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OFFICE OF
THE TREASURY ATTACHE

UNITED STATES TREASURY DEPARTMENT
AMERICAN CONSULATE GENERAL
SHANGHAI, CHINA

February 21, 1939.

Commissioner of Customs,
(Investigative Unit),
Treasury Department,
Washington, D. C.

JNB

Sir:

There are enclosed for the information of the Bureau and other interested Departments copies of a report entitled: "Opium as a Large Source of Revenue for Japanese."

Respectfully,

E. M. Jacobson

For the Treasury Attache

EMJ:Y

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Ambridge
F. A. Lewis

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February 16, 1939.

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**OPIMUM AS A LARGE SOURCE OF REVENUE FOR
JAPANESE**

According to information secured from circles in close touch with Japanese Special Service Organ, the Japanese military in enforcing the narcotization policy in China expects to raise a revenue of \$300,000,000 a year when it is carried out in full swing. The Japanese believe that through the port of Shanghai, they can control the opium supply of the whole southeastern area including Kiangsu, Chekiang, Anhwei and parts of Kiangsi and Hupah. They calculate that in this area they can easily distribute 100,000 taels of opium every day. That means 3,000,000 taels a month or 36,000,000 taels per annum. In addition to this, they can distribute 5,000 ounces of morphine, cocaine, heroin and other narcotic drugs every day making an annual total of approximately 1,800,000 ounces.

As the source of supply of Chinese opium from Szechuen, Yunnan,

Kweichow, Kansu and Shensi has been cut off, the only opium allowed by the Japanese authorities will be Jehol opium, Persian opium, Suiyuan opium and Manchurian opium. Jehol, Suiyuan and Manchurian opium is collected from the farmers in those districts by a special purchasing agency there, the Dai Man Company (大満公司) on behalf of the Japanese authorities at low prices. The cost price including transportation is about \$1.00 per tael, while Persian opium procured by Japanese in Macao is about \$0.80 (Hongkong currency) per tael and with transportation and other expenses to Shanghai it does not cost more than \$2.00 per tael in local currency. With regard to morphine and heroin, the price in Japan, Formosa, Dairen and Tientsin is approximately ¥400 per lb. and the sale price in Shanghai is more than \$1,500. Several factories have now been established by Japanese in Shanghai which make and refine these drugs locally.

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The lowest wholesale price for Jehol, Suiyuan and Manchurian opium as given by Japanese authorities to the opium merchants is between \$6.00 to \$7.00 per tael, while Persian opium is \$7.00 to \$8.00 per tael. To this must be added the tax and surtaxes, license fees, bribery, escort fees, etc. So it is safe to say that Japanese can make \$5.00 net profit on every tael of opium sold in Shanghai and the surrounding districts. If calculated on the basis of 100,000 taels a day, the Japanese could raise \$500,000 a day or \$15,000,000 a month and \$180,000,000 a year. With income from other narcotic drugs and taxes added, the Japanese will have a revenue of approximately \$300,000,000 from the narcotization policy.

The Japanese are still far behind in their ambitious project, because they have not as yet succeeded in fully controlling this rich traffic. Furthermore they have not as yet secured the cooperation of the right opium merchants and gangsters who are able to control the opium market as Mr. Tu Yeh-seng did before the war.

Under present circumstances, they are selling opium in a dis-organized way. The army, the navy, the gendarmes, the Special Service Organ, the ronins and the puppets all take some part in the illicit trade but actually very little revenue is realized by the Japanese authorities from this channel, because every one involved receives a cut. The Japanese hope to get the cooperation of a party of Chinese opium merchants or gangsters so that they can rely upon them to raise the prospective amount of revenue. The Japanese authorities are negotiating with Mr. Theodore C. Chang (張德欽), a gangster lawyer and Mr. Wang Shao-tseng (汪少丞), a wealthy and influential opium merchant, for the granting of monopoly agency right but owing to internal difficulties and the approach of China new year the question is still pending.

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It has been learned from sources connected with the Chinese secret service, that the Chungking authorities are watching the opium situation here with great concern. They do not want this lucrative revenue to get into the Japanese war chest. It is alleged that special instructions have been issued by Chungking authorities to the Shanghai agents to assassinate any opium merchant or gangster who cooperates with the Japanese in the opium monopoly.

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