

Canada's Stamp Taxation of Tobacco Products, 1864 - 1974

Part 7: The Canadian Cigar Industry in the Late 19th Century; Cigar Stamps and Stamping, 1864 - 1883

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(Note: A corrigenda to this installment appears in Part 8.)

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– Part 7 –

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The Canadian Cigar Industry in the Late 19th Century

Canadian cigar manufacturers of the late 19th Century were small-scale enterprises that operated without sophisticated machinery in numerous town and cities across the Country. This situation was quite unlike that of the much larger manufacturers of other tobacco products, who required extensive machinery, facilities and capital to produce the pressed tobaccos that dominated the legal market of the day.[162] For example, in the fiscal year 1885/86 Canada had 24 licensed tobacco manufacturers with a total production of 8,413,277 pounds, and 126 licensed cigar manufacturers with a total production of only 916,801 pounds.[163] The output of the average tobacco factory was 48 times that of the average cigar factory.

Cigars produced in the late-1800s fell into two broad classes. High quality products were made by trained craftsmen using the traditional method of individual hand-rolling. Lower grades of cigars were also made by hand, but in batches by children* and other low-paid, semi-skilled workers using moulds and other labour-saving devices. Mechanical mass-production of cigars did not start until just after the Great War of 1914-18.[162b, 164]

During the early years of the excise duty, the Canadian cigar industry shared the domestic market with imports on a roughly even basis. On average over the 1865-1870 period, the imports at 52.9% of duty-paid cigars held an edge of 5.7% over domestically produced cigars at

47.1%. The principal source of imported cigars was Germany.[162a, 165] See Table 12 below for details.

In April of 1870, a revision to the Customs and Excise tariffs reduced the differential that protected the Canadian industry.[50, 51, 166] This resulted in a flood of cheap German imports. For four years, these German cigars would be the largest component of the Canadian market, representing a majority of cigars in two of those years. Domestic production was reduced to 31.6% of the market on average over the period.[162a, 165]

The Canadian cigar industry did not become predominant in the domestic market until the fiscal year of 1874/75. This event followed the re-introduction in April 1874 of tariff protection for the domestic cigars. As a result, a complete turnaround occurred in the marketplace with Canadian cigars now occupying the position formerly held by the imports. The tariff protection was enhanced in February 1877. This solidified the dominance of domestic manufacturers.[165, 167]

However, even with the new preeminence of Canadian production, the domestic market for cigars remained small. As shown by the figures in Table 12, cigars comprised only a small percentage of total duty-paid tobacco consumed in Canada during the period of 1865 to 1885.[162a, 165] Prior to the rise to prominence of cigarettes in the 20th Century, Canadian men were predominantly pipe-smokers and Canadian women rarely smoked at all.[164c, 164a, vol. 5, p. 618]

Table 12: Duty-paid Cigars in the Canadian Market, 1865-1885, by Country of Manufacture, along with Total Weight† of Cigars, as well as Cigars as a Percentage by Weight of Total Duty-paid Tobacco, both Imported and Domestic.

Fiscal Year	1865/66	1866/67	1867/68	1868/69	1869/70	1870/71	1871/72	1872/73	1873/74	1874/75
Canada	49.0%	45.6%	43.0%	52.9%	45.2%	34.4%	28.8%	27.9%	35.4%	64.0%
Germany	32.0%	31.0%	48.0%	42.6%	33.6%	42.3%	53.8%	55.5%	41.8%	11.4%
Other Countries‡	19.0%	23.4%	9.0%	4.5%	21.2%	23.3%	17.4%	16.6%	22.8%	US 14.6% SWI 5.6% Other 4.4%
Total Weight† (Pounds)	159,677	231,099	272,001	225,760	283,470	366,091	664,228	674,609	676,429	488,273
Percent of Total Duty-paid Tobacco Products	5.0%	4.9%	4.7%	3.8%	3.8%	5.1%	7.6%	9.3%	7.1%	6.7%

Fiscal Year	1875/76	1876/77	1877/78	1878/79	1879/80	1880/81	1881/82	1882/83	1883/84	1884/85
Canada	61.5%	76.2%	73.0%	65.1%	81.5%	81.2%	79.2%	82.8%	81.6%	86.1%
Germany	15.4%	3.1%	4.2%	8.3%	4.0%	5.2%	5.4%	4.5%	4.5%	3.3%
Other Countries‡	US 14.5% SWI 4.5% Other 4.1%	US 11.9% SWI 6.0% Other 2.8%	US 15.0% SWI 4.2% Other 3.6%	US 16.1% SWI 4.6% Other 5.9%	US 6.4% SWI 5.6% Other 2.5%	US 6.4% SWI 4.3% Other 2.9%	US 6.7% SWI 5.9% Other 2.8%	US 4.6% SWI 7.9% Other 2.4%	US 3.7% SWI 7.9% Other 2.3%	US 2.9% SWI 6.3% Other 1.4%
Total Weight† (Pounds)	530,312	417,704	496,861	606,864	504,232	647,798	927,843	1,124,954	1,054,361	1,228,502
Percent of Total Duty-paid Tobacco Products	5.9%	5.1%	6.3%	7.6%	6.2%	7.3%	9.8%	11.0%	9.3%	9.8%

(Sources: Canada, Tables of the Trade and Navigation, *Sessional Papers*; Annual Reports of the Department of Inland Revenue, *Sessional Papers*.)

† - Where cigar production was recorded as number of cigars (fiscal years 1865/66 to 1869/70, and 1883/84 to 1884/85), the quantities have been converted to pounds using the Revenue Department's conversion factor of ten pounds per 1000 cigars. Domestic production comprised stocks paying duty upon release from factories and from bonded warehouses.

‡ - US = United States, SWI = Spanish West Indies.

The market that did exist for cigars was inhibited in the late-1800s by various local prohibitions on the sale of alcoholic beverages. A number of these bans were imposed and revoked piecemeal by cities and counties under the authority of the federal *Canada Temperance Act* of 1878. In addition, various provincial statutes during the period permitted individual municipalities and, in some instances, even districts within a municipality to declare a prohibition within their respective boundaries. The effect was to curtail the prevailing social custom of combining cigars and alcoholic beverages in licensed establishments such as taverns and hotels. Outside of this context, cigars were commonly smoked only by the social elite.[168, 164b, pp. 29-32]

The true percent-consumption of cigars was actually less than the official, duty-paid figures. At the time, there was a large trade in the Province of Quebec in domestic tobacco on which no excise duty was paid.** This tobacco was consumed not only in its raw state, but also as illicitly manufactured Canada Twist and cut tobacco, both of which required minimal processing.[83, 169]

Cigar Stamps and Stamping, 1864-1883

Cigars were the first form of tobacco to be given its own distinctive excise and customs stamps. This occurred at the 1864 introduction of the duties and was a result of the manner in which the duties were applied. All other forms of tobacco were taxed on the basis of weight, while cigars were taxed per thousand based on a graduated scale of value. For example, domestic cigars valued at over \$4 and up to \$10 per thousand were taxed at \$2 per thousand.[6, 18, 33, 34]

Four of the five 1864 cigar stamps are illustrated in Figures 127 to 130. All together, these items from the Province of Canada consisted of stamps for excise consumption, excise warehousing, customs duty and two green items for exempt and dutiable stocks on hand. These stamps were marked with the enacting legislation of “27-28 Victoria.” Later additions to the set were a small diamond (Figure 131) and a long strip-stamp (Figure 132) consisting of the small diamond within a band of tracery. The large majority of domestic cigars paid duty upon release from a factory and were thus affixed with consumption stamps.**

Following Confederation, harmonized excise and customs tariffs were introduced December 13th, 1867, for the new Dominion of Canada. The new statute of “31 Vic.” was quoted only on the Customs stamps (Figures 133, 134), the Excise stamps continued to use “27-28 Vic.” A green excise stamp was applied to stocks on hand in New Brunswick and Nova Scotia. These stocks were exempt from the new duties.[7, 27, 28, 29, 31, 32]

Starting circa September 1868, the typographed stamps were replaced over time by more elaborate items lithographed by BABN. The new stamps initially appeared only in black for excise consumption and red for excise warehousing, and did not have serial numbers (Figure 136). Versions with serial numbers (Figures 135, 137, 138) appeared circa April 1869 for both excise and customs purposes.[32, 47] The distinctive characteristic of these two issues lays in the seventh line of the central inscription, which reads as “Val per M_____”, the ‘M’ representing *mille*, being French for one thousand. Another important detail is the presence of the two line ‘XXI Vict./Cap. VIII’ inscription reading vertical in the side frames.



Figure 127: Green ‘M’-stamp for exempt stocks on hand at the introduction of the excise duty. The stamps for dutiable stocks were marked ‘D’.



Figure 128: Issue of 1864, excise stamp for products released for consumption from a factory.

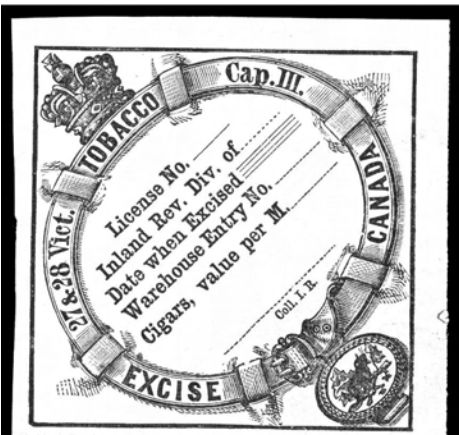


Figure 129: Issue of 1864, excise warehouse stamp.



Figure 130: Issue of 1864, customs stamp.



Figure 131: Later addition to the Issue of 1864.

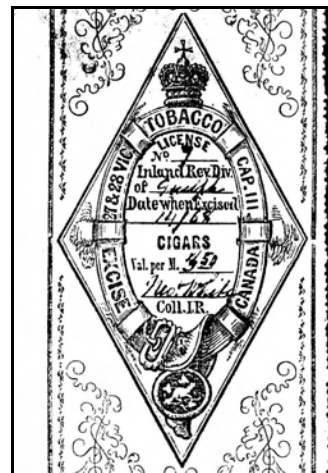


Figure 132: Later addition to the Issue of 1864.

Effective April 8th, 1870, the graduated rates of excise and customs duties were replaced by single rates per pound, regardless of the value of the cigars.[50] In an April 14th circular, local Revenue officers were instructed to *“adapt the Cigar labels now in your possession to the change in the mode of levying duty, by drawing your pen through the words ‘val. per,’ leaving the ‘M’ to signify thousands, and writing thereafter the fractional part of the thousand Cigars contained in the box, and the weight thereof on which the duty is charged thus: – ‘M 1/10 = 1 1/4lb.,’ signifying that the package contains 100 Cigars weighing one and a quarter pounds.”*[51] However, surviving stamps show that these instructions were not always followed.

Subsequently, new printings of the excise cigar stamps appeared on which the seventh line was changed to read as ‘M ____ lbs’ in reflection of the new tariff. One such stamp, dated September 1870, is illustrated in Figure 139. The alteration was not made to the Customs stamps. As noted earlier in this work (CRN¹ 39), the Customs Department was frequently delinquent in keeping its tobacco stamps up to date.



Figure 133: Issue of 1867 or 1868, customs stamp.

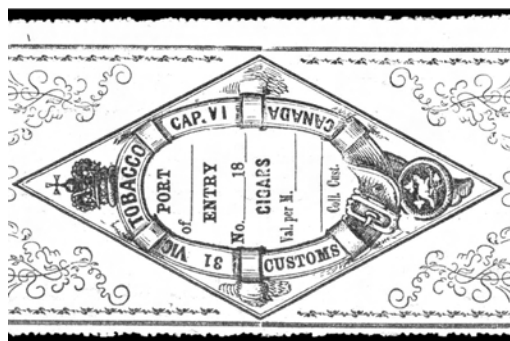


Figure 134: Issue of 1867 or 1868, customs stamp. (Image cropped.)



Figure 135: Issue of 1869, square customs stamp.



Figure 136: Issue of 1868, excise stamp in black for consumption, red for warehouse. This Issue has ‘Val per M’ in its central inscription and lacks serial numbers. (Image cropped.)

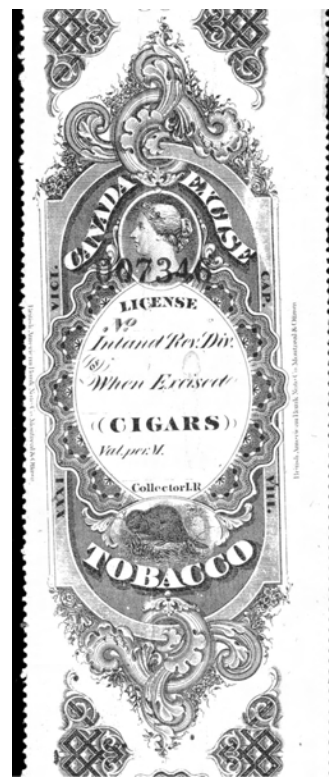


Figure 137: Issue of 1869, excise stamp in black for consumption, red for warehouse. Serial numbers have been added across the Queen’s portrait. (Image cropped.)

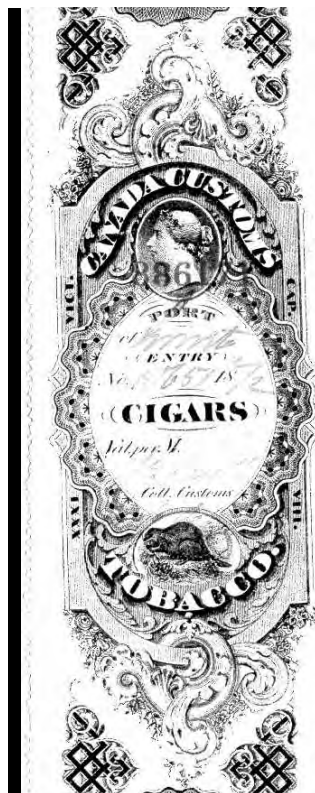


Figure 138: Issue of 1869, strip customs stamp with serial numbers across the Queen’s portrait. (Image cropped.)



Figure 139: Issue of 1870, excise stamp with ‘M ____ lbs’ in seventh line in place of the previous ‘Val per M’. (Image cropped.)

September of 1874 marked the next revision of the cigar excise stamps. In that month, BABN was given three directives: First, the company was to immediately prepare two new sets of stamps for use exclusively at the Inland Revenue Divisions of Montreal and Toronto (Figure 140). Each set was to have its own sequence of serial numbers and their design was to incorporate the name of the respective Division as well as the signature of its Collector. Second, once the serial numbers on the regular cigar stamp had reached one million, the numbers were to be started again from one with a prefix-letter 'A' (Figure 141). Third, the 'M' was to be erased from the seventh line of the central inscription on the Montreal and Toronto series, leaving it to read simply as '____lbs'. [64]

The Revenue Department had probably intended to also delete the 'M' at this time from the regular stamps as well, but the instructions to BABN did not mention them. The 1874 order for Division-specific stamps coincided with a sharp increase in the demand for stamps by manufacturers that arose from the sudden elevation of the Canadian cigar industry from its formerly weak position in the domestic market to one of dominance.

The new Montreal and Toronto stamps were likely put into use soon after their production in September 1874. **John Harper's** study of dated stamps shows that the regular stamps with the 'A' appeared circa December 1874 / January 1875. The use of the 'A' as a prefix letter was first done with the customs stamp. **Harper's** study indicates that these were in use by 1873. Similarly, dated stamps give 1875 for the appearance of the customs stamp with 'B' as a prefix letter.

In 1876, an error was made in a print-run of the customs 'B' cigar stamp. In place of the word 'customs' at the upper-right of the Queen's head, the word 'excise' was used (Figure 142). These stamps were recalled by the Customs Department on November 25th, 1876. [173] However, at least one example is known used in 1878 at Montreal, a principal entry-point for imports. It is possible that some of the errors may not have been returned to Ottawa in the 1876 recall, but it seems more likely, given the 1878 date, that the stamps were reissued for unknown reasons.

A number of these defective customs stamps were subsequently overprinted 'Canada/Customs' in two lines in red. An example of the corrected stamps is illustrated in Figure 143.

In 1880, a new Inland Revenue Act replaced the 1867 Statute and on July 1st, 1880, BABN was instructed by the Revenue Department to remove all references to the old law from the stamps. [66, 70] This produced the Series of 1880 illustrated in Figures 144 and 145, in which the outer frames of the stamps no longer have the two-line inscription 'XXXI Vict./Cap. VIII'. This series included regular, blank stamps in black, red and blue, as well as a few division-specific items.

Early in 1881, a completely new, simplified design appeared (Figure 146) into which an alpha-numeric code was incorporated to facilitate identification of the multitude of new stamps introduced under the 1880 Act. [58, 61] Blue, black and red 1881 cigar stamps were produced in blank versions and in several division-specific versions.

New to the Act in 1880 was a special reduced rate of 30 cents per pound for cigars made exclusively of Canadian leaf. [66] In 1882, it was further reduced to 20 cents per pound. [77] The regular rate was 40 cents. However, Canadian leaf was widely regarded in the tobacco industry as being unsuitable for cigars. The figures in Table 13 below, along those in Table 12, show that the lower duty was not a sufficient inducement at the time for any significant production.

Table 13: Weight in Pounds of Cigars Produced from Canadian Leaf only

Fiscal Year	Weight	Locations (Inland Revenue Divisions)
1880/81	1853	Guelph, Montreal, St-Hyacinthe, Trois Rivières
1881/82	6394	Montreal, Sorel, St-Hyacinthe, St-Jean, Trois Rivières
1882/83	7915½	Iberville, Montreal, Sorel, St-Hyacinthe, Trois Rivières

(Source: Canada, Annual Reports of the Inland Revenue Department, *Sessional Papers*.)



Figure 140: Excise stamp prepared September 1874 with the name and signature of the Montreal Division, for use exclusively at that Division. (Image cropped.)



Figure 141: Excise stamp with 'A' added in central panel as part of the serial number, ordered by Revenue Department September 1874. (Image cropped.)



Figure 142: Blue customs stamps with error 'excise' inscription at upper right, produced and recalled in 1876, later re-released for use. The 'B' is a prefix to the serial number. (Image cropped.)



Figure 143: The Central portion of an error stamp of 1876 corrected by a red 'Canada/Customs' overprint in two lines. The 'B' is a prefix to the serial number.

Notes:

* According to statistics presented in 1888 to a Royal Commission, children comprised nearly 40% of the cigar-makers employed in Montreal, one of the Country's principal centres for cigar production.[164a, vol 4, pp. 33-35]

** From 1868 through 1880, raw tobacco leaf sold by farmers and licensed dealers for direct consumption by the public was subject to the same excise duty as manufactured tobacco. For domestic leaf, the duty was set at the same rate as Canada Twist, which was initially five cents per pound.[170] This rate was increased to seven cents in April 1870 and ten cents in February 1874.[51, 167c] No stamps were used on this duty-paid leaf. It was simply released for consumption under a permit issued by the local Revenue Department officer.[170]

During this period, an underground trade developed in raw domestic tobacco. This covert market appears to have reached its peak in the late-1870s following the increases in the duty. By that time, the excise collected on both raw and manufactured domestic leaf had declined to a trivial amount. In 1878, the Revenue Department estimated that just over one-half of the tobacco consumed in Quebec was illegal.[83, 169]

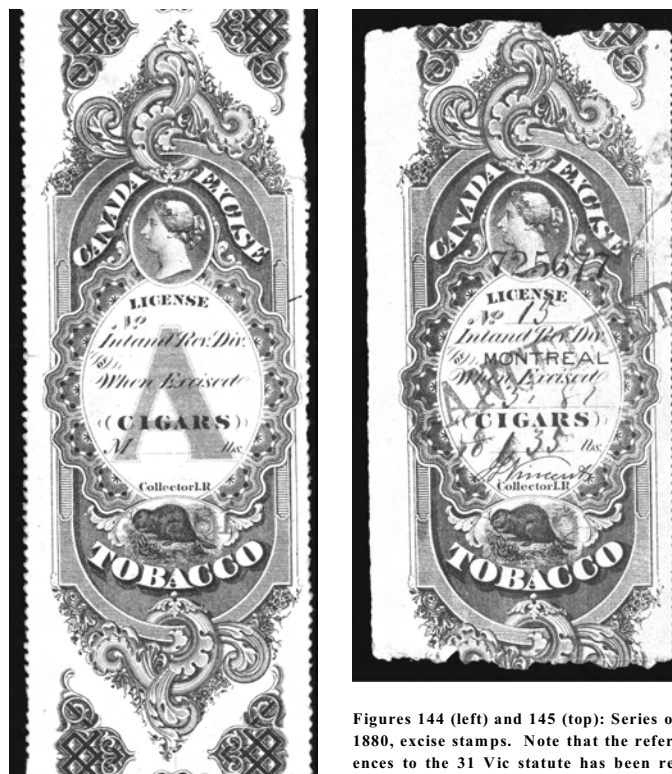
The government's response in 1880, after years of lobbying by both the tobacco industry and the Revenue Department officials, was a combination of incentives and restrictions. The incentives were special reduced excise rates for products of Canadian leaf. The restrictions were a complete prohibition on the sale of raw leaf for direct consumption, the mandatory licensing and excise supervision of tobacco farmers as cultivators, and the separate, optional licensing of interested farmers as manufacturers of Canada Twist.[66, 83, 169, 171]

However, the restrictions were short-lived. In 1882, the requirement for cultivator licences was revoked and sales were now unrestricted except for a provision that limited purchases of duty-free raw leaf by private individuals to a set amount per year for personal consumption only. Then in 1883, all restrictions on the purchase of domestic raw leaf were abolished. This left only the special Canada Twist licence as the sole excise control over farmers. Canadian raw leaf could now be consumed freely, but any unlicensed processing of this leaf for sale to other people remained illegal. For many years thereafter, excise-free tobacco remained a significant part of the Quebec market.[77, 88, 89, 91, 164c, 172]

The lifting of excise control over tobacco farmers and domestic raw leaf was done for political reasons connected with the General Election of June 1882. Farmers held a large number of votes and were unhappy with the restrictions on their sales and the close supervision of their activities.[172]

*** As was discussed in a previous Part of this work (CRN¹ 39), domestic manufactured tobacco products in this period were by a large margin warehoused prior to paying duty. As such, these packages were affixed with an excise warehouse stamp whose colour was standardized as red by 1868. However, with cigars the reverse was true.

The majority of domestic cigars were released for consumption and paid duty directly from the factory. These were therefore affixed with excise consumption stamps whose colour was standardized as black by 1868. As shown by the figures in Table 14 below, only a small percentage of domestic cigars were warehoused during the period of 1865 to 1872. Thereafter, until the end of the special warehouse stamps in 1883, the proportion of cigars warehoused rose to a significant level, but remained a minority of total domestic production.



Figures 144 (left) and 145 (top): Series of 1880, excise stamps. Note that the references to the 31 Vic statute has been removed from the left and right frames. (Image of 144 cropped.)



Figure 146: Series of 1881, strip-stamps for cigars. Full customs shown at top, detail at lower-left. Detail of excise stamp shown at lower-right.

Table 14: Domestic Cigars placed in Excise Warehouses as Percent by Number (1865-1870) of Total Production, or by Weight (1870-1883)

Fiscal Year	1865/66	1866/67	1867/68	1868/69	1869/70	1870/71	1871/72	1872/73	1873/74
Cigars Warehoused	4.7%	7.6%	2.2%	1.9%	1.7%	6.2%	5.6%	24.4%	16.2%
Fiscal Year	1874/75	1875/76	1876/77	1877/78	1878/79	1879/80	1880/81	1881/82	1882/83
Cigars Warehoused	20.1%	26.1%	29.9%	27.5%	29.6%	42.1%	33.8%	26.9%	29.4%

(Source: Canada, Annual Reports of the Department of Inland Revenue, *Sessional Papers*.)