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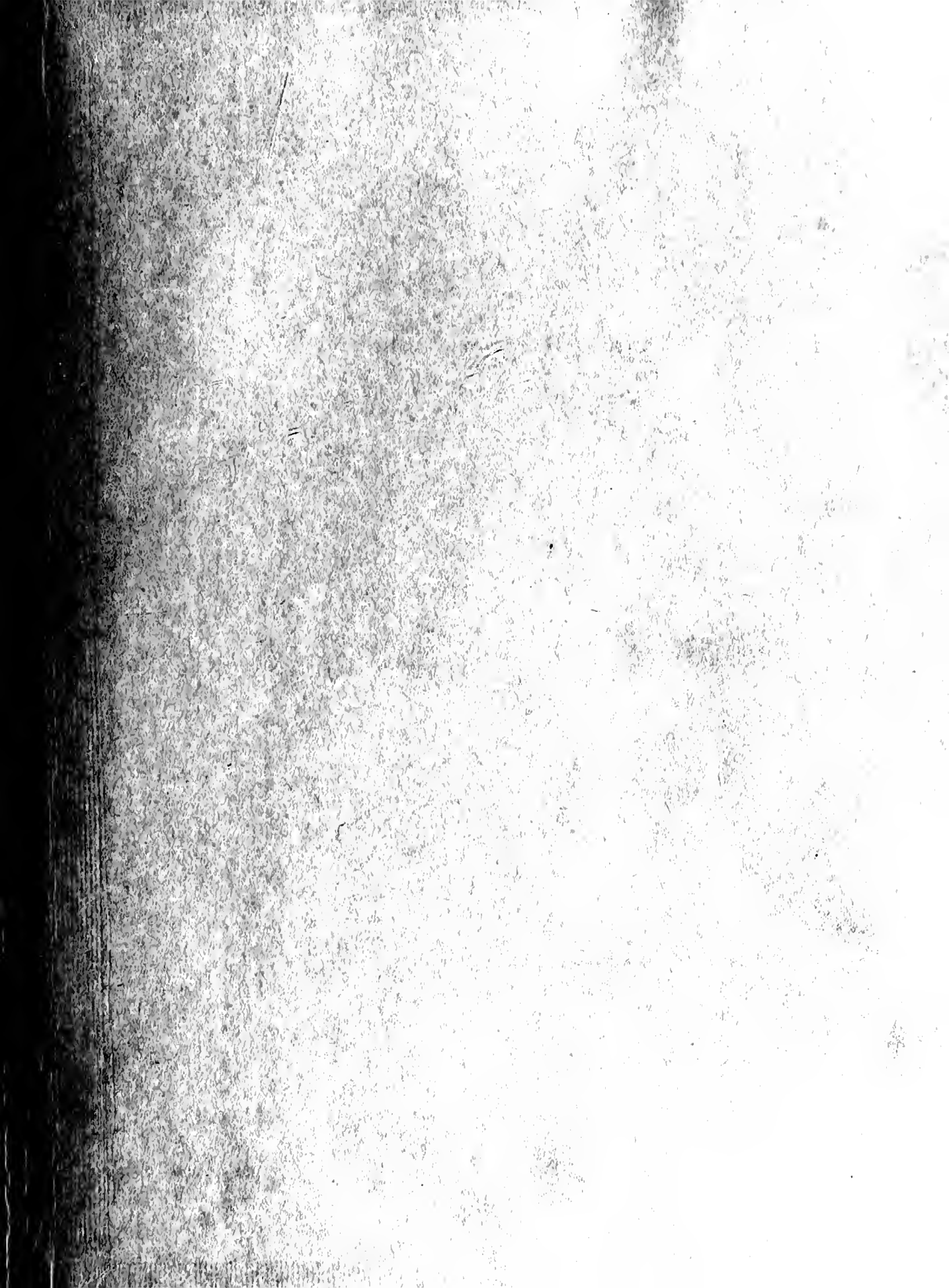
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NATIONAL RECOVERY ADMINISTRATION

DIVISION OF REVIEW

EVIDENCE STUDY

NO. 6

OF

THE CIGAR MANUFACTURING INDUSTRY

Prepared by

C. J. McMANUS

August, 1935

PRELIMINARY DRAFT

(NOT FOR RELEASE: FOR USE IN DIVISION ONLY)

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THE EVIDENCE STUDY SERIES

The EVIDENCE STUDIES were originally planned as a means of gathering evidence bearing upon various legal issues which arose under the National Industrial Recovery Act.

These studies have value quite aside from the use for which they were originally intended. Accordingly, they are now made available for confidential use within the Division of Review, and for inclusion in Code Histories.

The full list of the Evidence Studies is as follows:

- | | |
|-------------------------------------|---|
| 1. Automobile Manufacturing Ind. | 23. Mason Contractors Industry |
| 2. Boot and Shoe Mfg. Ind. | 24. Men's Clothing Industry |
| 3. Bottled Soft Drink Ind. | 25. Motion Picture Industry |
| 4. Builders' Supplies Ind. | 26. Motor Bus Mfg. Industry (Dropped) |
| 5. Chemical Mfg. Ind. | 27. Needlework Ind. of Puerto Rico |
| 6. Cigar Mfg. Industry | 28. Painting & Paperhanging & Decorating |
| 7. Construction Industry | 29. Photo Engraving Industry |
| 8. Cotton Garment Industry | 30. Plumbing Contracting Industry |
| 9. Dress Mfg. Ind. | 31. Retail Food (See No. 42) |
| 10. Electrical Contracting Ind. | 32. Retail Lumber Industry |
| 11. Electrical Mfg. Ind. | 33. Retail Solid Fuel (Dropped) |
| 12. Fab. Metal Prod. Mfg., etc. | 34. Retail Trade Industry |
| 13. Fishery Industry | 35. Rubber Mfg. Ind. |
| 14. Furniture Mfg. Ind. | 36. Rubber Tire Mfg. Ind. |
| 15. General Contractors Ind. | 37. Silk Textile Ind. |
| 16. Graphic Arts Ind. | 38. Structural Clay Products Ind. |
| 17. Gray Iron Foundry Ind. | 39. Throwing Industry |
| 18. Hosiery Ind. | 40. Trucking Industry |
| 19. Infant's & Children's Wear Ind. | 41. Waste Materials Ind. |
| 20. Iron and Steel Ind. | 42. Wholesale & Retail Food Ind. (See No. |
| 21. Leather | 43. Wholesale Fresh Fruit & Veg. 51) |
| 22. Lumber & Timber Prod. Ind. | |

In addition to the studies brought to completion, certain materials have been assembled for other industries. These MATERIALS are included in the series and are also made available for confidential use within the Division of Review and for inclusion in Code Histories, as follows:

- | | |
|------------------------------------|--|
| 44. Wool Textile Industry | 49. Household Goods & Storage, etc. (Dropped) |
| 45. Automotive Parts & Equip. Ind. | 50. Motor Vehicle Retailing Trade Ind. (Dropped) |
| 46. Baking Industry | 51. Retail Tire & Battery Trade Ind. |
| 47. Canning Industry | 52. Ship & Boat Bldg. & Repairing Ind. |
| 48. Coat and Suit Ind. | 53. Wholesaling or Distributing Trade |

L. C. Marshall
Director, Division of Review

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The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that every entry should be supported by a valid receipt or invoice. This not only helps in tracking expenses but also ensures compliance with tax regulations.

In the second section, the author outlines the various methods used for data collection and analysis. These include surveys, interviews, and focus groups. Each method has its own strengths and weaknesses, and the choice depends on the specific research objectives.

The third section delves into the statistical analysis of the collected data. It covers topics such as descriptive statistics, inferential statistics, and regression analysis. The goal is to identify patterns and trends in the data that can inform business decisions.

Finally, the document concludes with a summary of the findings and recommendations. It highlights the key insights gained from the research and provides practical advice for implementing these findings in a business context.

THE CIGAR MANUFACTURING INDUSTRY

Foreword

The Code is interpreted to apply to all manufacturers of cigars, whether they manufacture cigars exclusively or whether cigars are a minor part of their total production. Therefore, since a manufacturer must have a license in order to make cigars, the number of licensed manufacturers of cigars corresponds to the number of concerns subject to the Code.

Census data exclude all manufacturers whose annual value of product is less than \$5,000. The exclusion of these small establishments does not materially impair the applicability of Census data to the Industry as defined by the Code, except for the single item, "Number of Establishments." The Census has estimated that more than 99 per cent of total wage earners and value of product in the Industry are covered by its reports.

CHAPTER I

THE NATURE OF THE INDUSTRY

Code Definition

Code Number 467, approved by the President on June 19, 1934, defines the Cigar Manufacturing Industry in the following words:

"The term 'Cigar Manufacturing Industry' means and includes the manufacturing into cigars of cured leaf tobacco, stemmed tobacco, scrap and/or shredded filler for use in the manufacture for sale of cigars."

General Description of the Industry

The Industry produces cigars of all price classes and cigar leaf content, including both hand and machine made products. However, adoption on a large scale of cigar-making machinery since the World War has rapidly changed the complexion of the Industry from one characterized by hand processes to one characterized by highly mechanized processes.

Number of Concerns.

Table I shows the number of concerns manufacturing cigars exclusively as well as the number licensed to manufacture cigars, for the years 1929, 1931, 1933 and 1934. The number licensed to manufacture cigars includes those making cigars in conjunction with cigarettes. It will be seen that the total number of concerns making cigars exclusively declined from approximately 7,500 in 1929 to about 5,400 in 1934.

TABLE I

Number of Manufacturers Making Cigars Exclusively
and Number Licensed to Make Cigars
(As of January 1, each year)

| Year | Manufacturers Making Cigars Only | Manufacturers Licensed to make Cigars |
|------|----------------------------------|---------------------------------------|
| 1929 | 7,502 | 8,378 |
| 1931 | 6,195 | 7,138 |
| 1933 | 5,787 | 6,620 |
| 1934 | 5,473 | - |

Source: Annual Reports, Commissioner of Internal Revenue.

Manufacturers Classified According to Volume of Production

A classification of cigar manufacturers according to number of cigars produced in 1929, 1931 and 1933 is shown in the following table.

TABLE II

Manufacturers Classified According to Output

| Output of Cigars | Number of Concerns | | |
|--------------------------|--------------------|-------|-------|
| | 1929 | 1931 | 1933 |
| Total ^{a/} | 8,378 | 7,138 | 6,620 |
| Under 500,000 | 7,694 | 6,664 | 6,170 |
| 500,000 to 1,000,000 | 138 | 117 | 123 |
| 1,000,000 to 5,000,000 | 276 | 203 | 194 |
| 5,000,000 to 10,000,000 | 91 | 51 | 59 |
| 10,000,000 to 20,000,000 | 63 | 46 | 34 |
| 20,000,000 to 40,000,000 | 29 | 25 | 17 |
| Over 40,000,000 | 37 | 32 | 23 |

Source: Code Authority, Cigar Manufacturing Industry, "Historical Background and Present Condition of the Cigar Manufacturing Industry," (1935). This report was prepared by the Code Authority at the request of NRA. It is based largely upon material from the Bureau of the Census, the Internal Revenue Bureau, and the Department of Agriculture.

^{a/} The total is for manufacturers licensed to make cigars rather than for manufacturers making cigars only. The former are about 11 per cent more numerous than the latter. See Table I.

Manufacturers Classified According to Plant Ownership

Data which permit a classification of manufacturers according to the number of plants owned are available for the year 1935 only. In that year there were 6,688 plants owned by 6,620 concerns. Approximately 99 per cent of the total concerns operated only one plant.

TABLE III

Manufacturers Classified According to Number of Plants Owned - January 1, 1935

| Number of Plants | Number of Concerns |
|-------------------|--------------------|
| One Plant | 6,591 |
| Two Plants | 19 |
| Three Plants | 4 |
| Four Plants | 1 |
| Five Plants | 2 |
| Six Plants | 2 |
| Twenty-one Plants | 1 |
| Total | 6,620 |

Source: Code Authority, Cigar Manufacturing Industry. Estimated on assumption that total number of concerns has not changed since 1933.

According to the Code Authority, the manufacturers are of widely varying size, ranging from single cigar maker-owner shops to groups of factories under single management with aggregate employment of 4,000 wage earners.

Geographical Distribution of Concerns

Cigars are manufactured in every state of the Union. The greatest part of the output, however, is produced by large concerns in concentrated areas and only a small portion -- less than 10 per cent, according to the Code Authority -- is produced in the scattered small factories or by individual cigarmaker shop owners.

Table IV shows the number of concerns in the Industry by principal producing states. With only three exceptions, the trend in number of plants was downward from 1929 to 1934. Illinois experienced a slight increase in 1934 as compared with 1933. Massachusetts and Florida showed increases in 1933 over 1932, but these increases were offset by decreases in 1934.

TABLE IV

Number of Concerns Manufacturing Cigars Exclusively,
by Principal States
(As of January 1)

| State | 1929 | 1931 | 1933 | 1934 |
|---|-------|-------|-------|-------|
| U. S. Total | 7,502 | 6,195 | 5,787 | 5,473 |
| New York | 1,621 | 1,312 | 1,173 | 1,145 |
| Pennsylvania | 1,032 | 865 | 843 | 833 |
| Illinois | 846 | 691 | 604 | 613 |
| Wisconsin | 437 | 378 | 361 | 334 |
| Massachusetts | 363 | 330 | 350 | 315 |
| Florida | 304 | 263 | 282 | 249 |
| Total for 6 States | 4,603 | 3,839 | 3,613 | 3,489 |
| Total for 42 Other States | 2,899 | 2,356 | 2,174 | 1,984 |
| Per cent 6 States are of U. S. Total | 61% | 62% | 62% | 63% |

Source: Annual Reports, Commissioner of Internal Revenue.

Volume of Production

From Table V it can be seen that the annual production of cigars during the period 1925 - 1934 follows a downward trend. Production for the year 1934 shows somewhat of an increase over that for 1933, however. The peak of production during the ten-year period was reached in 1926 and the low point in 1933. Change of consumer preference from cigars to cigarettes has con-

1. The first part of the document discusses the importance of maintaining accurate records of all transactions and activities. It emphasizes that proper record-keeping is essential for ensuring transparency and accountability in financial operations. This section also highlights the role of internal controls in preventing fraud and errors.

2. The second part of the document focuses on the implementation of a robust risk management framework. It outlines the key components of risk assessment, including the identification, analysis, and mitigation of potential risks. The document stresses the need for a proactive approach to risk management, where risks are identified and addressed before they become significant issues.

3. The third part of the document addresses the importance of effective communication and reporting. It discusses the need for clear and concise communication of financial information to stakeholders, including investors, regulators, and management. The document also emphasizes the importance of timely reporting and the use of standardized formats to facilitate the comparison and analysis of financial data.

4. The fourth part of the document discusses the role of technology in enhancing financial reporting and risk management. It highlights the benefits of using advanced software solutions to automate data collection, processing, and reporting. The document also discusses the importance of ensuring the security and integrity of financial data in a digital environment.

5. The fifth part of the document discusses the importance of ongoing monitoring and evaluation. It emphasizes that financial reporting and risk management are not one-time activities but ongoing processes that require regular review and adjustment. The document also discusses the importance of staying up-to-date with changes in regulations and industry practices.

6. The sixth part of the document discusses the importance of training and education. It emphasizes that all employees involved in financial reporting and risk management must have the necessary skills and knowledge to perform their duties effectively. The document also discusses the importance of providing ongoing training and education to keep employees up-to-date with the latest developments in the field.

7. The seventh part of the document discusses the importance of external audits. It emphasizes that external audits are a critical component of financial reporting and risk management, as they provide an independent assessment of the accuracy and reliability of financial information. The document also discusses the importance of selecting a reputable and qualified external auditor.

8. The eighth part of the document discusses the importance of maintaining a strong corporate culture. It emphasizes that a strong corporate culture is essential for ensuring that all employees understand and adhere to the organization's values and standards. The document also discusses the importance of promoting transparency and accountability as key elements of a strong corporate culture.

9. The ninth part of the document discusses the importance of staying up-to-date with changes in regulations and industry practices. It emphasizes that the financial reporting and risk management landscape is constantly evolving, and organizations must stay up-to-date with the latest developments to ensure compliance and effectiveness. The document also discusses the importance of seeking professional advice and guidance when needed.

10. The tenth part of the document discusses the importance of maintaining accurate records of all transactions and activities. It emphasizes that proper record-keeping is essential for ensuring transparency and accountability in financial operations. This section also highlights the role of internal controls in preventing fraud and errors.

tributed largely to this decline.

Table V also shows production classified into the retail price groups as set up for taxation purposes by the Bureau of Internal Revenue. The percentage distributions show that there was a rapid and consistent shift of consumption from higher into lower price classes. In 1954 over 85 per cent of the total was in the lowest price class, cigars retailing at five cents or less. This compared with 41 per cent in 1925.

TABLE V
Total Annual Production of Cigars, by Internal Revenue Price Classes ^{a/}
(In millions)

| Year | Class A | | | Class B | | | Class C | | | Class D | | | Class E | | |
|------|------------------------------|-------------------|-------------------|---|-------------------|-------------------|---|-------------------|-------------------|--|-------------------|-------------------|---------------------------------|-------------------|-------------------|
| | Retailing at 5¢ each or less | | | Retailing at more than 5¢ each and not over 8¢ each | | | Retailing at more than 8¢ and not over 15¢ each | | | Retailing at more than 15¢ and not over 20¢ each | | | Retailing at more than 20¢ each | | |
| | Number of Cigars Produced | Per Cent of Total | Per Cent of Total | Number of Cigars | Per Cent of Total | Per Cent of Total | Number of Cigars | Per Cent of Total | Per Cent of Total | Number of Cigars | Per Cent of Total | Per Cent of Total | Number of Cigars | Per Cent of Total | Per Cent of Total |
| 1925 | 6,500.8 | 2,673.6 | 41.1 | 1,125.0 | 17.3 | 2,515.0 | 38.7 | 146.6 | 2.3 | 40.5 | 0.6 | | | | |
| 1926 | 6,588.9 | 2,886.1 | 43.8 | 945.5 | 14.4 | 2,575.7 | 39.0 | 150.7 | 2.3 | 30.9 | 0.5 | | | | |
| 1927 | 6,571.4 | 3,175.2 | 48.3 | 747.5 | 11.4 | 2,465.3 | 37.5 | 150.3 | 2.3 | 33.1 | 0.5 | | | | |
| 1928 | 6,453.7 | 3,310.4 | 51.3 | 639.7 | 9.9 | 2,330.1 | 36.1 | 143.1 | 2.2 | 29.6 | 0.5 | | | | |
| 1929 | 6,551.7 | 3,582.6 | 54.7 | 575.0 | 8.8 | 2,221.8 | 33.9 | 145.2 | 2.2 | 27.1 | 0.4 | | | | |
| 1930 | 5,881.3 | 3,589.9 | 61.2 | 395.1 | 6.7 | 1,784.6 | 30.2 | 108.9 | 1.9 | 2.7 | 0.0 | | | | |
| 1931 | 5,325.4 | 3,713.6 | 69.9 | 173.5 | 3.3 | 1,356.0 | 25.3 | 80.5 | 1.5 | 1.8 | 0.0 | | | | |
| 1932 | 4,396.7 | 3,460.1 | 78.8 | 52.5 | 1.2 | 833.7 | 18.9 | 49.4 | 1.1 | 1.0 | 0.0 | | | | |
| 1933 | 4,288.2 | 3,671.8 | 85.6 | 27.7 | 0.7 | 553.9 | 18.9 | 32.1 | 0.7 | 4.3 | 0.1 | | | | |
| 1934 | 4,597.2 | 3,929.1 | 85.4 | 58.0 | 1.3 | 565.4 | 12.3 | 40.6 | 0.9 | 4.0 | 0.1 | | | | |

Source: Code Authority, Cigar Manufacturing Industry, "Historical Background and Present Condition of the Cigar Manufacturing Industry" (1935). Primary sources: 1920-1929 data, Circular #249, United States Department of Agriculture; 1930-1934 data, Reports of the Commissioner of Internal Revenue.

^{a/} Figures show number of cigars on which tax was paid and represent cigar shipments to the domestic trade rather than production.

Value of Production

The trend in value of production was more sharply downward than in the case of volume of production during the years 1929, 1931 and 1933. There are no data available bearing on the value of production on a state basis, but total value is given in Table VI.

TABLE VI

Value of Production
(In thousands)

| Year | Value |
|------|------------|
| 1929 | \$ 311,664 |
| 1931 | 227,349 |
| 1933 | 139,372 |

Source: Census of Manufactures, 1933, "The Tobacco Industries," page 3.

Failures

Data on number of failures in this industry are not available. Because of technological improvements in production methods and of the development of intensive advertising during the past 15 years, it is believed that the degree of mortality, especially in the hand manufactured field, is substantial.

CHAPTER II
LABOR STATISTICS

Number of Employees

The average number of wage earners employed during the years 1929, 1931, 1933 and 1934, and the wages paid during the same years is shown in Table VII.

TABLE VII

Wage Earners Employed, and Wages Paid

| Year | Average Number of Wage Earners | Annual Wages Paid |
|------|-----------------------------------|--------------------------|
| 1929 | 84,165 | \$ 67,222,000 |
| 1931 | 68,182 | 46,074,000 |
| 1933 | 54,558 | 30,061,000 |
| 1934 | 57,570 ^{a/} | 33,701,000 ^{a/} |

Source: Census of Manufactures: 1933, "The Tobacco Industries," page 3.

^{a/} Estimated by NRA, Division of Research and Planning, on the basis of the Bureau of Labor Statistics sample index.

Employment and Wages Paid, by States

Employment and amount of wages paid, by principal states, is shown in Table VIII, for the year 1933. The states listed accounted for 71 per cent of employment and 73 per cent of the amount paid in wages.

TABLE VIII

Employment and Wages Paid by Principal States
During 1933

| State | Number of Wage Earners Employed | Amount Paid in Wages (In thousands) |
|---|------------------------------------|---|
| U. S. Total | 54,558 | \$ 30,061 |
| Pennsylvania | 17,526 | 9,328 |
| Florida | 8,418 | 5,084 |
| New Jersey | 5,969 | 3,371 |
| New York | 3,744 | 2,682 |
| Michigan | 2,893 | 1,370 |
| Total, 5 States | 38,550 | 21,835 |
| Total, 43 Other States | 16,008 | 8,226 |
| Per cent 5 States are of U. S. Total | 71% | 73% |

Source: Census of Manufactures: 1933, "The Tobacco Industries," page 3.

Seasonality of Employment

This phase of the Industry was the subject of a special study conducted by the United States Census Bureau covering 245 establishments manufacturing 80 per cent of total production for the year 1933.

TABLE IX
Seasonality of Employment, 1933

| Week Ending Nearest the 15th | Number of Employees |
|---------------------------------|------------------------|
| January | 38,293 |
| February | 41,419 |
| March | 39,592 |
| April | 38,061 |
| May | 41,083 |
| June | 43,044 |
| July | 43,779 |
| August | 44,880 |
| September | 46,049 |
| October | 46,719 |
| November | 45,551 |
| December | 43,337 |

Source: Census Bureau; Special tabulation.

Table IX shows that the peak was reached in October, while employment was smallest in April. These periods correspond with the high point and low point of production, as revealed in a statistical report on this Industry prepared in the Research and Planning Division of the NRA, in November, 1933.

Average Weekly Earnings

Table X indicates a steady downward trend in average weekly earnings during the years 1929, 1931 and 1933.

TABLE X
Average Weekly Earnings

| Year | Average Earnings per Week |
|------|------------------------------|
| 1929 | \$ 15.36 |
| 1931 | 13.00 |
| 1933 | 10.59 |

Source: Code Authority, Cigar Manufacturing Industry, "Historical Background and Present Condition of the Cigar Manufacturing Industry."

Cost of Labor Compared with Value of Product

The direct relationship between value of cigars produced and the cost of labor involved in production is indicated by Table XI. Labor cost is shown to constitute about one-fifth of the total value of the product.

TABLE XI

Cost of Labor Compared with Total Value
of Product
(In thousands)

| Year | Value of Product | Cost of Labor ^{a/} | Per Cent Cost of Labor is of Value of Product |
|------|------------------|-----------------------------|---|
| 1929 | \$ 311,664 | \$ 67,222 | 21.6 |
| 1931 | 227,349 | 46,074 | 20.3 |
| 1933 | 139,372 | 30,061 | 21.6 |

Source: Census of Manufactures: 1933, "The Tobacco Industries," page 3.

a/ Includes wage earners only.

CHAPTER III

RAW MATERIALS

Principal Materials Used

Apart from packing materials, the sole raw material ingredient of cigars is leaf tobacco, used in the form of stemmed and unstemmed leaves and cuttings, clippings, and scraps. Most of the supply of raw material is domestically grown although a small portion is imported from Cuba, Puerto Rico and Sumatra, principally for blending purposes and for use as wrappers for the higher classes of cigars.

Volume of Raw Materials

The amount of cigar leaf consumed in the production of cigars, together with the annual leaf supply are shown in the following table.

TABLE XII
Cigar Leaf Consumption, Domestic Leaf Crop
And Annual Cigar Leaf Supplies
(In thousand pounds)

| Year | Cigar Leaf Consumed in Cigar Production | Domestic Leaf Crop | Annual Supply of Cigar Leaf <u>a/</u> |
|------|--|-----------------------|--|
| 1929 | 150,873 | 182,973 | 135,500 |
| 1931 | 126,611 | 186,825 | 149,500 |
| 1933 | 103,954 | 89,402 | 62,500 |
| 1934 | 111,000 | 82,500 | 56,500 |

Source: Code Authority, Cigar Manufacturing Industry, "Historical Background and Present Condition of the Cigar Manufacturing Industry."

a/ Includes domestic crop plus imports.

Cost of Materials

Available data do not permit valuation by kinds of materials purchased. The value of all materials purchased is shown in Table XIII.

TABLE XIII
Cost of Materials, Compared with Total Value
of Product
(In thousands)

| Year | Value of Product | Cost of Materials <u>a/</u> | Per Cent Value of Materials is to Value of Product |
|------|------------------|--------------------------------|---|
| 1929 | \$ 311,664 | \$ 138,354 | 44.4 |
| 1931 | 227,349 | 119,295 | 52.5 |
| 1933 | 139,372 | 72,589 | 52.1 |

Source: Census of Manufactures: 1933, "The Tobacco Industries," page 3.

a/ Includes cost of materials, containers, fuel, and purchased electric energy. Cost of internal revenue stamps included as follows: 1933, \$8,599,426; 1931, \$15,534,464.

Interstate Movement of Raw Materials

Cigar leaf, the principal item entering into the manufacture of cigars, is grown in restricted farming areas in which it is the sole crop. This is due chiefly to the peculiar soil characteristics required. Its growth is confined to relatively few states as shown in the following table:

TABLE XIV
Production of Cigar Leaf, by Types and
by States, 1932
(In pounds)

| State | Filler Type | Binder Type | Wrapper Type |
|-----------------|----------------|----------------|-----------------|
| Connecticut | -- | 22,941,000 | 3,722,000 |
| Florida | 140,000 | -- | 1,972,000 |
| Georgia | 50,000 | -- | 440,000 |
| Indiana | 225,000 | -- | -- |
| Massachusetts | -- | 3,840,000 | 800,000 |
| New York | -- | 1,400,000 | -- |
| Ohio | 21,462,000 | -- | -- |
| Pennsylvania | 45,912,000 | 404,000 | -- |
| Wisconsin | -- | 36,180,000 | -- |
| 39 Other States | -- | 660,000 | -- |
| Total | 67,789,000 | 70,425,000 | 6,934,000 |

Source: Code Authority, Cigar Manufacturing Industry, "Historical Background and Present Condition of the Cigar Manufacturing Industry."

Table XIV shows that no one state produces all three types of cigar leaf. Pennsylvania produces 68 per cent and Ohio 32 per cent of the filler type leaf; Wisconsin produced 51 per cent and Connecticut 33 per cent of the binder type while this same state produced 54 per cent and Florida 28 per cent of the wrapper type leaf.

Every cigar contains filler, binder and wrapper leaf (except a limited quantity having no binder). It is apparent, therefore, that the manufacture of cigars is dependent for its raw materials on a number of states, since no single state produces all three types. Consequently, cigar production must entail extensive interstate transactions.

CHAPTER IV

PRODUCTION AND DISTRIBUTION

Geographical Distribution of Production

Although cigars are produced in every state in the union, there is a high degree of concentration of production in a relatively small number of states. Table XV shows that approximately 80 per cent or more of total production comes from the eight states listed, with Pennsylvania producing about one-third of total output.

TABLE XV

Production of Cigars, by Principal States
(In thousands)

| State | 1929 | 1931 | 1933 |
|--|-----------|-----------|-----------|
| U.S. Total | 6,518,500 | 5,347,900 | 4,300,000 |
| Pennsylvania | 2,294,000 | 1,782,900 | 1,615,600 |
| New Jersey | 797,700 | 712,300 | 443,300 |
| Florida | 617,600 | 542,300 | 465,900 |
| New York | 576,800 | 476,100 | 266,400 |
| Ohio | 446,900 | 352,200 | 213,600 |
| Virginia | 376,700 | 227,000 | 150,200 |
| Michigan | 289,200 | 247,100 | 195,900 |
| Indiana | 194,700 | 118,500 | 65,300 |
| Total for 8 States | 5,593,600 | 4,453,400 | 3,416,200 |
| Total for 40 Other States | 924,900 | 889,500 | 883,800 |
| Per Cent 8 States are of U. S. Total | 86% | 83% | 79% |

Source: Annual Reports, Commissioner of Internal Revenue.

Actually, concentration is carried on to an even greater degree than indicated above, because of specialization of certain districts in special types cigars. Pennsylvania, for example, produces for the most part cheaper cigars selling at less than five cents each. In general, Florida produces a higher grade of cigars, using imported Cuban tobacco, while Ohio specializes in "stogies."

It will be seen from the above that, with three exceptions, the eight states preserved the same order during the sample years shown. One exception occurred in 1931 when Michigan produced more cigars than Virginia and the other exceptions occurred in 1933 when Florida outranked New Jersey as a producer and Michigan again assumed the lead over Virginia.

Interstate Movement of Finished Product

The Code Authority has stated that the consumption of cigars in various states is roughly in direct proportion to their population. However, certain districts have preference for a certain price class or type of cigar. "Stogies" for example, are preferred in the Midwestern States.

The interstate movement of cigars can be gauged by a comparison of production and consumption by individual states. Table XVI shows the percentage relationship between state production of cigars and state population for the year 1932.

TABLE XVI

Relationship Between Cigar Production and Population,
for Principal Producing States, 1932

| State | Production of Cigars (000) | Per Cent of Total Production | Per Cent of Total Population |
|--------------------|----------------------------------|------------------------------------|------------------------------------|
| U. S. Total | 4,382,723 ^{a/} | 100.0 | 100.0 |
| Pennsylvania | 1,509,282 | 34.4 | 7.8 |
| New Jersey | 555,623 | 12.7 | 3.3 |
| Florida | 473,387 | 10.8 | 1.2 |
| New York | 372,744 | 8.5 | 10.3 |
| Ohio | 268,121 | 6.1 | 5.4 |
| Michigan | 199,401 | 4.6 | 3.9 |
| Virginia | 194,090 | 4.4 | 2.0 |
| Other 41 States | 810,075 | 18.5 | 65.9 |

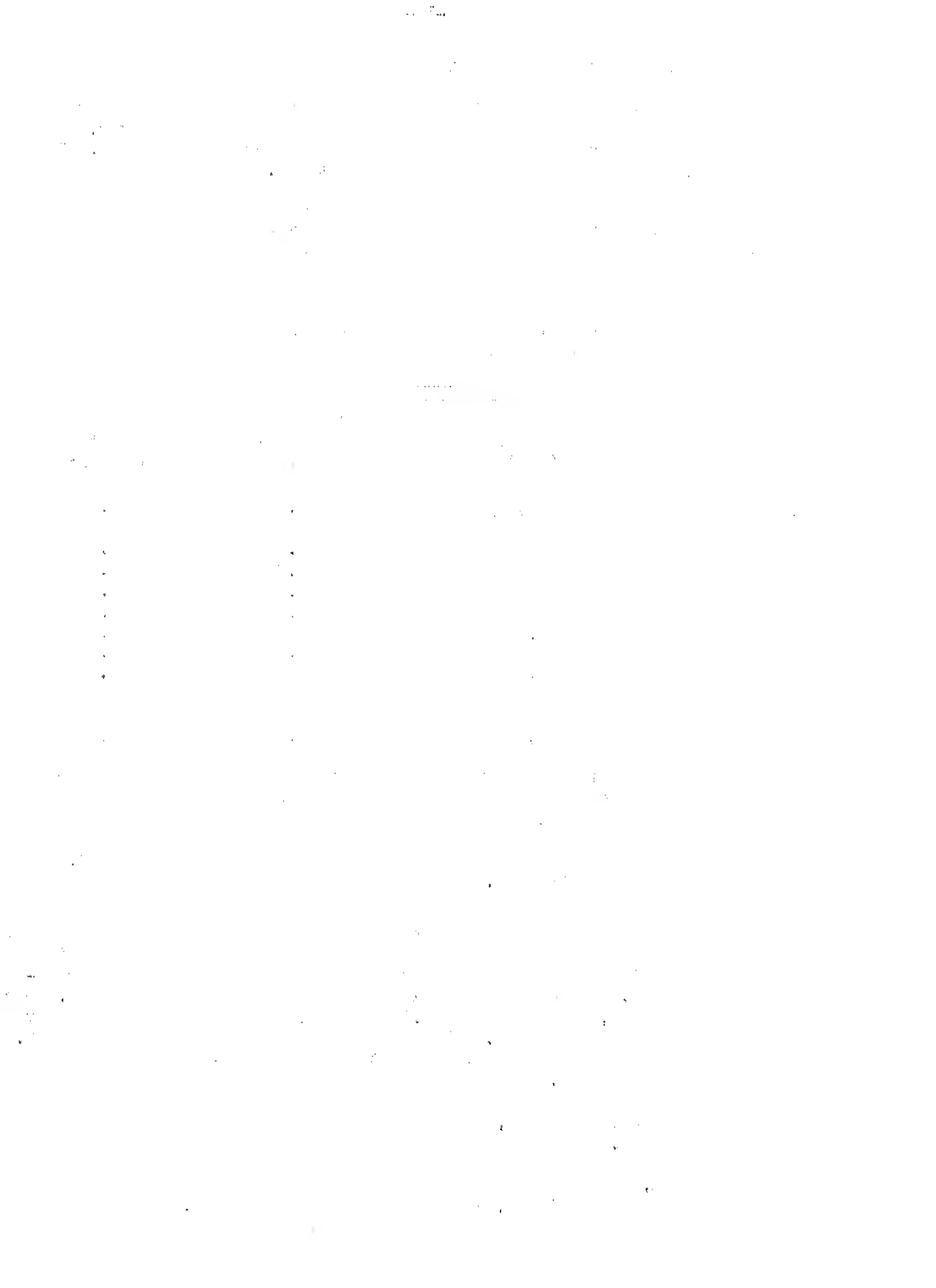
Source: Code Authority, Cigar Manufacturing Industry, "Historical Background and Present Condition of the Cigar Manufacturing Industry;" population from 1930 census.

a/ This figure does not check exactly with that given in Table V. See footnote a/ to Table V.

On the assumption that consumption is roughly proportional to population, Table XVI shows that the larger portion of cigar output is consumed in states other than those in which the manufacturing occurred. Pennsylvania, for example, produced 34.4 per cent of the cigars in 1932, but consumed only 7.8 per cent, while New York, which produced 8.5 per cent, consumed more than 10 per cent of the cigars manufactured. The group of 41 unnamed states produced 18.5 per cent and consumed 66 per cent, or about three and one-half times the number of cigars it manufactured.

It is believed, therefore, that the interstate movement of cigars is an extremely heavy one.

In addition, there are interstate transactions attached to the movement of the heavy imports of cigars, chiefly from the Philippines. Imports from this source in 1932 were estimated to be 500,000,000 cigars.



Advertising

The Cigar Manufacturing Industry is an industry which spends large sums in advertising through the media of newspapers, magazines, and the radio. The amount so expended by the leading manufacturers (according to the Statistical Report for this Industry, prepared by the NRA, Research and Planning Division, November, 1932) was \$2,300,000 in 1931, and \$1,300,000 in 1932.

Distribution of the Product

It is estimated by the Code Authority that cigar wholesalers number approximately 6,000 and retailers upward of 600,000.

CHAPTER V

TRADE PRACTICES

The Pre-Code Situation

It is the opinion of the Code Authority that in addition to the uncontrollable factors causing the decline of the Cigar Manufacturing Industry -- particularly the changing of the public taste and demand for the product -- the most important detrimental influences were those arising out of disorganized merchandising.

Chief of the so-called disorganized merchandising problems was price cutting which resulted in the Industry being brought to a serious state of emergency at the time of NRA inception. The affects of this practice on cigar sales and in turn on cigar manufacturing, as outlined by the Code Authority, are reviewed in the following paragraphs.

Influence of Price Cutting on Cigar Sales. - Price cutting reduces the number of retail outlets and available selection by driving the smaller retailer out of business, or by compelling him to abandon the cigar brands upon which there is no profit.

Lack of profit on price-cut brands causes the retailer to display them less prominently, or not at all, which in turn has an unfavorable effect upon their sales.

Lack of profit on well known price-cut brands induces the retailer to display prominently and push cigars of inferior quality yielding exorbitant profit margins. This is bound to affect adversely the entire consumer demand for cigars.

Price confusion, such as placing odd price marks upon individual brands and implied cheapening of quality by reduction of price, has an unfavorable influence upon cigar sales by destruction of established goodwill. The price cutting of cigars does not increase their sale in the same manner as it does other trade marked products. The consumer does not necessarily prefer to buy the out-price cigars. However, the consumer might object to paying regular prices for cigars which have been sold at cut-prices.

Effect of Price Cutting Upon Interstate Commerce and Upon the Industry.
- As explained in the foregoing paragraphs, the Code Authority feels that price cutting practices unquestionably cause a reduction in manufacture and consumption of cigars, thereby directly affecting the volume of interstate commerce inasmuch as every cigar is a product of interstate transactions.

Apart from this ultimate result, the Code Authority feels that certain intermediate and contributing conditions arise which interfere with the flow of interstate commerce. These conditions, as outlined by the Code Authority, are summarized in the following paragraphs:



Price cutting definitely tends to reduce the number of retail outlets in communities where it is extensively practiced. This reduction might affect all cigars in the aggregate or only the brands which are particularly exposed to price manipulations. In either case, it definitely represents restraint of interstate trade since every cigar retailer is supplied with the products of other states in some form or to some extent.

Price cutting creates differences in both retail and wholesale price between localities in different states which might be near or adjoining. This condition invites jobber shipments outside the jobbers' appointed territories, and thus increases friction and unfair competition between distributors.

Consumers travel between localities in different states, in which, on account of price cutting, different retail sales prices of the same brands and class of cigar might exist. Consequently, the smokers may buy in one locality in preference to the other, thereby causing a shift of trade from one state to another.

Corrective Measures Under the Code

The Code Authority reports that after careful study of the effects of price cutting and its allied abuses, the Industry decided that some method for price control was the key to the rehabilitation of the Industry. It was felt that price control was the most important single factor necessary to such rehabilitation.

As a result the Cigar Merchandising Plan (Schedule I of the Code) was adopted by the cigar manufacturers. This plan originated with cigar retailers and was adopted by the wholesalers and later by the manufacturers. Briefly, the plan provides for the retail sale of cigars at prices not less than those declared by the manufacturer for each of his products and, further, prescribes maximum discounts allowable by manufacturers or wholesalers from those declared prices.

Mr. William Best, Sales Manager, General Cigar Company, who was the chairman of the Trade Practice Complaints Committee, stated that while the plan did not work out as a cure-all for the troubles of the Industry, and while he did not agree wholly with some of the plan's provisions, he did feel that the plan had gone a long way toward rectifying existing abuses.

CHAPTER VI

GENERAL INFORMATION

Foreign Competition

Imports during 1932 amounted to approximately 20 million pounds of filler and binder types and two million pounds of wrapper type.

Directory of Members of Code Administration Agencies and List of Experts

A directory of the names and addresses of the members of the Code Authority, Trade Practice Complaints Committee, Labor Complaint Board and Label Review Officers is set forth in the following groupings.

It is believed that Mr. William Best, Sales Manager, General Cigar Company and Chairman of the Trade Practice Complaints Board; Mr. H. L. Hirst, Treasurer, Bayuk Cigar Company, Philadelphia, and Chairman of the Code Authority; and Mr. I. M. Ornburn, International President of the International Cigar Makers Union and member of the Labor Complaint Board are especially qualified through training and experience to be called experts in the operations of the industry.

DIRECTORY OF MEMBERS - CODE AUTHORITY

Mr. H. L. Hirst, Chairman,
c/o Bayuk Cigars, Inc.,
9th St. and Columbia Ave.,
Philadelphia, Pa.

W. Forrest Norton,
Consumers Advisory Board,
1155 Investment Building,
Washington, D. C.

F. Davis
Schwab, Davis and Co.,
10 E. 40th St.,
New York, N. Y.

T. E. Brooks,
T. E. Brooks and Co.,
Red Lion, Pa.

J. J. Hast,
Standard Cigar Co.,
P. O. Box 1675,
Pittsburgh, Pa.

T. Jackman,
Teggs-Jackman Cigar Co., Inc.,
4771 Dubois St.,
Detroit, Mich.

D. Emil Klein,
444 E. 91st St.,
New York, N. Y.

Walter Popper,
E. Popper and Co.,
40 East End Ave.,
New York, N. Y.

Jacob Mazer,
J. Mazer Sons Cigar Co.,
3437 Goldner Ave.,
Detroit, Mich.

I. M. Ornburn,
Carpenters' Building,
1003 K St., N. W.,
Washington, D. C.

B. Meyer,
General Cigar Co.,
119 W. 40th St.,
New York, N. Y.

Arthur Schwarz,
Max Schwarz,
2nd Avenue and 54th St.,
New York, N. Y.

Frank P. Will,
G. H. P. Company,
3rd and Browne Sts.,
Philadelphia, Pa.

National Recovery
Administration Member

Robert E. Rinehart,
Frank Presbrey Co.,
247 Park Avenue,
New York, N. Y.

Alternates

Richard Bondy,
General Cigar Co.,
119 West 40th St.,
New York, N. Y.

Counsel

Samuel Blumberg,
Blumberg and Parker,
200 Fifth Avenue,
New York, N. Y.

Sumner Ford,
Breed, Abbott and Morgan,
15 Broad St.,
New York, N. Y.

Counsel (Cont'd)

Mortimer Regensburg,
E. Regensburg and Sons,
411 Fifth Ave.,
New York, N. Y.

O. R. Strackbein,
1003 K St., N. W.,
Washington, D. C.

Executive Secretary

Samuel L. Kuhn,
S. D. Leidesdorf and Co.,
125 Park Ave.,
New York, N. Y.

DIRECTORY OF MEMBERS
TRADE PRACTICE COMPLAINTS BOARD

CENTRAL COMMITTEE

Mr. William Best, Chairman
General Cigar Co.,
119 West 40th St.,
New York, N. Y.

Mr. Walter Popper,
E. Popper and Co.,
40 East End Ave.,
New York, N. Y.

Mr. Fred Davis,
Schwab Davis and Co.,
551 Fifth Ave.,
New York, N. Y.

Mr. Frank Will,
G. H. P. Cigar Co.,
3rd and Browne Sts.,
Philadelphia, Pa.

Mr. Albert H. Gregg,
American Cigar Co.,
111 Fifth Ave.,
New York, N. Y.

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G. W. Van Slyke and Norton, Inc.,
452 Clinton Ave.,
Albany, N. Y.
8352

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William Boucher and Sons,
1500 Guilford Ave.,
Baltimore, Md.

Boston

Mr. M. Gryzmish,
Alles and Fisher, Inc.,
545 Shannut Ave.,
Boston, Mass.

Chicago

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Nathan Elson and Co.,
19 South Wells St.,
Chicago, Ill.

Cincinnati

Mr. W. Ibold,
M. Ibold, Inc.,
825 Central Ave.,
Cincinnati, Ohio

Cleveland

Mr. J. C. Newman,
M. and N. Cigar Manufacturers, Inc.,
922 Woodland Ave.,
Cleveland, Ohio

Detroit

Mr. Con Just,
Mazer-Cressman Cigar Co., Inc.,
5031 Grandv Ave.,
Detroit, Mich.

Los Angeles

Mr. A. Sensenbrenner,
A. Sensenbrenner and Sons,
1220 Maple Ave.,
Los Angeles, Calif.

Newark

Mr. Phillip Forristal,
Congress Cigar Co.,
744 Broad St.,
Newark, N. J.

St. Paul

Mr. A. Worch,
Worch Cigar Co.,
1745 University St.,
St. Paul, Minn.

New Hampshire

Mr. James J. Driscoll,
F. G. Sullivan, Inc.,
823 Elm St.,
Manchester, N. H.

New Haven

Mr. D. Osterweiss,
Lewis Osterweiss and Son,
20 Church St.,
New Haven, Conn.

New Orleans

Mr. U. Trelles,
M. Trelles,
701 S. Peters St.,
New Orleans, La.

Philadelphia

Mr. Benj. L. Grabosky,
Grabosky Bros.,
21 North Second St.,
Philadelphia, Pa.

Mr. A. J. Newman,
Dayuk Cigars, Inc.,
9th and Columbia Ave.,
Philadelphia, Pa.

Pittsburgh

Julian J. Hast,
Standard Cigar Co.,
P. O. Box 1675,
Pittsburgh, Pa.

St. Louis

Mr. J. Lampert,
Jacob Lampert Cigar Co.,
412 Market St.,
St. Louis, Mo.

Tampa

Mr. E. Perez,
Benson and Hedges,
Tampa, Fla.

San Francisco

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Petri Cigar Co., Inc.,
Battery and Vallejo Sts.,
San Francisco, Calif.

York County

James Kelly,
Kelly Cigar Co.,
Red Lion, Pa.

DIRECTORY OF MEMBERS - LABOR COMPLAINT BOARD

PRINCIPALS

Samuel L. Kuhn, Impartial Chairman,
address c/o Code Authority.

LABOR

I. M. Ornburn,
Carpenters' Building,
1003 K St., N. W.,
Washington, D. C.

MACHINE MANUFACTURERS

Joseph F. Cullman, Jr.,
Webster-Eisenlohr, Inc.,
185 Madison Ave.,
New York, N. Y.

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E. Popper, Inc.,
40 East End Ave.,
New York, N. Y.

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Robert E. Rinehart,
Frank Presbrey Co.,
247 Park Ave.,
New York, N. Y.

LABOR'S ALTERNATES

O. R. Strackbein,
Carpenters' Building
1003 K St., N. W.,
Washington, D. C.

R. E. Van Horn,
604 Carpenters' Building,
10th and K St., N. W.
Washington, D. C.

William Brandt,
622 Granite Building,
St. Louis, Mo.,

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HAND MANUFACTURERS' ALTERNATES

A. J. Cuesta, Jr.,
Cuesta-Rey and Co.,
Tampa, Fla.

Jacob Mazer,
J. Mazer Sons Cigar, Co.,
3437 Goldner Ave.,
Detroit, Mich.

J. C. Winter,
J. C. Winter and Co.,
Red Lion, Pa.

J. C. Newman,
M. and N. Cigar Manufacturers, Inc.,
922 Woodland Ave.,
Cleveland, Ohio.

MACHINE MANUFACTURERS' ALTERNATES

Harley Jefferson,
American Tobacco Co.,
111 Fifth Ave.,
New York, N. Y.

Harry Michener,
M. Marsh and Son, Inc.,
Market St.,
Wheeling, W. Va.,

H. P. Wurman,
Bayuk Cigars, Ind.,
9th and Columbia Ave.,
Philadelphia, Pa.

Richard Bondy,
General Cigar Co.,
119 West 40th St.,
New York, N. Y.

DIRECTORY OF LABEL REVIEW OFFICERS

Arizona - California - Colorado
Idaho - Montana - Nevada -
Oregon - Utah - Washington -
Wyoming

All the rest of the country

Mr. E. L. Fries,
Room 536
751 South Figuero St.,
Los Angeles, Calif.

Mr. Dean G. Edwards
45 Broadway
New York, N. Y.



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