any correspondence to show that the 10½ annas was ever regarded as unalterable. The papers available in this office are noted in the margin. The demi-official letter referred to by Messrs. Parry & Co. cannot be traced nor the reply to it, if any. The search is being continued.† In a note dated the 5th April 1884 suggesting changes in the administration of the abkári revenue, Sir Henry Stokes stated: "In these districts it is necessary to fix "a *maximum rate* beyond which the distillers shall not charge, and also to pitch the "still-head duty a little higher than Re. 1. I would make it Rs. 1-2-0 for taluk "vendors in those districts, and fix 14 annas per gallon as the *maximum charge* to "taluk vendors." From the previous portion of the note this rate appears to have been intended to apply to *30° U.P.* By G.O., No. 394, dated 18th March 1884, a committee was appointed to consider the changes proposed; but its report (which will be found printed in G.O., No. 570, dated 30th April 1884) is silent on the point. But one of the notifications drafted by the committee stated: "The former [*i.e.*, "persons authorized to establish distil-"leries] will be bound to supply at any "prices agreed upon . . . . subject to maximum prices of one rupee two annas, "one rupee, and nine annas per gallon for spirits of strengths 20° U.P., 30° U.P., and "60° U.P. respectively." These maxima rates were approved. For the Kurnool district during the lease for 1885–86 a maximum rate of twelve annas a gallon of 30° U.P. was prescribed. In submitting proposals for the lease for 1886–87, the Commissioner (Sir Henry Bliss) after observing that the maxima rates then in force were unnecessarily high—twelve annas in Kurnool and one rupee elsewhere—proposed a reduction to ten annas and-a-half. The proposal was approved by the Board [paragraph 10-I (*h*)]. The foregoing précis, it will be observed, shows that there was no intention to fix unalterable maxima rates, and that the rate of ten annas and-a-half a gallon of 30° U.P. was prescribed in December 1885 and not at the time of Mr. Shaw's letter of 20th May 1884. The Government order is signed by Sir Frederick Price and not by Sir Henry Stokes, who, it is understood, was then on leave. To be on the safe side it is perhaps desirable that Messrs. Parry & Co. may be asked to state definitely what the understanding was to which they refer and to forward a copy of the papers on which they replied. The Government has no objection, it is presumed, to the supply of any district by Messrs. Parry & Co. The real objection is to their enhancement of prices.

Does this mean that the present system enables them to make an excessive profit as a reward?

G.S.F.

* This was 15 years ago.

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This is absurd. The firm acts under a license the terms of which are what binds them and Government.

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A.T.A.
10-4-99.

No: they do not mean there was any contract or binding agreement: we have no record of any agreement: and they do not produce any which of course they would have done at once if it had been in existence or of any value beyond vague talk.

G.S.F.

I agree. Besides no such private note could invalidate the action of Government.

A.T.A.

7. Lastly, Messrs. Parry & Co. complain that as the utilization of molasses for spirit-making is a material branch of the sugar industry, the imposition of differential rates is a direct attack on the capital invested in that industry. The Board denies the validity of this complaint, as a sugar industry is being instituted in the north (presumably in Gódávari), the persons interested in which are willing to work for lower rates for the spirit produce than those now fixed by Government.

The Government of India are about to give special protection to sugar.

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8. Messrs. Parry & Co. state that, on the faith of the stability of long-standing revenue regulations, they have only recently completed the erection of a large expensive new distillery at Nellikuppam and that the East India Distilleries and Sugar Factories Company took over its business, and that a change in the abkári policy of Government cannot equitably be made until after notice proportionate* to the capital sunk in the business. The Board observes that the Company had a year's notice. Messrs. Parry & Co. enquired of the Board, under date the 23rd April 1898, whether the abkári policy "was to receive any important modi-"fication making distilling possibly "less attractive from a trader's point "of view." The Board replied that "no alteration in the Government abkári "policy in its *main* features" was contemplated, but that Government was bound to protect itself against the firm's attempt to obtain a monopoly of supply. Messrs. Parry & Co. appear to consider that the reduction of the maximum rate for molasses arrack as an important change, while the Board appears to think differently. Whether the length of notice was or was not sufficient in the present case depends on how the question is viewed.

Messrs. Parry & Co have always been perfectly well aware of the powers of Government to introduce changes of the maximum rates, and of the risks consequent thereon. At the time they were enlarging or building their distilleries they were themselves offering an 8½-anna rate.

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G. S. FORBES.
21–3–99.

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A. E. H[AVELOCK].
4–5–99.

To Secretary.

Please see draft below.

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8–5–99.

To the Honourable Member.

G.S.F.
11–5–99.

A.T.A.
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Issue.

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CONFIDENTIAL.

REVENUE DEPARTMENT.

NOTES CONNECTED WITH G.O., No. 1796, REVENUE, DATED 17TH MAY 1899.

Reduction of maximum prices of liquor at distilleries.

Board's Proceedings (Separate Revenue), Mis. No. 791, dated 25th February 1899.
Letter from Messrs. Parry & Co., dated 28th February 1899.

To Secretary.

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* G.O., No. 617, dated 10th February 1899.

In the above Proceedings the Board forwards with its remarks a protest from Messrs. Parry & Co. against the reduction, while the letter is a similar protest addressed direct to Government.

2. In paragraph 2 of its first letter, the firm admits that a proposal to supply country spirits at 8½ annas a gallon was made by Mr. Shaw, but that it was coupled with a stipulation to be given the monopoly of supply for a term of years in certain districts. The firm expected that under such an arrangement it could reduce its staff in Madras and up-country and thereby cheapen its working. It therefore protests against the forcing of that rate upon it without the counterbalancing advantage. The Board remarks that it did not ignore Mr. Shaw's offer, but that it attached less value to it than the firm seems to infer. The proposal of the latter was prompted by a desire to kill competition and could not therefore be accepted.

But if they volunteered an 8½-anna rate for a term of years, it was naturally a rate which would well protect them from the vicissitudes of the sugar market during the period. The fluctuations might have been very large, and yet an 8½-anna rate was deemed by the firm to cover them sufficiently.

G.S.F.

Yes, believed to be.

A. T. A[RUNDEL].

3. The firm's second objection is that as liquor is not made from only one class of material at a time, it would be difficult to work the scheme of differential rates. The Board does not anticipate any difficulty on the subject. The East India Distilleries and Sugar Factories Company distills from molasses only, while other distillers use only one class of material at a time. It is possible that to evade the present regulation an admixture of materials may be attempted; but the Board proposes to treat liquor so distilled as made from material of the lowest class used.

If, I suppose, a *substantial* portion of the mixture were of the low class?

G.S.F.

A.T.A.

4. Messrs. Parry & Co.'s third objection is that a difference of 2 annas in the maximum price at the distillery would only be 3¼ per cent. of the price to be paid by the shopkeeper including duty; that as the consumer buys by the dram, the difference in price would scarcely be appreciable; and that consumption cannot be materially affected. The Board is concerned not with the consumer directly, but with the shopkeeper, as against the distiller, and regards a decrease of 2 annas in first cost as a matter of very considerable moment to him.

5. Messrs. Parry & Co.'s fourth objection is that the decrease in consumption of liquor, if any, has been brought about by the enhancement of the tax, or by combination among retailers, and that the effect of the first measure has begun to be felt after the extinction of the "extreme competition" between the Nellikuppam

and Ránipéttai distilleries. These assertions are traversed by the Board in paragraphs 5 and 6 of its Proceedings. The firm states that when the East India Distilleries and Sugar Factories Company is forced out of the spirit business by "unjust legislation," the price of liquor would rise very high. The Board has no fear that the Company will be forced out except by its own mismanagement, for which Government cannot be blamed.

6. In paragraph 7 of their letter Messrs. Parry & Co. claim to have helped the Government in introducing the private distillery supply system, and complain that their services are now forgotten, and that they are thrown over. They refer to a letter addressed by Mr. Shaw, their senior partner, to Sir Henry Stokes on the 20th May 1884, * and to an understanding arrived at with reference thereto to the effect that, subject to the maximum of 10½ annas a gallon, the Government was indifferent as to how much of the Presidency they supplied. They infer presumably that the rate was unalterable. The Board observes that if Government has in the past benefited from the firm's help, the latter has reaped a plentiful return from its operations under Government patronage, and that though there is no desire to curtail its legitimate rate of profit, it cannot expect to dictate terms to Government. The Board is not aware of any correspondence to show that the 10½ annas was ever regarded as unalterable. The papers available in this office are noted in the margin. The demi-official letter referred to by Messrs. Parry & Co. cannot be traced nor the reply to it, if any. The search is being continued.† In a note dated the 5th April 1884 suggesting changes in the administration of the abkári revenue, Sir Henry Stokes stated: "In these districts it is necessary to fix "a *maximum rate* beyond which the distillers shall not charge, and also to pitch the "still-head duty a little higher than Re. 1. I would make it Rs. 1-2-0 for taluk "vendors in those districts, and fix 14 annas per gallon as the *maximum charge* to "taluk vendors." From the previous portion of the note this rate appears to have been intended to apply to *30° U.P.* By G.O., No. 394, dated 18th March 1884, a committee was appointed to consider the changes proposed; but its report (which will be found printed in G.O., No. 570, dated 30th April 1884) is silent on the point. But one of the notifications drafted by the committee stated: "The former [*i.e.*, "persons authorized to establish distil-"leries] will be bound to supply at any "prices agreed upon . . . . subject to maximum prices of one rupee two annas, "one rupee, and nine annas per gallon for spirits of strengths 20° U.P., 30° U.P., and "60° U.P. respectively." These maxima rates were approved. For the Kurnool district during the lease for 1885–86 a maximum rate of twelve annas a gallon of 30° U.P. was prescribed. In submitting proposals for the lease for 1886–87, the Commissioner (Sir Henry Bliss) after observing that the maxima rates then in force were unnecessarily high—twelve annas in Kurnool and one rupee elsewhere—proposed a reduction to ten annas and-a-half. The proposal was approved by the Board [paragraph 10-I (*b*)]. The foregoing précis, it will be observed, shows that there was no intention to fix unalterable maxima rates, and that the rate of ten annas and-a-half a gallon of 30° U.P. was prescribed in December 1885 and not at the time of Mr. Shaw's letter of 20th May 1884. The Government order is signed by Sir Frederick Price and not by Sir Henry Stokes, who, it is understood, was then on leave. To be on the safe side it is perhaps desirable that Messrs. Parry & Co. may be asked to state definitely what the understanding was to which they refer and to forward a copy of the papers on which they replied. The Government has no objection, it is presumed, to the supply of any district by Messrs. Parry & Co. The real objection is to their enhancement of prices.

Does this mean that the present system enables them to make an excessive profit as a reward?

G.S.F.

* This was 15 years ago.

G.S.F.

This is absurd. The firm acts under a license the terms of which are what binds them and Government.

A.T.A.

Page 10 of Sir Henry Stokes' note, dated 5th April 1884, in G.O., No. 394, dated 18th March 1884.

Paragraph 16 of the Commissioner's letter on page 3 of G.O., No. 1362, dated 10th December 1885.

† Not traceable—*vide* note of Record office, dated 8th May 1899.

Condition 4 of Notification IV on page 13 of G.O., No. 570, Revenue, dated 30th April 1884.

Paragraph 1 of G.O., *ibid.*

Paragraph 9 of Commissioner's letter on page 2 of G.O., No. 23, Revenue, dated 9th January 1885, and paragraph 3 of G.O.

Condition 11 on page 3 of G.O., No. 124, Revenue, dated 30th January 1885.

Paragraph 16 of his letter on page 3 of G.O., No. 1362, dated 10th December 1885.

Page 28 of G.O., *ibid.*

This could not be done without a formal G.O. which, if ever passed, would be objected to by India as soon they knew of it.

A.T.A.
10-4-99.

No: they do not mean there was any contract or binding agreement: we have no record of any agreement: and they do not produce any which of course they would have done at once if it had been in existence or of any value beyond vague talk.

G.S.F.

I agree. Besides no such private note could invalidate the action of Government.

A.T.A.

7. Lastly, Messrs. Parry & Co. complain that as the utilization of molasses for spirit-making is a material branch of the sugar industry, the imposition of differential rates is a direct attack on the capital invested in that industry. The Board denies the validity of this complaint, as a sugar industry is being instituted in the north (presumably in Gódávari), the persons interested in which are willing to work for lower rates for the spirit produce than those now fixed by Government.

The Government of India are about to give special protection to sugar.

G.S.F.

They have now done so.

A.T.A.

8. Messrs. Parry & Co. state that, on the faith of the stability of long-standing revenue regulations, they have only recently completed the erection of a large expensive new distillery at Nellikuppam and that the East India Distilleries and Sugar Factories Company took over its business, and that a change in the abkári policy of Government cannot equitably be made until after notice proportionate* to the capital sunk in the business. The Board observes that the Company had a year's notice. Messrs. Parry & Co. enquired of the Board, under date the 23rd April 1898, whether the abkári policy "was to receive any important modi-"fication making distilling possibly "less attractive from a trader's point "of view." The Board replied that "no alteration in the Government abkári "policy in its *main* features" was contemplated, but that Government was bound to protect itself against the firm's attempt to obtain a monopoly of supply. Messrs. Parry & Co. appear to consider that the reduction of the maximum rate for molasses arrack as an important change, while the Board appears to think differently. Whether the length of notice was or was not sufficient in the present case depends on how the question is viewed.

Messrs. Parry & Co have always been perfectly well aware of the powers of Government to introduce changes of the maximum rates, and of the risks consequent thereon. At the time they were enlarging or building their distilleries they were themselves offering an 8½-anna rate.

G.S.F.

* This contention of Messrs. Parry & Co. cannot of course be admitted.

A.T.A.

Vide paragraphs 16 and 17 of Board's Proceedings, No. 1690, dated 30th April 1898, on page 8 of G.O., No. 625, dated 27th October 1898.

Page 8 of G.O., *ibid.*

The firm was invited to give its views before the order was passed. The present letter was written after the first reply was received.

A.T.A.

As to the alleged dependence on the stability of revenue regulations, attention is solicited to rule 65 of the Distillery Rules published in the *Fort St. George Gazette*, dated 5th May 1899, Part I: "The Commissioner may, subject

Of course they know this better than we do.
G.S.F.

Draw their attention to this.
A.T.A.

"to the orders of Government, *fix from "time to time* the maximum prices to be "charged by distillers for spirits issued "from a distillery, etc." This distinctly negatives the assumption that the maximum rate once prescribed would be permanent.

9. In their letter, dated 15th February 1899, Messrs. Parry & Co. appeal to Government that the Board, after inducing them upon certain terms to engage on a large scale in the business of distillers, has suddenly, and without due notice, introduced a very serious modification of the terms. They add "our "present feeling is that rather than submit to what we consider a gross "breach of faith we must, even at some pecuniary loss to ourselves, close our "distilleries so far as the manufacture of what is known as country spirit is "concerned," and they call attention to the question of the attraction of capital to India. Whether the firm will carry out the threat, it is impossible to say. If it does, the Government may then consider what course should be adopted. In regard to the charge of breach of faith, it is not clear what terms were offered by the Board. As to want of notice, please see paragraph 8 above.

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G.S.F.
A.T.A.

V.K.R.
20-3-99.

To the Honourable Member.
To His Excellency the Governor.

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CONFIDENTIAL. REVENUE DEPARTMENT.

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Government {1899} of Madras.

REVENUE.

CONFIDENTIAL.

(FOR OFFICE USE ONLY.)

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Regd.		*Spare copies*

G.O., No. 1796 (Confdl. No. 62), 17th May 1899.

MAY.

Passing orders on Messrs. Parry & Co.'s petition protesting against the alteration in the maximum price for liquor issued from distilleries.

CONFIDENTIAL.

GOVERNMENT OF MADRAS.

REVENUE DEPARTMENT.

Read—the following Proceedings of the Board of Revenue (Separate Revenue), Mis. No. 791, dated 25th February 1899 :—

Read—the following letter from Messrs. PARRY & CO., Managing Agents, The East India Distilleries and Sugar Factories (Limited), to the Secretary to the Board of Revenue (Separate Revenue), dated Madras, 7th February 1899 :—

In continuation of our letter of 30th ultimo and in response to the Board's request in their letter of that date, we have now the honour to make the following further observations on the proposals then indicated, which we note are to establish differential prices against us as follows :—

(1) to reduce the maximum sale price of molasses spirit ex-distillery from $10\frac{1}{2}$ to $8\frac{1}{2}$ annas per gallon, or say by over 20 per cent. ;

(2) to reduce the price of palmyra jaggery liquor by an amount not stated ;

(3) to leave cane jaggery spirit price as at present.

2. The above proposal has fairly astounded us and in case it may have arisen in connection with a recent demi-official offer made by our Mr. W. Shaw to Mr. Thomson we would first clear that up. Mr. Shaw's offer stipulated not only for a contract for a term of years but also for terms which would have enabled us to largely reduce our staff both up-country and in Madras and so generally cheapen and simplify our working.

These advantages, with the desire to show Government that we did not propose to force prices to any excessive level, led us to offer to supply at $8\frac{1}{2}$ annas, but we must strongly protest against that rate being forced upon us as a maximum price without the counterbalancing advantages referred to.

3. Next we have to remark that the scheme would probably be found difficult to work if eventually attempted, because liquor is not made only from one class of material at a time but, in a greater or less degree for fermentation purposes, there is a mixture of materials in the vats, so that without hampering the business and deranging the ordinary course of work it would be impossible to say exactly what liquor is made from each individual class of material.

4. With regard to the opening paragraph of the letter under reply, it appears to us that the Board allow excessive weight to the effect on consumption of the, say, 2 annas per gallon difference of rates under reference. It has to be remembered that on a 10 annas basis for spirit ex-duty the shopkeeper will generally have to pay, say,—

	Rs.	A.	P.
As first cost	0	10	0
As duty	3	1	0
As transport wastage	0	2	0
Total cost ..	3	13	0

2 annas on that equals only, say, $3\frac{1}{4}$ per cent.—a difference not sufficient to have any marked effect on consumption, especially seeing that the actual consumer buys by the dram when the difference in price is scarcely appreciable.

5. We have not before us the figures on which the Board goes when stating that the consumption of the country arrack is diminishing, so we cannot well discuss that point as we should like to, but meanwhile we may mention that since 1894 the rate of duty has been raised 7 annas per gallon and upwards, practically all over the Presidency.

During 1895, 1896 and 1897 this rise in duty may not have been felt since : during that period, owing to extreme competition between the Nellikuppam and Ránipéttai distilleries, sale rates were cut down, eventually to below cost of production. From 1898, this competition having ceased, the rise in duty referred to is perhaps making itself felt on consumption, but there is no ground for asserting that hitherto we have forced prices to an unduly high pitch and certainly, so far, they are not so high as they will at once rule if by unjust legislation we are forced out of the spirit business.

6. Government appear to us to be acting in blind fear of the small rise in price necessary for us—manufacturers—to earn a fair profit on our capital and skill employed, while it overlooks or ignores the real hindrance to consumption which results when shopkeepers join together to raise retail prices to the consumers.

Cases in point are Madras and Kistna districts, in both of which wholesale prices are relatively low, while in both, owing to combination among shopkeepers, consumption has fallen off.

When asked to assign reason for such decreased consumption, shopkeepers are no doubt glad to put forward the reasons apparently accepted by the Board, but such will not bear investigation.

7. We would wish to remind Government that the existing abkári free-supply system, which has been worked with such financial success to Government for the last fifteen years, was orginally inaugurated only after much consultation of our then senior partner Mr. J. C. Shaw by Mr. (now Sir Henry) Stokes, and Mr. Shaw then wrote to Mr. Stokes as follows, under date 20th May 1884 :—

"As I said to you when here we will undertake to support you in carrying this through provided we are satisfied that there will be no throwing us over on the plea that we should be securing too many districts." It was then, we believe, that the $10\frac{1}{2}$ maximum rate ex-distillery for spirit was settled on and Mr. Shaw's fear, as expressed above, was met by the understanding that, subject to the said maximum, Government was indifferent as to how much of the Presidency we might supply. Our firm then gave all the assistance in its power and insured the successful start of the then new order of things. But now it would appear that our services then rendered are forgotten and Government by its differentiation of prices against us is wishing to throw us over exactly as Mr. Shaw foresaw might be the case.

8. In conclusion, we have the honour to submit that this scheme of differential rates, if carried out, will amount to a direct attack upon all capital invested in the sugar industry of this Presidency, of which industry the utilisation of molasses for spirit-making is, of course, a material branch. The reduction of price proposed would involve peculiar hardship to the shareholders who have so recently acquired an interest in this Company, and the injustice becomes the more apparent when it is remembered that only this year we have completed the erection of a large expensive new distillery at the express instigation of the late Abkári Commissioner, now Senior Member of Council. Had any indication been given us that a radical change of system was intended, such as this differentiation of rates against molasses spirit, we could not have thought of meeting Mr. Arundel's wishes and sunk the capital involved in the new distillery at Nellikuppam, nor could this Company have taken over its business on the terms it did. We can scarcely credit that on consideration Government will definitely decide upon practically confiscating in this way capital invested on the faith of the stability of long established revenue regulations, no change in which can equitably be made save after notice proportionate to the capital sunk in the business concerned.

Resolution—Mis. No. 791, dated 25th February 1899.

Messrs. Parry & Co.'s letter will be forwarded to Government with the following remarks.

2. *Paragraph 2.*—The Board was fully aware that Mr. Shaw's offer to contract for a term of years at $8\frac{1}{2}$ annas would, if accepted, improve even the present position of the Company by making that a fixed price for all-comers within the area contracted for and enable it to effect savings in various ways accordingly. The only advantage it promised for Government was that shopkeepers would be certain of the price they would have to pay, but the reduction therein under the maximum which the last rule allowed would be of small advantage to those at any distance from the only distillery—Nellikuppam—which the Company would have continued to maintain within the tract. Under competition it may be doubtful if the Company could force prices beyond $8\frac{1}{2}$ annas: its endeavour for some years now has been to kill competition; and the Board's proposal, while it did not ignore the fact of Mr. Shaw's offer, attached less value thereto than the Company seems to infer.

3. *Paragraph 3.*—The Board does not anticipate any difficulty in determining from what material liquor has been made. The Company distils only from molasses, minor distillers generally from only one class of material at a time, and the latter are not likely to find any objection to the differential rates. The uniformity of the distillery price for liquor without reference to material placed these latter at an enormous disadvantage in the competition. Admixture of materials, if tried at all (except to meet very temporary emergencies), can be so for no purpose, but the evasion of the present regulation and the Board would meet it by treating the resultant spirit as though made from material of the lowest class used.

4. *Paragraph 4.*—The effect on consumption of the difference of 2 annas per gallon may not be very appreciable when applied to the dram. But the Board is, for the present, most concerned regarding the competing distiller and the shopkeeper —the final agent in distribution—and from the point of view of the latter the decrease in first cost is a matter of very considerable moment.

5. *Paragraph 5.*—There is no reason for believing that the rise in duty since 1894 is making itself felt on consumption; the Board's administration reports negative such an opinion: but there is every reason to believe that the rise of price consequent on the want of competition in supply will intensify any such tendency if it exists, and the absence of competition is a current explanation of the fact of decrease in consumption. Reduction of consumption can be countervailed in its effect on the revenue by enhanced duty; but with a high maximum price up to which a distiller might work the danger lay in the anticipation of shopkeepers that prices would eventually be enhanced by this Company to the extreme limit the previous notification allowed, and the difference was the profit of the Company. The declared intention was to get rid of all competitors, and with that the maximum distillery price would certainly have been given effect to as far at least as was consistent with an output which would have satisfied the Company's view of its own possible profits. It is difficult to see how it can be forced out of the spirit business except by its own mismanagement: the present rate of $8\frac{1}{2}$ annas most distinctly cannot bring that about unless the business has been so reconstructed as to permit of it. If that is the case the Company and not Government is to blame.

6. *Paragraph 6.*—The Board is not aware of any hindrance to consumption from combination of shopkeepers to raise their prices to consumers; when the privileges of vend fall into the hands of single persons or syndicates, prices of course can be raised, no maximum price having been imposed; the remedy applicable is obvious if not always easy. Shopkeepers in any case must have a certain turn-over and make an income for themselves and when and if the country is adequately supplied with shops it cannot but follow that prices therein will be fixed in the main so as to yield the ordinary rate of profit.

7. *Paragraph 7.*—There is no information before the Board that leads it to believe that the $10\frac{1}{2}$ annas maximum rate was ever regarded as unalterable. Reference is requested to Mr. Stokes' note of 5th April 1884, the Commissioner's letter in Board's Proceedings, No. 3227, of 25th November 1885, and Board's Proceedings, No. 2095, of 17th September 1886, from which it would appear that the point was treated tentatively and the danger of monopoly always kept in view. Sir Henry Bliss in 1898 certainly entertained no idea of fixity of price, but on the contrary regarded Government's present action as the first course open to it. No such ground was hitherto taken by the firm so far as the Board is aware; on the contrary the point was not even referred to when the firm was consulted a year ago and more recently as to a reduction. If Government has benefited by the firm in the past the firm may well admit that it has reaped a plentiful return from its operations under Government patronage. There is no desire to curtail its legitimate rate of profit, but the Company is not content therewith and would evidently desire to dictate its own terms to Government.

8. *Paragraph 8.*—The Board distinctly joins issue with the statement that this scheme of differential rates is a direct attack on all capital invested in the sugar industry. On the contrary Government is aware of how a sugar industry is being instituted in the north which is willing to work at even lower rates for its spirit produce than Government has now directed. That the new rule will limit profits to the East India Distilleries and Sugar Factories (Limited) is no doubt true, but the Government of Madras was not consulted in the creation of that Company, and if it proceeded without due caution and overcapitalized itself the error cannot be laid at the doors of Government. The Board observes moreover from the Company's prospectus that the rate of profit on spirit on which the calculations therein are based is 2 annas a gallon. That probably was, and, if it was not, ought to have been, arrived at on past working and ought to be obtainable under the price now fixed. The prospectus further shows that Messrs. Parry & Co., before the amalgamation, were reaping enormous profits at a time when, on their own showing, their price averaged well under 7 annas, but how much of these profits was due to spirits and how much to sugar is of course unknown. The Board assumes that Government has not committed itself to the permanency of the former distillery rate; the Company makes no assertion that it has; but its complaint is virtually that it has been deceived by Government and is not the victim of its own financial shrewdness or incapacity. The Board has no reason to think that Government ever contemplated a time when the firm would assume the control of a large portion of the abkári administration by constituting itself the sole purveyor of spirit to the Presidency, but its recent action might fairly be ascribed to such a misconception.

9. As to the want of due notice, it is sufficient to say that the Company had clear notice a year ago that Government deliberated moving in the direction of reducing the distillery price and if the Company required a distinct assurance to the contrary then that should have been asked for. The Company's letter of 23rd April 1898, read with the Board's Proceedings, Mis. No. 1690, of 30th idem, does not, in the Board's opinion, give them room to complain of want of notice or of a change in Government policy. The Company knew what remedy lay in the hands of Government and apparently counted on Government's supineness while it pursued its policy of extermination of competitors. The differential rate is injurious to the Company only from the fact that it will prevent that policy; it cannot otherwise affect their legitimate profits on spirit as it will not in any degree alter or affect their methods of distillation from sugar refuse.

(True Extract.)

(Signed) EDMUND MILLETT,
Assistant Secretary.

To the Secretary to Government, Revenue Department,
with one enclosure.

Read—petition from Messrs. PARRY & CO., dated 15th February 1899.

Order—No. 1796 (Confdl. No. 62), Revenue, dated 17th May 1899.

Miscellaneous.

The Government concurs with the Board in its remarks in the first of the papers read above. Messrs. Parry & Co. should accordingly be informed that the Government sees no reason to reconsider the orders sanctioning a reduction of the maximum price of palmyra-jaggery arrack and molasses arrack issued from distilleries. With regard to the reference in the concluding paragraph of their letter to the Board, dated 7th February 1899, to "the stability of long-established Revenue Regulations," the attention of Messrs. Parry & Co. should be drawn to rule 65 of the Distillery and Warehouse Rules which provides that "the Commissioner may, subject to the orders of Government, fix *from time to time* the maximum prices to be charged by distillers for spirits issued from a distillery." It should also be pointed out to them that they act under a license granted annually the terms of which alone can be held to bind them and Government.

2. Adverting to the remarks in paragraph 3 of the Board's Proceedings, the Government presumes that the lower appropriate maximum rate will be enforced only if a substantial portion of the mixture be made from the lower classes of materials.

3. The Government desires that the Board of Revenue should investigate further the suggestion made by Messrs. Parry & Co. that combination among shopkeepers is partly the cause of the rise in the retail price to the consumer.

4. Messrs. Parry & Co. will be referred to the Board of Revenue for orders on their petition.

(True Extract.)

(Signed) G. S. FORBES,
Secretary to Government.

To the Board of Revenue (Separate Revenue),
with petition, to be returned.
" Messrs. Parry & Co. (paragraph 4 only).

Exd. W. D'Moss.

20 Copies.

NOTES CONNECTED WITH G.O., No. 1796, REVENUE, DATED 17th MAY 1899.

Reduction of maximum prices of liquor at distilleries.

Board's Proceedings (Separate Revenue), Mis. No. 791, dated 25th February 1899.
Letter from Messrs. Parry & Co., dated 28th February 1899.

To Secretary.

In G.O., No. 95, dated 6th February 1899, the Government authorized the Board of Revenue to reduce the maximum price to be charged by distillers for molasses arrack from 10½ annas to 8½ annas a gallon of 30° U.P., and a notification * was accordingly published by it on 7th February 1899 under the power conferred by rule 65 of the Distillery Rules.

* G.O., No. 617, dated 10th February 1899.

In the above Proceedings the Board forwards with its remarks a protest from Messrs. Parry & Co. against the reduction, while the letter is a similar protest addressed direct to Government.

2. In paragraph 2 of its first letter, the firm admits that a proposal to supply country spirits at 8½ annas a gallon was made by Mr. Shaw, but that it was coupled with a stipulation to be given the monopoly of supply for a term of years in certain districts. The firm expected that under such an arrangement it could reduce its staff in Madras and up-country and thereby cheapen its working. It therefore protests against the forcing of that rate upon it without the counterbalancing advantage. The Board remarks that it did not ignore Mr. Shaw's offer, but that it attached less value to it than the firm seems to infer. The proposal of the latter was prompted by a desire to kill competition and could not therefore be accepted.

But if they volunteered an 8½-anna rate for a term of years, it was naturally a rate which would well protect them from the vicissitudes of the sugar market during the period. The fluctuations might have been very large, and yet an 8½-anna rate was deemed by the firm to cover them sufficiently.

G.S.F.

Yes, believed to be.

A. T. A[rundel].

3. The firm's second objection is that as liquor is not made from only one class of material at a time, it would be difficult to work the scheme of differential rates. The Board does not anticipate any difficulty on the subject. The East India Distilleries and Sugar Factories Company distills from molasses only, while other distillers use only one class of material at a time. It is possible that to evade the present regulation an admixture of materials may be attempted; but the Board proposes to treat liquor so distilled as made from material of the lowest class used.

If, I suppose, a *substantial* portion of the mixture were of the low class?

G.S.F.

A.T.A.

4. Messrs. Parry & Co.'s third objection is that a difference of 2 annas in the maximum price at the distillery would only be 3¼ per cent. of the price to be paid by the shopkeeper including duty; that as the consumer buys by the dram, the difference in price would scarcely be appreciable; and that consumption cannot be materially affected. The Board is concerned not with the consumer directly, but with the shopkeeper, as against the distiller, and regards a decrease of 2 annas in first cost as a matter of very considerable moment to him.

5. Messrs. Parry & Co.'s fourth objection is that the decrease in consumption of liquor, if any, has been brought about by the enhancement of the tax, or by combination among retailers, and that the effect of the first measure has begun to be felt after the extinction of the "extreme competition" between the Nellikuppam

READ—petition from Messrs. PARRY & CO., dated 15th February 1899.

ORDER—Now the company will be forced out except by its own mismanagement for which Government cannot be blamed.

6. In paragraph 7 of their letter Messrs. Parry & Co. claim to have helped the Government in introducing the private distillery supply system, and complain that their services are now forgotten, and that they are thrown over. They refer to a letter addressed by Mr. Shaw, their senior partner, to Sir Henry Stokes on the 20th May 1884, * and to an understanding arrived at with reference thereto to the effect that, subject to the maximum of 10½ annas a gallon, the Government was indifferent as to how much of the Presidency they supplied. They infer presumably that the rate was unalterable. The Board observes that if Government has in the past benefited from the firm's help, the latter has reaped a plentiful return from its operations under Government patronage, and that though there is no desire to curtail its legitimate rate of profit, it cannot expect to dictate terms to Government. The Board is not aware of any correspondence to show that the 10½ annas was ever regarded as unalterable. The papers available in this office are noted in the margin. The demi-official letter referred to by Messrs. Parry & Co. cannot be traced nor the reply to it, if any. The search is being continued.† In a note dated the 5th April 1884 suggesting changes in the administration of the abkári revenue, Sir Henry Stokes stated: "In these districts it is necessary to fix "a *maximum rate* beyond which the distillers shall not charge, and also to pitch the "still-head duty a little higher than Re. 1. I would make it Rs. 1-2-0 for taluk "vendors in those districts, and fix 14 annas per gallon as the *maximum charge* to "taluk vendors." From the previous portion of the note this rate appears to have been intended to apply to *30° U.P.* By G.O., No. 394, dated 18th March 1884, a committee was appointed to consider the changes proposed; but its report (which will be found printed in G.O., No. 570, dated 30th April 1884) is silent on the point. But one of the notifications drafted by the committee stated: "The former [*i.e.*, "persons authorized to establish distil-"leries] will be bound to supply at any "prices agreed upon . . . . subject to maximum prices of one rupee two annas, "one rupee, and nine annas per gallon for spirits of strengths 20° U.P., 30° U.P., and "60° U.P. respectively." These maxima rates were approved. For the Kurnool district during the lease for 1885–86 a maximum rate of twelve annas a gallon of 30° U.P. was prescribed. In submitting proposals for the lease for 1886–87, the Commissioner (Sir Henry Bliss) after observing that the maxima rates then in force were unnecessarily high—twelve annas in Kurnool and one rupee elsewhere—proposed a reduction to ten annas and-a-half. The proposal was approved by the Board [paragraph 10-I (*h*)]. The

Does this mean that the present system enables them to make an excessive profit as a reward?
G.S.F.

* This was 15 years ago.
G.S.F.

This is absurd. The firm acts under a license the terms of which are what binds them and Government.
A.T.A.

Page 10 of Sir Henry Stokes' note, dated 5th April 1884, in G.O., No. 394, dated 18th March 1884.

Paragraph 16 of the Commissioner's letter on page 3 of G.O., No. 1362, dated 10th December 1885.

† Not traceable—*vide* note of Record office, dated 8th May 1899.

Condition 4 of Notification IV on page 13 of G.O., No. 570, Revenue, dated 30th April 1884.

Paragraph 1 of G.O., *ibid.*

Paragraph 9 of Commissioner's letter on page 2 of G.O., No. 23, Revenue, dated 9th January 1885, and paragraph 3 of G.O.

Condition 11 on page 3 of G.O., No. 124, Revenue, dated 30th January 1885.

Paragraph 16 of his letter on page 3 of G.O., No. 1362, dated 10th December 1885.

Page 28 of G.O., *ibid.*

NOTES CONNECTED WITH G.O., No. 1796, REVENUE, DATED 17TH MAY 1899.

A.T.A. 10-4-99.

of 30° U.P. was prescribed in December 1885 and not at the time of Mr. Shaw's letter of 20th May 1884. The Government order is signed by Sir Frederick Price and not by Sir Henry Stokes, who, it is understood, was then on leave. To be on the safe side it is perhaps desirable that Messrs. Parry & Co. may be asked to state definitely what the understanding was to which they refer and to forward a copy of the papers on which they replied. The Government has no objection, it is presumed, to the supply of any district by Messrs. Parry & Co. The real objection is to their enhancement of prices.

No: they do not mean there was any contract or binding agreement: we have no record of any agreement: and they do not produce any which of course they would have done at once if it had been in existence or of any value beyond vague talk.
G.S.F.

I agree. Besides no such private note could invalidate the action of Government.
A.T.A.

7. Lastly, Messrs. Parry & Co. complain that as the utilization of molasses for spirit-making is a material branch of the sugar industry, the imposition of differential rates is a direct attack on the capital invested in that industry. The Board denies the validity of this complaint, as a sugar industry is being instituted in the north (presumably in Gódávari), the persons interested in which are willing to work for lower rates for the spirit produce than those now fixed by Government.

The Government of India are about to give special protection to sugar.
G.S.F.

They have now done so.
A.T.A.

8. Messrs. Parry & Co. state that, on the faith of the stability of long-standing revenue regulations, they have only recently completed the erection of a large expensive new distillery at Nellikuppam and that the East India Distilleries and Sugar Factories Company took over its business, and that a change in the abkári policy of Government cannot equitably be made until after notice proportionate* to the capital sunk in the business. The Board observes that the Company had a year's notice. Messrs. Parry & Co. enquired of the Board, under date the 23rd April 1898, whether the abkári policy "was to receive any important modi-"fication making distilling possibly "less attractive from a trader's point "of view." The Board replied that "no alteration in the Government abkári "policy in its *main* features" was contemplated, but that Government was bound to protect itself against the firm's attempt to obtain a monopoly of supply. Messrs. Parry & Co. appear to consider that the reduction of the maximum rate for molasses arrack as an important change, while the Board appears to think differently. Whether the length of notice was or was not sufficient in the present case depends on how the question is viewed.

Messrs. Parry & Co have always been perfectly well aware of the powers of Government to introduce changes of the maximum rates, and of the risks consequent thereon. At the time they were enlarging or building their distilleries they were themselves offering an 8¼-anna rate.
G.S.F.

* This contention of Messrs. Parry & Co. cannot of course be admitted.
A.T.A.

Vide paragraphs 16 and 17 of Board's Proceedings, No. 1690, dated 30th April 1898, on page 8 of G.O., No. 625, dated 27th October 1898.

Page 8 of G.O., *ibid.*

The firm was invited to give its views before the order was passed. The present letter was written after the first reply was received.
A.T.A.

As to the alleged dependence on the stability of revenue regulations, attention is solicited to rule 65 of the Distillery Rules published in the *Fort St. George Gazette*, dated 5th May 1899, Part I: "The Commissioner may, subject

Of course they know this better than we do.
G.S.F.

Draw their attention to this.
A.T.A.

"to the orders of Government, *fix from* "*time to time* the maximum prices to be "charged by distillers for spirits issued "from a distillery, etc." This distinctly negatives the assumption that the maximum rate once prescribed would be permanent.

9. In their letter, dated 15th February 1899, Messrs. Parry & Co. appeal to Government that the Board, after inducing them upon certain terms to engage on a large scale in the business of distillers, has suddenly, and without due notice, introduced a very serious modification of the terms. They add "our "present feeling is that rather than submit to what we consider a gross "breach of faith we must, even at some pecuniary loss to ourselves, close our "distilleries so far as the manufacture of what is known as country spirit is "concerned," and they call attention to the question of the attraction of capital to India. Whether the firm will carry out the threat, it is impossible to say. If it does, the Government may then consider what course should be adopted. In regard to the charge of breach of faith, it is not clear what terms were offered by the Board. As to want of notice, please see paragraph 8 above.

Not an idea of it.
G.S.F.
A.T.A.

V.K.R.
20-3-99.

To the Honourable Member.
To His Excellency the Governor.

I have noted on the margin.

G. S. FORBES.
21-3-99.

Briefly put: Messrs. Parry & Co. want to get a monopoly of supply for the presidency or as much of it as possible by underselling other distilleries and so forcing their owners to give up the business. Government must retain power to prevent this and the distillery rules under which Messrs. Parry & Co. hold their license give Government the necessary means.

A. T. A[RUNDEL].
10-4-99.

I must accept the Honourable Member's conclusion, that we must stick to the previous order, though I think our having thus to reduce the maximum price is unfortunate. Perhaps it would be worth while to enquire further into the suggestion made by the Company that the combination of shopkeepers is partly the cause of the rise in price.

A. E. H[AVELOCK].
4-5-99.

To Secretary.

Please see draft below.

A.K.
8-5-99.

To the Honourable Member.

G.S.F.
11-5-99.

A.T.A.
15-5-99.

Issue.

G.S.F.
19-5-99.

Government {1899} of Madras.
REVENUE.

CONFIDENTIAL.

(FOR OFFICE USE ONLY.)

Recd. / *Regd.* } *1899.* — *Enclosures* / *Spare copies*

G.O., No. 1796 (Confdl. No. 62), 17th May 1899.

MAY.

Passing orders on Messrs. Parry & Co.'s petition protesting against the alteration in the maximum price for liquor issued from distilleries.

CONFIDENTIAL.

GOVERNMENT OF MADRAS.

REVENUE DEPARTMENT.

Read—the following Proceedings of the Board of Revenue (Separate Revenue), Mis. No. 791, dated 25th February 1899:—

Read—the following letter from Messrs. PARRY & CO., Managing Agents, The East India Distilleries and Sugar Factories (Limited), to the Secretary to the Board of Revenue (Separate Revenue), dated Madras, 7th February 1899:—

In continuation of our letter of 30th ultimo and in response to the Board's request in their letter of that date, we have now the honour to make the following further observations on the proposals then indicated, which we note are to establish differential prices against us as follows:—

(1) to reduce the maximum sale price of molasses spirit ex-distillery from $10\frac{1}{2}$ to $8\frac{1}{2}$ annas per gallon, or say by over 20 per cent.;
(2) to reduce the price of palmyra jaggery liquor by an amount not stated;
(3) to leave cane jaggery spirit price as at present.

2. The above proposal has fairly astounded us and in case it may have arisen in connection with a recent demi-official offer made by our Mr. W. Shaw to Mr. Thomson we would first clear that up. Mr. Shaw's offer stipulated not only for a contract for a term of years but also for terms which would have enabled us to largely reduce our staff both up-country and in Madras and so generally cheapen and simplify our working.

These advantages, with the desire to show Government that we did not propose to force prices to any excessive level, led us to offer to supply at $8\frac{1}{2}$ annas, but we must strongly protest against that rate being forced upon us as a maximum price without the counterbalancing advantages referred to.

3. Next we have to remark that the scheme would probably be found difficult to work if eventually attempted, because liquor is not made only from one class of material at a time but, in a greater or less degree for fermentation purposes, there is a mixture of materials in the vats, so that without hampering the business and deranging the ordinary course of work it would be impossible to say exactly what liquor is made from each individual class of material.

4. With regard to the opening paragraph of the letter under reply, it appears to us that the Board allow excessive weight to the effect on consumption of the, say, 2 annas per gallon difference of rates under reference. It has to be remembered that on a 10 annas basis for spirit ex-duty the shopkeeper will generally have to pay, say,—

	Rs.	A.	P.
As first cost			
As duty	0	10	0
As transport wastage	3	1	0
	0	2	0
Total cost ..	3	13	0

2 annas on that equals only, say, $3\frac{1}{4}$ per cent.—a difference not sufficient to have any marked effect on consumption, especially seeing that the actual consumer buys by the dram when the difference in price is scarcely appreciable.

5. We have not before us the figures on which the Board goes when stating that the consumption of the country arrack is diminishing, so we cannot well discuss that point as we should like to, but meanwhile we may mention that since 1894 the rate of duty has been raised 7 annas per gallon and upwards, practically all over the Presidency.

During 1895, 1896 and 1897 this rise in duty may not have been felt since: during that period, owing to extreme competition between the Nellikuppam and Ránipéttai distilleries, sale rates were cut down, eventually to below cost of production. From 1898, this competition having ceased, the rise in duty referred to is perhaps making itself felt on consumption, but there is no ground for asserting that hitherto we have forced prices to an unduly high pitch and certainly, so far, they are not so high as they will at once rule if by unjust legislation we are forced out of the spirit business.

6. Government appear to us to be acting in blind fear of the small rise in price necessary for us—manufacturers—to earn a fair profit on our capital and skill employed, while it overlooks or ignores the real hindrance to consumption which results when shopkeepers join together to raise retail prices to the consumers.

Cases in point are Madras and Kistna districts, in both of which wholesale prices are relatively low, while in both, owing to combination among shopkeepers, consumption has fallen off.

When asked to assign reason for such decreased consumption, shopkeepers are no doubt glad to put forward the reasons apparently accepted by the Board, but such will not bear investigation.

7. We would wish to remind Government that the existing abkári free-supply system, which has been worked with such financial success to Government for the last fifteen years, was orginally inaugurated only after much consultation of our then senior partner Mr. J. C. Shaw by Mr. (now Sir Henry) Stokes, and Mr. Shaw then wrote to Mr. Stokes as follows, under date 20th May 1884:—

"As I said to you when here we will undertake to support you in carrying this through provided we are satisfied that there will be no throwing us over on the plea that we should be securing too many districts." It was then, we believe, that the $10\frac{1}{2}$ maximum rate ex-distillery for spirit was settled on and Mr. Shaw's fear, as expressed above, was met by the understanding that, subject to the said maximum, Government was indifferent as to how much of the Presidency we might supply. Our firm then gave all the assistance in its power and insured the successful start of the then new order of things. But now it would appear that our services then rendered are forgotten and Government by its differentiation of prices against us is wishing to throw us over exactly as Mr. Shaw foresaw might be the case.

8. In conclusion, we have the honour to submit that this scheme of differential rates, if carried out, will amount to a direct attack upon all capital invested in the sugar industry of this Presidency, of which industry the utilisation of molasses for spirit-making is, of course, a material branch. The reduction of price proposed would involve peculiar hardship to the shareholders who have so recently acquired an interest in this Company, and the injustice becomes the more apparent when it is remembered that only this year we have completed the erection of a large expensive new distillery at the express instigation of the late Abkári Commissioner, now Senior Member of Council. Had any indication been given us that a radical change of system was intended, such as this differentiation of rates against molasses spirit, we could not have thought of meeting Mr. Arundel's wishes and sunk the capital involved in the new distillery at Nellikuppam, nor could this Company have taken over its business on the terms it did. We can scarcely credit that on consideration Government will definitely decide upon practically confiscating in this way capital invested on the faith of the stability of long established revenue regulations, no change in which can equitably be made save after notice proportionate to the capital sunk in the business concerned.

Resolution—Mis. No. 791, dated 25th February 1899.

Messrs. Parry & Co.'s letter will be forwarded to Government with the following remarks.

2. *Paragraph 2.*—The Board was fully aware that Mr. Shaw's offer to contract for a term of years at $8\frac{1}{2}$ annas would, if accepted, improve even the present position of the Company by making that a fixed price for all-comers within the area contracted for and enable it to effect savings in various ways accordingly. The only advantage it promised for Government was that shopkeepers would be certain of the price they would have to pay, but the reduction therein under the maximum which the last rule allowed would be of small advantage to those at any distance from the only distillery—Nellikuppam—which the Company would have continued to maintain within the tract. Under competition it may be doubtful if the Company could force prices beyond $8\frac{1}{2}$ annas: its endeavour for some years now has been to kill competition; and the Board's proposal, while it did not ignore the fact of Mr. Shaw's offer, attached less value thereto than the Company seems to infer.

3. *Paragraph 3.*—The Board does not anticipate any difficulty in determining from what material liquor has been made. The Company distils only from molasses, minor distillers generally from only one class of material at a time, and the latter are not likely to find any objection to the differential rates. The uniformity of the distillery price for liquor without reference to material placed these latter at an enormous disadvantage in the competition. Admixture of materials, if tried at all (except to meet very temporary emergencies), can be so for no purpose, but the evasion of the present regulation and the Board would meet it by treating the resultant spirit as though made from material of the lowest class used.

4. *Paragraph 4.*—The effect on consumption of the difference of 2 annas per gallon may not be very appreciable when applied to the dram. But the Board is, for the present, most concerned regarding the competing distiller and the shopkeeper —the final agent in distribution—and from the point of view of the latter the decrease in first cost is a matter of very considerable moment.

5. *Paragraph 5.*—There is no reason for believing that the rise in duty since 1894 is making itself felt on consumption; the Board's administration reports negative such an opinion: but there is every reason to believe that the rise of price consequent on the want of competition in supply will intensify any such tendency if it exists, and the absence of competition is a current explanation of the fact of decrease in consumption. Reduction of consumption can be countervailed in its effect on the revenue by enhanced duty; but with a high maximum price up to which a distiller might work the danger lay in the anticipation of shopkeepers that prices would eventually be enhanced by this Company to the extreme limit the previous notification allowed, and the difference was the profit of the Company. The declared intention was to get rid of all competitors, and with that the maximum distillery price would certainly have been given effect to as far at least as was consistent with an output which would have satisfied the Company's view of its own possible profits. It is difficult to see how it can be forced out of the spirit business except by its own mismanagement: the present rate of $8\frac{1}{2}$ annas most distinctly cannot bring that about unless the business has been so reconstructed as to permit of it. If that is the case the Company and not Government is to blame.

6. *Paragraph 6.*—The Board is not aware of any hindrance to consumption from combination of shopkeepers to raise their prices to consumers; when the privileges of vend fall into the hands of single persons or syndicates, prices of course can be raised, no maximum price having been imposed; the remedy applicable is obvious if not always easy. Shopkeepers in any case must have a certain turn-over and make an income for themselves and when and if the country is adequately supplied with shops it cannot but follow that prices therein will be fixed in the main so as to yield the ordinary rate of profit.

7. *Paragraph 7.*—There is no information before the Board that leads it to believe that the $10\frac{1}{2}$ annas maximum rate was ever regarded as unalterable. Reference is requested to Mr. Stokes' note of 5th April 1884, the Commissioner's letter in Board's Proceedings, No. 3227, of 25th November 1885, and Board's Proceedings, No. 2095, of 17th September 1886, from which it would appear that the point was treated tentatively and the danger of monopoly always kept in view. Sir Henry Bliss in 1898 certainly entertained no idea of fixity of price, but on the contrary regarded Government's present action as the first course open to it. No such ground was hitherto taken by the firm so far as the Board is aware; on the contrary the point was not even referred to when the firm was consulted a year ago and more recently as to a reduction. If Government has benefited by the firm in the past the firm may well admit that it has reaped a plentiful return from its operations under Government patronage. There is no desire to curtail its legitimate rate of profit, but the Company is not content therewith and would evidently desire to dictate its own terms to Government.

8. *Paragraph 8.*—The Board distinctly joins issue with the statement that this scheme of differential rates is a direct attack on all capital invested in the sugar industry. On the contrary Government is aware of how a sugar industry is being instituted in the north which is willing to work at even lower rates for its spirit produce than Government has now directed. That the new rule will limit profits to the East India Distilleries and Sugar Factories (Limited) is no doubt true, but the Government of Madras was not consulted in the creation of that Company, and if it proceeded without due caution and overcapitalized itself the error cannot be laid at the doors of Government. The Board observes moreover from the Company's prospectus that the rate of profit on spirit on which the calculations therein are based is 2 annas a gallon. That probably was, and, if it was not, ought to have been, arrived at on past working and ought to be obtainable under the price now fixed. The prospectus further shows that Messrs. Parry & Co., before the amalgamation, were reaping enormous profits at a time when, on their own showing, their price averaged well under 7 annas, but how much of these profits was due to spirits and how much to sugar is of course unknown. The Board assumes that Government has not committed itself to the permanency of the former distillery rate; the Company makes no assertion that it has; but its complaint is virtually that it has been deceived by Government and is not the victim of its own financial shrewdness or incapacity. The Board has no reason to think that Government ever contemplated a time when the firm would assume the control of a large portion of the abkári administration by constituting itself the sole purveyor of spirit to the Presidency, but its recent action might fairly be ascribed to such a misconception.

9. As to the want of due notice, it is sufficient to say that the Company had clear notice a year ago that Government deliberated moving in the direction of reducing the distillery price and if the Company required a distinct assurance to the contrary then that should have been asked for. The Company's letter of 23rd April 1898, read with the Board's Proceedings, Mis. No. 1690, of 30th idem, does not, in the Board's opinion, give them room to complain of want of notice or of a change in Government policy. The Company knew what remedy lay in the hands of Government and apparently counted on Government's supineness while it pursued its policy of extermination of competitors. The differential rate is injurious to the Company only from the fact that it will prevent that policy; it cannot otherwise affect their legitimate profits on spirit as it will not in any degree alter or affect their methods of distillation from sugar refuse.

(True Extract.)

(Signed) EDMUND MILLETT,
Assistant Secretary.

To the Secretary to Government, Revenue Department,
with one enclosure.

Read—petition from Messrs. PARRY & CO., dated 15th February 1899.

Order—No. 1796 (Confdl. No. 62), Revenue, dated 17th May 1899.

Miscellaneous.

The Government concurs with the Board in its remarks in the first of the papers read above. Messrs. Parry & Co. should accordingly be informed that the Government sees no reason to reconsider the orders sanctioning a reduction of the maximum price of palmyra-jaggery arrack and molasses arrack issued from distilleries. With regard to the reference in the concluding paragraph of their letter to the Board, dated 7th February 1899, to "the stability of long-established Revenue Regulations," the attention of Messrs. Parry & Co. should be drawn to rule 65 of the Distillery and Warehouse Rules which provides that "the Commissioner may, subject to the orders of Government, fix *from time to time* the maximum prices to be charged by distillers for spirits issued from a distillery." It should also be pointed out to them that they act under a license granted annually the terms of which alone can be held to bind them and Government.

2. Adverting to the remarks in paragraph 3 of the Board's Proceedings, the Government presumes that the lower appropriate maximum rate will be enforced only if a substantial portion of the mixture be made from the lower classes of materials.

3. The Government desires that the Board of Revenue should investigate further the suggestion made by Messrs. Parry & Co. that combination among shopkeepers is partly the cause of the rise in the retail price to the consumer.

4. Messrs. Parry & Co. will be referred to the Board of Revenue for orders on their petition.

(True Extract.)

(Signed) G. S. FORBES,
Secretary to Government.

To the Board of Revenue (Separate Revenue),
with petition, to be returned.
„ Messrs. Parry & Co. (paragraph 4 only).

Exd. W. D'Moss.

20 Copies.

CONFIDENTIAL.

Revenue Department.

NOTES CONNECTED WITH G.O., No. 1796, REVENUE, DATED 17th MAY 1899.

Reduction of maximum prices of liquor at distilleries.

Board's Proceedings (Separate Revenue), Mis. No. 791, dated 25th February 1899.
Letter from Messrs. Parry & Co., dated 28th February 1899.

To Secretary.

In G.O., No. 95, dated 6th February 1899, the Government authorized the Board of Revenue to reduce the maximum price to be charged by distillers for molasses arrack from 10½ annas to 8½ annas a gallon of 30° U.P., and a notification * was accordingly published by it on 7th February 1899 under the power conferred by rule 65 of the Distillery Rules.

* G.O., No. 617, dated 10th February 1899.

In the above Proceedings the Board forwards with its remarks a protest from Messrs. Parry & Co. against the reduction, while the letter is a similar protest addressed direct to Government.

2. In paragraph 2 of its first letter, the firm admits that a proposal to supply country spirits at 8½ annas a gallon was made by Mr. Shaw, but that it was coupled with a stipulation to be given the monopoly of supply for a term of years in certain districts. The firm expected that under such an arrangement it could reduce its staff in Madras and up-country and thereby cheapen its working. It therefore protests against the forcing of that rate upon it without the counterbalancing advantage. The Board remarks that it did not ignore Mr. Shaw's offer, but that it attached less value to it than the firm seems to infer. The proposal of the latter was prompted by a desire to kill competition and could not therefore be accepted.

But if they volunteered an 8½-anna rate for a term of years, it was naturally a rate which would well protect them from the vicissitudes of the sugar market during the period. The fluctuations might have been very large, and yet an 8½-anna rate was deemed by the firm to cover them sufficiently.

G.S.F.

Yes, believed to be.

A. T. A[rundel].

3. The firm's second objection is that as liquor is not made from only one class of material at a time, it would be difficult to work the scheme of differential rates. The Board does not anticipate any difficulty on the subject. The East India Distilleries and Sugar Factories Company distills from molasses only, while other distillers use only one class of material at a time. It is possible that to evade the present regulation an admixture of materials may be attempted; but the Board proposes to treat liquor so distilled as made from material of the lowest class used.

If, I suppose, a *substantial* portion of the mixture were of the low class?

G.S.F.

A.T.A.

4. Messrs. Parry & Co.'s third objection is that a difference of 2 annas in the maximum price at the distillery would only be 3¼ per cent. of the price to be paid by the shopkeeper including duty; that as the consumer buys by the dram, the difference in price would scarcely be appreciable; and that consumption cannot be materially affected. The Board is concerned not with the consumer directly, but with the shopkeeper, as against the distiller, and regards a decrease of 2 annas in first cost as a matter of very considerable moment to him.

5. Messrs. Parry & Co.'s fourth objection is that the decrease in consumption of liquor, if any, has been brought about by the enhancement of the tax, or by combination among retailers, and that the effect of the first measure has begun to be felt after the extinction of the "extreme competition" between the Nellikuppam

and Ránipéttai distilleries. These assertions are traversed by the Board in paragraphs 5 and 6 of its Proceedings. The firm states that when the East India Distilleries and Sugar Factories Company is forced out of the spirit business by "unjust legislation," the price of liquor would rise very high. The Board has no fear that the Company will be forced out except by its own mismanagement, for which Government cannot be blamed.

6. In paragraph 7 of their letter Messrs. Parry & Co. claim to have helped the Government in introducing the private distillery supply system, and complain that their services are now forgotten, and that they are thrown over. They refer to a letter addressed by Mr. Shaw, their senior partner, to Sir Henry Stokes on the 20th May 1884, * and to an understanding arrived at with reference thereto to the effect that, subject to the maximum of 10½ annas a gallon, the Government was indifferent as to how much of the Presidency they supplied. They infer presumably that the rate was unalterable. The Board observes that if Government has in the past benefited from the firm's help, the latter has reaped a plentiful return from its operations under Government patronage, and that though there is no desire to curtail its legitimate rate of profit, it cannot expect to dictate terms to Government. The Board is not aware of any correspondence to show that the 10½ annas was ever regarded as unalterable. The papers available in this office are noted in the margin. The demi-official letter referred to by Messrs. Parry & Co. cannot be traced nor the reply to it, if any. The search is being continued.† In a note dated the 5th April 1884 suggesting changes in the administration of the abkári revenue, Sir Henry Stokes stated: "In these districts it is necessary to fix "a *maximum rate* beyond which the distillers shall not charge, and also to pitch the "still-head duty a little higher than Re. 1. I would make it Rs. 1-2-0 for taluk "vendors in those districts, and fix 14 annas per gallon as the *maximum charge* to "taluk vendors." From the previous portion of the note this rate appears to have been intended to apply to *30° U.P.* By G.O., No. 394, dated 18th March 1884, a committee was appointed to consider the changes proposed; but its report (which will be found printed in G.O., No. 570, dated 30th April 1884) is silent on the point. But one of the notifications drafted by the committee stated: "The former [*i.e.*, "persons authorized to establish distil-"leries] will be bound to supply at any "prices agreed upon . . . . subject to maximum prices of one rupee two annas, "one rupee, and nine annas per gallon for spirits of strengths 20° U.P., 30° U.P., and "60° U.P. respectively." These maxima rates were approved. For the Kurnool district during the lease for 1885-86 a maximum rate of twelve annas a gallon of 30° U.P. was prescribed. In submitting proposals for the lease for 1886-87, the Commissioner (Sir Henry Bliss) after observing that the maxima rates then in force were unnecessarily high—twelve annas in Kurnool and one rupee elsewhere—proposed a reduction to ten annas and-a-half. The proposal was approved by the Board [paragraph 10-I (*h*)]. The foregoing précis, it will be observed, shows that there was no intention to fix unalterable maxima rates, and that the rate of ten annas and-a-half a gallon of 30° U.P. was prescribed in December 1885 and not at the time of Mr. Shaw's letter of 20th May 1884. The Government order is signed by Sir Frederick Price and not by Sir Henry Stokes, who, it is understood, was then on leave. To be on the safe side it is perhaps desirable that Messrs. Parry & Co. may be asked to state definitely what the understanding was to which they refer and to forward a copy of the papers on which they replied. The Government has no objection, it is presumed, to the supply of any district by Messrs. Parry & Co. The real objection is to their enhancement of prices.

Does this mean that the present system enables them to make an excessive profit as a reward?

G.S.F.

* This was 15 years ago.

G.S.F.

This is absurd. The firm acts under a license the terms of which are what binds them and Government.

A.T.A.

Page 10 of Sir Henry Stokes' note, dated 5th April 1884, in G.O., No. 594, dated 18th March 1884.

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Condition 11 on page 3 of G.O., No. 124, Revenue, dated 30th January 1885.

Paragraph 16 of his letter on page 3 of G.O., No. 1362, dated 10th December 1885.

Page 28 of G.O., *ibid.*

This could not be done without a formal G.O. which, if ever passed, would be objected to by India as soon they knew of it.

A.T.A.
10-4-99.

No: they do not mean there was any contract or binding agreement: we have no record of any agreement: and they do not produce any which of course they would have done at once if it had been in existence or of any value beyond vague talk.

G.S.F.

I agree. Besides no such private note could invalidate the action of Government.

A.T.A.

7. Lastly, Messrs. Parry & Co. complain that as the utilization of molasses for spirit-making is a material branch of the sugar industry, the imposition of differential rates is a direct attack on the capital invested in that industry. The Board denies the validity of this complaint, as a sugar industry is being instituted in the north (presumably in Gódávari), the persons interested in which are willing to work for lower rates for the spirit produce than those now fixed by Government.

The Government of India are about to give special protection to sugar.

G.S.F.

They have now done so.

A.T.A.

8. Messrs. Parry & Co. state that, on the faith of the stability of long-standing revenue regulations, they have only recently completed the erection of a large expensive new distillery at Nellikuppam and that the East India Distilleries and Sugar Factories Company took over its business, and that a change in the abkári policy of Government cannot equitably be made until after notice proportionate* to the capital sunk in the business. The Board observes that the Company had a year's notice. Messrs. Parry & Co. enquired of the Board, under date the 23rd April 1898, whether the abkári policy "was to receive any important modi-"fication making distilling possibly "less attractive from a trader's point "of view." The Board replied that "no alteration in the Government abkári "policy in its *main* features" was contemplated, but that Government was bound to protect itself against the firm's attempt to obtain a monopoly of supply. Messrs. Parry & Co. appear to consider that the reduction of the maximum rate for molasses arrack as an important change, while the Board appears to think differently. Whether the length of notice was or was not sufficient in the present case depends on how the question is viewed.

As to the alleged dependence on the stability of revenue regulations, attention is solicited to rule 65 of the Distillery Rules published in the *Fort St. George Gazette*, dated 5th May 1899, Part I: "The Commissioner may, subject

Messrs. Parry & Co have always been perfectly well aware of the powers of Government to introduce changes of the maximum rates, and of the risks consequent thereon. At the time they were enlarging or building their distilleries they were themselves offering an 8¼-anna rate.

G.S.F.

* This contention of Messrs. Parry & Co. cannot of course be admitted.

A.T.A.

Vide paragraphs 16 and 17 of Board's Proceedings, No. 1690, dated 30th April 1898, on page 8 of G.O., No. 625, dated 27th October 1898.

Page 8 of G.O., *ibid.*

The firm was invited to give its views before the order was passed. The present letter was written after the first reply was received.

A.T.A.

Of course they know this better than we do.
G.S.F.

Draw their attention to this.
A.T.A.

"to the orders of Government, *fix from* "*time to time* the maximum prices to be "charged by distillers for spirits issued "from a distillery, etc." This distinctly negatives the assumption that the maximum rate once prescribed would be permanent.

9. In their letter, dated 15th February 1899, Messrs. Parry & Co. appeal to Government that the Board, after inducing them upon certain terms to engage on a large scale in the business of distillers, has suddenly, and without due notice, introduced a very serious modification of the terms. They add "our "present feeling is that rather than submit to what we consider a gross "breach of faith we must, even at some pecuniary loss to ourselves, close our "distilleries so far as the manufacture of what is known as country spirit is "concerned," and they call attention to the question of the attraction of capital to India. Whether the firm will carry out the threat, it is impossible to say. If it does, the Government may then consider what course should be adopted. In regard to the charge of breach of faith, it is not clear what terms were offered by the Board. As to want of notice, please see paragraph 8 above.

Not an idea of it.
G.S.F.
A.T.A.

V.K.R.
20–3–99.

To the Honourable Member.
To His Excellency the Governor.

I have noted on the margin.

G. S. FORBES.
21–3–99.

Briefly put: Messrs. Parry & Co. want to get a monopoly of supply for the presidency or as much of it as possible by underselling other distilleries and so forcing their owners to give up the business. Government must retain power to prevent this and the distillery rules under which Messrs. Parry & Co. hold their license give Government the necessary means.

A. T. A[RUNDEL].
10–4–99.

I must accept the Honourable Member's conclusion, that we must stick to the previous order, though I think our having thus to reduce the maximum price is unfortunate. Perhaps it would be worth while to enquire further into the suggestion made by the Company that the combination of shopkeepers is partly the cause of the rise in price.

A. E. H[AVELOCK].
4–5–99.

To Secretary.

Please see draft below.

A.K.
8–5–99.

To the Honourable Member.

G.S.F.
11–5–99.

A.T.A.
15–5–99.

Issue.

G.S.F.
19–5–99.

CONFIDENTIAL.

REVENUE DEPARTMENT.

NOTES CONNECTED WITH G.O., No. 1796, REVENUE, DATED 17TH MAY 1899.

Reduction of maximum prices of liquor at distilleries.

Board's Proceedings (Separate Revenue), Mis. No. 791, dated 25th February 1899.
Letter from Messrs. Parry & Co., dated 28th February 1899.

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In G.O., No. 95, dated 6th February 1899, the Government authorized the Board of Revenue to reduce the maximum price to be charged by distillers for molasses arrack from $10\frac{1}{2}$ annas to $8\frac{1}{2}$ annas a gallon of 30° U.P., and a notification * was accordingly published by it on 7th February 1899 under the power conferred by rule 65 of the Distillery Rules.

* G.O., No. 617, dated 10th February 1899.

In the above Proceedings the Board forwards with its remarks a protest from Messrs. Parry & Co. against the reduction, while the letter is a similar protest addressed direct to Government.

2. In paragraph 2 of its first letter, the firm admits that a proposal to supply country spirits at $8\frac{1}{2}$ annas a gallon was made by Mr. Shaw, but that it was coupled with a stipulation to be given the monopoly of supply for a term of years in certain districts. The firm expected that under such an arrangement it could reduce its staff in Madras and up-country and thereby cheapen its working. It therefore protests against the forcing of that rate upon it without the counterbalancing advantage. The Board remarks that it did not ignore Mr. Shaw's offer, but that it attached less value to it than the firm seems to infer. The proposal of the latter was prompted by a desire to kill competition and could not therefore be accepted.

But if they volunteered an $8\frac{1}{2}$-anna rate for a term of years, it was naturally a rate which would well protect them from the vicissitudes of the sugar market during the period. The fluctuations might have been very large, and yet an $8\frac{1}{2}$-anna rate was deemed by the firm to cover them sufficiently.
G.S.F.

Yes, believed to be.
A. T. A[RUNDEL].

3. The firm's second objection is that as liquor is not made from only one class of material at a time, it would be difficult to work the scheme of differential rates. The Board does not anticipate any difficulty on the subject. The East India Distilleries and Sugar Factories Company distills from molasses only, while other distillers use only one class of material at a time. It is possible that to evade the present regulation an admixture of materials may be attempted; but the Board proposes to treat liquor so distilled as made from material of the lowest class used.

If, I suppose, a *substantial* portion of the mixture were of the low class?
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A.T.A.

4. Messrs. Parry & Co.'s third objection is that a difference of 2 annas in the maximum price at the distillery would only be $3\frac{1}{4}$ per cent. of the price to be paid by the shopkeeper including duty; that as the consumer buys by the dram, the difference in price would scarcely be appreciable; and that consumption cannot be materially affected. The Board is concerned not with the consumer directly, but with the shopkeeper, as against the distiller, and regards a decrease of 2 annas in first cost as a matter of very considerable moment to him.

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and Ránipéttai distilleries. These assertions are traversed by the Board in paragraphs 5 and 6 of its Proceedings. The firm states that when the East India Distilleries and Sugar Factories Company is forced out of the spirit business by "unjust legislation," the price of liquor would rise very high. The Board has no fear that the Company will be forced out except by its own mismanagement, for which Government cannot be blamed.

6. In paragraph 7 of their letter Messrs. Parry & Co. claim to have helped the Government in introducing the private distillery supply system, and complain that their services are now forgotten, and that they are thrown over. They refer to a letter addressed by Mr. Shaw, their senior partner, to Sir Henry Stokes on the 20th May 1884, * and to an understanding arrived at with reference thereto to the effect that, subject to the maximum of $10\frac{1}{2}$ annas a gallon, the Government was indifferent as to how much of the Presidency they supplied. They infer presumably that the rate was unalterable. The Board observes that if Government has in the past benefited from the firm's help, the latter has reaped a plentiful return from its operations under Government patronage, and that though there is no desire to curtail its legitimate rate of profit, it cannot expect to dictate terms to Government. The Board is not aware of any correspondence to show that the $10\frac{1}{2}$ annas was ever regarded as unalterable. The papers available in this office are noted in the margin. The demi-official letter referred to by Messrs. Parry & Co. cannot be traced nor the reply to it, if any. The search is being continued.† In a note dated the 5th April 1884 suggesting changes in the administration of the abkári revenue, Sir Henry Stokes stated: "In these districts it is necessary to fix "a *maximum rate* beyond which the distillers shall not charge, and also to pitch the "still-head duty a little higher than Re. 1. I would make it Rs. 1-2-0 for taluk "vendors in those districts, and fix 14 annas per gallon as the *maximum charge* to "taluk vendors." From the previous portion of the note this rate appears to have been intended to apply to *30° U.P.* By G.O., No. 394, dated 18th March 1884, a committee was appointed to consider the changes proposed; but its report (which will be found printed in G.O., No. 570, dated 30th April 1884) is silent on the point. But one of the notifications drafted by the committee stated: "The former [*i.e.*, "persons authorized to establish distil-"leries] will be bound to supply at any "prices agreed upon . . . . . subject to maximum prices of one rupee two annas, "one rupee, and nine annas per gallon for spirits of strengths 20° U.P., 30° U.P., and "60° U.P. respectively." These maxima rates were approved. For the Kurnool district during the lease for 1885–86 a maximum rate of twelve annas a gallon of 30° U.P. was prescribed. In submitting proposals for the lease for 1886–87, the Commissioner (Sir Henry Bliss) after observing that the maxima rates then in force were unnecessarily high—twelve annas in Kurnool and one rupee elsewhere—proposed a reduction to ten annas and-a-half. The proposal was approved by the Board [paragraph 10-I (*h*)]. The

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A.T.A.
10-4-99.

foregoing précis, it will be observed, shows that there was no intention to fix unalterable maxima rates, and that the rate of ten annas and-a-half a gallon of 30° U.P. was prescribed in December 1885 and not at the time of Mr. Shaw's letter of 20th May 1884. The Government order is signed by Sir Frederick Price and not by Sir Henry Stokes, who, it is understood, was then on leave. To be on the safe side it is perhaps desirable that Messrs. Parry & Co. may be asked to state definitely what the understanding was to which they refer and to forward a copy of the papers on which they replied. The Government has no objection, it is presumed, to the supply of any district by Messrs. Parry & Co. The real objection is to their enhancement of prices.

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G.S.F.

* This contention of Messrs. Parry & Co. cannot of course be admitted.

A.T.A.

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Not an idea of it.
G.S.F.
A.T.A.

V.K.R.
20–3–99.

To the Honourable Member.
To His Excellency the Governor.

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G. S. FORBES.
21–3–99.

Briefly put: Messrs. Parry & Co. want to get a monopoly of supply for the presidency or as much of it as possible by underselling other distilleries and so forcing their owners to give up the business. Government must retain power to prevent this and the distillery rules under which Messrs. Parry & Co. hold their license give Government the necessary means.

A. T. A[RUNDEL].
10–4–99.

I must accept the Honourable Member's conclusion, that we must stick to the previous order, though I think our having thus to reduce the maximum price is unfortunate. Perhaps it would be worth while to enquire further into the suggestion made by the Company that the combination of shopkeepers is partly the cause of the rise in price.

A. E. H[AVELOCK].
4–5–99.

To Secretary.

Please see draft below.

A.K.
8–5–99.

To the Honourable Member.

G.S.F.
11–5–99.

A.T.A.
15–5–99.

Issue.

G.S.F.
19–5–99.

CONFIDENTIAL.

REVENUE DEPARTMENT.

NOTES CONNECTED WITH G.O., No. 1796, REVENUE, DATED 17TH MAY 1899.

Reduction of maximum prices of liquor at distilleries.

Board's Proceedings (Separate Revenue), Mis. No. 791, *dated 25th February* 1899.
Letter from Messrs. Parry & Co., dated 28th February 1899.

To Secretary.

In G.O., No. 95, dated 6th February 1899, the Government authorized the Board of Revenue to reduce the maximum price to be charged by distillers for molasses arrack from $10\frac{1}{2}$ annas to $8\frac{1}{2}$ annas a gallon of 30° U.P., and a notification * was accordingly published by it on 7th February 1899 under the power conferred by rule 65 of the Distillery Rules.

*G.O., No. 617, dated 10th February 1899.

In the above Proceedings the Board forwards with its remarks a protest from Messrs. Parry & Co. against the reduction, while the letter is a similar protest addressed direct to Government.

2. In paragraph 2 of its first letter, the firm admits that a proposal to supply country spirits at $8\frac{1}{2}$ annas a gallon was made by Mr. Shaw, but that it was coupled with a stipulation to be given the monopoly of supply for a term of years in certain districts. The firm expected that under such an arrangement it could reduce its staff in Madras and up-country and thereby cheapen its working. It therefore protests against the forcing of that rate upon it without the counterbalancing advantage. The Board remarks that it did not ignore Mr. Shaw's offer, but that it attached less value to it than the firm seems to infer. The proposal of the latter was prompted by a desire to kill competition and could not therefore be accepted.

But if they volunteered an $8\frac{1}{2}$-anna rate for a term of years, it was naturally a rate which would well protect them from the vicissitudes of the sugar market during the period. The fluctuations might have been very large, and yet an $8\frac{1}{2}$-anna rate was deemed by the firm to cover them sufficiently.
G.S.F.

Yes, believed to be.
A. T. A[RUNDEL].

3. The firm's second objection is that as liquor is not made from only one class of material at a time, it would be difficult to work the scheme of differential rates. The Board does not anticipate any difficulty on the subject. The East India Distilleries and Sugar Factories Company distills from molasses only, while other distillers use only one class of material at a time. It is possible that to evade the present regulation an admixture of materials may be attempted; but the Board proposes to treat liquor so distilled as made from material of the lowest class used.

If, I suppose, a *substantial* portion of the mixture were of the low class?
G.S.F.
A.T.A.

4. Messrs. Parry & Co.'s third objection is that a difference of 2 annas in the maximum price at the distillery would only be $3\frac{1}{4}$ per cent. of the price to be paid by the shopkeeper including duty; that as the consumer buys by the dram, the difference in price would scarcely be appreciable; and that consumption cannot be materially affected. The Board is concerned not with the consumer directly, but with the shopkeeper, as against the distiller, and regards a decrease of 2 annas in first cost as a matter of very considerable moment to him.

5. Messrs. Parry & Co.'s fourth objection is that the decrease in consumption of liquor, if any, has been brought about by the enhancement of the tax, or by combination among retailers, and that the effect of the first measure has begun to be felt after the extinction of the "extreme competition" between the Nellikuppam

and Ránipéttai distilleries. These assertions are traversed by the Board in paragraphs 5 and 6 of its Proceedings. The firm states that when the East India Distilleries and Sugar Factories Company is forced out of the spirit business by "unjust legislation," the price of liquor would rise very high. The Board has no fear that the Company will be forced out except by its own mismanagement, for which Government cannot be blamed.

6. In paragraph 7 of their letter Messrs. Parry & Co. claim to have helped the Government in introducing the private distillery supply system, and complain that their services are now forgotten, and that they are thrown over. They refer to a letter addressed by Mr. Shaw, their senior partner, to Sir Henry Stokes on the 20th May 1884, * and to an understanding arrived at with reference thereto to the effect that, subject to the maximum of 10½ annas a gallon, the Government was indifferent as to how much of the Presidency they supplied. They infer presumably that the rate was unalterable. The Board observes that if Government has in the past benefited from the firm's help, the latter has reaped a plentiful return from its operations under Government patronage, and that though there is no desire to curtail its legitimate rate of profit, it cannot expect to dictate terms to Government. The Board is not aware of any correspondence to show that the 10½ annas was ever regarded as unalterable. The papers available in this office are noted in the margin. The demi-official letter referred to by Messrs. Parry & Co. cannot be traced nor the reply to it, if any. The search is being continued.† In a note dated the 5th April 1884 suggesting changes in the administration of the abkári revenue, Sir Henry Stokes stated: "In these districts it is necessary to fix "a *maximum rate* beyond which the distillers shall not charge, and also to pitch the "still-head duty a little higher than Re. 1. I would make it Rs. 1-2-0 for taluk "vendors in those districts, and fix 14 annas per gallon as the *maximum charge* to "taluk vendors." From the previous portion of the note this rate appears to have been intended to apply to *30° U.P.* By G.O., No. 394, dated 18th March 1884, a committee was appointed to consider the changes proposed; but its report (which will be found printed in G.O., No. 570, dated 30th April 1884) is silent on the point. But one of the notifications drafted by the committee stated: "The former [*i.e.*, "persons authorized to establish distil-"leries] will be bound to supply at any "prices agreed upon . . . . subject to maximum prices of one rupee two annas, "one rupee, and nine annas per gallon for spirits of strengths 20° U.P., 30° U.P., and "60° U.P. respectively." These maxima rates were approved. For the Kurnool district during the lease for 1885-86 a maximum rate of twelve annas a gallon of 30° U.P. was prescribed. In submitting proposals for the lease for 1886-87, the Commissioner (Sir Henry Bliss) after observing that the maxima rates then in force were unnecessarily high—twelve annas in Kurnool and one rupee elsewhere—proposed a reduction to ten annas and-a-half. The proposal was approved by the Board [paragraph 10-I (*b*)]. The

Does this mean that the present system enables them to make an excessive profit as a reward?

G.S.F.

* This was 15 years ago.

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This is absurd. The firm acts under a license the terms of which are what binds them and Government.

A.T.A.

Page 10 of Sir Henry Stokes' note, dated 5th April 1884, in G.O., No. 294, dated 18th March 1884.

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Condition 4 of Notification IV on page 13 of G.O., No. 570, Revenue, dated 30th April 1884.

Paragraph 1 of G.O., *ibid.*

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Page 28 of G.O., *ibid.*

This could not be done without a formal G.O. which, if ever passed, would be objected to by India as soon they knew of it.

A.T.A.
10-4-99.

foregoing précis, it will be observed, shows that there was no intention to fix unalterable maxima rates, and that the rate of ten annas and-a-half a gallon of 30° U.P. was prescribed in December 1885 and not at the time of Mr. Shaw's letter of 20th May 1884. The Government order is signed by Sir Frederick Price and not by Sir Henry Stokes, who, it is understood, was then on leave. To be on the safe side it is perhaps desirable that Messrs. Parry & Co. may be asked to state definitely what the understanding was to which they refer and to forward a copy of the papers on which they replied. The Government has no objection, it is presumed, to the supply of any district by Messrs. Parry & Co. The real objection is to their enhancement of prices.

No: they do not mean there was any contract or binding agreement: we have no record of any agreement: and they do not produce any which of course they would have done at once if it had been in existence or of any value beyond vague talk.

G.S.F.

I agree. Besides no such private note could invalidate the action of Government.

A.T.A.

7. Lastly, Messrs. Parry & Co. complain that as the utilization of molasses for spirit-making is a material branch of the sugar industry, the imposition of differential rates is a direct attack on the capital invested in that industry. The Board denies the validity of this complaint, as a sugar industry is being instituted in the north (presumably in Gódávari), the persons interested in which are willing to work for lower rates for the spirit produce than those now fixed by Government.

The Government of India are about to give special protection to sugar.

G.S.F.

They have now done so.

A.T.A.

8. Messrs. Parry & Co. state that, on the faith of the stability of long-standing revenue regulations, they have only recently completed the erection of a large expensive new distillery at Nellikuppam and that the East India Distilleries and Sugar Factories Company took over its business, and that a change in the abkári policy of Government cannot equitably be made until after notice proportionate* to the capital sunk in the business. The Board observes that the Company had a year's notice. Messrs. Parry & Co. enquired of the Board, under date the 23rd April 1898, whether the abkári policy "was to receive any important modi-"fication making distilling possibly "less attractive from a trader's point "of view." The Board replied that "no alteration in the Government abkári "policy in its *main* features" was contemplated, but that Government was bound to protect itself against the firm's attempt to obtain a monopoly of supply. Messrs. Parry & Co. appear to consider that the reduction of the maximum rate for molasses arrack as an important change, while the Board appears to think differently. Whether the length of notice was or was not sufficient in the present case depends on how the question is viewed.

As to the alleged dependence on the stability of revenue regulations, attention is solicited to rule 65 of the Distillery Rules published in the *Fort St. George Gazette*, dated 5th May 1899, Part I: "The Commissioner may, subject

Messrs. Parry & Co have always been perfectly well aware of the powers of Government to introduce changes of the maximum rates, and of the risks consequent thereon. At the time they were enlarging or building their distilleries they were themselves offering an 8½-anna rate.

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A.T.A.

Vide paragraphs 16 and 17 of Board's Proceedings, No. 1090, dated 30th April 1898, on page 8 of G.O., No. 625, dated 27th October 1898.

Page 8 of G.O., *ibid.*

The firm was invited to give its views before the order was passed. The present letter was written after the first reply was received.

A.T.A.

Of course they know this better than we do.
G.S.F.

Draw their attention to this.
A.T.A.

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Issue.

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CONFIDENTIAL.

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A.T.A.
10-4-99.

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G.S.F.

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A.T.A.

Vide paragraphs 16 and 17 of Board's Proceedings, No. 1690, dated 30th April 1898, on page 8 of G.O., No. 625, dated 27th October 1898.

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