

JOINT PREPARATORY COMMITTEE
ON

PHILIPPINE AFFAIRS

REPORT OF MAY 20, 1938

VOLUME III

BRIEFS SUBMITTED TO THE COMMITTEE

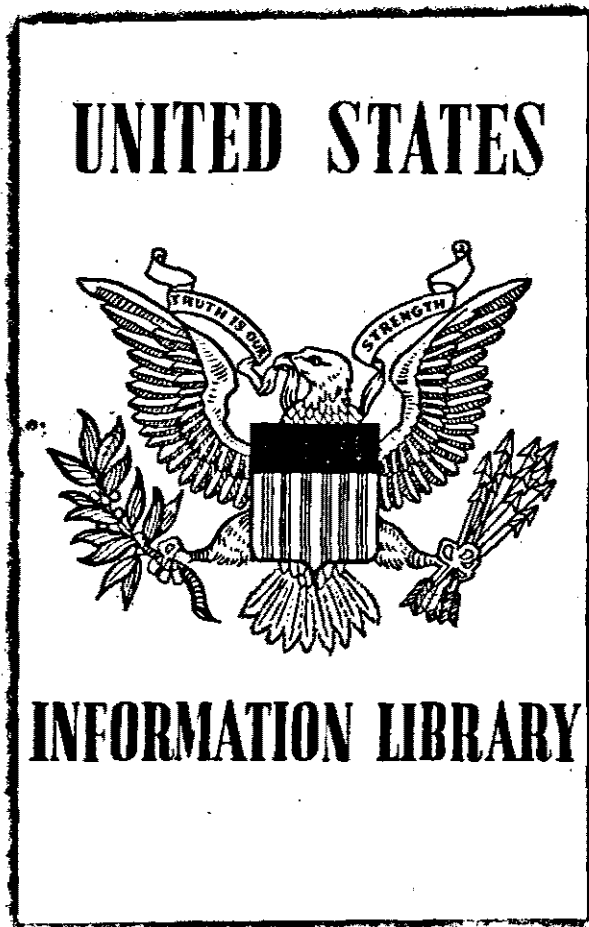
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BRIEF
SUBMITTED BY THE
AGUSAN COCONUT COMPANY
SEPTEMBER 1937
(Photographic Reprint)

FUNDAMENTALS

We Subscribe to the Following as the Fundamentals of Philippine-American Trade Relations:

1. *The trade relations between the United States and the Philippine Islands were definitely determined by the provisions of the Tydings-McDuffie Act until July 4, 1946. That Act, after approval by the President and the Congress of the United States, was formally accepted by the Filipino people. Based thereon many citizens and residents of and investors in the Philippine Islands have incurred obligations and made commitments. The trade relations so determined, in good faith and in fairness, cannot, therefore, be altered to their prejudice. Thus, at least until July 4, 1946:*

(a) *Articles the growth, product, or manufacture of the Philippine Islands should, with no greater limitations than those imposed by that Act, and on a basis of equality with articles the growth, product, or manufacture of the United States, be admitted free of duty into the United States; and*

(b) *Articles the growth, product, or manufacture of the United States should, on a basis of equality with articles the growth, product, or manufacture of the Philippine Islands, be admitted free of duty into the Philippines.*

(c) *No excise or other taxes which directly or indirectly result in any discrimination against the products of either country should be imposed.*

2. *The imposition of export taxes on shipments from the Philippine Islands to the United States from November 15, 1940, and the imposition of import duties by the United States and the Philippine Islands, each on articles the growth, product, or manufacture of the other, from July 4, 1946, will be disastrous to the producers and manufacturers of both countries, and, the time being too short to make the necessary readjustments, to the Philippine Islands in particular, therefore,—*

(a) *The export taxes should be repealed; and*

(b) *Free trade between the two countries, with present or other reasonable quantitative limitations, should be continued after July 4, 1946.*

3. *Irrespective of any change in the political status of the Philippine Islands, a continuation of the present free-trade relations between the United States and the Philippine Islands would be advantageous to both countries;—to the Philippine Islands, because the United States is an essential market for many Philippine products; and to the United States, because the Philippine Islands is a large market for the products of agriculture and industry of the United States, and will, if the products thereof continue to be admitted free of duty into the Philippine Islands, be a much larger market in the future. Such free-trade relations between the two countries should, therefore, after July 4, 1946, be continued indefinitely.*

BRIEF
OF THE
AGUSAN COCONUT COMPANY
SUBMITTED TO THE
JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS

The Agusan Coconut Company is an American company incorporated in Delaware with all of its stock held in the United States. It operates the San Miguel Estate situated in Tabaco, Albay.

San Miguel Estate is one of the largest coconut plantations in the Philippines. It owns some 250,000 coconut trees of which nearly 100,000 are in full bearing and 100,000 in partial bearing. It converts all of its coconuts into copra with modern dryers and attempts to make as good copra as is produced anywhere in the Philippines. Our investment in this property amounts to ₱1,465,000 (US\$732,500.00).

We sincerely believe that, in the production of copra, we are not operating against the best interest of any agricultural produce in the United States. The United States is deficient in fats and oils and must import them from outside sources. During the past 12 years, copra and coconut oil have not amounted to over 35% of the imports of vegetable oils and oil-bearing seeds in any year. During the last two years we have furnished less than 25%. If it were true that the domestic producer could furnish all of the oils and fats required in the American economy, there might be some reason for curtailing or penalizing the importation of Philippine copra and coconut oil, but as long as present conditions continue, Philippine copra and coco-

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nut oil should have preferential treatment in its entry into the United States.

The Tydings-McDuffie Act provided for a continuance of existing free trade between the Philippine Islands and the United States in both directions, with certain limitations of which the only one affecting the coconut industry was a limit of 200,000 tons of coconut oil imports from the Philippines into the United States free of duty. This act was accepted by the Philippine Government and, therefore, takes on the nature of a reciprocal agreement. The imposition of the excise tax has all the effect of a violation of this agreement. The United States Tariff Commission states:* "DURING THE PAST FIVE YEARS THE CONGRESS HAS ENACTED A NUMBER OF LAWS IMPOSING EXCISE TAXES, THE ECONOMIC EFFECTS OF WHICH ARE PRACTICALLY IDENTICAL WITH THOSE WHICH WOULD RESULT FROM EQUIVALENT TARIFF DUTIES."

As an American corporation operating under the American Flag, we protest that this tax is a violation of the mutual agreement in the Tydings-McDuffie Act, that it is a discrimination against a people owing allegiance to the American Government and that it is a measure working hardship on both the Filipino people and the consumers of the United States.

The attached statement shows that the average copra producer in the Philippines, during the period July 1st, 1934 to April 30th, 1937, has received only 48% of the value of his copra shipped to the United States as oil or copra, while the excise tax collection has amounted to 52%. Owing to the drought in the United States, prices on oils and fats were at a high level much of this time but

* First paragraph, page 3, United States Tariff Commission, "Imports, Exports, Domestic Production, and prices—Petroleum, Coal, Lumber, Copper, Certain Oils and Fats—together with Excise Taxes collected thereon.—Washington, May, 1937.

the excise tax has prevented the copra producer from sharing in the benefit of this market, a benefit to which he was entitled. When prices return to normal the load on the copra producer will be far heavier. During the five years, 1925 to 1929 inclusive, which period was one of normal prices for copra, the reports of Leo Schnurmacher, Inc., show that prices ranged from a low of ₱13.43 to a high of ₱23.32 per 100 kilos, Buen Corriente, Manila with an average over the entire period of ₱18.20, which is equal to ₱20.20 Resecada, per 100 kilos, Manila. As this is being written the copra quotation is ₱9.00 per 100 kilos, Resecada, Manila with an outlook for still lower prices.

The excise tax has increased the importation into the United States of fats and oils not covered by the excise tax law, the most noteworthy being babassu oil from Brazil. Up to 1935 the importations of babassu kernels into the United States were so small as not to be separately listed. In 1936 imports of babassu kernels amounted to 58,800,000 pounds, and for the first six months of 1937 imports of babassu kernels amounted to 42,349,000 pounds. The possible output of babassu kernels is unknown but it is estimated that there is a possible product of more than the entire copra crop of the Philippines. Babassu oil practically can be substituted for coconut oil in every use and if the present differential in favor of babassu oil continues, it apparently will displace coconut oil in the United States market. We can see no justice in this favoring a foreign competitor at the expense of a country under the American Flag.

The Tydings-McDuffie Act provides for export taxes during the last five years of the Commonwealth, which will have no effect on copra, as it is on the free list, but which will be effective on coconut oil. These export taxes will compel the elimination of the present coconut oil mills

industry in the Philippines. We do not believe that the American Congress intended such an effect. The San Miguel Estate is located in the harbor of Tabaco, Albay and we have the equipment to export copra on ocean going vessels direct from our plantation. We also make a superior grade of copra which commands a premium in the European market. Notwithstanding these advantages which we have over the small Filipino copra producers, during the years 1933 to 1936 inclusive, we have sold slightly more copra to Philippine coconut oil mills than we have sold for export direct. The reason for this is that the coconut oil mills are buying copra every working day of the year in any amount and will contract far in advance for a period of time for copra to be delivered as produced. On the other hand the export market is much more variable and vessels will not load a parcel of less than 500 tons at one time and even then it is many times difficult to secure space for shipment. Accumulating such a quantity of copra requires large warehouses, special financing and maintenance of equipment sufficient to handle loading of large quantities expeditiously.

If it is preferable for a large plantation such as ours to sell to the local coconut oil mills, it can be readily seen that for the small planter, who produces the great bulk of the Philippine copra, and who cannot make direct exports, the maintenance of the coconut milling industry in the Philippines is of the greatest importance.

Apart from babassu oil, the strongest competitors of coconut oil are palm oil and palm kernel oil produced in West Africa and the Dutch East Indies. Palm oil is free of duty and free of excise tax if used in the manufacture of tin plate, with an excise tax of 3 cents per pound for other uses. Palm kernel oil is free of duty if rendered unfit for food but carries a duty of 1 cent per pound if imported in such condition that it can

be used for edible purposes. It is subject to an excise tax of 3 cents per pound. One or the other of these oils can be substituted for nearly every use of coconut oil. The first year in which the export tax is levied, palm oil will be in a preferred position for any use and palm kernel oil if denatured. Importation of both of these oils is increasing in the United States. In 1936, for the first time, the imports of palm oil were greater than the imports of coconut oil. This is another discrimination against the Philippines in favor of foreign countries producing a competing product. While these oils are admitted without duty, we can see no reason why Philippine coconut oil should not be received in the United States without duty, even after independence.

As long as copra is admitted in the United States free of duty, we believe that it is to the best interests of both the United States and the Philippines for Philippine coconut oil to also be free of duty, thus enabling the copra crushing industry in the Philippines to continue. The United States needs the coconut oil, and apparently will continue to need it for a long time to come. They do not need the great bulk of copra cake and meal which would result from the extraction of the coconut oil entirely in the United States. Therefore, the reasonable method would be to make such arrangements as would allow the present coconut oil industry in the Philippines to continue, leaving the present limitation of 200,000 tons if it is feared that this industry might develop to too great proportions.

To summarize, we believe that the only just bases of trade relations between the Philippine Islands and the United States are the following:—

1. The Philippines, as long as it is under the American Flag, is entitled to preferential treatment by the United States Government, not only in conformity with

the provisions of the Tydings-McDuffie law but by a betterment of those conditions when such changes will not injure the producers and Government of the United States.

2. After independence is granted to the Philippines, as a country brought up to the status of nationhood under the tutelage of the American Government, the Philippines is entitled to at least as preferential treatment as any foreign country.

In respect to coconut products, the bases mentioned above demand the following:—

1. The immediate elimination of the excise tax on coconut oil produced from Philippine copra.

2. The elimination of the export taxes during the last five years of the Commonwealth.

3. After Independence, the placing of Philippine copra and coconut oil on as favorable a basis as any competing foreign oil or oil-bearing seed imported into the United States.

Respectfully submitted,

AGUSAN COCONUT COMPANY

By: (Sgd.) J. H. ALLEY,
General Manager.

COMPARISON OF COPRA VALUES AND EXCISE TAX COLLECTIONS

During the months from July 1st, 1934, when the first collection of the excise tax was made, to April 30, 1937, collections of excise tax on Philippine coconut oil, according to the official reports of the United States Treasury, amounted to \$48,153,614.65.

During the same period the value of imports of copra and coconut oil into the United States from the Philippine Islands, according to the reports of the Bureau of Foreign and Domestic Commerce of the United States Government were:—

Copra	\$23,077,150.00	
Coconut Oil	34,050,132.00	
	<hr style="width: 50%; margin: 0 auto;"/>	
Total		\$57,127,282.00

This latter figure represents the CIF value of imports to United States ports. There is no data available to show how much of this was received in Pacific Ports, Atlantic Ports or Gulf Ports, nor do the statistics show the ports of origin in the Philippine Islands. We have, therefore, taken this information from the reports of Leo Schnurmacher, Inc., Manila, estimating that shipment from the Philippines was one month prior to landing on Pacific Ports and two months prior to landing on Atlantic Ports. The amount of copra and coconut oil thus shipped amounts to within $\frac{3}{4}$ of 1% of the total tonnage of coconut oil represented by the collections mentioned. On the basis of Leo Schnurmacher, Inc., reports, ocean freight on copra and coconut oil amounts to

\$ 7,685,712.00
204,552.00

Making a total of freight and insurance		7,890,264.00
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Leaving a net value of copra and coconut oil shipped FOB Philippine Ports		\$49,237,018.00
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For the loading of this cargo,
the following expenses are involved:

Wharfage Tax	\$ 918,539.00	
Loading expenses on copra estimated at 35¢ per metric ton	171,569.00	
Lighterage on coconut oil shipped from Manila at \$1.10 per metric ton	346,491.00	
Survey fees on coconut oil shipped at \$.125 per metric ton	53,543.00	
Internal Revenue Tax at 1½% of the FOB value less Wharfage Tax	723,277.00	
Total Loading Expenses		<u>2,213,419.00</u>
Leaving a net value of copra and coconut oil ex-warehouse Philippine Ports		\$47,023,599.00

To this must be added the value of the copra cake and meal produced as a by-product of the oil shipped to the United States. During the same period the exports of copra cake from the Philippines, as per reports of the Collector of Customs in Manila amounted to 291,832 metric tons with a FOB value of ₱9,198,251.00. The milling of coconut oil produces 55% of its weight in cake. Therefore, the coconut oil imported into the United States would produce 235,588 metric tons, and only 80% of the copra cake and meal exported pertain to the oil shipped to the United States, the balance of 20% representing oil exported to other points, local consumption and variance of stocks. 80% of the value exported would amount to ... \$ 3,679,300.00

From which we have to deduct cost of sacking at \$1 per metric ton, loading at 35¢ per metric ton and internal revenue at 1½% amounting to	373,234.00
Leaving a net value of copra cake of	<u>3,306,066.00</u>
And making a gross value of copra, coconut oil and copra cake exports ex-warehouse	\$50,329,665.00
428,341 metric tons of coconut oil at 60% extraction would require 713,902 metric tons of copra. At \$5 per metric ton, the cost of milling amounts to	\$ 3,569,510.00
Cost of transportation of copra to shipping ports and to the oil mills estimated at \$1.50 per metric ton amounts to	1,806,150.00
Internal revenue on sales of copra to the oil mills amounts to ...	<u>393,175.00</u>
Making a total of production and inland cost	<u>5,768,835.00</u>
Leaving a net value of the copra to the producer	<u>\$44,560,830.00</u>

In comparison with this net value of the copra to the producer, we have a collection of excise tax amounting to \$48,153,614.65, showing that the collection of the excise tax amounts to 108% of the value of the copra to the producer.

Or that the producer of the copra actually received only 48% of the value of his copra, while the collection of the excise tax amounted to 52%.

BRIEF
SUBMITTED BY THE
AMERICAN CHAMBER OF COMMERCE OF THE
PHILIPPINE ISLANDS
SEPTEMBER 1937
(Photographic Reprint)

FUNDAMENTALS

We Subscribe to the Following as the Fundamentals of Philippine-American Trade Relations:

1. *The trade relations between the United States and the Philippine Islands were definitely determined by the provisions of the Tydings-McDuffie Act until July 4, 1946. That Act, after approval by the President and the Congress of the United States, was formally accepted by the Filipino people. Based thereon many citizens and residents of and investors in the Philippine Islands have incurred obligations and made commitments. The trade relations so determined, in good faith and in fairness, cannot, therefore, be altered to their prejudice. Thus, at least until July 4, 1946:*

(a) *Articles the growth, product, or manufacture of the Philippine Islands should, with no greater limitations than those imposed by that Act, and on a basis of equality with articles the growth, product, or manufacture of the United States, be admitted free of duty into the United States; and*

(b) *Articles the growth, product, or manufacture of the United States should, on a basis of equality with articles the growth, product, or manufacture of the Philippine Islands, be admitted free of duty into the Philippines.*

(c) *No excise or other taxes which directly or indirectly result in any discrimination against the products of either country should be imposed.*

2. *The imposition of export taxes on shipments from the Philippine Islands to the United States from November 15, 1940, and the imposition of import duties by the United States and the Philippine Islands, each on articles the growth, product, or manufacture of the other, from July 4, 1946, will be disastrous to the producers and manufacturers of both countries, and, the time being too short to make the necessary readjustments, to the Philippine Islands in particular, therefore,—*

(a) *The export taxes should be repealed; and*

(b) *Free trade between the two countries, with present or other reasonable quantitative limitations, should be continued after July 4, 1946.*

3. *Irrespective of any change in the political status of the Philippine Islands, a continuation of the present free-trade relations between the United States and the Philippine Islands would be advantageous to both countries;—to the Philippine Islands, because the United States is an essential market for many Philippine products; and to the United States, because the Philippine Islands is a large market for products of agriculture and industry of the United States, and will, if the products thereof continue to be admitted free of duty into the Philippine Islands, be a much larger market in the future. Such free-trade relations between the two countries should, therefore, after July 4, 1946, be continued indefinitely.*

BRIEF
OF THE
AMERICAN CHAMBER OF COMMERCE
OF THE PHILIPPINE ISLANDS

September 1, 1937.

TO THE JOINT PREPARATORY COMMITTEE
ON PHILIPPINE AFFAIRS,
MANILA.

GENTLEMEN:

In presenting this memorandum, the American Chamber of Commerce of the Philippine Islands does not want to burden you with any statistics and tables, as such have been fully and completely prepared and handed to you by the industrial and agricultural interests concerned.

We have had the opportunity of reading the briefs submitted to you by the National Foreign Trade Council, Inc., National Foreign Trade Association, Inc., Los Angeles Chamber of Commerce, Portland Chamber of Commerce, Foreign Trade Association of the San Francisco Chamber of Commerce, Mr. J. F. Marias of San Francisco, and the Seattle Chamber of Commerce.

We find these briefs very comprehensive, and in particular those from the National Foreign Trade Council, Inc., National Foreign Trade Association, Inc., and the Seattle Chamber of Commerce, all of which we heartily endorse.

The entities which we represent, aside from manufacturing and agricultural interests that handed you separate briefs, are the American import firms, American investments and shipping.

Most American import firms have been established many years, many of them with the advent of American Occupation, and have thus become the pioneers in the introduction of American manufactures and products.

Not a few of them have had a small beginning and expanded gradually by re-investing their profits in their business. The demand for American goods was created exclusively by American firms and American capital, with the result that the use of such goods has been implanted in every home in these Islands.

With the elimination of free trade and the application of United States Tariff Laws or any part thereof, this privileged market for American goods will soon be wiped out, and the labor and money expended to help manufacturers and producers will pass into oblivion.

The growth of nationalism in all countries in the world to make themselves self-sustaining has automatically restricted foreign trade.

This situation has prompted the conclusion of a number of reciprocal trade agreements between the United States and foreign countries, the outcome of which is still problematical. These agreements clearly demonstrate that the administration at Washington is fully aware of America's need for increased outlets. It is therefore not conceivable that the protected market in the Philippines now enjoyed by American manufacturers should be abandoned.

With the growth of this market, incalculable assistance will be given to American manufacturers and producers of agricultural products.

There is still time to save this market and with it the continuance of American firms in these Islands, as the outlet for American goods.

It is but natural that any agreement must be reciprocal in allowing free access of Philippine products into the United States.

You are well aware that the economic development of the Philippines has been based upon the American market, allowing a higher standard of living for these people which in itself has caused higher production costs. As the production costs are principally in labor, these higher costs have also brought about a correspondingly higher purchasing power. The Philippines are primarily an agricultural country and will remain so for many years to come, which means that they will continue to be a consumer of manufactured goods from overseas.

Raw materials from the Philippine Islands do not compete with similar goods produced in the United States, as such production is insufficient for American demands and, consequently, will have to be imported from somewhere, with little assurance to be able to dispose of American goods in such countries. The destruction of Philippine industries now dependent on free entry into the United States, which industries were established under American guidance, is unwarranted. The destruction of Philippine purchasing power merely to increase the purchasing power of foreign nations, is unjust not alone to the Filipino people, but also to those American producers who have developed in the Philippines valuable outlets for their products.

The export of local raw materials not only keeps labor employed, but in many cases the American consumer is getting a direct benefit therefrom.

We dare not think of the loss which particularly the

Pacific Coast States will suffer, with but little chance to make up this loss elsewhere.

The abolishment of free trade between these Islands and the United States will be a blow to American business in these Islands, but far more of a blow to American manufacturers who will be deprived of this market, as American firms established here may replace American goods with those from foreign countries, although if exports are reduced by closing the American market, the volume of goods imported from all countries will be far less than at present.

American investments amounting to millions of dollars are certainly entitled to full protection for a term of years, in order that they may be withdrawn with the least possible loss. A great deal of this American capital which has made possible the development of these Islands, is the accumulation of earnings for many years. These investments were made and thus development undertaken with confidence in the United States Government that they would not be destroyed by premature action.

As for shipping, you are undoubtedly aware that the exports from the Philippine Islands have largely contributed to maintain reasonable freight rates on the Pacific. Steamship companies have been able to rely on large quantities of exports from the Philippines, and thus they are assured of regular return cargo.

During 1936, import cargo from the United States carried on American ships amounted to 564,904 tons and export cargo to the United States to 1,315,056 tons. Vessels coming from United States ports to the Far East receive their return cargoes in the Philippines. Should they be deprived of a large percentage of such cargo, it will bring about a considerable increase in freight rates from the United States to Oriental ports, for the freight return

from outward cargoes would have to be sufficient to cover the cost of both the outward and the homeward voyage. This increase would cause an additional burden upon manufacturers by increasing the landed cost accordingly, thereby making competition more difficult for American goods. In an equal manner trans-continental railroads will be affected by the elimination of the present arrangement, both in the line of imports as well as exports.

We wish to point out that under the provisions of the Tydings-McDuffie Act and the Constitution of the Philippine Commonwealth, citizens and corporations of the United States enjoy the same civil rights as citizens and corporations of the Philippine Islands, until the recognition by the United States of Philippine Independence, the date now being fixed, July 4, 1946.

By the Philippine Constitution, after the withdrawal of the American sovereignty, the granting of concessions franchises, the ownership of agricultural land, and the practice of many professions, is limited to citizens and certain corporations of the Philippine Islands. We respectfully request that as long as preferential trade arrangements between the Philippine Islands and the United States continue, citizens and corporations of the United States shall continue to enjoy equal civil rights with citizens and corporations of the Philippine Islands.

In the interest of the parties herein referred to, we earnestly hope that the present free trade agreement will be continued indefinitely, without being subject to any changes.

UNITED STATES TAXES IN THE PHILIPPINES

We respectfully invite your attention to the discrimination against citizens of the United States residing in

and deriving income from Philippine sources, against products of the United States sold in the Philippine Islands, and also against corporations organized under the laws of the Philippines, as a result of the provisions and the interpretations of United States tax laws.

1. *The discrimination against American citizens resident in the Philippines.*

Prior to 1917 all Federal income tax legislation extended to the Philippines and applied to the income of *everyone residing in the Philippines, whether they were Americans, foreigners, or Filipinos.* The taxes collected thereunder were *covered into the Philippine treasury*, and were expended in the Philippines. No effort was ever made by the United States to appropriate any portion thereof.

Under the Revenue Act of 1917 it was expressly provided that the increase thereby imposed should not be extended to Porto Rico and the Philippines, but that, on the contrary, the income tax in those possessions should be levied, assessed, collected and paid in accordance with the provisions of the Federal Revenue Act of 1916, as amended. In the Revenue Act of 1918 (Sec. 261), it was again provided that in Porto Rico and the Philippines the income tax should be levied, assessed, and collected in accordance with the Revenue Act of 1916, as amended, and, in addition, that returns should be made and taxes paid in those possessions by "(1) *every individual* who is a citizen or *resident* of Porto Rico or the Philippine Islands; or derives income from sources therein..." The same act authorized the local legislators of Porto Rico and the Philippines to amend, alter, modify or repeal the income tax laws in force in said possessions.

On March 7, 1919 the Philippine Legislature, under

this authority, enacted its own income tax law, effective January 1, 1920 (Act 2833).

After the enactment of the Federal Revenue Act of 1918, it was assumed that Americans residing in the Philippines were not subject thereto, because they came within the provisions of the Act above quoted, whereby "every *individual* who is a resident of the Philippine Islands," was required to make returns and pay the tax in accordance with the Revenue Act of 1916, but was relieved from the payment of the increases imposed by the 1917 and 1918 Acts.

But in the case of *Lawrence v. Wardell*, 270 Fed 682, 273 Fed. 405, the facts were that an American who had resided in the Philippines until March 1919, when he became a resident of California, was required by the Collector of Internal Revenue to pay the Federal income tax upon his 1918 Philippine income, in accordance with the Revenue Act of 1918, with credit for the amount paid in the Philippines. The position of the Collector was sustained by the Federal Courts upon the theory that the 1918 Act applied to all Americans, wherever residing. The action of the Collector in that case, thus sustained by the courts, provoked a storm of protest because of the resulting discrimination against Americans residing in the Philippines. The discrimination is obvious. Such Americans were thereby required to pay the tax under the 1917-1918 Acts, with credit for the tax paid the Philippine Government, while Filipinos and foreigners, living under identical conditions and enjoying the protection of the United States, were not. They paid the Philippine Government under the 1916 Act, until the passage of the Philippine Income Tax Law and then under that law only. Foreigners residing in the Philippines are not required to pay income tax upon Philippine income to their home government.

Because of this discrimination, the Philippine Legislature, composed entirely of Filipinos, in February 1920 passed the following concurrent resolution:

"Be it resolved by the Senate, the House of Representatives concurring, That the Resident Commissioners be, and they hereby are, instructed to ask Congress for the amendment of the United States Internal Revenue Act of nineteen hundred and nineteen, in the sense that American citizens who are bona fide residents of the Philippine Islands shall not be subject to any income tax greater than that required of other residents of said Islands."

On September 5, 1921, the United States-Philippine Commission, commonly known as the "Wood-Forbes Commission", cabled the Secretary of War as follows:

"All nationals in the Philippines, except Americans, exempt from liability for the United States Income tax. No foreigner here required to pay income tax to his home government. Americans here also pay income tax Philippine Government. . . . We, therefore, urgently recommend that Americans be placed on same basis here as other nationals; otherwise they are penalized for being Americans and are unable successfully to compete with those who are exempt"

Congress, recognizing that the prior legislation operated to discriminate against Americans in American possessions sought to eliminate that discrimination and to put them on the same basis as other nationals, and at the same time to guard against legislation which might permit the possessions to become an asylum for Federal income tax evaders, by inserting Section 262 in the Revenue Act of 1921.

That section reads as follows:

"Sec. 262 (a) GENERAL RULE. That in the case of citizens of the United States or domestic corporations, satisfying the following conditions, gross income means only gross income from sources within the United States—

(1) If 80 per centum or more of the gross income of such citizen or domestic corporation (computed without the benefit of this section), for the three year period immediately preceding the close of the taxable year (or for such part of such period immediately preceding the close of such taxable year as may be applicable) was derived from sources within a possession of the United States; and

(2) If, in the case of such corporation 50 per centum or more of its gross income (computed without the benefit of this section) for such period or such part thereof was derived from the active conduct of a trade or business within a possession of the United States; or

(3) If, in the case of such citizens, 50 per centum or more of his gross income (computed without the benefit of this section) for such period or such part thereof was derived from the active conduct of a trade or business within a possession of the United States either on his own account or as an employee or agent of another.

(b) AMOUNT RECEIVED IN UNITED STATES.—

Notwithstanding the provisions of subdivision (a) there shall be included in gross income all amounts received by such citizens or corporations within the United States, whether derived from sources within or without the United States."

This section is repeated in all subsequent Revenue Acts, but appears in the later Acts as Section 251.

All American citizens actually resident in the Philippine Islands thought that the matter of the United States income tax liability of citizens of the United States actually residing in the Philippines, as to income from Philippine sources, had been definitely settled by this legislation. They were justified in this assumption by the fact that for a period of nineteen years no attempt was made by the Government of the United States to collect taxes on income derived from Philippine sources from United States citizens resident in the Philippine Islands; and no machinery was set up by the Government of the United States in the Philippine Islands for the collection of any such taxes from citizens of the United States residing in the Philippine Islands. Such citizens have always filed their income tax returns with, and have paid their taxes to, the Philippine Government, in the belief that by so doing they were completely meeting their tax liability.

In 1937, however, an Office of the Treasury Department of the United States was opened in Manila, and United States citizens resident in the Philippines, have been advised in many cases that they are liable for income taxes to the United States Government not only for the current year, but, in many cases, for as many as twenty years past. It is not too much to say that in some cases rather threatening tactics have been indulged in towards such Americans.

This action has forcibly brought to light the fact that the United States Revenue laws, as now interpreted by the Treasury Department, are discriminatory as to citizens of the United States who are bona fide residents of the Philippines, in that they have subjected United States citizens to the Federal tax for the past twenty years on their income derived from Philippine sources, while Filipinos and foreigners doing business in the Philippine Is-

lands, under the same conditions, and enjoying the same protection from the United States, pay no Federal income tax upon income derived from such sources under identical circumstances. It is submitted that American citizens should not be discriminated against, and Filipinos and foreigners favored in our possessions by an Act of our own Congress.

The enforcement of said laws, in accordance with said interpretation, at this late date, is especially harsh and cruel, because of the conditions through which the "old-timers" among the Americans of these Islands are now passing. In many cases the imminence of Philippine independence will force them to liquidate what they have in these Islands, and perhaps to leave the place they have made their home for many years. Many of these men are in their sixties and ill-fitted to start life anew in their home land. They have depended upon their savings to carry them through. Because of the peculiar working of the law as now interpreted, the fact that the principal part of their income may be derived from those savings, renders them liable to the Federal tax upon their entire income, except earned income. The collection of that tax for a period of approximately twenty years, will often wipe out those savings and leave them penniless. It would seem that the laches of the Treasury Department, in failing to apprise these men of their tax liability, and to set up machinery here to enforce that liability throughout the years, should operate in a measure as an equitable estoppel, precluding a rigid enforcement of their past liability. They should be left with something in their old age, especially when it is remembered that the savings of Filipinos and foreigners, living under precisely the same conditions, are not touched.

As to the future, the discrimination against the bona fide resident American should be ended, and at once. We suggest that it could be accomplished by the insertion of a proviso at the end of Section 251 of the Revenue Act of 1936, reading as follows:

And, provided, further, that no citizen of the United States residing in, or domestic corporation engaged in the active conduct of a trade or business and having an office or place of business in a possession of the United States shall have any greater tax liability under this Act with respect to income derived from sources within such possession than is imposed hereunder with respect to such income upon citizens or corporations of such possessions, or upon aliens or foreign corporations in such possessions.

This amendment would not make the Philippine Islands a refuge for tax dodgers, because it applies only to income derived from sources within possessions of the United States, and only United States citizens who are bona fide residents thereof, and domestic corporations.

2. The discriminatory burden upon the Philippine market for American goods and upon the American market for Philippine goods.

Section 119 (e) of the Revenue Act of 1936 provides in part as follows:

Gains, profits and income
 (2) from the sale of personal property produced (in whole or in part) by the taxpayer within and sold without the United States, or produced (in whole or in part) by the taxpayer without and sold within the United States, shall be treated as derived partly from sources within and partly from sources without the United States. Gains, profits and income derived from the purchase of personal property within and

its sale without the United States or from the purchase of personal property without and its sale within the United States, shall be treated as derived entirely from sources within the country in which sold, *except that gains, profits and income derived from the purchase of personal property within the United States and its sale within a possession of the United States or from the purchase of personal property within a possession of the United States and its sale within the United States shall be treated as derived partly from sources within and partly from sources without the United States.*"

These provisions in so far as they concern the *purchase* and sale of personal property first appeared in the Revenue Act of 1926 and are included in all Revenue Acts subsequent thereto.

No one ever supposed that this provision was applicable to the profits derived from the sale of United States products in the Philippine Islands. So far as we are aware, no tax has ever been assessed or collected under this provision on the profits from such sales. The question has, however, now been raised, the representative of the Treasury Department now in Manila having advised several Philippine firms that they are liable to taxation under this provision of the law.

United States tariff laws do not apply to the Philippine Islands, which has separate tariff laws, under which rates of duty generally are considerably lower than those under United States laws. Thus the problem of competition for American goods in the Philippines is difficult enough in any case, without imposing an additional handicap through the income tax laws. This provision, therefore, discriminates against the products of the United States, as the profits from the sale of such products may

be partly taxable under United States tax laws and in full under Philippine laws, while goods purchased in foreign countries and sold in the Philippines are taxable only in the Philippine Islands. It is obvious that no one intended to place the Philippine market for American goods under any such handicap.

Aside from such discrimination, this provision is practically unenforceable as to those concerns which are domiciled only in the Philippine Islands and acquire goods either directly or through agents in the United States. Furthermore it is impractical, because of the difficulty and expense involved in the determination of the gross profits derived on sales of United States products as distinguished from Philippine and foreign products.

There are many firms in the Philippines whose principal business for years has been the creation here of a Philippine market for American goods. It is probable that many of these firms will be forced to liquidate if they are compelled to pay the total accruals of the American tax, under the Treasury Department rulings and formula for allocating the profits on such sales for the past eleven years. Considerations of equity preclude the imposition of such tax liability, in its full measure, upon such firms, especially when the laches of the Treasury Department in failing to set up machinery here for the collection of the tax is borne in mind.

As to the imposition of the tax on a portion of the profit derived from the sale in the United States of securities or personal property produced or purchased in the Philippine Islands, a new provision of the Revenue Law of 1936 creates a palpable discrimination against American citizens and firms engaged in business in the possessions. It is there provided (Sec. 211 and 231) that *non-*

resident alien individuals and foreign corporations not engaged in trade or business in the United States and having no office or place of business therein shall be taxed only upon their fixed or determinable, and annual or periodical income from American sources, and that such individuals and corporations will not be regarded as "engaged in trade or business in the United States" if they effect "transactions in the United States in stocks, securities, or commodities through a resident broker, commission agent or custodian."

Thus, while American citizens and corporations are subject to the tax on that portion of the profits derived from the sale in the United States of commodities or securities purchased or produced in the Philippine Islands, which is attributable to the United States, Filipinos, foreigners, and foreign corporations operating in the Philippines pay no such tax, unless they have an office in the United States, providing the sales of such securities or commodities in the United States is effected through a broker, commission agent, or custodian residing in the United States. It is not easy to see why Filipinos, foreigners, and Philippine and foreign corporations should be thus favored, *in the United States*, as against American citizens and corporations.

As a general remedy for the situation set out under this heading, we suggest that a proviso be added to Section 119 of the 1936 Act, reading as follows:

"Provided, however, that citizens of the United States and domestic corporations engaged in trade or business in the possessions of the United States shall be subjected to no greater or different tax liability under this Act with respect to gains, profits, or income derived from the production or purchase of personal property in the United States and its sale within a

possession of the United States, or from the purchase or production of personal property within a possession of the United States and its sale within the United States, than is imposed upon the citizens and corporations of those possessions and upon nonresident alien individuals or corporations not engaged in trade or business within the United States and not having an office or place of business therein, with respect to gains, profits, or income derived from such transactions, and provided further, that no tax shall accrue under this Act upon the gains, profits, or income derived from the purchase of personal property in the United States and the sale thereof in a possession of the United States."

Respectfully submitted:

AMERICAN CHAMBER OF COMMERCE
OF THE PHILIPPINE ISLANDS

By: (Sgd.) P. A. MEYER,
President.

REPRESENTATIVES:

MR. P. A. MEYER, *President*
MR. S. F. GACHES, *Director*
MR. E. E. SELPH, *Legal Counsel*

**A PROGRAM FOR THE ESTABLISHMENT OF
PERMANENT RECIPROCAL TRADE RELATIONS
BETWEEN THE UNITED STATES
AND THE PHILIPPINES**

**BY
SALVADOR ARANETA**

(Photographic Reprint)

Manila, September 10, 1937

Hon. John Van A. MacMurray
Chairman, Joint Preparatory Committee
of American and Philippine Experts
Manila

Dear Sir:

I take pleasure in submitting to the consideration of your Committee the enclosed memorandum entitled: "A Program For The Establishment Of Permanent Reciprocal Trade Relations Between The United States And The Philippines". Attached to the memorandum, as Appendix "A", is a draft of a bill for enactment by the Congress of the United States, incorporating the suggestions covered in the memorandum.

As this letter and its accompanying memorandum is addressed to a Joint Committee of Experts wherein the Philippines is equally represented with the United States, our suggestions are not limited to legislation for enactment in Washington, but include also a coordinate plan that will require painstaking action in the Philippines.

The points and conclusions that are dealt with in our study may be re-stated as follows:

I. The main objections to the economic provisions of the Tydings-McDuffie Law are that they will disrupt coincidentally with the proclamation of Philippine independence, the trade relations between the two countries instead of providing ways and means for improving the same or correcting any inequalities existing, and while they provide for a liquidation of our major industries now dependent upon the American market to the end that the capital invested in those industries may generally be recovered back during the transition period, they do not provide the Philippines with the necessary time and means to readjust its national economy.

II. The amendments proposed to the economic provisions of the Tydings-McDuffie Law are the following:

(a) To grant the Commonwealth of the Philippines a complete tariff and monetary autonomy and an economic transition period, say of fifteen years, during which time the volume of our exports to the United States will not be materially increased. If

necessary, the President of the United States should be empowered, upon the recommendation of an expert body such as the Tariff Commission, to impose from time to time import quotas on Philippine commodities as are not yet subject to limitations, as may be necessary in order to limit any undue increase in our exports to the United States.

(b) To abolish the export duties. To give the United States a guaranty that our bonded indebtedness will be paid upon maturity, the President of the United States may be granted control over our customs, in case we default in the payment of our bonds sold in the United States prior to the declaration of our independence.

III. The readjustment of the national economy which should take place during the economic transition period of fifteen years should consist of the following:

(a) To attain a more balanced economy, we should without reducing the volume of our trade with the United States, reduce its importance in relation to our total production, which should be increased by multiplying the production of our prime necessities. The loss in the imports from the United States, which our industrialization program will entail, should be replaced with the importation from the United States of more capital goods that we shall need in connection with the establishment of our industries, as well as of consumer's goods of various kinds necessary to the refinements of modern life and which can not be efficiently produced locally. The foregoing will be made possible by a concerted programme of achieving a higher standard of living for our people with a more widespread distribution of the benefits derived at present from our trade relations with the United States.

The protective tariff duties that will be necessary to levy to protect our infant industries will serve the added purpose of protecting American goods, thereby making our trade relations with the United States more truly reciprocal for the United States than at present.

(b) To provide ways and means so that the channels of trade will be in the hands of our nationals.

(c) To solve the Davao problem which might otherwise give rise to a disintegration of our territory.

IV. The advancement of the date of the proclamation of Philippine independence from that which is specified in the Tydings-McDuffie Law will not only affect adversely but may permanently jeopardize the adjustment of our national economy for the following reasons:

(a) The sad history of China in its relations with Japan shows that our tariff autonomy will become a myth if independence is granted before the expiration of the economic transition period,

for then we shall not be in a position to establish protective tariffs for the benefit of our infant industries so essential in the readjustment of our national economy.

(b) The proceeds of the excise taxes collected in the United States from Philippine products which are being returned to the Commonwealth of the Philippines, amounting to about P70,000,000 a year and which will be greatly needed by the nation to finance its industrial development, will be lost to the government once independence is granted.

(c) As between the dangers of a very remote congressional action inimical to the Philippines and putting ourselves at the mercy of Japan's ambition which will make a myth of the independence that may be granted us (at least in so far as it pertains to economic matters), I do not hesitate in choosing the first, since, after all, our past association with the United States fully justifies our trust in the sense of justice of the people of the United States.

V. At the expiration of the economic transition period of fifteen years, the existing trade relations between the two countries should be maintained, no longer on grounds of equity or duty on the part of the United States, but on a true basis of trade reciprocity between the two nations, which reciprocity could be more easily achieved by perfecting our present trade relations and correcting any inequality existing, rather than by disrupting the same.

(a) In other words, the reciprocal trade should be on the basis of maintaining as much as possible the present free trade relations, imposing not only import quotas but also such percentage of the full duties of the Tariff Act of the United States, as may be necessary to achieve a true reciprocal trade.

(b) It is here hoped, that in formulating the index or formula that should regulate the proposed reciprocity treaty between the United States and the Philippines the evils of bilateralism be avoided, so that the present benefits of the existing triangular trade between the United States, Japan and the Philippines be maintained as much as possible.

(c) The proposed reciprocity treaty, to be workable and mutually beneficial to the two countries must have an exclusive character, in that, the duties proclaimed in the said treaty by both countries are not made applicable to commerce from all countries.

(d) Furthermore, the proposed treaty should be for a reasonably long period.

(e) The above programme will be mutually beneficial to both countries because such an arrangement will assure them a *stable* market for their respective surplus products, and, more particularly, it will be beneficial to the United States, in that—

(1) The imports of Philippine products into the United States only represent approximately 4% (in 1936) of the total imports

into the United States, and with the exception of coconut oil, as to which there is some controversy, they do not displace a single unit of goods produced in the United States, so that with the destruction of said trade, American producers will not be benefitted in any way; only foreign producers will be benefitted, who would then be in a position to increase their exports of similar articles into the United States.

(2) The ever increasing population of the Philippines which is gradually attaining a higher standard of living makes of the Philippines a most valuable market for a highly-developed industrial country, especially in the years to come when the world will become more markedly divided into economic blocks.

And it will be beneficial to the Philippines in that—

(1) Because of the higher cost of production prevailing in the United States, the free entry of American manufactured goods into the Philippines will not adversely compete with our infant industries, and such a scheme will serve as a safety valve against any undue increase in our duties, and if it proves that in certain exceptional cases certain American goods seriously compete with our products, the situation may be corrected by the imposition of a quota or a moderate duty.

(2) The maintenance of our present volume of exports to the United States which are dependent on the present free trade arrangement, amounting to two hundred and fifteen million pesos for last year constitutes a very valuable source of wealth to the country, which will be impossible to replace, and which will not only maintain but even increase the standard of living of our people.

An announcement of a program of permanent exclusive trade reciprocity between the two countries, entrusting its enforcement to the President of the United States, with the advice of a technical body such as the Tariff Commission, as recommended in our memorandum, will constitute an important landmark in the march of enlightened and scientific world trade revival, will greatly insure the success of the only real democratic country in the Orient, and will constitute the fulfillment of the wishes expressed by the late Speaker Byrns, on the occasion of the inauguration of our Commonwealth, when he expressed the belief that "the President's Commission will work out an adjustable plan beneficial to both our nations, and that the result of its recommendations will strengthen the ties that will become stronger with the years".

I am sure that the members of this Committee, inspired as they are with the policy of foreign trade expansion so painstakingly being carried out by Mr. Hull, the Secretary of State, and also with the highest sense of statesmanship so clearly and forcefully expressed in various statements made by Assistant Secretary Sayre, Chairman of the Inter-Departmental Committee on Philippine Affairs, will fully realize that the wanton and thoughtless

destruction of our present trade relations which is sure to come if the economic provisions of the Tydings-McDuffie Law are not improved, will only serve to jeopardize the birth of the very nation created by said Act, will not redound to the benefit of the people of the United States, will cause further political instability in the Far East, and will mark a definite retrocession in the march of human progress and happiness.

In closing, I wish to reiterate on this occasion our gratitude for the spirit of justice which the Administration and Congress of the United States have on many occasions shown in dealing with our problems, political and economic, and wish to express our appreciation for the foresight and statesmanship of President Quezon in so ably presenting to the authorities in Washington the interests and needs of our country culminating in the appointment of your Committee of Experts, whose recommendations, I am sure, will produce enduring benefits to our people.

I am, believe me,

Yours very truly,

SALVADOR ARANETA

P. S. The writer is a lawyer and a former member of the Philippine Constitutional Assembly. With his wife and family he is financially interested in sugar, mining and air transportation. He is a Vice-President and one of the initiators of the first and only inter-island air service; a member of the National Economic Association, and one of the founders of the National Economic Protectionism Association.

**A PROGRAM FOR THE ESTABLISHMENT OF PERMANENT
RECIPROCAL TRADE RELATIONS BETWEEN THE
UNITED STATES AND THE PHILIPPINES**

I.—INTRODUCTORY

**(a) MAIN OBJECTIONS TO THE ECONOMIC PROVISIONS OF THE
TYDINGS-McDUFFIE LAW.—**

The main objections to the economic provisions of the Tydings-McDuffie Law are that they will disrupt, coincidentally with the proclamation of Philippine Independence, the trade relations between the two countries instead of providing ways and means for improving the same or correcting any inequalities existing, and while they provide for a liquidation of our major industries now dependent upon the American market so that the capital invested in those industries may generally be recovered back in due time, they do not provide the Philippines with the necessary time and means to readjust its national economy.

**(b) DISENTAILING THE ECONOMIC PROBLEMS FROM THE POLITICAL
PROBLEMS.**

It was not an easy task to have solved in the Tydings-McDuffie Act the political problems of the Philippines, and the task became more involved because there were economic problems that had to be attended to, and apparently no attempt was made to disentail the economic from the political problems.

Indeed, our economic problems have become unduly involved because under the present set-up, they are closely linked with our political problems. Thus, in the joint statement of President Quezon and Mr. Sayre, Assistant Secretary of State, it was said that this Joint Committee of Experts would be expected, in making recommendations, to consider the bearing which an advancement in the date of independence would have in facilitating or retarding the execution of a program of economic adjustment in the Philippines.

In this memorandum, we beg to submit a set-up that could be provided for by Congress, whereby our economic questions will henceforth be *theoretically* disassociated from the political questions, thereby greatly simplifying the *issues* involved in the solution of our economic problems.

The nature of the trade relations that should exist between the Philippines and the United States need not depend upon the nature of the political ties existing between the two countries.

Free trade between the Philippines and the United States was established in 1909, more than ten years after the American occupation of these Islands. Free trade does not exist between England and her dominions or dependencies which have complete tariff autonomy. Rather than giving us tariff autonomy, the United States preferred to give us free trade.

The United States was morally bound to give us free trade, not because we were an unincorporated territory or a dependency, but because we were not given complete tariff and monetary autonomy. Granted such an autonomy, and a reasonable period to readjust ourselves from our present free trade relations, political independence may be granted the Philippines at any time even during the economic period of readjustment, and conversely at the expiration of said period of readjustment free trade could eventually be withdrawn even if our political ties with the United States are not entirely severed. On the other hand, at the expiration of the said period of readjustment from the time tariff autonomy is granted the Philippines, free trade between the Philippines and the United States may continue, no longer on grounds of equity or duty on the part of the United States, no longer due to any paternalistic attitude towards the Philippines, but simply on its own merits, independently of whatever political ties may or may not then exist between the two countries, on the simple ground that free trade under certain limitations and restrictions might still be the best formula of achieving a *Reciprocal trade arrangement* between the two countries.

II.—PROPOSED AMENDMENTS TO THE ECONOMIC PROVISIONS OF THE TYDINGS-McDUFFIE LAW

(a) TARIFF AND MONETARY AUTONOMY COUPLED WITH AN ECONOMIC TRANSITION PERIOD OF FIFTEEN YEARS ARE ABSOLUTELY NECESSARY TO THE READJUSTMENT OF PHILIPPINE ECONOMY.

The provisions of the Tydings-McDuffie Law to the effect that tariff and monetary laws of the National Assembly are subject to the approval of the President of the United States—provisions similar to the one existing under the Jones Law,—deny the Commonwealth complete autonomy in tariff and monetary questions, an autonomy which is essential to every country that has to readjust its economy.

The members of this Committee, better than the undersigned, know that the process of acquiring new markets, and the process of building up new industries in the Philippines is a long process of many years, and it is believed that an *economic transition period* of fifteen years from the time we are granted tariff and monetary autonomy will be fully needed to give us a reasonable period of time to build up our new economic structure.

(b) EXPORT TAXES SHOULD BE ABOLISHED.

Under this plan, it is obvious that during the economic transition period no export taxes should be levied on Philippine products going to the United States. We shall not deal on this point at length because we understand that the matter will be fully covered in other memoranda to be presented before this Committee.

The export taxes that are being levied by the Tydings-McDuffie Law have the expressed objective to provide means for the payment of our bonded indebtedness to the United States. Four of our principal exports like oil, pearl, buttons, cigars and tobacco will not be able to stand the imposition of export taxes from the very beginning. Sugar, embroideries and desiccated coconuts will perhaps be able to stand the export tax for two years although with great hardships for many individual producers. The practical result of the tax will, therefore, be to nullify its very aim, for with the curtailment of our principal exports, the expected income from the export taxes to be used for the payment of our bonded indebtedness would not be realized.

I wish to add, that I see no serious objection in guaranteeing the payment of our bonded indebtedness that might be sold in the United States prior to the proclamation of Philippine independence, by vesting in the President of the United States in case of default in the payment of said bonds the power to control any of the customs offices and to apply to the payment of said indebtedness the customs receipts, said control to terminate upon full payment of the amount defaulted.

III.—READJUSTMENT OF THE NATIONAL ECONOMY**(a) BASIC MEASURES TO BE TAKEN IN READJUSTING PHILIPPINE ECONOMY.**

Naturally, a new Philippine economic structure should be built, and here again, if we were permitted to have our wishes, we would prefer not to destroy our present trade association with the United States, but rather to gear it to a more balanced Philippine economy. Without increasing our present trade with the United States same could be readjusted to the new situation.

While at present about 30% of our total production is exported to the United States, we should aim without reducing our volume of exports to the United States, so to increase our total production and the wealth of the country, that the percentage of our exports to the United States in relation to our total production will be reduced. Without reducing the volume of our trade with the United States, we should reduce its importance in relation to our total production, from the present rate of 30% to say 10%. This should be the sensible plan of readjusting our economy.

In this connection, it is timely to point out the following figures:

Last year our total production as estimated by the Bureau of Commerce was as follows:

Agriculture	P 357,391,770	(a)
Livestock	P 10,854,000	(b)
Manufacturing	P 91,146,000	(c)
Mining	P 52,200,000	
Forest Products	P 33,511,000	
Fisheries	P 84,200,000	

Total P 629,302,770

Estimates of the percentage of Philippine products that went abroad in 1936, showing share of the United States follow:

	<i>United States</i> Per Cent	<i>Other Countries</i> Per Cent
Agriculture	39.50	11.01
Mining	43.48	5.64
Forest products	7.87	12.03
Fisheries	0.05	0.09

The percentage exported of the manufactured products are as follows:

	<i>United States</i> Per Cent	<i>Other Countries</i> Per Cent
1. Coconut Oil	82.11	4.59
2. Cigars and cigarettes	25.82	4.38
3. Refined sugar	94.25	0.09
4. Desiccated coconut	94.63	0.95
5. Embroideries	99.80	0.19
6. Copra cake	55.91	42.99
7. Cordage	34.59	57.63
8. Pineapple (canned)	91.18	0.004
9. Hats	63.98	14.45
10. Vegetable lard	34.00	11.03
11. Vegetable butter	20.56	46.65
12. Cutch	99.40	0.00
13. Pearl buttons	97.99	0.00

Footnote:

(a) For 41 crops

(b) Includes carabaos, cows, horses, hogs, and sheeps.

(c) Estimates for only 13 manufacturing industries as follows:

1. Coconut Oil	P32,000,000
2. Cigars and cigarettes	18,400,000
3. Refined sugar	10,000,000
4. Desiccated coconut	9,200,000
5. Embroideries	8,550,000
6. Copra cake	3,700,000
7. Cordage	2,600,000
8. Pineapple (canned)	1,100,000
9. Hats	1,500,000
10. Vegetable lard	2,000,000
11. Vegetable butter	1,000,000
12. Cutch	650,000
13. Pearl buttons	446,000

TOTAL P91,146,000

The total exports to all countries in 1936 amounted to ₱295,350,315 or 46% of our total production, of which ₱215,050,654 or 80% was exported to the United States.

On the other hand, 60% of our imports in 1936 from abroad came from the United States. In 1934, 65% of our imports came from the United States.

Contrast these figures, with the fact that the importations of Philippine goods to the United States only represented 4% of the total imports to the United States,—and that the exportations of American goods to the Philippines, represents 0.17% of the total production of the United States.

This situation has been attributed by Messrs. Waring and Dorfman to be "largely due to the difference in the magnitude of the markets of the two countries". I would like to add, however, that under the American administration in the Philippines, the administration was only concerned in increasing the volume of trade between the two countries, and not in having a more balanced economy in the Philippines.

To correct this unbalanced economy but not to diminish its volume, we need an economic transition period.

When imports do not generally compete advantageously with local products and are received only in exchange of exports, they do not curtail but on the contrary stimulate local production and are beneficial to the country. But there may be cases where imports compete in such general way with local production that the latter is curtailed and cannot develop to its highest point. In such cases, recourse may have to be made to protective tariffs to place local products on a general competitive basis with imports, so as to permit the contrary to reach its highest productive point, exporting its surplus products and importing only in so far as its exports are to be paid. In other words, foreign trade is beneficial in so far as it stimulates local production and is harmful in so far as it curtails local production to the extent of not permitting the country to reach its highest productive point.

Under our present economic structure, we can safely say that, generally speaking, our imports do not curtail local production, but on the contrary they are received in exchange for our money or export crops. But the general trend of our imports could be deviated somewhat by importing less of those goods that constitute prime necessities either for the people or for the nation as such, and importing more of such commodities that can not be advantageously produced in the Philippines.

It would be beyond the scope of this study to cover a detailed discussion of the new commodities, agricultural and industrial, that could and should be produced in the Philippines to attain a more balanced economy. In this connection, we wish to quote a table included in the pamphlet entitled "Economic Problems of the Philippines" published by the Philippine Economic Association, showing the agricultural imports of the Philippines that could be produced locally.

	<i>Value in Pesos</i>	<i>Percentage of total relative imports</i>
1. Cereals and manufactures	1,100,541	.70
2. Cacao and manufactures	523,021	.33
3. Coffee, raw and prepared	1,179,495	.74
4. Eggs	1,538,319	.97
5. Fruits and nuts	2,467,972	1.55
6. Meat and meat products	2,925,234	1.84
7. Dairy products	5,203,020	3.28
8. Rice	998,690	.63
9. Starch	444,543	.28
10. Sugar and molasses	207,433	.13
11. Tobacco products	5,386,142	3.39
12. Vegetables	3,102,493	1.95
13. Wheat flour	4,908,878	3.09
Total	29,980,781	18.88

If cotton goods were added to the list, the total would represent 40% of all our imports. Also, I wish to refer to a list published in the same pamphlet of the manufacturing industries that could be established in the Philippines (pp. 131 and 132).

My approach to the problem is rather to set up a goal for local production. In a study submitted by Mr. Lyman P. Hammond to the Honorable Henry L. Stimson, then Governor-General of the Philippines, entitled: "A Survey of Economic Conditions in the Philippine Islands" dated June 30, 1928, Mr. Hammond submitted the following conclusion as to the per capita production obtained in the Philippines:

"The estimated population of the Philippine Islands in 1926 was 12,100,000 persons. Consequently, it seems that the value of the annual commercial production per capita here is only about P67. Assuming 5.1 persons to the family, as in the 1918 census, the value of the annual commercial production of the average family in the Philippines is only about P342 (\$171.) According to data recently published by the Collector of Internal Revenue in the United States, the value of the annual income of the average family is about \$3,900 in that country."

I do not think that the per capita production has increased materially since 1928 and if the figures submitted by Mr. Hammond are approximately correct, they show that the per family production in the Philippines, assuming that it is made up of an average of five persons, is about P1 a day. Considering the fact that our currency is in pesos and that of the United States in dollars, I believe that it would be proper to compare the per family production in the Philippines *in pesos* with the per family production in the United States *in dollars*. On this basis, it would seem that the per family production in the United States is more than ten times higher than that obtaining in the Philippines. I submit that it would not be unreasonable to set a goal to achieve during the economic transition period a per family production in the Phil-

ippines at least half the amount obtained in the United States. In other words, our goal would be to multiply by five the present per family production in the Philippines.

In a pamphlet entitled, "The Efficiency Standard of Living in Japan" by Kuichi Morimoto, and published by the Japan Council of the Institute of Pacific Relations, the following table of national income per *capita* (not per family) is given:

<i>Country</i>	<i>Year of estimation</i>	<i>Amount in Yen</i>
Japan	1925	224
Germany	1922	398
Great Britain	1925	977
United States	1925	1,272

Basically the fundamental objective in the new economy that we have to build, resolves itself in eradicating unemployment, and in achieving a higher standard of living for our people, not for a privileged few but for each and everyone of our people. These basic objectives resolve themselves into the following:

1. More and better houses, food, clothing and sanitation for our people.

2. This would demand an increased purchasing power on their part which basically is nothing more than an increased productive power. We must therefore increase the productive power of the country.

3. This increased productive power may be due to increased man power, animal power, or mechanical power. We would not be raising our standard of living unless our increased productive power is accomplished with the aid of mechanical power. The increased mechanical power must principally come from our water power which is abundant in this country. If we are satisfied in depending on the man and animal power, our people will not attain a higher standard of living than that achieved by the Egyptians and the Romans before the Christian era.

4. Considering the difficulties encountered by all countries in increasing their exports, I do not believe that we can hope to increase the volume of our exports. Our increased production must therefore be of goods for local consumption to meet the demand of our people for more and better houses, food, clothing and sanitation. In other words, what we want is an increased capacity to buy on the part of our people, the same to be supplied by ourselves. More and better houses, food and clothing can certainly be produced efficiently and sufficiently by us.

Living as we do in a country very rich in natural resources, we should certainly be in a position to provide our laborers and our people in general with a higher standard of living mostly raised locally.

Thus under the new economy, we should aim not precisely to foster the consumption of local goods to the prejudice of American goods, but to achieve the consumption and enjoyment of more

goods than heretofore enjoyed by our people, trying at the same time that this increased purchasing power of our country be directed and applied as much as possible to local products. We should aim to be less dependent on the United States for our primary necessities. We should try to build up certain basic industries that are essential to all independent nations, and which having regard to our natural resources, could be established in the Philippines.

To achieve this, higher duties should be imposed to protect the infant industries from competition of foreign countries, especially Japan. No protection at all will be afforded the local industries from the competition of American imports, but this is the safety valve that will protect local consumers against any unreasonable increase of our duties. These higher duties will give protection to American goods and will increase the importation of American goods at the expense of other countries.

Now, in so far as such increase of local production will naturally displace the importation of similar products at present imported from the United States same should be replaced—by the importation from the United States of more machineries and other capital goods that can not be efficiently produced in the Philippines (electrical equipments, machine tools, motors, tractors, chemicals, dyes, aeroplanes, many of the more advanced manufactured iron and steel goods, etc.) and the refined classes of manufactured consumer's goods (cars, radio, frigidaires, fine fabrics, etc.). This can be attained (1) by the creation of new industries, (2) by the mechanization of our farms, (3) by spreading to a greater number of people the benefits derived at present by the country from free trade with the United States, and (4) by raising the real standard of living of our people including the laborers and the farmers, to a level that should compare well with the standard of living prevailing in the United States.

As very well pointed out in the report prepared by Drs. Waring and Dorfman of this Committee, "the resulting increase in the production of export commodities thus protected in the American market has, to some extent, operated to discourage the production both of export commodities not so protected and of commodities intended for Philippine consumption." With the present quota system imposed on our principal money crops exported to the United States, the ever increasing productive forces of the country will no longer be directed in increasing our production of these commodities for exportation to the United States, and it will not be beneficial to the country to further increase our production of these commodities since there will be no market to which we could export, any excess production over the quotas. All we wish is to maintain the present volume of production of these commodities. The same forces that have operated in other countries to bring about an equitable distribution of profits would soon operate here, so that eventually those engaged in the production of these com-

modities at present protected in the American market will share their benefits with the community in general. Intelligent direction and assistance would, of course, hasten such result.

The scheme outlined and suggested in this memorandum aims to perpetuate our economic association with the United States on a basis that should be more reciprocal with the people of the United States, and that the benefits to be derived from our close economic association with the United States will benefit not only a few privileged people of the Philippines, but the greatest number of the people in these Islands. In this way, we shall be able, not only to maintain but even to raise the standard of living of our people, and in doing so, attain social justice in our country, and at the same time the laboring elements in the United States will have no reason to complain against cheap Philippine competition.

Under this scheme, the Philippines will attain reasonable economic independence from the world including the United States in all its prime necessities and basic goods, so that in time of emergency it shall be in a position to sustain its economic life—although with some hardships—even if our trade relations with the United States were hampered or curtailed. We should provide the prime needs of our people and the prime needs of our country for self-defense with our own local products, while we shall depend on our trade with the United States to supply us with the nice things that make up the refinements of modern civilized life, but which the country can dispense with temporarily in emergency cases.

Even during this economic transition period, the Philippines should aim and exercise every effort to make its trade relations with the United States truly reciprocal for both countries and this, I trust, will be greatly enhanced by increasing our tariff rates, which will not only protect our industries, but American products as well.

(b) THE RETAIL TRADE SHOULD BE IN THE HANDS OF OUR NATIONALS.

It is conservatively estimated that from 20 to 25 per cent of the retail trade of the country is in the hands of Filipinos, and the rest in the hands of foreigners, mostly Chinese and Japanese. Such a situation has no parallel in other countries, and the problem is peculiarly ours.

We can not make a rapid advance towards industrialization unless the retail trade of the country is in the hands of the Filipinos. It is the constant complaint of local manufacturers that one of their chief difficulties is the lack of means of distributing their goods to local consumers, as many foreign retailers do not care to sell locally manufactured goods in their establishments. The retail dealer exercises a supremely vital function in the econo-

mic life of the nation. They are to the country, what the arteries are to the proper functioning of the human organism. Its influence, better yet, its indispensability, is felt even unto the smallest cells and activities of the body politic. The evils of having the retail trade in the hands of foreigners is still greater and more pronounced when it comes to the prime necessities of our people. Because of the great organization which foreign retailers command, they are actually in a position of dictating the price at which they buy our agricultural commodities, and the price at which they are sold to our people.

This chronic social malady that has afflicted us for centuries calls for immediate cure. It is so extended and well-rooted in our soil, so well entrenched behind the greater experience of foreign dealers, lower standard of living, unfair and dishonest practices in many instances, a well organized system of financing and credits, cooperative purchasing, interlocking ownership, etc., that private Filipino initiative will be impotent to change the present retail trade structure for generations. Moreover, I greatly fear that if left unchecked by the inaction of the Government, foreign control of our internal trade will tend to increase rather than diminish. This is one of those cases where governmental action is not only desirable but highly imperative.

I sincerely believe that a readjustment of our national economy means the correction of any major economic evil that may undermine the stability of our future independence. Inaction on the part of the government on this matter during the transition period, will result in the increase of the aliens' control of our retail trade. Such control will mean a whole nation at the mercy of aliens, for the satisfaction of its food and clothing; in the long run it might mean an undue influence of foreign interests on our press; it might mean a control of our institutions, including the Government itself. In a word, inaction will necessarily lead us to a disgraceful independence and to the status of a puppet state which will have all the responsibility while the real authority will be in the hands of foreign interests.

(c) THE JAPANESE-DAVAO PROBLEM SHOULD ALSO BE SOLVED DURING THE TRANSITION PERIOD.

For a very comprehensive exposition of the Davao problem, I wish to refer this Committee to an article published in the Herald in its issue of April 9, 1936. This question has merited a reference by President Quezon in his message to the First National Assembly on June 16, 1936. In his message, he tried to belittle the seriousness of the problem. While *per se* the situation in Davao should not be a cause of serious concern, as stated by the President, it is not so, however, if we do not close our eyes to the maneuvers and tactics employed by Japan in extending its dominion over the Orient. Let us pray that our inaction in this case will not be for long, and that it will not provide Japan with an

opportunity to extend its dominion over the whole province of Davao, nay, over the whole island of Mindanao.

IV.—ADVERSE EFFECTS IN ADVANCING DATE OF INDEPENDENCE

(a) CHINA'S EXPERIENCE IN ITS EXERCISE OF TARIFF AUTONOMY.

We have previously said that the economic problems of the Philippines could be *theoretically* disentailed from our political problems, and I must now elaborate on this point. Once the United States has granted us a reasonable economic transition period coupled with complete tariff autonomy, political independence could be granted to the Philippines even before the expiration of the economic transition period. Theoretically, an advancement of the date of independence would in no way affect the execution of a program of economic adjustment in the Philippines under the plan above-outlined. The history of China, however, would seem to indicate that it would be imprudent to grant the Philippines her independence before the full expiration of the economic transition period above recommended and that, in this regard, the statement made by our High Commissioner Paul V. McNutt, soon after his appointment, that economic independence should precede political independence was very thoughtful and to the best interests of the Philippines.

On this point, I would like to be permitted to survey the highlights of China's experience in her long-fought aspirations for tariff autonomy. It is gratifying to recall in this connection that the Chairman of this Committee was highly instrumental in giving China what is now known as the Soong-MacMurray Agreement between China and the United States concluded on July 25, 1928, wherein the principle of complete national tariff autonomy was for the first time recognized for China by a major power. Similar agreements with other countries recognizing China's complete tariff autonomy soon followed. The Japanese Government was among the last to give its assent to complete autonomy for China on May 7, 1930, after several months of discussion and after having obtained certain concessions from China. It was granted, however, after the Chinese Nationalist Government had in fact exercised a complete tariff autonomy revising its tariff schedule on December 7, 1928, and enforcing it on February 1, 1929. The enactment of this measure ratifying, at last, Chinese customs sovereignty, was celebrated as a great diplomatic success. The Government announced that the newly acquired rights would be used not only to increase revenues, but, more import still, to give ample protection and stimulus to the industrialization program of China. The first purpose was sufficiently met by the Tariff of 1929, but it proved not to give sufficient protection to native industries. It was in the revised Tariff of 1933 that the principles of protection-

ism became more evident. The duties on various products competing with domestic industries were drastically raised, whereas the duties on non-competitive goods and products valuable to the further development of the country were lowered. No sooner was the tariff schedule of 1933 promulgated than the Japanese Minister to China protested in the early part of 1934 not only in interviews with Wang Chingwei, the then President of the Executive Yuan, and Foreign Minister, but also directly with Chiang Kai-shek himself. It was on this occasion that the Tokyo Foreign Office's spokesman promulgated the so-called Asiatic Monroe doctrine; while the Japanese Government pressed five demands in regard to North China, soon followed by new demands made for the repayment of the Nishihara loans. These events culminated on July 11, 1934, in the sending of Japanese gunboats and cruisers to Nanking as a result of the sudden disappearance of a Japanese Vice-Consul who was later on found hiding in a cemetery. All these events seem to show that China was not acting freely when on July 3, 1934, it revised the tariff act, radically reversing the policy of the tariff of the year before. By the new provisions, rates on many Japanese imports to China including some in competition with Chinese products, were uniformly reduced. On the other hand, rates on a considerable number of Western, specially American, imports including raw materials necessary for Chinese domestic industries were considerably increased. A closer analysis of the new import duty rates on cotton piece goods emphasizes the trend. In the printed and miscellaneous categories, which are furnished for the most part by Japan, the reduction was general and drastic. To cite a few examples, the rate on printed crepe, not over 82 centimeters wide was reduced by 33-1/3%, that on cotton flannel (No. 66 b), by 39.4%, and that on printed cambrics, lawns, muslins, brocades, between 82 centimeters and 102 centimeters wide, by as much as 48.6%. There was no reduction in the gray, white and dyed categories and other classes supplied chiefly by the United States or, to a lesser degree, by Great Britain. The important commodities on which rates were increased were raw cotton; animal products and groceries; fruits, seeds, vegetables, etc.; dyes and pigments; kerosene; timber, wood, etc.; woolen yarn and thread, mixed; metals; machinery and tools; chemicals; and coal. Of these eleven classifications, the United States was the principal source of supply in the first six; Great Britain in the next four; and Japan only in the case of coal.

The increased duties on raw cotton, so damaging to local textile manufacturers had encouraged the domestic production of raw cotton. From the long-range viewpoint, the tariff revision of 1934 aimed to develop China on an agricultural instead of an industrial basis. Such a plan evidently expresses Japanese rather than Chinese aspirations for China. This is further evidenced by the fact that tariff increases were made on all kinds of machineries ranging from 33% to 100%.

The increase in the rate of duty on kerosene, a necessity for millions of peasants, families and laborers, was due to the pressing need of the government for larger revenues to offset the loss from decreased tariff items. The tariff revision of 1934 had acted, therefore, not as a protection for domestic industries, but rather as an oppressive sales tax on the poor and a prohibitive impost on products necessary to the progress of the country, products which, for the most part, offer no competition to domestic commodities.

Another important factor that should be considered in connection with our tariff autonomy once our independence is promulgated, is the fact that, according to estimates by economic experts of the Bank of China, in recent years "invisible" imports and smuggled contraband of which the Chinese customs authorities have no official knowledge, have reached such gigantic sums as \$143,000,000 in 1933; \$154,000,000 in 1934, and more than \$250,000,000 in 1935. And finally the loss to China of the North China customs revenue which has amounted to more than 20% of the total customs receipts is another factor that might have some counterpart in the future Philippine set-up.

(b) LOSS OF THE PROCEEDS OF THE EXCISE TAXES.

Besides, we should not forget the proceeds of the excise taxes collected in the United States from Philippine products which are being returned to the Commonwealth of the Philippines, which amount to ₱70,000,000 a year, a benefit which we would not receive once our independence is granted. The loss of this big amount which would be very helpful in developing new industries in the Philippines will undoubtedly retard a readjustment of our nation economy.

(c) A DILEMMA.

The only argument advanced in favor of the acceleration of Philippine independence, in so far as it might be beneficial in the solution of our economic problems is the hope that once independence is granted us, we might obtain a favorable commercial treaty with the United States which would be above any subsequent action of Congress to change. Granting that a favorable commercial treaty might be obtained for a reasonable period of time, say fifteen years, and granting that the same can not be subject to amendments by Congress, I am afraid that with such a step we might solve the very remote dangers of possible Congressional actions inimical to the Philippines, only to put ourselves at the mercy of Japan's ambition which will make a myth out of our newly-acquired independence, at least in so far as it pertains to economic questions. The sad experience of China is too near our door and too eloquent to require further elucidation. If we are granted our independence before we have been able to adjust our Philippine economy to the vital needs of our country,

Japan will surely interfere with our endeavors to build up a self-sustaining nation in the Orient.

We would be in a better position to attain the objectives of our program of readjusting our national economy, if we could fully dedicate ourselves to the same, without having to face at the same time the many new problems that an acceleration of the date of political independence would entail. Aside from the fact that political independence will mean the application of many millions of pesos of our budget to a greater intensification of our program of national defense and to the creation of a diplomatic and consular service, there is no telling of the amount of time, attention and worries that the responsibilities of a new independent nation will demand from our leaders, which will greatly diminish the efforts and money that could otherwise be dedicated to the solution of our economic problems.

It would, indeed, be very sad if because of undue haste in our desire fully to rule our destinies, we entirely lose all the progress that we have made during all these years. I can only see dangers in any attempt at accelerating our political independence before we have had full time to become a strong nation both economically and militarily. Any hasty movement at this time might bring about a situation whereby we may permanently become an economic colony of Japan—a situation wherein Japan will receive all the advantages which imperialistic nations obtain from their colonies without any of the corresponding disadvantages and obligations. A situation may arise wherein Japan would have full authority in the Philippines without any responsibility.

V—RECIPROCAL TRADE RELATIONS WITH THE UNITED STATES AFTER THE ECONOMIC TRANSITION PERIOD.

(a) RECIPROCITY SHOULD BE BASED AS MUCH AS POSSIBLE ON PRESENT SYSTEM IMPOSING BARRIERS ONLY IN SO FAR AS THEY ARE NECESSARY TO CORRECT INEQUALITIES.

At the expiration of the *economic transition period* during which the United States has still certain moral duties to perform, the trade relations between the two countries should be strictly based on their own merits, that is, on true reciprocity; but to attain that reciprocity, instead of destroying our present trade relations, reciprocity would be more easily achieved by perfecting our present trade relations.

To this end, not only import quotas but also such percentage of the full duties which are required by the laws of the United States to be levied on like foreign imported articles could be imposed on Philippine goods as may be found necessary to correct any inequality existing against the United States in its trade relations with the Philippines.

Assuming that under our present trade relations with the United States, real reciprocity does not exist, in that the Philippines is the gainer, we submit that before trying to achieve true reciprocity by curtailing Philippine exports to the United States, it would be for the best interest of both countries to endeavor to achieve reciprocity by increasing Philippine imports from the United States. In other words, in trying to correct any present inequality in the trade between the two countries, the correction should be not to reduce the volume of trade to the level of the passive balance, but to try to raise it to the level of the active balance.

Disruption of world production and trade and many of the economic evils of recent years had been greatly due to the tariff wars which were caused by a lack of long-range planning and coordination among the nations. To offset the evils that resulted from the very high tariff duties levied by the Hawley-Smoot Tariff Act of 1930, Secretary Hull has very wisely been trying to carry out a program of Reciprocity among nations. This reciprocity movement is therefore an attempt to reduce the present high duties levied by the Tariff Act of 1930, so that the normal flow of trade and commerce between the United States and other countries may be resumed. The theory of Reciprocity came about in a desire to lower duties rather than increase them.

Secretary Hull, the father of the reciprocity movement, has expressed the policy of the administration in the following words:

"Let us not deceive ourselves. We must awaken to the fact that the world is at a parting of the ways. In one direction lies the road of fair and practical cooperation among the nations in the field of their commercial relations, the road of *expanding international trade*. It leads to increase employment, raising standards of living, internal political and economic stability, and durable world peace. In the other direction lies the road of economic warfare inherent in the policy of national self-containment, the road of *contracting and vanishing trade*. It leads to a progressive economic impoverishment everywhere, internal political instability, and constant fear of armed military conflict among nations. Which way shall we go?"

Reciprocity between the Philippines and the United States, considering the fact that they have been on free trade basis for nearly thirty years, could be much more easily achieved by correcting said trade only in so far as the same may not be reciprocal to one of the countries, by merely making a few corrections here and there in the present trade system, but maintaining it as much as possible as it is at present, instead of changing entirely into a new system of tariffs whose effects to the trade will be much more difficult to foresee.

(b) **THE PROPOSED RECIPROCITY TREATY SHOULD AIM TO PRESERVE THE BENEFITS OF THE PRESENT TRIANGULAR TRADE EXISTING BETWEEN THE UNITED STATES, JAPAN AND THE PHILIPPINES.**

There is no question that a great portion of the unfavorable balance of trade which Japan has with the United States is being paid at present with the favorable balance of trade which Japan has with the Philippines. This triangular trade should be maintained as much as possible, and only any existing inequalities of the same should be corrected. In other words, the triangular trade should be improved and not destroyed. In a recent treatise on Reciprocity by William S. Culbertson the evils of bilateralism are stressed in the following language:

"Bilateralism tends to fasten a lower level of economic conditions on the peoples of the earth and to bar the advance to a higher world prosperity and standard of living. It is defended on the ground of national necessity, but from any broad statesmanlike view it is not justified by its works.

"The destruction of triangular trade not only reduces the volume of trade but it restricts or destroys other wealth-creating factors in world trade. Negatively, it encourages blocked commercial balances or, if merchants avoid blocked balances, they do not trade at all because of the difficulties to moving their funds out of the countries where they sell. Moreover, quantitative restrictions and embargoes on trade react disastrously on the movement of capital. Not the least of the effective means of recovery in both creditor and debtor countries is the revival of lending in the world money markets for the development of resources in the less economically developed areas of the earth."

As noted by Mr. Culbertson in his treatise, bilateralism has not only extended its infectious domain over all items in the balance of payment but it tends to spread to other countries which are resisting it, in conformity with the Gresham's law as applied to commercial policy. Therefore, nations which are weaker economically are forced to accept the devices of bilateralism as a price for trade. As pointed out by the said author, the stronger nations like the United States and Great Britain are the ones who are in a position to resist such a commercial policy. But it is up to the United States, if it wishes to insist in a perfect bilateral reciprocal trade with the Philippines.

I believe it is premature at this time to agree on a formula or an index for measuring the respective economic gains and losses of the two countries upon which to base the reciprocal trade understanding of the two nations. This is a matter that can be finally agreed upon, when the time comes for entering into a Reciprocity Treaty with the United States.

On this occasion, it will be however, interesting to revise the different formulas or indices that from time to time have been suggested, to determine which of the two countries has been more benefitted with the present free-trade relations.

As far as we know the following indices have so far been suggested:

(1) *To ascertain the increase in percentage of the exports since free trade.* In other words, to compare the percentage of the mutual increase of the exports from one country to the other since the inauguration of our free trade relations. Secretary Elpidio Quirino, in a speech delivered at the Foreign Political Association at Chicago in 1933 concluded as follows:

"Official statistics show also that as a whole, from 1909 to 1930, Philippine exports to the United States have increased by 615 per cent as compared with 1,113 percent increase in the exports of the United States to the Philippines during the same period."

The same index was advocated by the present Director of Commerce, Mr. Cornelio Balmaceda, in his article entitled: "Unequal Gains Under The Free Trade" published in the Philippine Finance Review issued in October, 1928.

(2) *To ascertain the duty-exempt trade values.*

In other words, to compare the interchange of commodities between the two countries, excluding, however, those commodities that are in the free list and would, therefore, pay no duty even if free trade were abolished. On this basis, it was argued that of the principal products exported from the Philippines, abaca and copra are in the free list and only sugar, tobacco and coconut oil are benefitted by free trade.

In this connection, in the Report No. 18, Second Series, of the United States Tariff Commission the following figures are offered:

From the beginning of duty-free between the Philippines and the United States in 1909 until the end of 1929, imports into the United States from the Philippines, valued at about \$797,341,000, were given tariff preferences, the remaining \$560,592,000 being on the general free lists of the United States tariffs regardless of origin.

During the same 20½-year period imports into the Philippines from the United States and its possessions, valued at about \$1,044,059,000, were given Philippine tariff preferences. But this amount included large importations into the Philippines, from July 1, 1910, to the end of 1929, for or for account of the United States Government, of which are estimated at not less than \$50,000,000 for the Army alone. If this estimated amount of the United States Government purchases is eliminated from the Philippine figures, it appears that from the beginning of mutual free trade to the end of 1929 the value of American goods receiving tariff preferences in

the Philippines exceeded by not over \$196,718,000, the value of Philippine products receiving tariff preferences in the United States under the reciprocal duty-free trade status.

(3) *To ascertain the amounts of duties mutually waived.*

In other words, to determine which country is saving more in duties unpaid because of free trade, considering the actual amount of commodities interchanged between the two countries.

(4) *To ascertain the amount of goods interchanged.*

In other words, to compare the actual amount of goods interchanged between the two countries.

(5) *To ascertain the percentage of our imports and exports to the United States in relation to our total imports and exports.*

In other words, to compare the percentage of our imports from the United States to total Philippine imports, with the percentage of our exports to the United States to total Philippine exports. Last year, the present percentage of our imports from America amounted to 60% of our total imports, while our exports to America amounted to 80% of our total exports.

On the subject of relative trade advantages derived by the two countries of free trade, we wish to quote the following very thoughtful statement found in the Report of Messrs. Waring and Dorfman:

"The status of the balance of trade between the United States and the Philippines has frequently been regarded as an index of the profitableness of the trade to the one country or the other. The country having the credit balance has been considered the gainer, and the other country the loser. This inference however, is not warranted. In the trade of the United States with the Philippines the customary excess of imports over exports has simply given rise to a triangular (or polyangular) trade in which the United States has paid for this excess of imports largely by exporting goods to the other countries in greater value than it has imported from them. These countries in turn, either directly or through still other countries, have exported greater values of goods to the Philippines than they have imported from them. The status of the merchandise balance of trade between the Philippines and the United States, therefore, is of no significance per se in respect of the gains or losses arising to either country. Moreover, the trade balance of the Philippines with the United States not only affects and is affected by the trade balances with all other countries but it is influenced also by the extent to which gold shipments, service items, capital movements and other factors enter into the trade of the Islands with the United States and with all other countries. In consequence, the Philippine balance of merchandise trade with the United States must be considered not only in its relation to the balance of mer-

chandise trade with the world as a whole but in its relation to the balance of payment with the United States and with the world as a whole."

* * * * *

"There are no satisfactory indices for measuring the economic gains and losses which have accrued to the Philippines and to the United States, respectively, by virtue of their free trade relations with each other. The annual amounts of duty each country nominally waives by permitting the other to send in goods duty-free are sometimes used for this purpose. The theoretically waived duties, however, neither reflect accurately the additional revenue which the respective governments could actually collect on the basis of present tariffs, nor indicate in what measure such additional revenue would be collected at expense of the domestic consumers of the imported goods. Moreover, the tariff revenues which each country nominally forfeits may not be regarded as measuring the benefits accruing to the export interests of the other country. It seems clear, however, that the duties which the United States waives on imports from the Philippines represent both fiscal losses for the United States and price gains for Philippine producers to a much greater degree than is correspondingly the case in respect of the duties which the Philippines waive on imports from the United States. This due, again largely to the importance of sugar among the exports from the Philippines to the United States."

We should not forget, however, that these advantages granted to the Philippines, have been to a great extent offset by the following advantages received by the United States under the present trade arrangement, enumerated by the same authors as follows:

"As a result of the preferential free-trade arrangement, however, exporters of certain United States products have obtained increased markets in the Philippines, not only in consequence of the protection afforded American products by Philippine duties against imports from other countries but also in consequence of the increased volume of Philippine exports to the United States resulting from the similar protection accorded Philippine products in the United States market. It should be observed in this connection that the increased trade in both directions has also benefited American shipping interests, and it has given rise to profitable American investments in the Islands. Furthermore, the credits created by the excess of United States imports from the Islands over exports to them have been an element in the multiangular trade which has made it possible for certain other countries to buy more from the United States than they have sold to it."

We may add that 30% of the investment in sugar centrals belong to Americans mostly residing in the United States, so that to that extent, the benefits derived by the Philippines in being able

to sell its sugar into the United States, has benefitted American capital located in the United States.

Be that as it may, we are prepared to make and correct any inequality existing in the present trade arrangement.

(c) **THE PROPOSED RECIPROCITY TREATY MUST BE EXCLUSIVE IN CHARACTER.**

The future reciprocal trade relations between the two countries should have an exclusive character to be of any real benefit.

The Trade Agreements Act of 1934, has adopted the unconditional most favored nation principle, and provides that duties and other restrictions proclaimed in any reciprocity treaty are by law made applicable to commerce from all other countries.

The unconditional most-favored nation principle was incorporated into the Trade Agreements Act, in the following language.

"The proclaimed duties and other import restrictions shall apply to articles the growth, produce, or manufacture of all foreign countries, whether imported directly, or indirectly; Provided, That the President may suspend the application to articles the growth, produce or manufacture of any country because of its discriminatory treatment of American commerce or because of other acts or policies which in his opinion tend to defeat the purpose set forth in this section;..."

The said act, however, authorizes an exclusive agreement with Cuba. This special treatment of Cuban trade by the United States is justified on the ground of their geographical location and historical relationship. The free trade relations existing between the Philippines and the United States for more than thirty years, and the political ties that are still uniting the two countries afford greater justification for working out an exclusive trade agreement between them, such that the mutual concessions to be granted in the same, shall not be applicable to commerce from all other countries. It is to be noted that the reciprocal trade agreements which the United States recently entered into with a number of foreign countries expressly provide that they are not applicable to the present or future United States-Philippine commerce "notwithstanding any change that may take place in the political status of the Philippine Islands."

The recent International Sugar Agreement provides that "the contracting governments agree not to claim, in virtue of any 'most-favored nation' rights granted them by the Government of the United States, the benefit of any advantages with respect to sugar which may be accorded to, or agreed upon with, the Philippines by the Government of the United States during the period of the present agreement."

The above-quoted clauses inserted in the trade agreements of recent dates clearly show that it will not be an obstacle in the foreign trade relations of the United States to enter into an exclu-

sive reciprocity trade agreement with the Philippines, even after independence is granted.

The objections to the unconditional most-favored-nation principle is that it might permit third countries to come in for the major benefits of a concession, thereby threatening domestic industries by having great importations from such third country or countries and greatly reducing the benefit which such a concession might otherwise entail to the country in whose favor the concession is intended. It is true that to obviate this difficulty, the agreements provide an "escape clause." If the costs seem too high in particular cases on either side of the agreement, either government has the right to "withdraw" concessions granted, or to impose quantitative restrictions on such article "if, as a result of the extension of such concession to third countries, such countries obtain the major benefit of such concession and in consequence thereof an unduly large increase in importations of such articles take place";

We understand that this clause has never been invoked even though importations from third countries have increased more than from the country in whose favor such a concession was intended.

The case of safety matches is illustrative. The Trade Agreement entered into between the United States and Sweden reduced the duty on safety matches. The concession was intended for Sweden and yet in the nine months succeeding the signing of the trade treaty with Sweden, importations from Sweden increased very little while those from the Soviet Union rose to vastly greater proportions.

It is obvious that any reduction of the duty on sugar and other tropical products at present exported by the Philippines to the United States, instead of benefitting the Philippines would only benefit other tropical countries, especially Java wherein the cost of production and the standard of living is much lower than that prevailing in the Philippines. Therefore, the reciprocity treaty contemplated, to be of any real benefit, must necessarily have an exclusive character.

(d) THE PROPOSED RECIPROCITY TREATY SHOULD BE FOR A SUFFICIENTLY LONG PERIOD.

Present day commercial treaties suffer from the fundamental defect of not being concluded for sufficiently long periods. This is pointed out in a memorandum entitled, "Methods Of Economic Reapproachment" by Eugene Grossman, Professor of Political Economy at Zurich University, and submitted to the Preparatory Committee for the International Economic Conference in 1926. On this question we beg to quote from the said memorandum the following:

"From the establishment of the German Zollverein in 1834 down to the present day, the solution of the problem has been sought

primarily in the abolition of Customs duties and in the creation of great federations of State within which free trade would be practised. Pending this solution, many people have been content to seek a model in the special economic relations existing between certain Powers and their colonies; that is to say, to ask for a preferential system among allied States or, at the least, a system of *long-term commercial treaties*."

"Present-day commercial treaties suffer from the fundamental defect of not being concluded for *sufficiently long periods*; that is to say, not for such period as would allow agriculture, industry and trade to rely upon any degree of stability in export and import conditions and to make their arrangements accordingly. We have long since passed the days of the Methuen Treaty, concluded in 1708 between England and Portugal, which was intended to settle the commercial relations between the two countries once and for all."

"We have also left far behind the custom introduced by the Cobden Treaty of Commerce concluded between France and England in 1860, which was concluded for ten years and was considered a mode by many countries."

"The war has likewise destroyed the commercial treaty system of Central Europe, begun in 1891-92 and renewed about 1906 by Germany, with the participation of Austria, Hungary, Italy, Belgium, Switzerland, Serbia and Roumania, which fixed the Customs duties for a term of twelve years."

"When these pre-war arrangements were compared with the post-war commercial treaties, the lack of enthusiasm shown to-day by the various States in regard to the establishment of *lasting trade relations is startling*. The present writer has perused the reports on commercial treaties published in the Board of Trade Journal from January 1st, 1920, to the end of August 1926. The list is probably incomplete, but it does certainly contain all the commercial treaties of any importance concluded since the war. There are more than 180 of them, but very few are concluded for reasonably long terms. There are four treaties with a duration of more than one year but not exceeding two years, nine of three years, two of four years, six of five years, and six of ten years: in all 27 treaties containing obligations which cannot be altered before the expiration of one year. That is a very small number in view of the total number of treaties and of the fact that the duration of many of the short-term treaties does not exceed three months. Moreover, many of these treaties are restricted, as regards Customs duties, to the most-favoured-nation clause, and do not fix the duties at any definite figure, so that frequently the contracting parties have only the meagre advantage of knowing that the exporters of other countries have no better means of access to the market of the other party than their own exporters."

The programme suggested aims at a permanent reciprocal trade relations. Obviously, the trade treaty can not be for a permanent period, but it should cover a reasonably long period, say ten years.

- (e) AN INDEFINITE TRADE UNDERSTANDING ON THE BASIS ABOVE-OUTLINED WILL BE MUTUALLY BENEFICIAL TO BOTH COUNTRIES.

Such an arrangement will assure both countries, a *stable market* for their respective surplus products, and more particularly, it will be beneficial to the United States in that—

(1) The imports of Philippine products into the United States only represent 4% of the total imports into the United States, and with the exception of coconut oil, as to which there is some controversy, they do not displace a single unit of goods produced in the United States, so that with the destruction of the said trade, American producers will not be benefitted in any way; only foreign producers will be benefitted who would then be in a position to increase their exports of similar articles into the United States.

(2) The ever increasing population of the Philippines which is gradually attaining a higher standard of living makes of the Philippines a most valuable market for a highly-developed industrial country, especially in the years to come when the world will become more markedly divided into economic blocks.

And, it will be beneficial to the Philippines in that—

(1) Because of the higher cost of production prevailing in the United States, the free entry of American manufactured goods into the Philippines will not adversely compete with our infant industries, and such a scheme will serve as a safety valve against any undue increase in our tariff rates, and if it were found out that in certain exceptional cases certain American goods seriously compete with our products, the situation might be corrected with the imposition of a quota or a moderate duty.

(2) The maintenance of our present volume of exports to the United States which are dependent on the present free trade arrangement, amounting to two hundred and fifteen million pesos for last year, constitutes a very valuable source of wealth to the country, which will be impossible to replace, and which will not only maintain but even increase the standard of living of our people.

VI. CONCLUSION

The recommendations made in this memorandum are incorporated in a draft of a bill, attached to this memorandum as Appendix "A". We believe that in this manner, our thoughts and

conclusions will be more clearly expressed. The only one that could not be embodied in the said draft of a bill, is our conclusion to the effect that it would be jeopardizing the smooth and sure execution of the economic period of readjustment recommended in this memorandum, to advance the date of the proclamation of Philippine independence specified in the Tydings-McDuffie Law.

World trade is greatly hampered and dislocated because of unnecessary and wanton destruction of trade relations. This Committee has a great responsibility before it. An equitable, scientific and permanent solution of the trade relations between the Philippines and the United States, I am sure, may set a valuable precedent in the economic and trade problems confronting the world at present. Here is hoping, that a laboratory of trade weights and measures may be developed by this Committee, to study constantly the trade flow between the United States and the Philippines, giving special attention to the invisible items of trade, a laboratory that should be handled by trade and economic experts who have a vision of a new world which could be made wealthier and happier by a more sensible and judicious use of artificial trade barriers.

We will, indeed, be happy if this memorandum may contribute, even in a very small way, towards a clarification of the basic issues involved in the present trade relations between the United States and the Philippines and towards a greater appreciation of the mutual advantages derived by both countries in their trade relations.

Respectfully submitted,

SALVADOR ARANETA

Manila,
September 10, 1937

APPENDIX "A"

AN ACT TO PROVIDE FOR THE TARIFF AND CURRENCY AUTONOMY OF THE COMMONWEALTH OF THE PHILIPPINES, TO REGULATE THE TRADE RELATIONS BETWEEN THE COMMONWEALTH OF THE PHILIPPINES AND THE UNITED STATES OF AMERICA FOR A PERIOD OF FIFTEEN YEARS, AND FOR OTHER PURPOSES.

WHEREAS, the Tydings-McDuffie Independence Act was not to become in force until accepted by the Philippine Legislature which, in accepting the said Act, relied upon a statement of President Roosevelt that where imperfections or inequalities exist, the President was confident that they could be corrected after proper hearing and in fairness to both peoples;

WHEREAS, the economic provisions of the Tydings-McDuffie Law will disrupt the present trade relations between the two countries coincidentally with the proclamation of Philippine independence and do not provide the Philippines with the necessary time and means of readjusting its economy;

WHEREAS, the imports of Philippine products into the United States only represent six per centum of the total imports into the United States, and the disruption of the said trade will not in any way benefit the people of the United States, while the establishment of the basis for an indefinite reciprocal trade relations between the two countries will be mutually advantageous to the peoples of both,

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled:

Section 1. Acts of the Commonwealth of the Philippines affecting currency, coinage, imports and exports shall become law without requiring approval of the President of the United States; Provided, however, that the trade relations between the United States and the Philippines shall be governed as hereinafter provided.

Section 2. For a period of fifteen years from the time of the passage of this Act, the trade relations between the United States and the Philippines shall be as now provided by law, subject to the import quotas at present imposed on certain Philippine articles imported into the United States, and subject to quotas on other products as may be fixed from time to time in the manner hereinafter provided; it being the intention of Congress to maintain as far as possible the present *status quo* of imports of Philippine commodities into the United States, the President of the United States, on the advice of the Tariff Commission, from time to time, after due investigation and hearing, may impose such quotas on imports of such other articles as are not at present subject to quota restrictions, as may be found necessary to maintain the present *status quo* in the volume of our imports from the Philippines; *Provided, however*, that during the said period all articles, grown, produced and manufactured in the United States shall be admitted free of duty into the Philippines without any restrictions.

Section 3. At the expiration of the said period of fifteen years the trade relations between the two countries shall be on a truly reciprocal basis and to this end the President of the United States, on the recommendation

of the Tariff Commission after due investigation and hearing, may impose upon Philippine imports such percentage of the full duties which are required by the laws of the United States to be levied, collected and paid on like articles imported from foreign countries, and may impose such quota restrictions, as may be found necessary to correct any inequality existing against the United States in its trade relations with the Philippines.

Section 4. At any time within one year prior to the expiration of the period of fifteen years provided in Section Two of this Act, or at any time thereafter, the President of the United States shall be empowered to enter into a trade treaty with the Government of the Philippines for successive periods not exceeding at any one time a period of ten years, on a basis of true reciprocity of trade between the two countries along the lines provided for in this Act, and also along the lines provided in Act No. 316 of the 73rd Congress, commonly known as the Trade Agreements Act of 1934; Provided, however, that in connection with the trade with the Philippines, the limitation contained in the said Act No. 316 to the effect that "no proclamation shall be made increasing or decreasing by more than 50% any existing rate of duty or transferring any article between the dutiable and free list" shall be considered as not written; Provided, finally, that nothing contained in the said Act shall be construed to prevent the execution of an exclusive agreement with the Philippines.

Section 5. In case of default of the Government of the Philippines in the payment of any of its bonded indebtedness sold in the United States prior to the proclamation of the independence of the Philippines, the President of the United States is hereby empowered even after independence shall have been granted to the Philippines to take control of the customs office of the Philippines and to apply to the payment of the said indebtedness customs receipts, or such portions thereof as may be decided upon by the President, said control to terminate upon the full payment of the amount defaulted.

Section 6. Unless the National Assembly of the Commonwealth of the Philippines shall, by resolution approved within one year after the passage of this Act, repudiate the benefits of this Act, the same shall be considered accepted by the Commonwealth of the Philippines. In case such resolution is approved within the said period, it shall be understood that this Act shall not be in force and the economic provisions of Act No. 127 of the 73rd Congress, commonly known as the Tydings-McDuffie Law remain in full force and effect.

Section 7. If any provision of this Act is declared unconstitutional or the applicability thereof to any person or circumstance is held invalid, the validity of the remainder of the Act and the applicability of such provisions to other persons and circumstances shall not be affected thereby.

Section 8. Sections 6 and 13 of Act No. 127 of the 73rd Congress, commonly known as the Tydings-McDuffie Law, and any other provisions of said Act and other Acts of Congress that are inconsistent herewith are hereby repealed.

APPROVED:

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THE PHILIPPINE PROBLEM
A DISPASSIONATE AND NONPARTISAN ANALYSIS OF THE
REALITIES OF PHILIPPINE INDEPENDENCE
BY
PEDRO M. BLANCO
(Photographic Reprint)

The Philippine Problem

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OUR AIM—OUR GOAL

We should like to live to see the day when a Filipino traveling in foreign lands, can be heard being greeted with words like the following:

"We have heard so much about the success of your people, politically, socially and commercially, that we cannot help but admire and respect the genius that has combined in your people the respect for law and order of the Englishman; the inherent desire for fair play of the American, as well as his administrative ability and sagacity in business; and the patriotism of the Japanese. The world has been made better because of the works of some of your illustrious men, such as Dr. Eliodoro Mercado, Dr. Cristobal Manalang, Dr. Manuel Roxas, and others. We acknowledge as statesmen your Manuel Quezon, Sergio Osmeña, Juan Sumulong, and others.

"We welcome you, Mr. Filipino, to our country."

In this case, independence becomes a real blessing—a treasure we should all be proud to possess. Incidentally, and as a natural sequence, the name "Filipino" would carry with it dignity, respect, honor and glory.

But, if after independence has been granted to us, and our country shall become plagued by the same kind of politics that prevail in Mexico, Peru, and other Latin-American countries, where every so often political rivalries and jealousies end in shootings and murders, independence can only be a curse. For, after all, what are governments for if not to guarantee to residents of the country safety and security of life and property.

CHAPTER I

PATRIOTISM—THE NEW VS. THE OLD

Man is ever on the march either forward or backward, but we should never think of marching backward. Everything we see around us is a sign of the times—always the old giving way to the new. The oil lamp giving way to the gas, and the gas in turn giving way to electricity; the old carabao cart and the horse rig giving way to the steam train and electric tramway and these in turn giving way to the automobile and airplane; the horse messenger of old giving way to the telegraph and the latter giving way to the radio phone; silent pictures giving way to talkies; and so on *ad infinitum*. It seems science is marshalling all the forces of nature—of creation, to do the bidding of the MASTER MAN.

What about that important fact of human nature which controls one of his most powerful emotional instincts—his concept of what we call *patriotism*? It has also undergone changes for the better, but he needs to go further, else he will find himself becoming the victim of his own scientific discoveries and inventions. This is perhaps the most serious problem that man has to face in our day, and in our fight to establish ourselves as an independent nation, we also have got to face it, and face it squarely.

Patriotism is one of the basic facts of human nature, and like all human ideals, it has its historic series of backgrounds. Let us take a look into those backgrounds.

The earliest unit of government we know of is the family government, the head of which was the eldest among its members, either male or female. If the head was a male, it was called patriarchal; and if female, it was called matriarchal. Then they thought in terms of family patriotism. They were as rabid family patriots then as we are nationalistic today. In order to assert their family patriotism, they also went to war against other families. In this way the strong ones expanded at the expense of others. When the families became very big and they still stuck or remained together, they became what we now know as clans; and the family patriotism gave way to clan patriotism. The head was still the eldest among the members. There were wars between different clans. But when they found out the futility of fighting one another, they formed themselves into tribes; and patriotism became tribal instead of clanish. The bravest of the warriors was selected to become the head man of the tribe. By the same process of development, tribes became states and states became nations; tribal patriotism became state patriotism, and state patriotism became the national patriotism of our present day and age.

Today, we define patriotism as love of one's country—the Japanese, their Japan; the French, France; the English, England; Filipinos, the Philippines; etc. As we read history we find patriotism capable of producing wonderful results because of the devotion and self-sacrifice of its adherents, but no less it has been the motive for tyranny and murder.

The Philippine Problem

By

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OUR AIM—OUR GOAL

We should like to live to see the day when a Filipino traveling in foreign lands, can be heard being greeted with words like the following:

"We have heard so much about the success of your people, politically, socially and commercially, that we cannot help but admire and respect the genius that has combined in your people the respect for law and order of the Englishman; the inherent desire for fair play of the American, as well as his administrative ability and sagacity in business; and the patriotism of the Japanese. The world has been made better because of the works of some of your illustrious men, such as Dr. Eliodoro Mercado, Dr. Cristobal Manalang, Dr. Manuel Roxas, and others. We acknowledge as statesmen your Manuel Quezon, Sergio Osmeña, Juan Sumulong, and others.

"We welcome you, Mr. Filipino, to our country."

In this case, independence becomes a real blessing—a treasure we should all be proud to possess. Incidentally, and as a natural sequence, the name "Filipino" would carry with it dignity, respect, honor and glory.

But, if after independence has been granted to us, and our country shall become plagued by the same kind of politics that prevail in Mexico, Peru, and other Latin-American countries, where every so often political rivalries and jealousies end in shootings and murders, independence can only be a curse. For, after all, what are governments for if not to guarantee to residents of the country safety and security of life and property.

CHAPTER I

PATRIOTISM—THE NEW VS. THE OLD

Man is ever on the march either forward or backward, but we should never think of marching backward. Everything we see around us is a sign of the times—always the old giving way to the new. The oil lamp giving way to the gas, and the gas in turn giving way to electricity; the old carabao cart and the horse rig giving way to the steam train and electric tramway and these in turn giving way to the automobile and airplane; the horse messenger of old giving way to the telegraph and the latter giving way to the radio phone; silent pictures giving way to talkies; and so on *ad infinitum*. It seems science is marshalling all the forces of nature—of creation, to do the bidding of the MASTER MAN.

What about that important fact of human nature which controls one of his most powerful emotional instincts—his concept of what we call *patriotism*? It has also undergone changes for the better, but he needs to go further, else he will find himself becoming the victim of his own scientific discoveries and inventions. This is perhaps the most serious problem that man has to face in our day, and in our fight to establish ourselves as an independent nation, we also have got to face it, and face it squarely.

Patriotism is one of the basic facts of human nature, and like all human ideals, it has its historic series of backgrounds. Let us take a look into those backgrounds.

The earliest unit of government we know of is the family government, the head of which was the eldest among its members, either male or female. If the head was a male, it was called patriarchal; and if female, it was called matriarchal. Then they thought in terms of family patriotism. They were as rabid family patriots then as we are nationalistic today. In order to assert their family patriotism, they also went to war against other families. In this way the strong ones expanded at the expense of others. When the families became very big and they still stuck or remained together, they became what we now know as clans; and the family patriotism gave way to clan patriotism. The head was still the eldest among the members. There were wars between different clans. But when they found out the futility of fighting one another, they formed themselves into tribes; and patriotism became tribal instead of clanish. The bravest of the warriors was selected to become the head man of the tribe. By the same process of development, tribes became states and states became nations; tribal patriotism became state patriotism, and state patriotism became the national patriotism of our present day and age.

Today, we define patriotism as love of one's country—the Japanese, their Japan; the French, France; the English, England; Filipinos, the Philippines; etc. As we read history we find patriotism capable of producing wonderful results because of the devotion and self-sacrifice of its adherents, but no less it has been the motive for tyranny and murder.

Patriotism brought England, France, Germany, Italy, the United States and Japan to their position of supremacy among the nations of the world today; but for the same reason England committed tyrannies, even atrocious crimes, in India and South Africa; Italy, in Tripoli and in Italy, herself; Japan, in Formosa, Korea, and Manchuria; in fact there is no nation that is without a black spot in her history—because of patriotism.

National Patriotism brought unto us the last world's war. Within the duration of that war, many wonderful discoveries were made in the medical and surgical sciences. Truly miraculous cures are being performed today because of those discoveries. On the other hand, chemical discoveries made during the same period will enable nations at war to kill one another by wholesale. People who know tell us that a whole city, even bigger than Manila, can be wiped out in the twinkle of an eye by the use of lethal gas, or other gases that are just as destructive. So that if we still insist on being unreasonably and rabidly nationalistic in our concept of patriotism, we shall be inviting ourselves to our graveyards.

As of old, in the cases of clans, tribes and states, nations are nowadays brought into such close relations with one another that they must either love or hate. The agency that brought this about was hinted upon at the beginning of this discourse, namely, by the discoveries that gave us the steam train, automobile and airplane in the field of transportation; and the telegraph, cable and radio and radio phone in the field of communication. No longer are mountains, seas and oceans barriers. Two years ago the Graf Zeppelin of Germany went around the world in 14 days; airplanes can cut that in half. A radio message, we are told, can go around the world 47 times in one second. We are truly living in a marvelous age. Nevertheless, we still persist in thinking in terms of national patriotism, of the rabid kind. To a certain extent and under some circumstances, we believe it to be for the best, but not in all cases.

It was regarded that the first duty of a patriot was to hate the foreigner *like the devil*. As a little boy of six, my patriotic allegiance was even narrower than that. The very first day I arrived at the provincial capital to attend school, a local boy teased me simply because I did not speak the same dialect that he did, and forthwith I challenged him to a fist fight, which was accepted. As we recall that day now, we smile at our foolishness, for we have become fast friends. We have enlarged the scope of our patriotism to include the whole Philippines.

In one of the writings of the late Sir Robert Cecil, he says:

"Normally, experience shows that if a man is governed solely by love of self, he will have a despicable character and will do little good in the world. So it is with nations. If they merely pursue their own advantage they will gain little and be generally despised."

The "New Patriotism" calls for the broadening of one's love of his country. Loving your own country does not necessarily mean that you should hate the others. Whoever is willing to have friendly relations and intercourse with us so that each shall benefit by the contact, should be received with open arms. We have had such relations with America during

the past 35 years, and we have not yet heard anyone say that she has acted falsely to her trust. Although there have been attempts on the part of individuals and corporations to exploit the country, yet such attempts have been kept within bounds of safety, thanks to the vigilance of our leaders.

Let us remember that true and loyal friends are hard to find. Let us not be like the dog with a bone in his mouth that upon crossing a narrow bridge saw his own image on the water below, and in trying to fight for what he thought to be another and bigger bone, lost what he had.

"The new patriotism will not be different in kind from the old but it will be larger and more free from the sordid jealousies and suspicions which now defile international life.

"I can see no future for the organization of world peace unless it can be based upon patriotism by which a man instinctively sets the highest standard for his nation's conduct."—*Lord Robert Cecil*.

We subscribe to these lines. We invite you to do the same. In other words, we are for that sort of Filipino patriotism that will crystalize and solidify us into the kind of 'nationalism' that is alive and full of energy—the nationalism that will not only naturally compel our people to be loyal to our country but, also, that which will inspire them to compete with the world's leaders of thought and progress, to the end that humanity can feel more secure and happier from day to day. This is the MEANING and the CALL of the NEW PATRIOTISM.

CHAPTER II

SECTION I

DOMINION GOVERNMENT FOR THE PHILIPPINES

The saying, "For every problem there is a solution and for every difficulty there is a way out", is true if there is no interference from outside. We have no doubt whatsoever that if we were left alone by America right now, in spite of our defects as a people,—the petty jealousies and conflicting ambitions of individuals and different groups we will eventually develop in this country a nation that can proudly take her place among the really united and progressive peoples of this world. But Japan will prevent us from achieving our high and noble aims for the posterity of our people and country. We may attain independence for ourselves, but only for a short time, and at the cost of the Filipino race and the Philippine Islands. We shall become vassals and subjects of Japan, and the name of our country shall be changed in the same way that the name of Korea has been changed into Chosen; Formosa into Taiwan, and Manchuria into Manchukuo. Finis shall be written of the people and the country for which Rizal so nobly gave his life. Curse be unto us if we shall allow this to come to pass!

What is the remedy? Before giving the answer to this query, let us try and examine the record of the nation in whose keeping we have been

placed and whose association has been our privilege to enjoy during the last 35 years.

LAST 35 YEARS

President Quezon describes this period in the following words:

"I still believe that the majority of the American people, whether Republican or Democrat, are true to the policy already announced that the United States are in the Philippines not for the purpose of exploiting the Filipinos, but to help or develop our country for our own benefit and for the purpose of establishing here a free self-governing community." *Tribune*—Feb. 16, 1929.

Senator Osmeña:

"Simultaneous with the defeat of the plan to limit Philippine products, the administration took a significant step when it appointed the new governor general (Ex-Gov. Dwight Davis) after consultation with the Filipino representatives in Washington,

"These two recent facts which have a singular importance in the history of our relations with America, reaffirm in an eloquent manner the original American policy of altruism and freedom recorded in all state documents of the United States referring to the Philippines. They also serve to strengthen the confidence of our people in the good faith of the United States."

Tribune—Sept. 6, 1929.

The following table showing the gradual decline of the number of American employees in the service of our government further verifies these opinions:

Year	Number of		Total	Percentage	
	Americans	Filipinos		Americans	Filipinos
1914	2,148	7,283	9,431	23%	77%
1915	1,935	7,891	9,816	20	80
1916	1,730	8,725	10,455	17	83
1917	1,310	9,859	11,169	12	88
1918	948	10,866	11,814	8	92
1919	760	12,047	12,897	6	94
1920	582	12,651	13,233	4	96
1921	614	13,240	13,854	4	96
1922	427	21,823	22,250	2	98

Events show that we have been really treated most generously, so much so that our attitude and policies with the sovereign power have been guided by the "give me! give me!" habit of the spoiled child, entirely ignoring the basic principle of the law that governs happy human relationships,—the law of give and take. For illustration, let us take the matter of Filipino immigration into the United States.

For many years Filipino laborers have been going to the United States in great numbers until it reached 150,000. We were welcomed and American dollars came pouring into the Philippine Islands by the 100,000 and more every year. Then depression came and the unemployment problem became very serious; the number of unemployed was at one time estimated at as high as 12,000,000, just about 10% of the total population of the

whole United States. Nowhere can unemployment become more serious than in an American home, because it means, literally, starvation. Here, in the Philippines, unemployment does not necessarily mean starvation. One can always manage to have something to eat everyday. With these facts in mind, and very obvious facts they are, what we should have done was voluntarily to offer to restrict further immigration, and better still, to have made arrangement with the proper authorities in the United States to bring back to the islands those who were really better by being back in their homeland. Anyway, we need our own to develop our country. On the contrary, we insisted that there should not be such restriction while we are under the American Flag; that we were only exercising our rights to come and go as we please, whether we were wanted and needed or not. I grant the legality of this stand, but not its wisdom. What would you say to a brother who, if he stayed at home in the country, does not have to suffer starvation, but insists on coming to your house in the city at the expense of the already depleted funds and scanty provisions for your own household? I am sure that under these circumstances, even though a brother, you will kick him down the stairs, and he fully deserves the treatment. The American people are an understanding and kindly people if we only would cooperate in a sympathetic way in helping them solve their difficulties, as we believe they are willing to help us solve ours. Witness the way our great Governor General is battling for the betterment of the lot of our common *tao*. He is truly a typical American.

Now then: Let us go back to the main thesis of this article. What is the remedy? At this time, we believe that the most acceptable governmental relation to have with the United States is in the form of a Dominion. Why is this form more acceptable than any other? It is a step higher—an improvement over the form we now have. At least, the name eliminates what is objectionable in the term territory or colony. Colony connotes conquest and rule over a subject people. The term becomes more irritating, even galling, if the subject people is made up of a different race, because then it takes on the most irritating connotation that some have given it, namely, inferiority of the subject race. But is there really any superiority of one race over another? To the superficially educated and ill-informed mind, yes. But the theory has no basis in fact according to leading ethnologists, or anthropologists.

Professor Franz Boaz, of Columbia University, writes: "We have found that the unproved assumption of identity of cultural achievement and of mental ability is founded on an error of judgment, that the variations in cultural development can as well be explained by a consideration of the general course of historical events without recourse to the theory of material differences of mental faculty in different races. We have found, furthermore, that a similar error underlies the common assumption that the white race represents physically the highest type of man, but that anatomical and physiological considerations do not support these views." *The Mind of the Primitive Man*, page 29.

The same author writes further: "An unbiased estimate of the anthropological evidence so far brought forward does not permit us to coun-

tenance the belief in a racial inferiority which would unfit an individual of the negro race to take his part in modern civilization. We do not know of any demand made on the human body or mind in modern life that anatomical or ethnological evidence would prove to be beyond the powers of the negro."—The Mind of the Primitive Man, page 272.

A negro, considered to belong to the most backward race, came directly from the jungles of darkest Africa to Harvard, and when he graduated, he stood at the head of his class.

The truth of the matter is, we can be what other peoples have become if we are governed by the same motives; guided by the same ideal and objective; and have so disciplined ourselves that self can be subordinated toward the final realization of the ideal and objective. Witness what the Japanese people have done for the honor and glory of their race and country. They have shown to the whole world that they are just as good, and in some respects, even superior to the whites, in the same way that in some respects the whites are superior to them. Their only fault lies in that they have become too much intoxicated with their success and are now traveling the same road that the German people took.

The Japanese people did not so much protest vocally against their treatment by the whites as an inferior race, but by deeds and by accomplishments in the fields of science, commerce and industry, they succeeded in convincing the world that they deserve to be respected and admired, even to the extent of being feared. The really wise man, however, does not use his cleverness in defrauding his neighbors, but he should enlighten them; and the really strong should not use his strength in abusing others, but he should help them. The American people are an understanding and kindly people, and if we Filipinos, as a people, proud of our race, and strongly believing in our potential greatness as exemplified in the personalities of our Rizal, the Lunas, Mabini and others, follow the example of the Japanese, the Americans can have no choice, no alternative, than to treat us as their equal. There is more of the spirit of equality in a Dominion than in a colony. Anyway, greatest good can be obtained in the solution of a problem if tackled in an atmosphere of mutuality.

America is tremendously interested in the development of her trade relations with China and the Far East. Therefore, she needs a base here for her commerce in this part of the world. She cannot step in and take a part of China and appropriate it as a colony, if she is to remain true to her professed friendship for China as well as her advocacy of the "Open Door Policy" for China. Her only hope, therefore, lies with the Philippines.

The greatness and wealth of New York City is derived from the fact that it is the port and base of departure for Europe and South America for most of the commerce of the great country back of it, and at the same time, it is the port of discharge of most of the goods coming from the continents mentioned. What a great boon to our people if our country can be made the New York City for the commerce of the United States in this part of the world! It may not be so apparent now, but to the wide-awake statesman, it is not a very far off reality. And what is there to prevent the Filipino from handling most of this business! It is to the advantage

of both American and Filipino to agree on a form of government whereby these benefits can best be obtained. We can only come to some such agreement and arrangement if the American is willing to forget what he calls his rights as a conqueror and his notion of the superiority of his race over that of the Filipino; and for the Filipino to stop thinking that the American has racial prejudice against him, and, instead, to begin showing and proving his worth, just like the Japanese has done. All of these can best be worked out, at least for the present, under a Dominion form of government.

CHAPTER II

SECTION II

DEFINITION OF DOMINION GOVERNMENT

Immediate, absolute and complete independence has been a useful battle cry of our leaders,—it has brought about the almost complete Filipinization of our government personnel, but I seriously doubt its wisdom during the present disturbed condition of Far Eastern politics.

To the thinking Filipino (and let me add, the really patriotic Filipino, if patriotism means deep interest in the welfare and lasting happiness of his fellow countrymen, not to say the posterity of his race and country) we invite his consideration to this form of government. For more detailed description of this subject, the readers are referred to Bryce's "Modern Democracies" and to the late President Lowell's "Government of England". In advocating a dominion government for our country now, we do not mean that we should forego altogether the hope of eventually becoming absolutely independent later on. Let condition and circumstances guide us in our action when the time becomes more auspicious for its consideration.

But for the present, let us go before the American people with a definite and concrete objective, namely, that we should be granted a dominion form of government. My close and intimate contact with the American people for about 12 years should qualify me to say that we shall get it, if we could agree on this plan. Nothing succeeds so much as having one definite objective at a time; also, it is safer to eat, at one sitting, just enough so you won't get indigestion—the indigestion might become serious and prove fatal.

Now, let us see just what is a dominion government. Today, there are three outstanding countries under this form of government,—namely, Canada, Australia and New Zealand. The framework of the governments, i.e., the provincial or the state, and the central governments, are patterned after that of the United States, that is to say, they are federal in character. The legislatures are made up of representatives and senators. Members of the lower chambers are elected by universal suffrage. In Australia, the senators are also elected by universal suffrage, but in Canada, they are appointed by the Governor General, i.e., by the ministry.

In each dominion, the executive power resides, nominally, in the governor general, as representative of the British Crown, but actually in the cabinet, who are also members of the lower house. The Premier, who is the leader of the party in power, is the most powerful figure; just as he is in the British Parliament.

What is the relation, or let us say, what control does the Imperial government have over her dominions? This control lies in four directions.

1. Royal governor, appointed by the crown. As already pointed out above, his power has been reduced to that of a mere figure-head.

2. Power to veto legislation. This power is used largely to defeat measures prejudicial to other parts of the empire or to foreign countries, although it is very seldom used.

3. Control of foreign relations. Negotiations and treaties with foreign powers are conducted by diplomats appointed from the dominions concerned, supposedly upon the advice of the English ministers, but in fact, upon their own responsibility.

4. Appeal from the colonial courts to the judicial committee of the Privy Council. Very few appeals are carried to England because of the expense entailed. In general, decisions of the colonial supreme courts are taken as final.

From these developments, we find that the sovereign authority of the mother country has been reduced to a little more than a control over foreign relations, and over some matters of imperial concern while even these slender bonds have become well nigh voluntary, *for it is generally assumed that if any of the large colonies, for instance, chose to sever connection with England, she would not attempt to restrain them by force. At this point, let me call the attention of the very ardent patriotic Filipinos to the fact that, after having won the dominion form of government, there is nothing to prevent us, later on, to insist on a complete and absolute independent government from the United States. Time and circumstances will show us the better course to take, let us say, ten, fifteen or twenty years hence.*

In a dominion form of government, which can be republican in form, if we prefer it, we shall be substantially free to manage our own affairs as we please, and even in foreign matters, our opinion shall have great weight. While enjoying this freedom, we shall have the protection of America's name and her army and navy without any expense. Being free from the worries attendant upon maintaining an army and navy worthy to be called such, we can concentrate our minds, our energies and our geniuses collectively toward bringing, by deeds and by accomplishments in the fields of science, commerce and industry, honor and glory on the name Filipino. In all our dealings with the sovereign power, however, let us always bear in mind that the law of "give and take" governs happy human relationships.

In order that we shall get somewhere in our fight for freedom, let us go before the American people with something definite and concrete

in our portfolio. Asking for the impossible immediate, absolute, and complete independence, is just like hitting the air, at least, for the present. There are a good many of us who believe that a dominion government would be the best government for us at this time.

Dominion government is our objective just now. We are sure that adoption of this form of government for the Philippine Islands will accrue to the great advantage of Americans and Filipinos alike, in the same way that the spirit of mutuality has worked out for the best interest of both employers and employees in the business world.

CHAPTER III

DIPLOMACY—THE NEW VS. THE OLD

The call of the hour is not for a man, but for men clad in the armor of positive, active and alert, patriotism, to come out into the open and fight for what they honestly believe to be for the best interest of the country.

No truer statement has been made of late than that,* "Immediate, Complete and Absolute Independence was never meant to be taken literally." We have talked to quite a number of men, several of them are holding responsible positions in the service of our government, and, of course, patriots to the core, who, in some form or another, confirmed this statement. However, for the present they do not care to be quoted for fear they might lose their jobs, or they might not get elected, if they so expressed themselves.

The electorate, therefore, the masses, not knowing exactly the responsibilities that go with absolute and complete independence, and have only their prejudices and scanty, even secondhand information, to guide them, have taken the words of the politicians and accepted them as gospel truth. And the danger is, when an idea has been accepted as gospel truth, it is one of the most difficult things in this world to dislodge it from its moorings or anchor. What do the men out in the barrios and small towns, even a good part of the masses in Manila, whose main recreation is reading fiction in magazines, know about the conflicts of national ambitions, occasioned by the demands of over-production and over-population? Besides, what might have been good for us fifteen or twenty years ago, because of changed conditions here and abroad, may not be good for us now! It is for those of us who can be well informed because of our preparation and training, to study and analyze the problems of our country from all angles and from all sides; with open minds and open hearts; devoid of prejudices and personal and selfish ambitions, and arrive at a conclusion. And having arrived at a conclusion, we should come out into the open and, with the courage befitting true patriots, champion it. If the other side wins, let us be sport, accept the verdict, put our shoulders to

* Statement of Senator Benigno Aquino upon his arrival from the United States last March 19, 1933.

the wheel and help push it up the hill of success. Anyway, what we can win now, can always be improved upon.

We are dealing with a nation which is the father and sponsor of "The New Diplomacy,"—open, frank and honest, and not the old one, —domineering, land grabbing, grasping, altogether dishonest and selfish. "The Old Diplomacy" was in general use until the late President Wilson sought to replace it with the "The New Diplomacy." The fight is still on, and it is our privilege to share in the glory of victory of the new over the old. It is truly said that a man can never stand still. He either goes forward or backward. We should have but one choice, and that is to go forward with progress, the victory of "The New Diplomacy" over the "old."

We agree with a good many who say that, "immediate, complete and absolute independence", is not what we really want right now. Let us, therefore, get together and agree on something definite and concrete, and with the proposition properly drafted and passed, in hand, go to the American people and say: "This is what we really and honestly would like to have. It will best serve your interest as well as ours. Let us examine it together and see if we can agree on it."

"He who flees must not be pursued, but he who comes must not be repulsed," is an ancient proverb, and a wise one. Let us watch and measure carefully our steps lest we get all that we are asking for (hook, line and sinker), but which we really do not care to have. And if we do get all of it,—no more connecting links, we shall find ourselves out in the sea of national and international intrigues, which discerning eyes cannot deny are rather stormy just now. A small, frail and untried ship of state venturing out can only have a very slim chance of escape. We should let our better judgment hold our adventurous and daring, not to say reckless, spirit, under leash, until the storm has abated somewhat. Then, when the worse has passed, and we still insist on pulling up anchor, there will be less danger.

But, let us say, we are truly brave fellows and even love danger. If there seems to be any chance of getting through at all, we are all agreed that we would risk that chance. The wiser ones, however, those who have studied and have had some experience in navigation, should ask for the report of the weather bureau. With chart on hand, the weather report, and the present condition of the ship in mind, they study, analyze and correlate together all their information, and after considering the matter seriously, the consensus of opinion among them is that to venture out would be too risky a proposition. The crew should abide by that decision.

Now, supposing we adopt the above method in analyzing our present dilemma with our ship of state. We are brave patriots, adventurous, daring and quite anxious to venture out. But, by all means, we should not neglect to consult our chart and analyze the weather report of national and international politics. No less should we neglect to examine the condition of our ship of state, and make every possible reinforcements to make it as strong as possible.

For our purpose, we need to consult weather reports in national and international politics. One of these reports says that there has been coming off and on, a most destructive storm from Japan.

CHAPTER IV

SECTION I

THE STORM THAT IS JAPAN—A STUDY OF HER PEOPLE

No Filipino has ever advocated Philippine independence without incorporating the idea of neutralization, or some form of a protectorate, particularly the former. They see in neutralization a "safety device" that would permanently guarantee freedom of the Philippine Islands, but as one American writer, G. F. Abbott, said in 1915, "such treaty would not be worth drafting. Recalling the rapid changes of front indulged in by Japan in her continental diplomacy, many Americans feel that she cannot be depended upon to keep her treaty obligations."

Let us consult some of her own statesmen. Here are some eye openers from three of the leading ones:

"For Japan to agree to the neutralization of the Philippine Islands would be to tacitly agree to protect the Philippines against any violation of the neutrality of the Philippine Islands—What would Japan stand to gain by going to war to protect the neutrality of the Islands?" Consul General Kimura, *Manila Tribune*, February 28, 1933.

"We will try to emigrate to Manchuria, where there is room for two or three million Japanese. But the climate in certain parts up there is very severe and Japanese emigration should be to the south, even to tropical climate." Yosuke Matsuoka, chief Japanese delegate to the league Assembly.

"If we succeed in conquering China, the rest of the Asiatic and South Sea countries will fear us and surrender to us." General Tanaka, in 1927 to the Japanese Emperor.

As the history of Korea was repeated in the case of Manchuria, and is now being repeated in the case of Mongolia, we fear that it will also be repeated in the case of an independent Philippines. Let us, therefore, examine what chance will a free Philippines has to survive.

"If you must fight, know your enemy even better than you know yourself," would be a good motto for a free Philippines to follow as guide, if this could be really possible.

Let us get better acquainted with her and her problems, and her people.

Japan has an area of 148,000 square miles, with a population of over 60,000,000, or about 280 per square mile. This compares with 114,000 square miles and a population of 12,000,000, or about 90 per square mile, for the Philippine Islands. Only 1/6 of the total area of Japan is cultivable, whereas only a small fraction of the area of the Philippine Islands cannot be put under cultivation. Japan has an annual surplus population of about 750,000. She has to find rooms for their accommodation. Are

we willing to open our country to them? The reader can give his own answer to this query. Ours can be no other than a great big NO.

There are no more loyal subjects of their ruler than are the Japanese. It is said that respect for their Emperor amounts to fanaticism. It will be well worth our time to find the whereof of this intense respect and love for Emperor and country.

When the late Emperor Yoshihito ascended the throne, *he made it clear that enlightened democracy was to be the great aim of his reign, and that this could be secured only by diffusion of intelligence.* Typical of the spirit that governs new Japan, the best and most efficient method, had to be adopted. To this end, a commission was sent abroad to make a study of the methods in use by the great nations.

Among the members of this commission were two of the greatest men of modern Japan—Okubo and Kido. Their observations convinced them that only by education could new Japan stand erect and keep pace with the Western world. Well worth our notice here was the attitude of these two men as regards the initiatory step to be taken in the cause of national education. Okubo said: *"We must first educate the leaders, train such young men as will fill high positions, and the rest will follow; or if they do not follow, the leaders will pull them up."* Kido took the view that it is just as important to educate the masses. He said: *"It would be much better to have intelligent followers than blind ones."*

The educational ideal of the nation, the immediate result of the recommendations of Okubo and Kido, was embodied in the following Imperial proclamation: *"Henceforth education shall be so diffused that there may not be a village with an ignorant family, nor a family with an ignorant member."* This ideal is now a practical reality. In 1905, 94.93% of the children of school age were actually in school: 90.55% among the boys, and 97.1% among the girls. In 1924, the attendance in the elementary schools were 4,800,000 boys and 4,300,000 girls.

After the elementary schools are the middle schools for boys and the high schools for girls; following are the technical schools, where students are given special training that would immediately fit them to go into the life of the country and society. Crowning the system is the Imperial Tokyo University, assisted by a number of privately owned and managed universities, such as Waseda, Mijii, and Keio universities. Women do not go in very much for professional education, although there is one university for women.

It is interesting to note that there are no fraternities nor secret organizations among the students of Japan. Dr. Nitobe says: "There are no purer democracies than our institutions of learning. Distinction lies only in brains. Family pride is not tolerated; any show of wealth is despised; snobbishness is scorned. If a boy should come in a carriage, he would be looked upon with contempt. To be a student is to be plain in habit and in taste. Dandyism is a heinous offense in the society of learning. This identification of simple habits with study, of plain living with high thinking, has come down as a tradition and still exercises a wholesome effect upon the young." Would that our own student body was as sensible!

Every young man in Japan is given military training sooner or later, when he comes to be around 20 years of age. Morale and tactics, taken generally, are the outstanding points in Japanese military education. The former includes instructions in the "seven duties of the soldier"—loyalty, valor, patriotism, obedience, humility, morality, and honor; and insistence on frugality, simplicity and Spartan existence. Throughout his student life, and always thereafter, it is driven into him that personal cowardice is the most despicable of vice; and loyalty, particularly loyalty to the throne and to his country, the supreme virtue.

For good or ill, patriotism is the outstanding Japanese virtue.

In every village there is an active Y. M. A. (Young Men's Association) a combination of boy scouts and the Y. M. C. A. The object is to give the members training in discipline; develop physique, self-control, self-respect, and the spirit of association and fellowship. In many places, the members drill for half an hour before sunrise. In the evening, they fence, wrestle, lift weights, practice jiu-jit-su, etc.

The special result of early rising, and the corresponding retiring early, in one area had been that, "the habit of spending evening hours idly has died away, immorality diminished, singing loudly and foolishly, and boasting oneself has disappeared." In one village of 1000 families, the people rise and go to bed by the sound of a bugle. During the Russo-Japanese War, the members of not a few associations favored cutting one another's hair every 14 days, thus saving and curbing vanity. Others minutely investigated the economic conditions of the villages, and took measures to improve them.

G. C. Allen writes of this people: "None could exceed this people in its willingness for self-sacrifice in a common cause". A story is told of a man who died of starvation because he would not order to be threshed a sack of unhulled rice he had, for fear that there might be a shortage of rice seedlings for the next planting. This incident took place during the Russo-Japanese War.

Another writer says of her women: "From many points of view, indeed, there is no more beautiful type of character than that of the Japanese woman. She is entirely unselfish, exquisitely modest without being anything of a prude; abounding in intelligence, which is never obscured by egoism; patient in the hour of suffering; strong in time of affliction, a faithful wife; a loving mother, etc. She is capable of heroism rivalling that of the stronger sex".

All in all, Japan would be a most formidable enemy for us to fight, the more so because she must find places for her annual surplus population of around 750,000.

We cannot escape the fact that the Japanese people deserve to be admired by the rest of mankind in the determined and successful way in which they have climbed to the very top of national and international achievement. In fact, we would do well to emulate them in a good many ways. To do this, we should study them, not neglecting, however, to study other nations. This is the road toward progress and success,—learning from the experiences of others.

Our only quarrel with the Japanese people is that we do not wish our country to become the receptacle of Japanese immigration and the field of Japanese enterprise. We know too well what is happening in Korea and in Formosa, in Manchuria and in Mongolia. We wish to preserve the Philippine Islands for the inheritance of our people for generations to come, even unto prosterity. How to attain this end most effectively, is for the Filipino people to decide. Will it be with the help of Japan or that of America; among the latter, we already have many friends.

CHAPTER IV

MILITARY JAPAN IN ACTION

"Japan must either die a saintly death in righteous starvation, or expand into the neighbor's backyard. Japan is not that much of a saint."
—K. Asakawa, *The Russo-Japanese Conflict*, 5-7.

In frank and plain words, this statement is the keynote of Japan's foreign policy, and, so for the past 40 years, after she felt satisfied that she had become sufficiently strong, but not until then, to carve for herself a "place under the sun," she has, with amazing success, consistently "expanded into the neighbor's backyard." If our profession of love for our country is deep and strong, we should see to it that this land of ours shall not become a part of that backyard. To succeed in this stupendous task, *we need to relegate into the background our individual and personal ambitions and selfishness, including our sensitive pride, and with all humbleness and humility put the interest of our people and country above everything else*, at least for the present. Our immediate task will be to bring about the removal of the most serious possible and probable causes of internal disorders, mentioned above in italics, because if we don't, we will surely find ourselves in the same plight that China and other countries are in today. It is not necessary for us to travel the same sad experiences! But let us get back to the subject of this chapter.

There is nothing more interesting reading in contemporary history than the rise of Japan from a seemingly insignificant, small, unknown and isolated country, to the power that it is today—one of the first four. This brilliant achievement has been accomplished within the memory of men still living. Let us profit by the example of her people, but more so her statesmen, avoiding, however, whatever excesses they have committed and are committing.

THE CHINA-JAPAN WAR OF 1894

Japan is not much on suffering a saintly death in righteous starvation, and so she moved into the backyard of a neighbor that offered the least resistance. It happened to be Korea. There was another country, however, that was interested in the same backyard, and the conflict of interests culminated into a formal declaration of war on August 1, 1894.

The western world was amazed at the boldness of small Japan in attacking mighty China. It seemed like a terrier attacking a mastiff, and

they expected to see the big one crush the smaller with a single bite of his massive jaws. But Japan was prepared and well trained, and China was not.

The Intelligence Department, according to Dr. A. J. Brown in his "The Mastery of the Far East," had maps showing every hill and valley, every creek and tree in the whole zone of operations, and surveys and soundings of every square rod of rivers and coast line. The General Staff knew exactly what it wanted to do, and where and how. The whole military machine moved with a smoothness, speed, and effectiveness which amazed European observers. Knowing precisely what they wanted to do, they went at their task with relentless energy. Gen. Grant's motto, "When in doubt, go forward," was bettered by the Japanese for they were never in doubt. In this connection, we are reminded of the fact that as far back as about 30 years ago, in the guise of peddlers of rice cakes and itinerant carpenters, but in reality, map-making parties, Japanese took detailed maps of the Philippine Islands as they did of Korea and Manchuria, as above stated. Our suspicion is they are just waiting for the most opportune time to strike at us.

The war was speedy, bloody, and decisive. A series of swift successes culminated in the battle of Pengyang, September 15. It was more of a slaughter than a battle. Seven months later, April 17, 1895, a treaty of peace was signed. China was compelled to cede to Japan Formosa, Pescadores and Liao-tung Peninsula, including Port Arthur. The treaty also recognized the independence of Korea. But 15-years later, on August 29, 1910, Japan annexed her as a territory in spite of treaty declarations to the contrary, signed February 23, 1905, closing the Russo-Japanese War. The semi-official *Japan Times* editorially declared at the time: "We solemnly pledged before the world to respect the independence of the Peninsula Kingdom and nothing in the past policy and action of the Imperial Government gives even the shadow of excuse for doubting its good faith in its international relations." In addition, China paid an indemnity of 200,000,000 taels.

THE RUSSO-JAPANESE WAR

It is said that after the China-Japan War of 1894, the Chinese Viceroy, Li Hung Chang, wrote in his memoirs that Count Cassini, a Russian high official, had informed the Chinese government that "Japan will not be permitted, either now or in the future, to seize upon any part of Manchuria or the mainland." This represented the known attitude of the Russian people toward the Japanese at the time, and Russia ordered Japan to leave the Liaotung Peninsula, demanding favorable answer within 48 hours. A Japanese Cabinet Minister is said to have cried over the insult, and felt so badly about it that he said: "If we only had three battleships we would declare war against Russia within 24 hours. Not having any, what can we do but submit to this insolent threat?"

From that day Japan applied her energies to creating a modern armament in preparation for the war which she believed was sure to come. She

sent her brightest men to study the naval system of England and the military system of Germany; buying and learning to manufacture for herself the most highly improved rifles and cannon; drilling almost literally day and night, and fiercely anticipating the day when she could wreak vengeance on the treacherous Slav.

After the Sino-Japanese War, Russia became a more aggressive rival in the neighbor's backyard—Korea. As in the former case with China so in the latter case with Russia, Japan was fully prepared to go to war when she broke off diplomatic relations with the latter on February 6, 1904. On February 7, the Japanese seized Masampo and used it as a base of operations in Southern Korea. The next day, a Japanese squadron appeared off Chemulpo and word was sent to the commander of the Russian ships that if he did not come outside on the open sea he would be attacked. The Russians had only two comparatively small vessels but they proved once more that Russians are not cowards. The battle was brief and without injury to the Japanese.

Dr. Arthur Judson Brown, author, masterly describes the progress of the war in his "The Mastery of the Far East" as follows:

"That night the main Japanese fleet under Admiral Togo suddenly appeared off Port Arthur, torpedoed two Russian battleships and a cruiser, and the next day, the 9th, in a general engagement, he disabled another battleship and four more cruisers. The Russian fleet was so badly crippled that it had to seek refuge in the harbor of Port Arthur, where it was blockaded by the Japanese who had lost only two torpedo-boats.

"These victories gave Japan absolute command of the sea, and troops poured into Chemulpo and other Korean ports without danger of interruption. Thus far there had been no formal declaration of war, but on February 10, the Czar issued one, and the next day Japan followed.

"The war now proceeded with tragic swiftness and decisiveness. Seoul was occupied with practically no opposition. The Japanese army marched northward, and the first land engagement was fought at Pyengyang on February 28. It was hardly a skirmish. The Russians were easily driven back. On April 4, Gen. Kuroki occupied Wiju on the Korean side of the Yalu River, and on May 1, the battle of the Yalu was fought. The victory of the Japanese was followed by their rapid advance into Manchuria. As Admiral Togo reported on May 3rd that he had 'bottled' up the harbor at Port Arthur, a Japanese division under Gen. Oku landed at Pitsewo on May 5, and another under Gen. Nodzu appeared at Takushan on the 19th. By the 14th, the Japanese had thrown themselves across the South Manchuria Railway and cut off Port Arthur from communication with the Russian base in the north. On May 23 to 26 the fierce battle of Nanshan Hill gave Gen. Oku possession of that formidable position, which commanded the approach to Port Arthur and enabled the

Japanese to entrench themselves on the narrow neck of the isthmus, so that the isolation of Port Arthur was complete. While the daring and skillful Kuroki, Oku, and Nodzu were doing their relentless will with the Russian divisions which they encountered, the grim Gen. Nogi began the formal investment of Port Arthur the middle of June. By sea and by land it was a dazzling succession of Japanese victories.

“What followed, however, was even more appalling because of the fierceness of the titanic struggle. Russians had done everything that military science, prodigal expenditure, and an unlimited command of naked human strength could suggest to make the fortress impregnable. The natural position of Port Arthur is exceedingly strong, and more than a dozen hills, which were bare of trees, had steep sides, and commanded wide areas, had been crowned by no less than 52 forts and batteries. No one can question the bravery of the Russian soldiers, and the fort was believed to be impregnable, the garrison was large, well provisioned and amply equipped. But the Japanese were not only indifferent to death, they also eagerly coveted the honor and privilege of dying for their Emperor. They threw themselves against those frowning battlements with entire disregard of the hail of shot and shell which the Russian infantry and artillery poured upon them. They made repeated assaults in which whole brigades were annihilated; but other brigades took their places undismayed, and renewed the fighting. Every possible resource of modern discovery and invention was called into requisition. Electricity for the first time became an effective force in war. Search-lights, star-rockets, and parachute-torches swept the approaches with such brilliancy that darkness was no longer a cover for night assaults. Cannons were raised, aimed, fired, and lowered by electrical devices. Barbed-wire entanglements were charged with electric currents which killed every foe who touched them. An electric railway ran inside the long arc of forts, so that reinforcements could be rushed to any point of attack. Headquarters were telephone central offices, with lines radiating to every part of the field. No furiously galloping staff-officers were required to transmit orders and receive information; the telephone did in a few seconds what the fastest horse would have required hours to do even if he were not shot. When the Japanese captured 203 Metre Hill, telephone messages from its summit directed the fire of heavy siege-guns in protected places, so that the gunners made untenable a city and harbor which they could not see. The Japanese fleet added to the pandemonium of ruin. Battleships cannot wisely take as many risks as land batteries, for it required not only several million dollars but several years to build one, while a few guns and land batteries are easily replaced. Admiral Togo solved this problem by having tiny torpedo boats, which the Russians found it difficult to see and almost impossible to hit, lie several miles off shore, and by wireless give the range and a report on each shot to

gunners on the battleships lying safely out of reach of the Russian forts.

"Day and night for awful months the bombardment continued. Day and night the inexorable brigades zigzagged their trenches closer and closer to the forts, and charged against stone walls, heavy cannon, and machine guns. Finally, flesh and blood could hold out no longer, and on January 2, 1905, the great fortress, which had been isolated from all support since May 14, and which was believed to be impregnable, surrendered."

Since then, more advanced and more destructive instruments and agencies of warfare have been discovered, and with very few exceptions, if any, the Japanese have already learned how to manufacture and use them. In addition, she has her own secret inventions and discoveries. *What do we know about materials and instruments of warfare? It takes real and honest-to-goodness preparation on our part to assume the responsibilities of full independence. When shall we begin?*

The next important land engagement was at Mukden. It was not only the greatest battle of the war, but it was one of the greatest battles of history. A million men were engaged on a fighting-line nearly a hundred miles long. For seventeen successive days the fighting went on, and as usual, the Japanese won.

Dr. Brown, in the same book, "The Mastery of the Far East", describes the last stage of the war as follows:

"Russia had assembled all of her available ships that could be spared from home, and sent them to the Far East under command of Admiral Rojestyensky for a final effort to regain her lost prestige.

"As it entered the North Pacific, the tension not only of the Russians but of the watching world was great. Not a syllable had been heard regarding the whereabouts of the Japanese fleet. Rumor had located it at a dozen different places, and the Russians had been weeks in nightly expectation of attack. The absolute secrecy which the Japanese preserved is strikingly illustrative of the loyalty of the Japanese people. Although tens of thousands of Japanese must have known that Admiral Togo's fleet was lying among the islands off the southern coast of Korea, although the sounds of guns in target practice could be heard by hundreds of villages, and although scores of war correspondents and other curious Europeans and Americans were scattered among the treaty ports as near to the scene of expected operations as they could get, not a single Japanese disclosed the secret of his country, and the rigid censorship made it impossible for any one else to send a tell-tale letter or telegram out of the country.

"Japanese method was further illustrated by the plans of locating the Russian fleet as it approached. The coast of Japan was lined with signal stations on promontories, islands, and mountain tops. A wide expanse of sea was divided into small numbered squares. Swift

torpedo-boats and scoutships equipped with wireless cruised far out at sea, watching night and day. When, at 5 o'clock Saturday morning, May 27, the scoutship Shinano-Maru sent a message reading: "Enemy's fleet sighted in square 203", Togo was instantly ready to move. While the Russians, still ignorant of the whereabouts of the enemy, steamed at full speed into the strait, already exulting in the thought that its destination at Vladivostok was so near, and that most of the Japanese warships were guarding the two northern channels 1,000 miles away, Admiral Togo's warships suddenly appeared and the battle was on.

"Never was naval victory more overwhelming than that which the Japanese achieved. The firing commenced at 2:08 P. M., and within 37 minutes six of the eight Russian battleships were so badly injured that Togo stated in his official report that at 2:45 P. M. the result of the battle had been decided.

"Within 30 hours from the firing of the first shot, Rojestvensky was a wounded prisoner, and of a Russian fleet of 8 battleships, 3 armored cruisers, 3 protected cruisers, 3 coast-defense armor-clads, and 21 auxiliary cruisers, destroyers, transport and special-service ships—38 in all—all but 4 were sunk, beached, or captured, and even of the 4 that escaped, only one succeeded in reaching Vladivostok, the others found refuge in Manila Bay. This annihilation of the Russian fleet cost the Japanese only 3 torpedo boats sunk, three disabled destroyers, and other minor disabilities."

Gen. Kuropatkin explained in the following statement one of the causes of Russia's defeat: "Out of the tens of thousands of students who were then living in idleness, only a handful volunteered, while in Japan sons of the most distinguished citizens were striving for places in the ranks."

In a conflict between two peoples, material resources are most essential, but moral strength, exaltation of spirit, and patriotism are even more so. Every Japanese soldier knew that the whole nation stood behind him. Let us strive to build up a similar morale among our people. This can be done only by instilling in our body politic what the French people call 'esprit de corps,' and in our social and business relations with one another the ideals of service—"Live and let live."

ANOTHER "BACKYARD"—MANCHURIA

One of the finest agricultural regions in the world is Manchuria. Minerals are also abundant: coal, iron, mica, lead, copper, gold, silver, asbestos and gypsum are found in various sections. The area of 363,610 is more than double that of Japan and four times that of Korea. Here is where she can get food supply and raw materials for warfare if she should find herself in need of them.

On the pretext that a certain Japanese officer by the name of Captain Shintaro Nakamura, was murdered as spy by Chinese soldiers, but

which was never proved, Japanese troops began an invasion of Manchuria on September 18, 1931. Two days later, after a series of rapid military movements, all strategic points in Manchuria, from Changchun to Kwantung border, were captured by the Japanese. All the engagements that followed were just a series of victories for Japanese forces, just like her other wars (although in this particular conflict there was never a declaration of war on either side).

The Chinese charged that the way the occupation was carried indicated a pre-arranged schedule, and they sent an appeal to the League of Nations for adjudication of her grievances against another member of the League. On September 30, the League adjourned without taking any action on the appeal, because the Japanese delegates absolutely refused to permit outside interference. To this day they maintain this stand, and in defiance of the judgment of the League, as contained in the Lytton report, upon instructions from the home government, Yosuke Matsuoka, chief of the Japanese delegates, handed Japan's formal resignation as member of the League to the League Council. No formal acceptance of the resignation has as yet been made by the League of Nations.

The most significant incident of the conflict was the setting up of an autonomous Manchurian state, called Manchukuo, under officials favorable to Japan, began on December 14, 1931. It took final form on March 9, 1932, with Henry Pu Yi, the deposed "Boy Emperor" of China, as dictator. Japan immediately recognized her as an independent state. Gen. Mutto, dubbed "The Giant", is the real ruler.

JEHOL—THE LATEST CONQUEST

What is considered a record in speed in world military annals is the conquest of Jehol province. Japan, however, is used to hanging up such records in her military exploits. The Russo-Japanese War was won in eleven months, and this is the longest so far. Within three weeks the Japanese army covered nearly 500 miles and conquered an area of 65,000 square miles, which is larger than England and Ireland put together. This vast area will be very likely added by Japan to the Japanese-created state of Manchukuo.

From February 21 to the capture of the last pass in the Great Wall, Hsifengkow on March 15, the Japanese army's casualties, killed and wounded, are authoritatively estimated at 1,100. The Japanese estimate of Chinese casualties, dead alone must have reached 10,000.

It is very interesting to read some of the patriotic declarations of some of China's leaders.

Chiang Kai-shek: "I hereby declare that the national government's patience has been tested to the last degree. If the League and Kellogg-Treaty signatories fail to act, China won't hesitate to make the supreme sacrifice—bankrupt the country for half a century and go to war to uphold the sanctity of international agreements and to safeguard the peace of the world."

Another instance of treaties being considered as mere scraps of paper in the hands of a strong and determined nation.

C. T. Wang: "We may lose lives and our homes, but we cannot surrender any part of the country we have inherited throughout the centuries from our forefathers."

But Manchuria is now Manchukuo, and is independent of China—in fact a puppet state of Japan.

All the while, in spite of the League of Nations and the boasted patriotism and determination of China's leaders, Japan remained unworried and unperturbed and continued on her way—the subjugation of Manchuria and Jehol.

While the Chinese leaders remain divided, the country unprepared economically, the people short of the true spirit of a strong, cohesive and virile nationalism, their country will always be made an international "football" to be kicked around by stronger powers.

Once independent, we do not wish to see our country, the Philippines, toyed with mercilessly like China, but at least we should be able to give a good fight, if it became necessary.

Let us call special attention to the cold, methodical and determined way in which the Japanese government goes about serving the interest and welfare of her nationals, particularly in finding and fighting for homes of her overflow population. Undoubtedly, this has a great deal to do with the loyalty of the Japanese to their Ruler and to their country. It should do us a lot of good to learn some lessons from Japan.

CHAPTER V

MILITARY AND NAVAL NEEDS OF AN INDEPENDENT PHILIPPINES

Let us assume that our leaders have succeeded in winning independence for our country, and that in a few years we shall become absolutely free. We know that one of the major functions of an independent country is to defend her national honor and territorial integrity. It is now our purpose to try to find out just what would be the military and naval needs of an independent Philippine Islands.

For several years past, diverse reasons have been given as evidence of the desinterested policy of Japan over the Philippine Islands. We have been asked even to believe that she is our friend. We wish sincerely that this could be really true. But an honest and sincere friend should not be so much interested in learning the layout, even the details of our house, inside and out. We can still remember as boys, 30 years ago, of a number of Japanese who came to our small town, and even into the barrios, selling apas (rice cakes). We have since heard from others that the same was true in their own provinces,—as far north as Cagayan, and as far south as Zamboanga and Davao. Now and then, we also read in the papers of Japanese boats with disabled motors, drifting down along our

coasts. We do not believe that it is too much to say that Japan has as good a detailed map of our country as our government itself has,—the more reason why we should take more time to study and deliberate over the possible solution of our political problems.

Pro-immediate independistas say that we shall become a member of the League of Nations. Recent events, however, show that the League is not yet strong enough to compel obedience to her orders. The reason for this weakness lies in the jealousy and rivalry for position and power among the members themselves. In any event, with or without the League, let us see if the P. I. can be in a position to equip herself with sufficient arms five years hence, even ten or fifteen.

In this connection, we should like to state that the present tendency is the organization of association of nations for mutual trade benefits as well as for defense. Let us associate ourselves with the good ones. America has so far shown herself to be good.

In making an estimate of the organization of an army and a navy for an independent Philippines, we could use the present personnel and cost of the detachments of the two military units of the United States now stationed in the islands as our minimum basis.

The Army. To maintain a force of about 10,000 men, the U. S. government expended for the year 1932 as follows:

For the maintenance, repair, alterations and constructions of buildings by posts:

Fort McKinley	P 230,858.00
Fort Stotsenburg	248,734.00
Camp John Hay	136,512.00
Pettit Barracks	44,182.00
Nichols Field	33,228.00
Manila	641,086.00
Total	P1,834,600.00

For subsistence, forage, maintenance of equipment and transportation:

Forage	254,392.94
Fuel	2,714,256.00
Gasoline and lubricants, motor	135,648.72
Operating supplies: lubricating oil, cotton, waste, etc	29,614.92
Wages and salaries	1,308,727.94
Rental allowances	48,940.90
Water transportation activities	413,735.64
Maintenance miscellaneous equipment	111,058.18
Electric and gas service	233,480.70
Packing, crating and transportation charges	136,726.36
Miscellaneous supplies and services	9,395.16
Rentals	36,016.90
Water	64,586.16
Mosquito control	5,000.00
Total	P7,712,381.12

For the maintenance of men and equipment of the fortifications in Corrigidor and Carabao islands about ₱1,300,000.00.

The grand total for the maintenance of the United States Army detachment in the Philippine Islands would, therefore, amount to more than ₱10,000,000.00.

To maintain a force of 6,000 men and officers in the Philippine Constabulary, the Philippine government appropriated the sum of ₱5,000,000 for the year 1932. Because of the present depression, for the year 1933, this force had to be reduced to 5,000 men and officers, and the appropriation was reduced to ₱3,500,000.00.

To give the reader some idea what it would cost to equip an army, the following figures were taken from the ordnance price list of the United States Army:

Rifle	₱	65.50
Bayonet		3.85
Pistol		52.76
Machine rifle		283.04
Machine gun		578.36
Machine gun AA		2,000.00
Automatic rifle		231.88
87 mm. gun		1,314.00
75 mm. gun with carriage and tractor		50,000.00

Navy. Turning our attention to the naval needs of the Islands, we come to a more complicated and more expensive subject.

England, Japan and the United States are spending more for their navies than for their armies.

For the maintenance of the Cavite Naval Station in 1932, the United States spent ₱3,285,294.00. This figure does not include what was spent for the maintenance of the naval magazine depot, receiving ship, naval hospital, submarine base and the Olongapo Dry Dock. Including these items, the figure goes up to ₱16,000,000.

Let us take a look at the building and equipment costs of naval ships.

Modern battleship	30,000 tons—	₱70,000,000
Cruiser	10,000 tons—	20,000,000 or more
Cruiser w/six-inch guns	7,000 tons—	10,000,000
Destroyer	1,200 tons—	1,500,000
Submarine	1,000 tons—	2,500,000 or more

The maintenance and operating costs, in peace time, including personnel:

	<i>Per ton per year</i>	<i>Total for the ship</i>
Modern battleship	₱125.00	₱3,840,000
Cruiser	204.00	2,040,000
Destroyer	380.00	456,000
Submarine	310.00	310,000

The salaries of the personnel, for Filipinos, will be lower, but everything will have to be brought from abroad, therefore, what we might save in salaries will be absorbed by the extra cost of purchases, there being no factories here, nor can we have any for many years to come that can be properly equipped and manned to build ships, ammunitions, etc.

The necessary number of men to make up the crew for:

Modern battleship	1,000 to 1,400 men
Cruiser	500 to 750 men
Destroyer	120 to 125 men
Submarine	40 men

All these men must be well trained,—skilled in operating machinery and equipment, some of which are of very delicate nature. And five years, not even ten, is sufficiently long to give these men the necessary skill to handle such machinery and equipment. It must be remembered also that men detailed for military services become non-producers of wealth, therefore, the wealth of the country is that much more diminished.

In time of war, it is not enough that we have some men-of-war; there must be also a merchant marine, sufficiently large to be used as feeders.

Battleships carry twelve 14-inch guns, or eight 16-inch guns. Sixteen-inch shells weigh 1 ton and probably cost ₱2,000 a piece. One broadside of eight 16-inch guns or twelve 14-inch guns hurls about eight tons of the highest grade steel, in which the greatest knowledge of the steel industry has been used in its preparation. One broadside, therefore, would cost at least ₱16,000.

A destroyer carries 12 torpedoes costing about ₱20,000 a piece.

In times of war, probably the cost of armies and navies will be multiplied at least ten times what they ordinarily cost in times of peace.

"Armies and navies are still the best guarantee of peace and prosperity and the maintenance of national dignity. The principle of 'arms against arms' is still true and practical."—Japan as a Great Power, by Hishida.

Figure out the size of the army and the navy that you believe can best guarantee peace and prosperity, as well as the maintenance of the national dignity of an independent Philippines and then find out how much it will cost. Can we raise and properly equip, not to say maintain, such an army and navy the next five, ten, or even fifteen years?

Soviet Russia was sadly disappointed with the results of her highly proclaimed and much publicized "Five-Year Plan" to industrialize the country. She had to inaugurate a second "Five-Year Plan" and it is in operation now. For a country to be prepared for war, let us say for defense only, it must, in some measure, become industrialized. The industries should be of such nature so that in time of war, they could be readily converted into ship-building and the manufacture of modern guns and ammunitions.

For a country to become independent, it needs real and earnest preparation on the part of the whole population to assume the responsibilities

of full statehood. We cannot very well think of it until we have begun to establish some of the industries mentioned above. One can readily see that it is no child's play to establish an independent government of the sort that we should like to have.—It needs a very serious planning—and more important than the planning, the determination of the whole nation to carry out those plans.

But let us try to get down to some figures regarding a defense program and find out the initial cost as well as the cost of maintenance. Before doing this, let us take a look at the defense organizations of Japan.

The active army of Japan during peace times consists of 210,000 men, The organized reserve number 1,503,000. And the total man power is more than 7,500,000 because it is said that the entire able-bodied male population of the country is available on instant call.

Naval strength of Japan during the year 1932:

- 7 battleships
- 3 battle cruisers
- 14 large cruisers
- 20 light cruisers
- 103 destroyers
- 71 submarines
- 4 aircraft carriers
- 100 auxiliary ships or more

In addition, in times of war, merchant vessels can be very easily converted into auxiliary ships, and Japan has one of the biggest merchant marine of any nation today.

Now let us get back to our program for the Philippine Islands. Let us keep our army at the present strength of about 15,000 men—10,000 United States Army and 5,000 Philippine Constabulary, which is costing both governments approximately P14,000,000. For a country like the Philippines, however, the number should be between 30,000 to 50,000 men.

For our navy, let us say we shall have four cruisers, twenty destroyers, twenty submarines and twenty auxiliary ships. Their initial and maintenance costs are as follows:

	<i>Initial cost</i>	<i>Maintenance cost</i>
4 cruisers	P 40,000,000	P 8,160,000
20 destroyers	30,000,000	8,720,000
20 submarines	50,000,000	6,200,000
25 auxiliary ships	20,000,000	4,000,000
	P140,000,000	P27,080,000

Again, for a country like the Philippine Islands which is composed of about 7,000 islands, the navy should be really at least twice as big as above. But let us take for granted that above figures are good enough.

The initial cost of our proposed navy, which does not include a single battleship, amounts to P140,000,000.00.

Let us forget the matter of the initial costs of our defense forces and consider only their maintenance costs. The estimated income of our government for the year 1933 is ₱48,000,000, which leaves us a margin of a mere ₱6,290,000 to meet all the other expense of our government. How can we possibly do it? It is a very difficult problem, and the remedy needs a very careful study, and actually putting into operation the results of the study.

In concluding this chapter, we simply should like to state that boasting, rash thinking and sentimentalism will not get us anywhere; but a cold analysis of the facts, will! To do this calls for the highest kind of patriotism among our men. Where are these men? They are wanted by our country, right now!

CHAPTER VI

ECONOMICS AND PHILIPPINE INDEPENDENCE

Because of the peculiarly advantageous position of the Philippine Islands, commercially speaking, and the admittedly rich natural resources of the country, the need for her to become well prepared to assume the responsibilities of an independent existence is made doubly imperative. We may wish with all our might that it were not so, but we can not escape the truth of the statement that economic independence is most essential and a prerequisite to political independence.

There are those who ask why is this so in the case of a people, as a whole, when it is not so very necessary in the case of a young man who wants to get married? In the first place, in the case of the young man, he only has his own future and that of his wife to risk. Besides, the wife does not have to stick to him if he is unworthy of her. In the second place, *under a stable government, if a stronger individual should unrighteously interfere with the legitimate progress of a fellow-citizen, the latter can go to the courts with his complaint and for damages; whereas, there are no international courts that can adjudicate between two different nations and enforce their judgments.* We ought not to allow those who wish to risk the future of our race, neither should we permit them to gamble with the destiny of our country.

Any one who will study with seeing eyes and willing minds our history during the past three decades, can have no other conclusion than that the American people are not against our becoming politically independent. If they were, President Quezon and Senator Osmeña would not be as powerful as they are today, and we would not have as many rights as we actually enjoy now. The only condition required of us, as we see it, is that we should be worthy of having been under their tutelage for so many years, i.e., a credit to the training that they have been giving us.

We do not deny that there have been attempts to exploit the country at our expense, but we have the privilege to say "no" to such attempts and our voice is listened to and given due weight and consideration. General Wood's controversies with our leaders are illustrations of this statement. Following Governor Wood, more conciliatory men were appointed governors-general.

Now, let us get down to the study of the subject of this chapter. We shall begin with the report of our export trade for the year 1932.

VALUE OF PRINCIPAL EXPORTS FROM P. I.—CALENDAR YEAR 1932*
(In Pesos, Philippine Currency)

	To All Countries	Per Cent of Total	To U. S.	Per Cent of Total
1. Sugar and By-Products	120,718,189	63.31	120,289,295	99.64
Centrifugals	110,661,409	58.04	110,661,161	100.00
Refined	8,930,476	4.68	8,923,425	99.92
Muscovado	11,884	.01	.....	.....
Molasses and Syrup	1,114,420	.58	704,649	63.23
2. Coconut Products	30,909,476	16.21	24,126,165	78.08
Coconut Oil	15,802,287	8.08	14,671,659	95.88
Copra	10,266,454	5.38	6,112,193	59.53
Desiccated Coconut	3,233,402	1.70	3,230,891	99.92
Copra Meal	2,107,333	1.10	111,482	5.29
3. Tobacco Products	12,798,422	6.71	6,486,682	50.68
Cigars	6,462,436	3.39	5,771,048	89.30
Leaf Tobacco	5,644,466	2.96	83,723	1.48
Other Tobacco	632,661	0.33	622,363	98.37
Cigarettes	58,859	.03	9,548	16.22
4. Abaca	11,349,297	5.95	3,785,666	33.35
Abaca	10,031,204	5.26	2,963,152	29.54
Cordage	1,318,093	.69	822,414	62.39
5. Embroideries	6,534,088	3.43	6,503,517	99.53
6. Lumber and Timber	1,669,450	.87	846,275	20.74
7. Hats	1,181,036	.62	870,692	73.71
8. Pearl Buttons	487,334	.26	487,324	100.00
9. Other Exports	5,025,869	2.64	2,400,377	47.73
Total Exports	190,676,161	100.00	165,295,738	86.69

It is to be noted that sugar is bringing to the people of these islands an annual income of over P120,000,000, which is equivalent to 63.31% of the total value of our exports.

The total estimated income of the Philippine Government for 1933 is placed at about P48,000,000. The sugar industry directly and indirectly contributes 43% of this amount in the form of taxes.

* Compiled by the Philippine Sugar Association from the Report of the Insular Collector of Customs for the calendar year 1932.

Since 99.64% of our sugar is exported to the United States, abrupt or immediate severance of our political relations with the sovereign country would mean the total loss of this income. It would also mean the throwing out of work of about 1,500,000 men, because this is the number that is directly dependent upon the industry, as owners of sugar centrals, persons employed in these centrals, planters, land owners and their tenants, laborers and their families.

We hate to conjecture what would happen to our country if, all of a sudden, 43% of our income becomes a total loss, and an additional 1,500,000 men are put out of work.

We are making great efforts to extend the education and improve the health of our people, and to maintain these activities we expend over one-third of the entire revenue of our government. Experts say that if we should become independent now and free trade with the United States were cut off, a conservative estimate of the total income of the government then would even become less than this amount.

Optimists among us would say that we should be willing to make the necessary sacrifices for our freedom—our independence. It is so much easier to talk about making sacrifices than to practice them, especially when one's children and wife are starving! Besides, a keen student of contemporary history made what we believe to be a just and a most significant observation when he said, that in Mexico they have independence but not freedom; whereas, in Canada they have freedom but not independence.

Freedom and independence do not always go together. In a great measure we have freedom now, but not independence. Of course, we should like to have both. Our problem, or task, is to bring them about so that the process will not entail too much suffering on our people. Anyway, as we have already pointed out before, we are now satisfied that the American people are not against our becoming politically independent. We repeat the assertion that the only condition required of us is that we should prove ourselves worthy of having been under their tutelage these last 35 years, that is, a credit to the training that they have been giving us. If we insist that we shall be given our independence too soon, we stand the risk of losing both freedom and independence.

"It is precisely because we love liberty that we are disinclined to leave these islands prematurely. I note a Filipino leader's remark that while his people are grateful to America for what she has done here, they cannot pay their gratitude in the currency of independence. We are not asking for gratitude. We are not working for gratitude. Our aims are not so low as that. Our aims are to found a strong, free, Christian nation in the Western Pacific for the sake of that nation, ourselves, and our fellow men in general."

—The late Governor-General Wood.

Our big problem is to find the answer to the question: When shall it become practical for us to ask that we should also be given our independence? The answer to this question is somewhat complicated, ours being a complicated world. Our immediate concern, however, is to give an affirmative answer to the economic aspects of the question, having always in mind the need of some measure of a defense program. Ours is primarily an agricultural country, and the first thing we must do is to make ourselves sufficiently efficient as agriculturists so that if and when we shall be granted our independence, we could place our products on the world market in competition with those of the others.

In a report written by the Hon. Rafael Alunan, while he was secretary of the Department of Agriculture and Natural Resources, he says: "While in many respects the Philippines is more advanced than the countries visited, in modern farming we are years behind them. For instance, in the production of rice, which is the most important staple crop both there and here, because it is the staff of life of the Oriental countries, Cochinchina, Siam and Java in 1930 averaged about 2,200 kilograms per hectare; and primitive little Bali Island 3,000 kilograms per hectare, for both lowland and upland varieties, while the Philippines averaged for the same year but 1,225 kilograms! In Java the average yield of sugar, which is an important export product there as well as in the Philippines, is 240 piculs of sugar per hectare as against 85 piculs here. Such a difference in production can not be explained by climatic or soil conditions, which are similar to ours. We were informed, moreover, that about 20 years ago, yields of crops in Java were at the same low level as ours at present. The great progress made in crop production in those countries, particularly in Java, has undoubtedly been largely due to their faith in, and support of, scientific work to assure success in agriculture. They spend money lavishly in the establishment and maintenance of experiment stations and research institutions, where painstaking investigations for the improvement of agriculture, followed up over long periods until valuable results are obtained, are conducted. Not only the government, but every private estate as well, has its own properly equipped and thoroughly manned specialized experiment station. In other words, to study problems affecting each commercial crop, there is at least one specialized station; and to investigate the commercial possibilities of new products, more stations have also been created."

Note that we produce about one-half as much rice and about one-third as much sugar per hectare as the countries mentioned. In addition, laborers in those countries are paid only one-half as much as we pay ours.

In preparing for our independent existence, our problem is doubly difficult. We have to increase our production two or three times, and at

the same time compel our laborers to receive but one-half the wages they have been accustomed to being paid. Or, we can keep the present level of wages, but we must increase our production four and six times. The trouble has been, in this particular instance, we have been sleeping while they have been awake.

Success, or progress, belongs to him who is awake, able and alert—to him who is "*up and going, doing and achieving.*" How true this is among individuals! It is just as true among national groups.

It is well for us to know that the task ahead is not easy. It really requires much earnest and detailed study, careful planning; and more important than the planning, the faithful execution of the plan.

To summarize the above, it seems obvious that independence at the present time or within the next 20 or 25 years would mean severe hardship for our agricultural laborers and planters. It might be possible that we can shorten this period of preparation without a too severe sacrifice on our part, but that in order to do so a complete, thorough, and costly plan of agricultural research must be laid out and carried through by experts. Some of these experts will have to come from abroad.

CONCLUSION

We are for Philippine Independence, even now, if we could be convinced that it will be for the best interest of our country. But our analysis of our present status compels us to state that we are most inadequately prepared to become independent now. The sensitive and proud Filipino will undoubtedly feel hurt by this admission, but our position, as a people, is like that of a boy who is healthy and strong, and very ambitious. He wants to become a world champion boxer. To attain his end, he goes to his manager and says: "Well, Mr. Manager, here I am. I want to become a world champion boxer in my division. I must be defective in some respects. Let us eliminate those defects. And, let us improve the points where I am strong."

Again, we may be likened to a fellow who wants to get rich. Now, a man who is already rich can afford to be careless with his pennies, but he who is still poor has to be very careful the way he spends them.

No man can have any measure of success unless he is man enough to admit wherein he is defective, or deficient, and unless he then takes the necessary steps to eliminate such defects.

No amount of wishing will make us what we are not now. We have got to put up the necessary efforts, which means hard work and the sacrifice of unworthy personal ambitions in favor of the nation's general welfare.

The road to independence with reasonable security, honor and dignity cannot be attained by careless and unscientific methods, nor can we make much headway while a good many of us, even most of us, allow too much personal consideration and false pride to govern our actions and plans in the service of our country.

A country that has given to the world a Rizal, a Mabini, and a Gen. Luna, is not without a future. "Fair Hope of the Fatherland" rise up to what is expected of each one of us! With everyone doing his part, as he should, we can be sure to take our allotted honored position "under the sun."

Cross plans and conflicting interests cannot bring progress in the same way that cross currents do not make a stream. Therefore, let us always remember that, as the whole moves forward the constituent parts are carried along.

Above everything else let us labor for the success, honor and glory of the Filipino nation.



THE SUPREME COURT OF THE
PHILIPPINE ISLANDS
MANILA

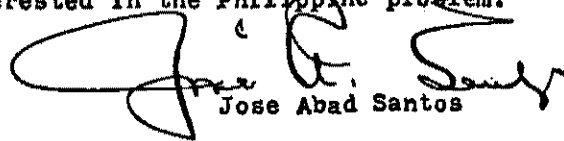
September 4, 1933

TO WHOM IT MAY CONCERN:

I have read Mr. Pedro M. Blanco's pamphlet, entitled, "The Philippine Problem". It is an illuminating discussion of the Philippine question.

In chapter III, the author sounds a timely note when he says: "The call of the hour is not for a man, but for men clad in the armor of active, positive and alert patriotism to come out into the open and fight for what they honestly believe to be for the best interest of the country."

The pamphlet should be read by those interested in the Philippine problem.


Jose Abad Santos



PHILIPPINE CHAMBER OF COMMERCE
MANILA, P.I.

August 30, 1933.

Mr. Pedro M. Blanco,
Manila.

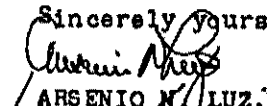
My dear Mr. Blanco:

I have read carefully your pamphlet entitled "The Philippine Problem".

It is an interesting and thorough study of the question from your point of view, and I wish to congratulate you upon the clearness of the exposition and the careful marshalling of facts.

I am sure that your book is a valuable contribution to the intelligent discussion of the different angles of the Philippine problem.

Sincerely yours,


ARSENIO M. LUZ,
President

THE PEOPLE'S PRESS, INC.
P. O. BOX 881, MANILA, P. I.
TELEPHONE 2-14-84

CARLOS P. ROMULO
PUBLISHER, ILO-ILO NEWSPAPERS

MANILA
HERALD
MONDAY

September 5, 1933

TO WHOM IT MAY CONCERN:

It is with a great deal of pleasure that I read Mr. Pedro M. Blanco's pamphlet entitled, "The Philippine Problem."

It is an honest, sincere and frank exposition of the author's ideas on the subject, and we certainly need more of these (honesty, sincerity, and frankness) in our body politic. Whether you agree or disagree with him in his recommendations, you will surely be greatly benefited by reading and studying the pamphlet.

Very truly yours,


CARLOS P. ROMULO

BRIEF
SUBMITTED BY THE
CHAMBER OF COMMERCE OF THE PHILIPPINE ISLANDS
SEPTEMBER 1937
(Photographic Reprint)

FUNDAMENTALS

We Subscribe to the Following as the Fundamentals of Philippine-American Trade Relations:

1. *The trade relations between the United States and the Philippine Islands were definitely determined by the provisions of the Tydings-McDuffie Act until July 4, 1946. That Act, after approval by the President and the Congress of the United States, was formally accepted by the Filipino people. Based thereon many citizens and residents of and investors in the Philippine Islands have incurred obligations and made commitments. The trade relations so determined, in good faith and in fairness, cannot, therefore, be altered to their prejudice. Thus, at least until July 4, 1946:*

(a) *Articles the growth, product, or manufacture of the Philippine Islands should, with no greater limitations than those imposed by that Act, and on a basis of equality with articles the growth, product, or manufacture of the United States, be admitted free of duty into the United States; and*

(b) *Articles the growth, product, or manufacture of the United States should, on a basis of equality with articles the growth, product, or manufacture of the Philippine Islands, be admitted free of duty into the Philippines.*

(c) *No excise or other taxes which directly or indirectly result in any discrimination against the products of either country should be imposed.*

2. *The imposition of export taxes on shipments from the Philippine Islands to the United States from November 15, 1940, and the imposition of import duties by the United States and the Philippine Islands, each on articles the growth, product, or manufacture of the other, from July 4, 1946, will be disastrous to the producers and manufacturers of both countries, and, the time being too short to make the necessary readjustments, to the Philippine Islands in particular, therefore,—*

(a) *The export taxes should be repealed; and*

(b) *Free trade between the two countries, with present or other reasonable quantitative limitations, should be continued after July 4, 1946.*

3. *Irrespective of any change in the political status of the Philippine Islands, a continuation of the present free-trade relations between the United States and the Philippine Islands would be advantageous to both countries;— to the Philippine Islands, because the United States is an essential market for many Philippine products; and to the United States, because the Philippine Islands is a large market for products of agriculture and industry of the United States, and will, if the products thereof continue to be admitted free of duty into the Philippine Islands, be a much larger market in the future. Such free-trade relations between the two countries should, therefore, after July 4, 1946, be continued indefinitely.*

BRIEF
TO THE
JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS
FROM THE
CHAMBER OF COMMERCE OF THE PHILIPPINE ISLANDS
ON THE
TRADE SITUATION
BETWEEN THE
UNITED STATES AND THE PHILIPPINE ISLANDS

TO THE MEMBERS OF THE COMMITTEE:

The Chamber of Commerce of the Philippine Islands, composed of representative Filipino business men of Manila and the provinces, begs leave to submit to the consideration of the Committee this brief which embodies its viewpoints regarding the present and future economic relationship between the United States and the Philippines.

The present standard of living of the Filipino people is dependent upon the reasonable continuation of the present mutually beneficial Philippine-American trade relationship which has elevated it to a plane unknown in other Oriental countries, has given us our present material progress, and bestowed upon the Filipino people their just share of happiness and well being.

The abrupt disruption of this relationship without allowing us enough time to properly adjust our economic existence will inevitably cause a disaster. Unemployment by the hundreds of thousands, perhaps by the millions, misery, privations and suffering and the inevitable social unrest, disorders and upheavals will follow.

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BOMBAY.

The glorious mission of the American people in these Islands, without parallel in history for its unselfishness and generosity, should have a more fitting ending, one free from all threats of such a tragedy.

The Chamber of Commerce of the Philippine Islands submits that to maintain the present state of progress of the Philippine Islands, and to properly prepare our people to assume the obligations of a full independent economic existence, the following conditions and circumstances should prevail:

FIRST

A PERIOD NOT SHORTER THAN THAT PROVIDED BY THE TYDINGS-McDUFFIE ACT IS ESSENTIAL TO THE FUTURE ECONOMIC STABILITY OF THE PHILIPPINES. IN FACT, IT WOULD BE FAIRER TO BOTH THE AMERICAN AND THE FILIPINO PEOPLES AND IT WOULD BETTER SERVE THE CAUSE OF OUR STABILITY TO HAVE A LONGER PERIOD OF PREPARATION.

The present economic set-up of the Philippines has been or is being adjusted to the ten-year period provided by the Tydings-McDuffie Act.

This process of adjustment is necessarily slow and painful. Almost two years of the transition period have elapsed and even our principal industries, such as sugar, tobacco, oil, embroideries, etc., long established upon more or less solid foundations, are still groping in the dark trying to find their way to successfully meet the new situa-

tion that will confront them after the fifth year of the present transitory period.

Other important industries, which are also almost entirely dependent upon their free entry into the American market, will require protection in that market until after they are firmly established.

Among these industries are the rattan furniture industry, our button factories, our hats and slippers, the desiccated coconut industry, etc. These industries are fast growing and are giving employment to many peoples.

Several industries depending upon local consumption will also greatly suffer in the event of an untimely termination of the present trade relations between the two countries. These industries thrive under the present situation that has created our present high standard of living. Such industries are, among others, the shoe industry, the textile industry, the distilling industry, the cigar and cigarette industry, the newspaper industry. These industries should be given enough time to adjust and accommodate themselves to the new situation that will be created upon the termination of the present Philippine-American trade relationship, the first effect of which will be to minimize considerably the buying power of the Filipinos.

We submit that the proper adjustment of our economic system will at least require the balance of the time left of the transitory period provided by the Tydings-McDuffie Act, that is, nearly nine years. In fact, we maintain that it would be fairer to both the American and the Filipino peoples and it would better serve the cause of our economic stability to have a longer period of transition and preparation. Simply for the purpose of being concrete and specific we would say that an additional ten years of

free or preferential trade between the two countries would be both fair and helpful.

On the other hand the Philippine Islands, under favorable circumstances, can offer a very good market for American goods, as may be judged by the fact that at the present time it is seventh in the list of the biggest consumers of such goods. The Philippine Islands are today the second best customer of the United States in the Far East. Figures for 1935, one of the depression years, showed that the Philippine Islands with fourteen million people consumed fifty and one-half million dollars worth of American merchandise including all classes of goods, agricultural and industrial, against China with her 400 million people consuming only 38 million dollars worth of similar products. These figures have been increased in 1936 and will be further increased in 1937. We are among the first customers for American wheat flour, cotton goods, dairy products, automobiles, farm implements, machinery and mineral oils. We are a big market for American shipping, 30% of our total exports being shipped on American bottoms. There is no doubt but that this percentage will be considerably increased if additional American tonnage could be available. Sixty-five per cent of our passenger traffic is carried on American vessels.

American companies have a large share of our insurance and reinsurance business, especially life insurance, which is ever-growing.

There is also a wide field in the Philippines for American technicians, University professors and engineers who practically have full control and constitute the entire staffs of the mining companies here.

In the development of forestry resources there is likewise a big demand for American technicians.

SECOND

THE EXPORT TAX IS NOT ONLY UNNECESSARY BUT IT WILL HAMPER TRADE BETWEEN THE UNITED STATES AND THE PHILIPPINES AND SHOULD, THEREFORE, BE ELIMINATED.

Under the Tydings-McDuffie Act the government of the Philippine Commonwealth is required to impose and collect from November 15, 1940, an export tax on all articles exported to the United States. The proceeds of this tax are to be used exclusively for the redemption of the public debt of the Philippine Government.

We submit that this tax is both unnecessary and unfair. It is unnecessary because the Philippines has a sinking fund commensurate with its present obligations. In fact, our government has always been prompt in meeting them and its present indebtedness is small in relation to its earning power. It is unfair because this tax is in effect a violation not only of the spirit but also of the letter of free trade, because it constitutes a levy on Philippine exports and hampers the trade between the United States and the Philippines, thus decreasing the purchasing power of the people of these Islands and unfavorably affecting the import of American goods in this country.

The Philippine Government has consistently followed the policy of keeping a balanced budget.

The industries affected would most likely be unable to survive the imposition of the graduated export tax, leaving the Philippine Islands economically weak and almost helpless at the end of the transition period of ten years, precisely at the beginning of the independent government. A very great portion of the Filipino people would be left without work upon the failure of our industries to survive.

The continuation of free trade with the United States for the full period of ten years presupposes normal income and facilities for setting aside funds to meet future obligations. Besides, the total indebtedness of the Philippines is definitely guaranteed and safeguarded by the following provisions in the Tydings-McDuffie Act without the necessity of the export tax:

"The President of the United States shall have authority to suspend the taking effect of or the operation of any law, contract, or executive order of the Government of the Commonwealth of the Philippine Islands, which in his judgment will result in a failure of the Government of the Commonwealth of the Philippine Islands to fulfill its contracts, or to meet its bonded indebtedness and interest thereon or to provide for its sinking fund. . .

"If the Government of the Commonwealth of the Philippine Islands fails to pay any of its bonded or other indebtedness or the interest thereon when due or to fulfill any of its contracts, the United States High Commissioner shall immediately report the fact to the President, who may thereupon direct the High Commissioner to take over the customs offices and administration of the same, administer the same, and apply such part of the revenue received therefrom as may be necessary for the payment of such overdue indebtedness or for the fulfillment of such contracts. . .

"That the debts and liabilities of the Philippine Islands, its provinces, cities, municipalities, and instrumentalities, which shall be valid and subsisting at the time of the final and complete withdrawal of the sovereignty of the United States, shall be assumed by the free and independent government of the Philippine Islands; and that whether bonds have been issued under authority of an Act of Congress of the United States by the Philippine Islands, or of any province, city, or municipality therein, the Philippine Government will make adequate provision for the necessary

funds for the payment of interest and principal, and such obligations shall be a first lien on the taxes collected in the Philippine Islands."

THIRD

TARIFF AUTONOMY SHOULD BE GRANTED THE GOVERNMENT OF THE COMMONWEALTH TO PROTECT LOCAL INDUSTRIES AND PROMOTE THEIR DEVELOPMENT.

During the transition period, which is calculated to prepare the Philippines to assume full economic responsibility after the cessation of free trade, we should be given the necessary instrumentalities to direct the course of our foreign trade.

We should, therefore, be given tariff autonomy for the main purpose of developing our domestic industries by protecting them against cheap foreign goods.

The Government of the Philippine Commonwealth should be empowered at once with the advise and consent of the Department of State to negotiate and work out trade treaties with other nations, in order to enable us to promptly divert our trade to new channels, particularly those goods that will not be able to survive the imposition of the American tariff. Such an arrangement would no doubt increase the volume of Philippine Trade, which even now is sadly needed.

We also believe that the Philippine Commonwealth should be authorized at once to appoint Commercial attachés to be detailed with the American Embassies and other diplomatic and consular representatives of the United States. These Attachés will act as official commercial representatives or agents of the Philippine Commonwealth.

FOURTH

THAT THE FUTURE COMMERCIAL RELATIONS BETWEEN THE UNITED STATES AND THE PHILIPPINES BE ESTABLISHED ON THE BASIS OF RECIPROCITY.

After the period of transition and in order not to lose all the commercial advantages that have been derived from the free interchange of trade, a reciprocal agreement, providing for the continuation of the present free-trade relations for at least ten years, should be signed between the United States and the Philippines. We should give preferential treatment to such American goods as may be advantageous for the Philippines to buy and the United States should give similar treatment to Philippine products that may be advantageous for them to buy from us. As a general proposition, said trade agreement should embody all those items that could be mutually advantageous and beneficial to both countries.

Respectfully submitted,

**THE CHAMBER OF COMMERCE
OF THE
PHILIPPINE ISLANDS**

By: (Sgd.) **VICENTE MADRIGAL,**
President.

AN INVITATION TO A PATRIOTIC MOVEMENT
AND
ARTICLES OF INCORPORATION AND BY-LAWS
OF THE
COMMONWEALTH ASSOCIATION, INC.
MANILA, PHILIPPINES
1936

(Photographic Reprint)

AN INVITATION TO A PATRIOTIC MOVEMENT

The COMMONWEALTH ASSOCIATION, INC., as its Constitution and By-Laws herein appended declares, has been founded for the purpose of advocating the continuation of the Commonwealth Government indefinitely beyond the transition period of ten years provided for in the Tydings-McDuffie Act, the regime to last as long as it proves mutually beneficial to the Philippines and to America. This is the fundamental doctrine of the movement sponsored by the Association. The premises upon which this doctrine is based we shall in subsequent paragraphs briefly outline.

The COMMONWEALTH ASSOCIATION, INC., is the opening wedge in the wall of Filipino indifference and hesitation which has been built up around the subject of Philippine Independence. Believing that the time is now ripe for the gathering together of the scattered forces of intelligence which have sensed the danger besetting our nation without rising to do something about it, the founders of the present movement have established this Association under the law as the nucleus of what should in time become a national undertaking.

FIRST: This is a patriotic movement. If patriotism means using man's reason to the end that the best solution for the difficulties of the nation may be discovered, then, no endeavor can be more patriotic than one which is devoted to the clarification of a point of view which has been clouded with so much

sentimentalism and unthinking passion. This is the time to adopt a new measure of patriotism. No longer is that man most patriotic who can shout independence at the top of his voice from every street corner. The man who works silently yet effectively to propagate a movement dedicated to the security and happiness of the people must be recognized in time to come as the prototype of the true Filipino patriot.

SECOND: This is not a "defeatist" movement. It has lately been the fashion to call any man a defeatist who would want the Filipinos to take counsel together before accepting without protest the dangerous and unjust provisions of the present Independence Act. But a brief examination of the attitude of these people who call themselves patriots will immediately reveal the fact that they refuse to use their reason, or if they do use it at all, refuse even more stubbornly to abide by its dictates. They see the danger that besets an independent Philippines at this or at a proximate time, they realize the advantages of a continued Philippine-American partnership, they understand that the Filipinos cannot enjoy a higher degree of real liberty either as individuals or as a nation than they now enjoy—yet, in spite of these admissions, they would insist on pursuing a course that is not only perilous but hopeless. It is not that we have no faith in the Filipino people, or that we belittle their courage. It is that there is a variety of defeatism more dangerous than this movement which would call the Filipino people back to their senses. It is the defeatism of the man who is overcome with sentimental or

romantic notions and refuses steadfastly to outgrow them. He is a man lost to reason and common sense. This movement would retrieve him and put him back in the ranks of the thoughtful. They alone are the victorious people.

THIRD: This movement is based upon the belief that a continued partnership between the United States and the Philippines, equivalent to a continuation of the present Commonwealth Government minus the onerous economic provisions of the Tydings-McDuffie Independence Act, would in the long run result more advantageously to both countries than the present program of complete independence after ten years. The Filipinos would continue to enjoy a measure of individual and national liberty that they would otherwise completely lose, and the United States would continue to be a stabilizing factor in the affairs of the Pacific Ocean and the Far East.

FOURTH: A partnership between the Philippines and the United States concluded under just and honorable conditions would be the best safeguard of the Philippines against the menace of external aggression. The Orient is today the scene of a new and more systematic imperialism, and it behooves the Filipino people to take advantage of every opportunity to secure their country against any possible source of danger.

FIFTH: If a change of program for the Philippines is desirable, it is logical that the initiative for any modification should come from the Filipino people through their leaders. We have for two decades continually clamored for independence. Three years ago,

the economic situation in the United States became extremely favorable to the grant of our demand, and the United States Congress accordingly passed the independence law. Therefore, if there is to be any change in the program hurriedly mapped out for the Philippines during the middle of a terrible depression, the proposal should come from the Philippines.

SIXTH: As openly as it has come out with its advocacy of an indefinite continuation of the present Commonwealth Government, the activities, movements, and accounts of this organization will at all times be open to public scrutiny. It has pledged itself to be as honest in its methods as it is irreproachable in its ideals. A clean sword deserves a shining scabbard.

The call has been sounded. Those who are reluctant to come out in their true colors regarding the question of Philippine Independence have no longer any cause to conceal their innermost convictions on this subject out of either fear or shame.

The movement which has culminated in the formation of this group was inspired by a courageous patriotism prepared to face contumely on the one hand, and persecution on the other. The malice of the die-hard patrioteer was not overlooked nor was the vindictiveness of the ubiquitous enemy anything to be minimized. And just as its original inspiration was courage, so will the motive power of the movement as it gathers momentum be courage still, steadfastly holding on to a principle and refusing to swerve to one side or to yield an inch of ground.

The COMMONWEALTH ASSOCIATION, INC., has been launched under the most auspicious circumstances. Conditions in the Philippines as well as in the United States at the present time have never been more favorable to a revision of American policy towards the Commonwealth. The success of the government recently established here has been admitted by all disinterested observers, and this fact coupled with the signs of increasing popular loyalty to the new regime constitutes the best single argument in favor of this movement. For if indeed the benefits flowing from the present arrangement be such as to warrant its continuation, then it is only right that the bases and prospects of existing Philippine-American relations should be brought home to the people. They are entitled to know the facts and on the basis of these facts make their choice of several alternatives.

In the United States the situation is not less conducive to a reconsideration of the standing agreement between America and the Philippines. There is no commitment in either the Democratic or Republican party platforms regarding the Philippines. Some will be inclined to consider this silence as indicating a belief on the part of these two major political groups that the Philippine Problem has definitely been solved. This is far from being the case. The absence of such a commitment means rather that the American people are disposed to let the Filipinos take the initiative in any move for a revision of policy.

Finally, let us examine the situation in our part of the world for a general background of the possibili-

ties which the movement must take into account. The tension between China and Japan continues to harass a world already war-weary. It is also a continuing lesson for the Filipino people. If they have the honesty to discern the logic of the present situation in the Far East, they should realize that there is something more than merely suspicious in the character of a nation that with one hand extends the olive branch to us and with the other menaces China with a primed bayonet.

On all three fronts, therefore, the principles of the COMMONWEALTH ASSOCIATION, INC., have every chance to survive and to prosper. On each front a different virtue: courage at home, diplomacy in Washington, and caution abroad with certain of our immediate neighbors who would beguile us with brotherhood and with friendship.

The COMMONWEALTH ASSOCIATION, INC., has been organized to batter down the indifference of our people. This indifference is still a formidable obstruction standing in the way of a clear-headed view of Philippine-American relations. Prejudice must be fought; ignorance must be conquered. All that is needed to accomplish this difficult work is courage and honesty of conviction.

In inviting you to join The COMMONWEALTH ASSOCIATION, INC., we are subjecting you, as it were, to an acid test of patriotism.

**ARTICLES OF INCORPORATION
OF THE
COMMONWEALTH ASSOCIATION, INC.**

KNOW ALL MEN BY THESE PRESENTS:

THAT WE, all of whom are residents of the Philippines, have this day voluntarily associated ourselves together for the purpose of forming a non-stock corporation under the laws of the Philippines.

AND WE HEREBY CERTIFY:—

FIRST—That the name of said corporation shall be **COMMONWEALTH ASSOCIATION, INC.**

SECOND—That the purpose for which said corporation is formed is to work for the indefinite continuation of the Commonwealth Government beyond the ten-year period provided for in the Tydings-McDuffie Act. To attain this end the corporation shall—

(a) Organize and conduct a campaign of information throughout the country in order to acquaint the people of the Philippines who, having understood such problems, will realize the unnecessary dangers of a prompt independence and demand the extension of the present form of government for as long as it proves beneficial and advantageous to the Philippines and to America.

THIRD—That the place where the principal office of this corporation is to be established or located is the City of Manila. Branch offices or chapters may be established anywhere in the Philippines.

FOURTH—That the term for which said corpora-

tion is to exist is twenty-five (25) years from the date of incorporation.

FIFTH—That the names and addresses of the incorporators of said corporation are as follows:

<i>N a m e</i>	<i>Whose Residence is at</i>
1. Judge Simplicio del Rosario	111 Valenzuela, Sta. Mesa, Manila
2. Luis R. Yangco	San Jose, Mindoro
3. Pedro M. Blanco	City Y.M.C.A., Manila
4. Don Ramon Lopez	Iloilo, Iloilo
5. Don Cesar Ledesma	Silay, Occ. Negros
6. Dr. Vicente F. Gustilo	Cadiz, Occ. Negros
7. Alfredo T. Mendoza	Pinamalayan, Mindoro

SIXTH—That the number of directors of said corporation shall be seven, and that the names and residences of the directors who are to serve until their successors are elected and qualified as provided by the By-Laws are as follows:

<i>N a m e</i>	<i>Residence</i>
1. Judge Simplicio del Rosario	111 Valenzuela, Sta. Mesa, Manila
2. Luis R. Yangco	San Jose, Mindoro
3. Pedro M. Blanco	City Y.M.C.A., Manila
4. Don Ramon Lopez	Iloilo, Iloilo
5. Don Cesar Ledesma	Silay, Occ. Negros
6. Dr. Vicente F. Gustilo	Cadiz, Occ. Negros
7. Alfredo T. Mendoza	Pinamalayan, Mindoro

SEVENTH—That this corporation is a non-stock corporation.

EIGHTH—That Don Ramon Lopez has been elected by the members as treasurer of the corporation to act

as such until his successor is duly elected and qualified in accordance with the By-Laws, and that as such treasurer, he has been authorized to receive for the corporation and to receipt in its name for all money paid in and the property turned over to him.

IN WITNESS WHEREOF, we have hereunto set our hands on the dates and places as per certifications of notaries public.

(Sgd.) PEDRO M. BLANCO

(Sgd.) SIMPLICIO DEL ROSARIO

(Sgd.) RAMON LOPEZ

(Sgd.) CESAR LEDESMA

(Sgd.) VICENTE F. GUSTILO

LUIS R. YANGCO

By (Sgd.) GEO. C. DANKWERTH

Attorney-in-fact

(Sgd.) ALFREDO T. MENDOZA

SIGNED IN THE PRESENCE OF:

For PEDRO M. BLANCO

LUIS R. YANGCO

By: (Sgd.) Geo. C. Dankwerth

Attorney-in-fact

SIMPLICIO DEL ROSARIO

ALFREDO T. MENDOZA

(Sgd.) Alfredo D. Cuchapin

(Sgd.) Wenceslao Rodenas

For VICENTE F. GUSTILO

(Sgd.) M. Solivio

(Sgd.) Vicente Boot

For CESAR LEDESMA
 (Sgd.) J. V. de Mendoza
 (Sgd.) Mauricio Cuison

For RAMON LOPEZ
 (Sgd.) Pedro B. Quevedo
 (Sgd.) Martin Guitangijo

CITY OF MANILA
COMMONWEALTH OF THE PHILIPPINES } S. S.
UNITED STATES OF AMERICA

BE IT REMEMBERED that on this 16th day of June, 1936, at the city of Manila, Philippines, before me as Notary Public in and for the said City of Manila, personally appeared: Pedro M. Blanco, with Cedula No. F-40904 issued at Manila on March 27, 1936; Judge Simplicio del Rosario, with no cedula by reason of old age; Alfredo T. Mendoza, with cedula No. F-1371658 issued at Pinamalayan, Mindoro, on January 8, 1936, and Geo. C. Dankwerth as attorney-in-fact of Luis R. Yangco, with cedula No. F-1805 issued at Manila on the 6th day of January, 1936, who are known to me to be the same persons who executed the foregoing instrument and acknowledged to me that they executed the same as their free and voluntary act and deed, and as the free and voluntary act and deed of Luis R. Yangco, represented herein by Geo. C. Dankwerth.

This instrument refers to Articles of Incorporation of non-stock corporation and consists of four pages, including that of the last acknowledgement.

IN WITNESS WHEREOF, I have hereunto set my signature and affixed my notarial seal this 11th day of June, 1936, in the City of Manila, Philippines.

(Sgd.) A. M. BAUTISTA

Notary Public

Until December 31st, 1936

Doc. No. 141
Page No. 70
Book No. VII
Series of 1936

UNITED STATES OF AMERICA
COMMONWEALTH OF THE PHILIPPINES } S. S.
CITY OF ILOILO

At the City of Iloilo, Province of Iloilo, Philippines, this 20th day of June, 1936, personally appeared before me, Ramon Lopez with cedula No. F-1286273 issued at Jaro, Iloilo, on January 2, 1936, who is known to me to be the same person who executed the foregoing instrument and acknowledged to me that he executed the same as his free and voluntary act and deed.

This instrument refers to Articles of Incorporation of non-stock corporation and consists of four pages, including that of the last acknowledgment.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal the day, year and place first above written.

(Sgd.) FEDERICO JARANILLA

Notary Public

Until December 31, 1936

A. C. Form No. 11

Commonwealth of the Philippines

No. 6977



Department of Agriculture and Commerce
Bureau of Commerce

MERCANTILE REGISTER

To All To Whom These Presents May Come, Greetings:

WHEREAS, Articles of Incorporation, duly signed and acknowledged for the organization of the COMMONWEALTH ASSOCIATION

under and in accordance with the provisions of Act of the Philippine Commission Numbered Fourteen hundred and fifty-nine, enacted March first, nineteen hundred and one, as amended by Acts of the Philippine Legislature, Numbered Fifteen hundred and one, Fifteen hundred and sixty-five, Sixteen hundred and thirty, Seventeen hundred and forty-four, Eighteen hundred and thirty-four, Eighteen hundred and ninety-five, Twenty hundred and three, Twenty hundred and twelve, Twenty hundred and thirty-seven, Twenty hundred and ninety-two, Twenty one hundred, Twenty one hundred and thirty-five, Twenty-four hundred and fifty-two, Twenty-seven hundred and twenty-eight, Twenty-seven hundred and ninety-two, Twenty-nine hundred, Twenty-nine hundred and ninety-four, Thirty-five hundred and eighteen, Thirty-six hundred and one, Thirty-seven hundred and forty-one, Thirty-eight hundred and forty-nine and Thirty-eight hundred and fifty, were presented for filing in the Mercantile Register of the Bureau of Commerce on June 23, 1936, and a copy of which said articles is hereto attached:

Now, THEREFORE, By virtue of the powers and duties vested in me by law, I do hereby certify that the said Articles of Incorporation were, after due examination to determine whether they are in accordance with law, duly registered in the Mercantile Register of the Bureau of Commerce on the 25th day of JUNE, Anno Domini, nineteen hundred and thirty SIX.

IN TESTIMONY WHEREOF, I have subscribed my official seal and signed this entry of the said Register to be attested at Manila, Philippines, this 25th day of JUNE, in the year of our Lord, nineteen hundred and thirty SIX, and of the Commonwealth of the Philippines, the first.

[Signature]
BUREAU OF COMMERCE

Doc. No. 145
 Page No. 30
 Book No. 9
 Series of 1936

UNITED STATES OF AMERICA
 COMMONWEALTH OF THE PHILIPPINES } S. S.
 MUNICIPALITY OF BACOLOD }
 PROVINCE OF NEGROS OCCIDENTAL }

At the Municipality of Bacolod, Province of Negros Occ., this 18th day of June, 1936, personally appeared before me Cesar Ledesma with cedula No. F-94593 issued at Silay, Negros Occ. on the 15th day of February 1936, who is known to me to be the same person who executed the foregoing instrument and acknowledged to me that he executed the same as his free and voluntary act and deed.

This instrument refers to Articles of Incorporation of non-stock corporation and consists of four pages, including this page.

IN WITNESS WHEREOF, I have hereunto set my signature and affixed my notarial seal on the day, year and place first above written.

(Sgd.) EDUARDO P. ARBOLEDA
Notary Public
 Until December 31, 1936

Doc. No. 494
 Pag. No. 64
 Book No. II
 Series of 1936

UNITED STATES OF AMERICA COMMONWEALTH OF THE PHILIPPINES MUNICIPALITY OF CADIZ PROVINCE OF OCC. NEGROS.	}	S. S.
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At the Municipality of Cadiz, Province of Negros Occ., this 6th day of June, 1936, before me, personally appeared Dr. Vicente F. Gustilo with cedula No. F-883029 issued at Cadiz, Negros Occ., on March 20, 1936, who is known to me to be the same person who executed the foregoing instrument and acknowledged to me that he executed the same as his free and voluntary act and deed.

This instrument refers to Articles of Incorporation of non-stock corporation and consists of four pages, including this page.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal on the day, year and place first above written.

(Sgd.) JOSE MA. GUSTILO
Notary Public
 Until December 31, 1936

Doc. 45
 Page No. 89
 Book No. VI
 Series of 1936.

BY-LAWS OF THE COMMONWEALTH ASSOCIATION, INC.

ARTICLE I NAME

Section 1. This Association shall be known as the Commonwealth Association.

ARTICLE II PURPOSE

Section 2. The principal purpose of this Association is to work for the indefinite continuation of the Commonwealth Government beyond the ten-year period provided for in the Tydings-McDuffie Act. To promote this end, the Association shall—

- (a) Organize and conduct a campaign of information throughout the country in order to acquaint the Filipino people with the various problems confronting their government;
- (b) Take all lawful steps so that the people of the Philippines, having understood such problems, will realize the unnecessary dangers of a prompt independence and demand the extension of the present form of government for as long as it proves to be beneficial and advantageous to both the Philippines and America.

ARTICLE III DOMICILE

Section 3. The principal office of this Association shall be located in the City of Manila, Philippines. It may, however, establish branch offices in the provinces.

ARTICLE IV DURATION

Section 4. This Association shall exist for a term of 25 years from and after the date of its incorporation, unless sooner dissolved by a vote of three-fourths of its members or by any method provided for by law.

ARTICLE V
MEMBERSHIP AND DUES

Section 5. There shall be four classes of members as follows:

(a) **Special members.**—Only firms, partnerships, or corporations are eligible for membership as special members, and each shall pay annual dues of from ₱500.00 to ₱1,000.00 or more.

(b) **Sustaining members.**—Sustaining members shall be those individuals who pay an annual fee of ₱100.00 or more.

(c) **Regular members.**—Regular members shall be divided into two divisions:

1. **Senior**—paying annual fees of ₱10.00
2. **Junior**—paying annual fees of ₱ 5.00

(d) **General members.**—General members shall be those individuals who pay an annual fee of ₱1.00.

Section 6. All fees are payable in advance.

Section 7. The representatives of the special members, sustaining members and regular members shall have the right to vote and to be elected to any office in the Association. General members shall have the right to vote but shall not be eligible for office.

Section 8. All residents of the Philippines irrespective of nationality, creed, cult or color, shall be eligible to become members of this Association.

Section 9. Admission to membership shall be by application duly accomplished and signed by the applicant and vouched for by one member in good standing. Such application shall be submitted to the Board of Directors for approval after having been passed upon by the Executive Committee.

Section 10. All members are in duty bound to observe faithfully the provisions of this Constitution and the By-Laws, and such measures as may be promulgated from time to time by the governing body and by the Association.

Section 11. Membership in the Association shall be terminated by death or permanent disability of the members, by voluntary resignation effective when the resignation is ac-

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(c) Students' Chapters which shall be composed of students of both sexes in any school, college or university.

Section 16. All Chapters organized under the provisions of Section 14 hereof are given a free hand in the management of their own individual chapters but they must so conduct their activities that they are in consonance and in harmony with the aims and doctrines of the Association.

Section 17. Not more than one chapter of each kind shall be established in any municipality, except in places where there are more than one school, college or university, public or private, in which event one students' chapter may be established in each school, college or university.

ARTICLE VII

BOARD OF DIRECTORS AND OFFICERS

Section 18. The Board of Directors shall be elected by the Association in a general meeting of the special, sustaining and regular members of the Association on the third Sunday of June of every year, and the directors so elected shall assume office immediately thereafter. The election shall be done by secret ballot, and those who shall obtain the highest number of votes cast shall be declared elected to compose the Board of Directors. In case of tie for the seventh place, the same shall be decided by lot. Immediately after the election, the directors so chosen shall meet and elect among themselves the officers of the Association as herein provided. In case of vacancy in the Board of Directors, the same shall be filled by appointment to be made by the President, subject to the approval of the said Board of Directors, the appointee to hold office until his successor is elected at the next general annual meeting of the Association. In case the annual convention is not held the officers shall remain in office until their successors have been elected.

Section 19. The Board of Directors shall manage and direct the affairs of the Association, and shall take charge, through the President and the Treasurer, of the property and funds of the same. It shall have the power to promulgate such

measures as may be necessary and advisable to accomplish the purpose of the Association; to organize chapters, or approve or reject petitions for the establishment of the same; to approve or disapprove applications for membership and the appointments made by the President; to suspend members for non-payment of dues or expel them from the Association for cause; and to execute resolutions adopted at a general meeting of the Association.

Section 20. The officers of the Association shall be a President, a Vice President, a Treasurer and a Secretary who shall be elected by the Board of Directors from among their members, with the exception of the Secretary who may not be a member of the Board.

Section 21. The President shall be the highest executive officer of the Association; he shall preside at all meetings of the Board of Directors and of the Association; he shall authorize and countersign all disbursements to be paid out by the Treasurer as per order of the Board of Directors; he shall appoint, subject to the approval of the Board of Directors, all the committees and receive their reports; he shall call special meetings of the Board of Directors or of the Association whenever necessary for the transaction of important business affecting the Association; he shall see to it that all officers comply with their respective duties; and he shall perform such other acts as may be required of him by the Association and the Board of Directors. He shall render reports of the transaction of the Association during the year.

Section 22. The Vice-President shall discharge the duties of the President in case of sickness, temporary disability, resignation or removal for cause of the said President. In the event that both of these officers are unable to discharge their duties, the Board of Directors shall immediately designate the member who shall discharge the duties of the President.

Section 23. The Treasurer shall be the custodian of the funds and properties of the Association, he shall keep an accurate account of all the moneys received or disbursed by him and disburse the funds as may be ordered by the Board of

Directors and countersigned by the President; he shall collect all dues paid by the members; he shall deposit the funds of the Association with a reputable banking institution, as may be designated by the Board of Directors; and he shall perform such other duties as may be required of him by the Association and the Board of Directors.

Section 24. The Secretary shall be the custodian of the records and seal of the Association; he shall give due notices of and attend all meetings of the Association; he shall keep the minutes of all meetings of both the Association and the Board of Directors, which said minutes shall be written in books provided for this purpose and shall contain a true and accurate account of the proceedings in such meetings and record all business therein transacted, all of which he shall certify as Secretary; he shall conduct all the correspondence of the Association not especially under the charge of any other officer; he shall affix the seal of the Association to all contracts and documents required to be sealed; he shall notify all applicants of the approval or disapproval of their petitions for membership; and he shall perform such other duties as may be required by the Association, the Board of Directors, or the President.

Section 25. No officer of the Association shall receive any salary, compensation or bonus for services rendered, except the Secretary, who shall be allowed such compensation for his services rendered to the Association, in the amount fixed by the Board of Directors.

Section 26. At every General Meeting of the Association, an auditor shall be appointed to take charge of the checking and auditing of the books and accounts of the Association. The Auditor shall have the power at any time to examine all books, accounts, vouchers and other accounting papers of the Association and shall certify the annual Financial Statement prepared by the Treasurer. A copy of the Financial Statement shall be furnished the Secretary of the Association and shall be held open for examination by all the members of the Association.

ARTICLE VIII COMMITTEES

Section 27. Immediately after the organization of the Board of Directors, the President, with the approval of this Board, shall appoint an Executive Committee, composed of a Chairman who shall be a member of the Board of Directors and two members selected from among the sustaining and regular members of the Association. The Executive Committee shall take charge of such activities of the Association as may be assigned to it by the Board of Directors. The President may also, with the approval of the Board of Directors, create such other Committees as may be necessary or convenient.

ARTICLE IX FUNDS

Section 28. The funds of the Association shall consist of the accumulated dues paid in by the members and such amounts which may be derived from other sources. The said funds shall be devoted exclusively to the maintenance of the Association and the advancement of its purposes.

ARTICLE X MEETINGS AND QUORUM

Section 29. The meetings of the Association shall be annual and special. The annual meeting shall take place on the third Sunday of June of each year for the transaction of such business as may properly come before the meeting and for the election of new officers for the year. The attendance of fifty (50) members whether in person or by proxy shall be sufficient to constitute a quorum. Special meetings of the Association may be called either by the President or by the request of five special and sustaining members of the Association. Twenty members shall constitute a quorum for holding a special meeting.

Section 30. The Board of Directors shall hold regular and special meetings. Regular meetings shall be held quarterly at such date and hour as may be designated by the Board,

and special meetings may be called by order of the President or at the request of two directors, specifying the purpose of such meetings. Four members of the Board of Directors shall constitute a quorum and their acts shall bind the Association.

Section 31. The Secretary shall issue notices of the meetings at least five (5) days before such meetings are to be held.

ARTICLE XI

ORDER OF BUSINESS

Section 32. The order of business at the annual meeting of the Association shall be as follows:

1. Calling to order by the President.
2. Determination of a quorum.
3. Reading of minutes.
4. Approval of Financial Statement.
5. Reports of officers.
6. Introduction of resolutions and reference of the same to Committees.
7. Reports of Committees and discussion of resolutions.
8. Nomination and election of officers.
9. Miscellaneous business.
10. Adjournment.

Section 33. The order of business at the special meetings of the Association shall be the same as above with items 4, 6, 7, and 8 eliminated.

Section 34. The order of business to be followed in the meetings of the Board of Directors shall be:

1. Roll Call.
2. Reading of minutes.
3. Reports of officers.
4. Reports of Committees.
5. Filling of vacancies.
6. Discussion of unfinished business.
7. Discussion of new business.
8. Adjournment.

**ARTICLE XII
AMENDMENTS**

Section 35. This By-Laws may be amended by two-thirds vote of the members constituting a quorum at a meeting of the Association specially called for that purpose at least ten days prior to the date of the meeting and specially stating in the call for the meeting the amendments proposed. However, the President is empowered, from time to time, and as often as he may deem fit, as a temporary expedient, to amplify the present By-Laws by prescribing such measures or methods of procedure as he may believe will advance the interests and welfare of the Association, provided that such measures or methods of procedure shall not be in conflict with any of the provisions of the Articles of Incorporation of this Association, nor of this By-Laws.

Section 36. This By-Laws shall take effect upon its approval and shall be signed by the members.

APPROVED August 10th, 1936.

(Sgd.) Judge Simplicio del Rosario
(Sgd.) Luis R. Yangco
(Sgd.) Pedro M. Blanco
(Sgd.) Don Ramon Lopez
(Sgd.) Don Cesar Ledesma
(Sgd.) Dr. Vicente F. Gustilo
(Sgd.) Alfredo T. Mendoza

Declaration of Intention to Become a Member

The Commonwealth Association, Inc.

309 Cu-Uajiang Building
Escolta, Manila

Tel. 2-10-06

P. O. Box 1158

No Man Has a Monopoly of Patriotism and of Wisdom!

This is a statement of fact over which there can be no division of opinion. This being true, we should let those among us who believe they have something worthwhile to say concerning the future welfare of our people and country come out into the open and boldly, courageously and fearlessly bring their viewpoints for the examination and the investigation of the public.

I, whose signature appears below, sincerely and honestly believe that the indefinite continuation of the Commonwealth government would best serve the future welfare and happiness of our people and country. While it must be admitted that the Act contains unfavorable trade provisions, definite promises have been made by the President and leading members of the United States Congress that any imperfections and inequalities of said Act shall be corrected after a careful study of the questions involved has been made. We have great faith that these promises will be fulfilled by the American people.

While absolute and complete independence would be the ideal solution of our problem, and will undoubtedly become the ultimate solution to have it granted to us so soon as ten years would be most disastrous to our welfare and happiness for the following reasons:

1 Independence would necessarily mean the creation and the maintenance of a reasonably adequate army and navy, which we would not be in a position to maintain, much less create for many years to come. In the meantime, money that will have to be spent for these purposes could be far better utilized in helping create and develop Philippine industries;

2. Loss of the American market for Philippine products in ten years would mean economic ruin for the country, hence poverty and misery for the people of the land;

3. Grant of independence in ten years would only mean passing from the control of one power to that of some other power, which which cannot possibly be as generous to us as the one whose friendship we would just then be losing.

Therefore, I believe it my patriotic duty to declare myself in favor of the indefinite continuation of the Commonwealth government; and in affixing my signature hereunder, I express my willingness to become a member of "THE COMMONWEALTH ASSOCIATION, INCORPORATED."

.....
Signature

.....
Town

.....
Write name clearly

.....
Province

Sex Age Occupation

BRIEF
FROM THE
CONFEDERACION DE ASOCIACIONES Y PLANTADORES DE
CAÑA DULCE, INC.
(Photographic Reprint)

FUNDAMENTALS

We Subscribe to the Following as the Fundamentals of Philippine-American Trade Relations:

1. *The trade relations between the United States and the Philippine Islands were definitely determined by the provisions of the Tydings-McDuffie Act until July 4, 1946. That Act, after approval by the President and the Congress of the United States, was formally accepted by the Filipino people. Based thereon many citizens and residents of and investors in the Philippine Islands have incurred obligations and made commitments. The trade relations so determined, in good faith and in fairness, cannot, therefore, be altered to their prejudice. Thus, at least until July 4, 1946:*

(a) *Articles the growth, product, or manufacture of the Philippine Islands should, with no greater limitations than those imposed by that Act, and on a basis of equality with articles the growth, product, or manufacture of the United States, be admitted free of duty into the United States; and*

(b) *Articles the growth, product, or manufacture of the United States should, on a basis of equality with articles the growth, product, or manufacture of the Philippine Islands, be admitted free of duty into the Philippines.*

(c) *No excise or other taxes which directly or indirectly result in any discrimination against the products of either country should be imposed.*

2. *The imposition of export taxes on shipments from the Philippine Islands to the United States from November 15, 1940, and the imposition of import duties by the United States and the Philippine Islands, each on articles the growth, product, or manufacture of the other, from July 4, 1946, will be disastrous to the producers and manufacturers of both countries, and, the time being too short to make the necessary readjustments, to the Philippine Islands in particular, therefore,—*

(a) *The export taxes should be repealed; and*

(b) *Free trade between the two countries, with present or other reasonable quantitative limitations, should be continued after July 4, 1946.*

3. *Irrespective of any change in the political status of the Philippine Islands, a continuation of the present free-trade relations between the United States and the Philippine Islands would be advantageous to both countries;— to the Philippine Islands, because the United States is an essential market for many Philippine products; and to the United States, because the Philippine Islands is a large market for the products of agriculture and industry of the United States, and will, if the products thereof continue to be admitted free of duty into the Philippine Islands, be a much larger market in the future. Such free-trade relations between the two countries should, therefore, after July 4, 1946, be continued indefinitely.*

BRIEF
TO THE
JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS
FROM THE
"CONFEDERACIÓN DE ASOCIACIONES Y PLANTADORES
DE CAÑA DULCE, INC."
ON THE
PLANTERS IN THE SUGAR INDUSTRY
OF THE
PHILIPPINE ISLANDS

INTRODUCTION

In Hawaii and in many other sugar cane producing countries, the mills own and operate the sugar cane plantations. In this case the sugar industry is made up of two main elements only: the corporations that run the mills and, at the same time, operate the plantations and labor. Any catastrophe that may befall the industry only these two elements are directly affected.

In the Philippines the mills may manage their own plantations or those leased to them, but the larger bulk of the cane delivered to and ground in the factories is raised by another party—the planter. We have, therefore, in our sugar industry, in addition to the mill and labor elements, a third element—the planter. Perhaps what may be considered a fourth element is the capitalist who finance the planter. Should a calamity befall our industry at least three important elements are direct victims.

Our sugar cane planters number about 24,000.¹ Dependent on them are many thousands more. In their re-

¹ Estimated from the Supplements to Executive Orders Nos. 900 and 901.

port to the United States Tariff Commission Doctors Frank Waring and Ben Dorfman ² gave 1,980,000 as the number of persons depending on our sugar industry. Of these persons the following are:

Planters and dependents	90,000
Tenants and dependents	1,050,000
Permanent plantation laborers and dependents	240,000
Temporary plantation laborers and dependents	360,000
	1,740,000
Total	1,740,000

This number constitutes about 88% of the total employed in the industry and is over one-tenth of the total population of the Philippines.

As may be seen later the planters also have a very heavy investment in the industry. The fact now to be stressed is that the planters are a very important element in the industry, and should the industry suffer, they and their families and the laborers and also their families dependent upon them will be the greatest sufferers. For this reason any plan or arrangement affecting the future of the industry can not with justice leave the planters out of consideration.

Few people recognize the role of the planters in the development and operation of our sugar industry, and perhaps still fewer appreciate their real situation. But the planters are conscious of their position; they know their own situation and are anxious to preserve, if they can, their life-long and only means of livelihood. They can not, therefore, afford to let go the opportunity to be heard without taking advantage of it. And through this brief

²The American Chamber of Commerce Journal, Vol. XVII, No. 6, 1937.

which the CONFEDERACIÓN DE ASOCIACIONES Y PLANTADORES DE CAÑA DULCE, INC., files with the Committee, the planters desire to present their side of the industry.

THE CONFEDERATION

There are forty-five districts in the Philippines where centrifugal sugar is manufactured in a commercial scale. In practically every district of considerable production the planters are organized into a body known as planter association. These associations through their officials represent the planters in their collective business dealing with the mills.

So long as the interests of the planters remain local the district associations are sufficient to look after them. But with increased production sugar became our premier industry and easily the most important export commodity. Hence, the interests of the planters have also developed into national in magnitude and importance. Along with the development of the industry the planters have found disadvantages in their position which resulted in their receiving comparatively less benefits than what they should receive from the industry. They must improve their situation and must be properly organized to meet the ever increasing problems of their business. Realizing the weakness of individual and scattered efforts they have organized themselves into a larger national group and the confederation of district associations came into existence.

Organized hardly seven years ago with six associations as charter members, in spite of active influences at work against a strongly unified planters' group, the Confederation has grown and today counts with the membership of thirteen large district associations. These asso-

ciations represent 51 % of the combined export and domestic consumption sugar production in the Philippines.

In addition to the confederated associations, four others representing a production of 123,566 short tons of export and domestic consumption sugar subscribe to this brief. This brief, therefore, represents the interests of planters producing altogether 62.65 % of the centrifugal crop of the Philippines.

Appendix I gives the list of associations represented in this brief.

If no more than 62.65 % of the production is represented by the Confederation it is because in some districts no association exists while in others the associations are so controlled by the centrals that if they are not actually prohibited to join, they are discouraged from joining the Confederation. In most of these districts the plantation milling shares are still the lowest, that is 50 %.

DEVELOPMENT OF OUR SUGAR INDUSTRY

DURING THE SPANISH REGIME

Sugar making is an old industry in the Philippines. Before Magellan discovered the islands in 1521 sugar cane culture and manufacture of sugar in some form or other have already been carried out. Due, however, to the absence of authentic record on production the early history of the industry in the Islands is quite obscure.

The market was naturally first local, but as production increased sugar was exported to China, Australia, Spain, England and the United States. Again the early records of shipment abroad are not available. According to Pitt,³ the first authentic record of Philippine sugar

³ Harold M. Pitt—Historic Sketch of the Sugar Industry in the Philippines, in the Sugar Industry of the Philippine Islands by G. E. Nesom and Herbert S. Walker, 1912.

imported into the United States, the country destined to become the most important market of our sugar, was in 1795 when 134,645 kilos (295,219 lbs.) were credited to the Islands.

Pitt further observes that the most important early advance of the sugar industry of the Philippines seems to have coincided with the Crimean war (1854-1856) during which sugar consumption throughout the civilized world increased and greatly enhanced the price of the commodity. High prices made the industry highly profitable and led to the increase of investments in the industry in the Islands. The immediate result of this was the expansion of production in the provinces of Pampanga, Batangas and Tarlac in Luzon and later on in the islands of Negros, Cebu and Panay. Since then sugar production steadily increased until in 1895 the record crop of 341,469 metric tons (409,763 short tons) was harvested during this regime. The following year the rebellion against Spain broke out and the disturbance that followed thereafter to the end of the Spanish rule and continued throughout the years of armed resistance by the Filipinos against American authority, set back the industry.

Pampanga on the island of Luzon is known to be the first province that cultivated sugar cane extensively, and it is still today the second largest sugar producing province in the Philippines. But the island of Negros proved to be better suited for the industry and activities soon were transferred there. It is on this island that the industry has attained its greatest development. It is this island that largely contributed to the record crop during the Spanish time. Today this same island produces 57.39% of the centrifugal sugar in the Philippines.

The greatest drawback of the industry then was the antiquated system of manufacturing sugar. Most of the equipment consisted of stone and wooden roller mills driven

by man or animal or water power and of a set of open kettles heated by direct fire in the furnace under. There were only a few three-steel roller mills driven by steam power. The sugar produced was muscovado ranging in polarization from 70° to 89°.

Encouragement to the development of the industry by the Spanish Government was slight. Of importance that should be mentioned are: (1) the monopoly in the island of Negros granted to Recollect Friars by royal decree in 1849; (2) the establishment of an experiment station on the slopes of Mt. Arayat in Pampanga; and (3) the establishment of a model farm at La Carlota, Occidental Negros.

Some data on Philippine exportation of sugar during the Spanish regime are given below:⁴

YEAR	Total quantity exported (short tons)	Percentage of total value of all exports	Exports to the United States (short tons)	Percentage of total sugar exported
1880	199,726	48.65	112,751	56.45
1881	230,167	50.47	87,149	37.86
1882	165,811	43.22	87,063	52.51
1883	216,970	45.83	140,484	64.75
1884	134,622	30.33	93,886	69.74
1885	225,114	42.18	148,869	66.13
1886	203,859	34.90	129,134	63.35
1887	189,324	31.66	122,841	64.88
1888	177,457	32.32	92,283	52.00
1889	251,841	35.45	138,629	55.05
Annual average	199,489	....	115,310	57.80
1890	159,658	33.72	37,616	23.56
1891	152,358	27.29	51,730	33.95
1892	278,659	40.54	50,685	18.19
1893	288,276	46.74	11,124	3.86
1894	232,195	33.11	12,633	5.44
1895	376,402	31.34	....	...
Annual average	247,924	....	32,757	13.21

⁴ From the Remarks of Resident Commissioner Quintin Paredes in the House of Representatives, May 28, 1936.

In these data worthy of note is the fact that even during the Spanish regime America was already the principal market of our sugar. In the ten-year period from 1880 to 1889 as much as 69.74% of our sugar exported annually found its way to America. During the following five years, exportation to the United States considerably dropped owing to the enforcement of restrictive Spanish commercial laws.

UNDER AMERICAN SOVEREIGNTY

During the thirty-nine years of American occupation our sugar industry has been subjected to both favorable and adverse congressional legislations. The history of the industry during this epoch may be separated into four periods: the first, embracing the years from 1898 to 1909; the second, from 1910 to 1920; the third, from 1921 to 1933; and the fourth, from 1934 to the present.

1898-1909 Period.—The Philippine armed resistance against American authority which lasted for over two years left the industry where it was after the revolt against Spain. With pacification and the establishment of the civil government in 1901 farming and industrial activities began to resume normalcy. However, due to lack of credit facilities to the planters and to the ravages of work animal diseases which lasted for several years, the sugar industry has not been able to recover completely from the retarding effects of the wars.

Another cause of the slow recovery and further advance of the industry was the application of the Dingley Tariff act of 1897 to Philippine products which subjected our sugar to a full duty of 1.685 cents gold per pound. It is true that this treatment of our products by America after she had established her sovereignty over the Islands did not last very long for the Philippine tariff act of 1902 reduced the duty on Philippine sugar by 25%, nevertheless

American and foreign capital was not immediately attracted. As a consequence early efforts at development proved fruitless and during the first decade of American occupation our sugar industry practically remained at a stand-still.

1910-1920 Period.—Against the petition of the Philippine Assembly, in August 1909, Congress passed the Payne-Aldrich Tariff Act establishing a limited free trade between the United States and the Philippines. Under this law Philippine sugar to the extent of 300,000 tons per annum was admitted to the United States free of duty. This was the signal for the beginning of the flow of American capital into the Islands and the immediate result was the erection in 1910 on the island of Mindoro of the first centrifugal sugar factory in the Philippines. The land on which the sugar cane was grown belonged to the factory owners and the operation of the industry was along the same line as that in Hawaii where the mills also owned and operate the plantations.

The new trade opening also encouraged insular capitalists and led to the establishment of smaller capacity modern factories. Three of these with present total daily capacity of 1,300 metric tons of cane were installed in the island of Negros and the fourth with a capacity of 700 metric tons daily was built on the island of Luzon. All these mills started to operate with cane supply from the owners' plantations.

In 1912 the second large factory was installed by Hawaiian capitalists at San Carlos on the island of Negros. It supplanted some twenty-five modern muscovado mills and became the first cooperative sugar central in the Philippines. About a year later another capitalized by Americans was built in Calamba, province of Laguna on the island of Luzon. The Calamba Sugar Estate—such is

the name of the corporation that finances and operates the factory—owns extensive land areas and first ground cane grown on its own estate. Later on the central took in cane raised by planters in nearby towns buying it on the tonnage basis. Still later the central largely abandoned this system and ground cane of the planters on the share basis. As compensation for grinding the cane the central retains 50% of the sugar produced and the factory thus became partly cooperative in its operation.

In 1913 Congress enacted the Underwood-Simons Tariff law which removed the quantity limit of duty-free products of the Philippines entering the United States. This unlimited freedom of our sugar in the tariff-protected American market gave further stimulus to production. Muscovado mills multiplied but more important still was that the industry from then on took a definite advance along modern lines.

To supplement the favorable congressional legislations, the representative of the federal government in the Philippines encouraged the insular government to promote the development of the industry. On the recommendation of the Governor-General in 1915, the insular government created a sugar board invested with powers to aid the newly established centrals. The government went still further than this. The Philippine National Bank, a government institution, undertook to finance the erection of six large centrals, five on the island of Negros and one on Luzon. It also extended crop loans to many planters.

Encouraged by the initiative of the government and by high prices of sugar then prevailing as a result of the world war, private capitalists at home and abroad came out in the open and shared in the construction of another six centrals. Thus during the second decade of American occupation, no less than twenty centrals were built in the

Philippines, ten already in operation and the other ten under construction. Of these twenty centrals fifteen are on the island of Negros, four on Luzon and one on Mindoro. In spite of the great activities in the building of centrals production, however, increased very little and this was because the large centrals under construction did not begin to produce until the early part of the following period.

1921-1933 Period.—This was characterized by the enlargement of capacities of already operating centrals, and the construction of twenty-six more, five large and twenty-one small ones. Of these new centrals twelve are on Luzon, four on Negros, six on Panay, two on Cebu and two on Leyte. During this period the culture of sugar cane became also more modernized and scientific. Tractors and other modern farm implements found their way into the plantations and the use of commercial fertilizers became extensive. Foreign, more highly productive varieties of cane were introduced, tested and rapidly propagated. As a result of all these activities, production of muscovado sugar dwindled into insignificance while that of centrifugal sugar took a decidedly upward trend until in 1932 the million-ton mark was passed. During the 1933-34 crop season the Islands produced 1,554,686 short tons of sugar, the largest crop in the history of the country. This record would have been broken today were it not for the two congressional legislations that applied the brake at further expansion. As we shall see later these legislations not only put a stop at further increase of, but actually set back production.

Period from 1934 to the Present.—In March, 1934, Congress passed the Tydings-McDuffie law otherwise known as the Independence Act. The sugar provisions of the act stipulate that during the transition period of ten

years the yearly shipment of Philippine sugar to the United States will be 800,000 long tons raw and 50,000 long tons refined (equivalent to a total of 971,600 short tons raw value) duty-free during the first five years and subject to a graduated export tax during the last five years. Any quantity in excess will have to pay full duty. After independence is granted all sugar shipped to the United States will be subject to full duty.

Shortly after the passage of this act and before it went into effect, Congress passed another law, the Jones-Costigan Sugar Control act with retroactive effects

To be in accord with and to cooperate with the Washington administration in its sugar control program, the Philippine Legislature supplemented the federal act with an insular limitation law passed in 1934 also. This law which was to be in force for three years was amended last year and extended for another three years. It provides for a yearly allotment of domestic consumption and emergency reserve sugar and actually limits the production of centrifugal sugar to the amount allowed for export, for domestic consumption and for reserve.

The effects of these laws on the finances of the planters will be taken up in another part of this brief. Suffice it to say at this juncture that under the program of limitation enforced under the laws referred to, the industry which has been encouraged and developed by federal and insular legislations into first in magnitude and importance in our national economy has today not only ceased to grow but has actually shrunk. The 1937 production to cover the allotments for export, domestic consumption and reserve is a little more than two-thirds of the crop of 1934.

In Appendix II are given some data on production and exportation since the American occupation.

THE POSITION OF THE PLANTER IN THE INDUSTRY

At the beginning of this brief we have mentioned the importance of the planter element in our sugar industry. We shall now discuss further his position in the industry and the role he has played in its development.

BEFORE THE ESTABLISHMENT OF CENTRALS

Prior to American occupation and before the establishment of modern centrals, the planter was the principal element in the industry. He was the sugar cane grower and with his muscovado factory the sugar manufacturer at the same time. True, his cultivation methods and manufacturing equipment were crude and backward but he was practically self-sufficient and independent. With the small mill all his land could not be planted to sugar cane, hence a portion of it was grown to other crops and his products were diversified. When his sugar crop failed he had others to bank upon and his losses and suffering were mitigated. He employed little capital, and borrowed little when he was forced to do it. He quarrelled with nobody for the share of the sugar for all that he produced was his, and if he owed nothing for it he was completely his own master. His income may have been small but the margin of his profits was comparatively big. This and the self-sufficiency and independence which he enjoyed made the planter happy.

The profits and the simple but independent and happy life that the muscovado producer led, attracted the industrious people and resulted in the extension of sugar cane areas and the multiplication of muscovado mills varying in types and motive power used from the most primitive two-roller wooden or stone mill driven by man or animal or water power to the three-roller one driven by steam power.

The increase and multiplication of muscovado producers accounted for the advance the industry has made during the Spanish regime and the first twelve years of American occupation. But the backward conditions of the industry could not remain long in the face of modern industrial advance. They had to give way to modern and more efficient factories. The planters, too, had to give up their self-sufficient, independent position.

ADVENT OF CENTRALS

The American market was demanding high grades of sugar for the refineries and centrifugal sugar must be produced if the demand were to be met and the industry had to advance further. Capitalists—native, American and foreign—were willing to invest in modern equipment for large scale production of high polarization sugar. But one very important obstacle was on the way: our land law prohibits private corporations or associations to acquire, lease, or hold public agricultural lands in excess of 1024 hectares. Such a limited plantation ownership would not justify the investment in large factories. But it prevented (1) the establishment of factories with extensively owned plantations, (2) the elimination of small producers—the thousands of planters who were making a business and a living out of the industry, and (3) the concentration of the benefits and wealth derived from the industry in the hands of a few.

The planters on the other hand had limited means and could not secure the necessary capital to build the factories themselves. It was then a situation in which one group had the capital to build the factories but could not acquire enough land for plantation purposes to justify large investments, and another group that collectively had sufficient land area to justify heavy investments but could

not obtain the necessary capital. But modern factories must be built if both capitalists and planters had to make a profitable business out of sugar. Since one or the other group alone can not modernize the industry the two of them must pull together, organize the industry and share equally the benefit from it.

Cooperative Production.—In order that the capitalists and the planters may work together, the happy idea was struck that the former put up the factory, locally known as central, and the latter supply the sugar cane. In other words the planters would raise the sugar cane and the mill owners would extract and manufacture the sugar from it and retain a portion of the product as compensation for the service. On this basis planters and mill owners, usually corporations, signed milling contracts binding one another for a period of years, generally thirty years, but with a right of way in the plantations for fifty years for the millers. The cooperative production system in our sugar industry thus came into existence. The planters as a result therefrom abandoned their muscovado mills, gave up their independence and became co-partners of the factory owners in an industry of which, before, they were the sole arbiters.

As we have already mentioned, the first cooperative centrals in the Philippines was built on the island of Negros. All the large centrals built after this were on the cooperative basis. Even the small ones which have been primarily erected for the extensive plantations of the owners became partly cooperative factories.

Plantation Milling Shares.—The first planters who signed the milling contract with the first cooperative central shared and are until now sharing 60% of the sugar produced from their cane. The central retains 40% of the sugar. This division of the product between the

planters and the central did not, however, serve as the basis for plantation and milling shares to the other centrals built afterwards. Lower participation for the plantation and higher for the central became the rule. There were several reasons for this.

Most of the centrals, especially the large ones, were built when prices of the centrifugal sugar were high. Seeing large profits from this grade of sugar independent muscovado producers became highly enthusiastic. However, having no capital of their own to build the centrals they were helpless and in this predicament they were willing to sign milling contracts even under lower rates of plantation share.

On the other hand capitalists who were organizing the centrals took advantage of the situation in which the simple-minded planters were found and instead of following the milling share of 40% established by the first cooperative central raised their milling shares from 45 to 50%. Even the very central that initiated the 40-60 division of the sugar seeing the helplessness of land-owners who remained indifferent and did not sign the milling contract at the time the mill was constructed, exacted the 45% milling share when later on said landowners decided to adhere their plantations to the central.

Some of the capitalists, however, were more fair and considerate to the planters. They took the planters as real co-partners who should share equally with them the benefits from the industry. They, therefore, stipulated in the milling contracts that after a certain period with 50 or 45% milling share—usually after they have recovered their capital investment and declared dividends—they would reduce their share to 40%. Fortunate planters who had worked with these generous capitalists are today enjoying the benefits of 60% plantation milling share. But

these planters are very few for only about 12% of the plantations have this rate of milling share.

As they are today the plantation milling shares range from 50 to 61%. Appendix III shows the different rates of plantation milling share and the distribution of the plantations under them.

In this table we note that there are 21,493 plantations in all the mill districts in the Philippines. Of these 55.81% are sharing 50% of the sugar, 3.04% are sharing 53%, 27.93% are sharing 55%, 1.24% are sharing 58%, 11.05% are sharing 60%, and 0.94% are sharing 61%. We see therefore that practically 88% of the plantations are receiving milling shares below 60%.

Management and Quotas of Plantations.—Not all the plantations are managed by their owners. Quite a number of them are operated under lease. Appendix IV shows the number operated by owners and lessees and the average quota per plantation of export and domestic consumption sugar combined.

Looking over this table one finds two outstanding facts. One is that in the island of Negros more plantations are managed by lessees than by owners. The apparent reason for this is the high rates of rental paid for leases in that island.

The other fact is that the number of plantations in Luzon is greater than in Negros but the average quota per plantation is higher in the latter. The explanation for this is that in Negros the average size of the plantations is larger than that in Luzon owing perhaps to the fact that the development of the industry was more rapid in that island. As we have already seen the establishment of most centrals in Luzon and all of those in Panay, Cebu and Leyte took place only during the period from 1921 to 1933. Moreover, it is in Negros where modern and more scientific

methods of cultivation had been first adopted and extensively practiced which resulted in improved yield per unit of area.

Planters and Their Quotas.—In Appendix V are given the number of sugar cane planters with the average quota per planter in each district and in the Philippines in general.

You will see that we have two kinds of planters, the landowner and the lessee planters. Of the total number of 24,019 planters 46.57% are lessees. In some districts the majority of the planters are owners of the plantations they work while in others the lessees are predominant. Taking the distribution by island we find that in the island of Negros the lessee planters constitute 77.55%, in Luzon 32.09%, in Panay 57.41%, in Cebu 42.55% and in Leyte 74.12%.

Rent paid for leases may be in cash or in fixed quantity of sugar or a certain percentage of the gross production. In general it varies from as low as 6% to as high as 22% of the quota of the plantation. The low rates are found in old lease contracts that are still in force and the high are in recently renewed or new ones. In the island of Negros where about 77.55% of the planters are lessees the average rent is around 15% of the plantation's crop.

About 10% of the planters have no production allowance or quota for exportation, and this is because they had no production in the years on which the distribution of the export quota is based. They have, however, allotment for domestic consumption sugar.

The export sugar production allowance of the planters having such, vary from a few to several hundred thousand pounds, the average per planter for the whole Philippines being about 79,270 pounds (568 piculs). Considering the quotas by island we find that more than 50% of the export

quota is allocated to the island of Negros. In that island is also found the highest average quota per planter.

A very large number of planters in the Philippines have small production allowances and are therefore small producers. About 13.1% produce between 1 and 10 piculs;⁵ 41.8% between 10 and 100 piculs; 24.7% between 100 and 1,000 piculs; 3.8% between 1,000 and 2,000 piculs; and 1.8% between 2,000 and 3,000 piculs.⁶ Fully 85.2% of the planters have production allowances below 3,000 piculs. Most of these small producers are milling in large centrals.

Who the Planter Is.—The planter, whether a landowner or lessee, is an entrepreneur. He was so under the Spanish regime, before and after the establishment of modern centrals. He was and is a businessman whose operating unit is the plantation he manages. Before the advent of centrals he was an independent businessman and the most important economic factor in the industry. After the establishment of centrals he became the co-partner of the mill owners and has lost his dominant economic position. Under the present cooperative system of production, although the aggregate investment of the planters, as we shall show later on, is larger than that of the centrals, because of the fact that they receive less benefits from the industry than the centrals do, they merely constitute the middle layer of the three economic strata in the industry. Representing as they do the middle class, nevertheless the planters are a vital factor, an inseparable part of and an indispensable element in the industry.

Planters' Investments.—With so many plantations of varying size under different systems of operation scattered

⁵ One picul equals 139.44 lbs.

⁶ Bissinger, G. H.—Philippine Sugar Control, Part IV. Range and Distribution of Production Allowance. Sugar News, Vol. 18, No. 5, p. 152-155.

in six large islands it is impossible to obtain exact figures on the investments that the planters have made and are making in their business.

Conservative estimates place the aggregate investments of the planters in the industry as follows:

In Lands and Improvements ..	₱362,000,000.00 ⁷
Crop Loans	45,000,000.00 ⁸
Total	<u>₱407,000,000.00</u>

Compared with the investments in centrals which amount to ₱168,025,070.00 (2) the planters thus have nearly twice as much capital invested in the industry as the mill owners.

Production Cost.—So many factors are affecting the culture of sugar cane that it is extremely difficult to strike a figure that would accurately represent the average cost of producing one picul of sugar on the part of the planter. Size of the production allowance; yield per unit area which is governed by the fertility of the soil, variety of cane, methods of preparing the land, systems of cultivation, weather conditions from planting to harvest, the kind of crop—whether plant cane or ratoon—presence or absence of pests and diseases, and factory efficiency; rate of wages; type of plantation management—all these cause the cost of production to vary from field to field, from plantation to plantation, from district to district, from island to island and from year to year. To determine how much

⁷ The Philippine Statistical Review, p. 310, No. 4, Vol. 2, 1935. Cited by Doctors Frank Waring and Ben Dorfman in their report to the U. S. Tariff Commission.

⁸ From Statement of President Rafael Alunan of the Philippine Sugar Association. Printed in the Congressional Record of January 8, 1934, by request of Resident Commissioner Pedro Guevara. Also see Remarks of Resident Commissioner Quintin Paredes in the House of Representatives, May 28, 1936.

it costs the planter to produce his share of the sugar we have also to consider whether he is landowner or lessee planter, the rate of rent he pays if he is a lessee, and the plantation milling share.

In a report, No. 73, submitted to the President of the United States in 1934 the Tariff Commission that made extensive studies on the costs of producing sugar in continental United States, in Hawaii, Puerto Rico and the Philippine Islands, placed ₱3.329 (1931-32 crop) as the average cost of raising sugar cane that would produce one picul of sugar in the Philippines.

If it costs ₱3.329 to produce one picul of sugar, (gross) and the plantation milling share is 50%, it would cost the landowner-planter ₱6.66 per picul to produce his share. To the lessee-planter it would cost more.

In Negros where today the plantation milling share is from 55 to 61% and the average rent paid by lessees is 15% the cost of producing the planter's share ex-warehouse would be as follows:

Landowner-planter with 55% plantation milling share	₱6.05
Landowner-planter with 60% plantation milling share	5.55
Lessee-planter with 55% plantation milling share paying 15% rent	8.32
Lessee-planter with 60% plantation milling share paying 15% rent	7.39

At present prices many planters, small ones especially, are hardly making any profit at all. If this is the case, why do these planters keep on planting sugar cane?

The answer is: in the first place they do not know of any better occupation and in the second place the system of continuous crop loans, while they grow cane, en-

ables them to continue in their business even if they just break even in the long run. To them this is preferable to being out on the streets doing nothing.

Disadvantages of the Planters.—The planters' aggregate investment in the industry as we have seen is larger than that of the mill owners, yet the planters, individually and collectively, receive less benefits from the industry than their co-partners. This is because in their present position they have disadvantages that decidedly affect their earnings. These disadvantages are:

1. Greater risks with comparatively smaller returns.

In his undertaking the planter deals with a biological object subject to natural influences beyond the control of man. Every year his greatest worry is the weather which until now with all the advances that science has made can not be regulated. He can not foresee when a typhoon would lash, a flood would drown or a prolonged drought would dry up his crop. Anyone of these extreme variations of the weather adversely affects his crop. And when his crop is destroyed or reduced he suffers losses, while the central merely ceases to make profits. Always facing uncertainty he plants and cultivates his cane every year hoping that Old Fickle Weather would favor his crop until harvest.

2. When the planter needs capital he can secure it but always pays *high rates of interest*, higher than the central owners do for theirs.

3. In most mill districts the planter alone pays the bill for the fertilizer and its application which constitutes a big item in his cost of production. When the fertilizer thus produces good effects and a bumper crop is harvested the centrals share the benefits from the fertilizer without participating in its cost, but when the fertilizer and the

crop fail and losses are incurred the planter alone bears them.

4. Most planters do not, because under the financing system they are operating they can not, *ship to and sell their sugar in the United States*, and therefore, do not get the true selling price of their sugar. Either they need the immediate liquidation of their sugar or they have it obligated to the exporting house that finances them. In any case they have to sell their sugar to the exporting houses that must either charge commission or make profits or both. Hence when sugar (96°) is quoted at P9.88 per picul (3.55 cents per lb.) duty free in New York the most that the planters can sell their sugar (97.5°) locally is at P7.50 per picul (2.8 cents per lb.) the difference being absorbed by freight and handling charges, insurance, and commission and profits of exporting firms.

5. When the sugar reaches America its polarization becomes higher and the refiners pay a premium for higher polarization. Since the planters themselves do not ship to and sell their sugar in America and the refining companies buy the sugar from the exporting houses, these and *not the planters receive the benefits of the premium.*

6. High rates of interest and the fertilizer bills which the planters alone foot *increase their cost of production* and make it higher than that of the central.

7. High cost of production and low selling price of sugar *reduce the income of the planters.*

All these disadvantages keep the finances of the planters low.

The Planters and Their Laborers.—Laborers on the plantations are either temporary or permanent. Temporary laborers are those employed during a certain season

of the year—planting and milling seasons. The permanent ones are those kept on the plantations throughout the year.

During the off-season, that is, after the milling and planting periods, about one-half of the laborers are kept on the plantations and given all kinds of work. Many kinds of work are unnecessary but are being carried out for the main purpose of giving the laborers work that would enable them to carry on without incurring debts to the planting and milling seasons again. Cultivation such as weeding and plowing are done as often as possible. When the fields are closed in and cultivation is no longer needed the borders of the fields are cleaned of weeds, plantation roads and bridges are repaired and ditches are reconstructed. All these tend to raise the planter's cost of production but they have to be done to help the laborers.

Whether the laborer is temporary or permanent he is given free quarters. The houses vary from mixed nipa, bamboo and wood materials to entirely wooden structure with galvanized iron roofing, the type depending on the financial circumstances of the planter.

The laborer does not buy his firewood, he is free to look for and gather it in the plantation. Nowadays he exerts no great effort to obtain it. The cane in excess of the planter's allotment is destroyed and piled up on the borders of the fields and after having dried up it serves very well the purpose of firewood. It is available free to the laborer.

Cooking and drinking water is available free to the laborer. He gets it either from well protected or artesian wells which the planter, at his own expense, caused to be dug or drilled.

Every house or quarter on the plantation of the average planter has a yard around available to the laborers for raising chickens, truck gardening, cultivation of leg-

umes and planting of banana fruits. Diligent laborers with family take advantage of this opportunity and besides providing themselves with wholesome nutritious foods, they increase their earnings by selling what they can spare of their products.

When a laborer falls ill, he receives free medical attention and if he needs hospitalization he is sent to a hospital at the expense of the planter. When death occurs the planter gives money for the expenses of burial including church ceremonial fees

The average planter is always visible and readily accessible to his laborers. He meets and talks to them. He is paternalistic to them. This attitude of the planter to his laborers is responsible for the existence up to this time of peace and order on the plantations, at least, of Negroes.

Higher Wages for Labor.—Present wages in general are considered low. If this is true the planters can not help it. Anyone who knows the attitude of the planters toward their laborers and at the same time appreciates the situation they are in can not with fairness condemn them for it. The planters generally are considerate and generous to their laborers and are sympathetic to the need of improving their lot. In time of plenty and of large profits without being urged by outside influences but exclusively at their own initiative the planters raise the wages of their laborers, pay them well. In the past when prices of sugar were high this has been amply demonstrated.

Conditions as they are today prevent the great majority of the planters from giving the laborers what they feel they should give them. Their business is most uncertain, they do not know what is going to happen to it. With the proposed excise tax but no benefit payments for them they will fare ill. In addition to the excise tax there will be the export tax and very soon they may have to shoulder

two more heavy taxes. These together with the disadvantages that we have already enumerated place the planters in a very tight situation.

But remove the uncertainty, eliminate the additional tax burden, reduce the disadvantages and improve their finances and once more the planters will show that they will pay high wages. Increase the benefits that they receive from the industry and without being told or without the intervention of the government they will raise the wages of their laborers.

Higher Plantation Milling Share.—To minimize the disadvantages and, therefore, improve their finances the planters for some years now have been exerting efforts to increase the plantation milling share. Believing that the centrals after paying huge dividends for several years can very well afford to adjust the milling shares they sought such an adjustment and petitioned the centrals to increase the plantation milling share. Owners of some centrals saw the justice of the petition and acceded to it. Centrals that for some time could not concede an outright increase in the share of the planters granted their planters some sorts of cash bonus.

The majority of the centrals, however, turned a deaf ear to the pleadings of the planters maintaining that contract is contract and its sanctity must be respected. To this reasoning the planters argue that a contract may be just and equitable at the time it was signed, but the same contract may become unfair and iniquitous at another time under different conditions. They contend that when the contract was signed they were practically helpless. Furthermore, conditions have changed, prices of sugar are no longer as high as when the contract was drawn, and with the many disadvantages they are encountering the contract has become onerous and unjust. But these argu-

ments are of no avail. The heartless, conscienceless capital must continue to receive large returns.

The fight was carried on to the Philippine Legislature. Our legislators who saw the plight of the planters and the justness of their cause, against the warning of powerful corporations operating the mills that the constitutionality of any legislation impairing the inviolability of contract will be attacked in the courts, passed in 1933 a limitation bill practically embodying the petition of the planters. Unfortunately, this bill which contained the hope of the planters for economic and social justice was vetoed by the then Governor-General.

We have today in force a local limitation law which in the days of *laissez faire* would be unconstitutional because it abridges individual rights but now under the doctrine of the New Deal in the guise of emergency its constitutionality is never questioned. In effect this law not only curtails the individual rights of the planter-citizen but also tampers with contractual obligations.

The milling contract requires the planter to plant a definite portion of his plantation every year and the central to grind the cane grown thereon. But when the planter follows this term of the agreement and has cane in excess of the allotment of the central, this will not grind the excess cane because the law prohibits it under penalty for violation, and the poor planter who is helpless before the law is forced to destroy the cane at a great loss. In this instance the government through the enforcement of the law tramples on the much vaunted sanctity of the contract and nullifies the obligation of the central to the planter. The simple-minded but already oppressed planter asks: if the government can nullify an existing obligation of the central to the planter why can not and should not the same

government alter the obligation of the planter to the central?

Something should be done. We have already demonstrated that fully 88% of the people making a living out of the industry are planters and their families, and the laborers, also with families depending on them. WHILE THIS 88% OF THE PEOPLE DEPENDING UPON THE INDUSTRY SHARES FROM 50 TO 60% OF THE BENEFITS FROM IT THE REMAINING 12%, REPRESENTING THE CENTRALS AND THEIR EMPLOYEES, A *VERY SMALL MINORITY*, SHARES FROM 40 TO 50%! This is indeed not only a greatly unequal and disproportionate but also decidedly unjust distribution of the benefits among the elements in the industry. As long as the distribution of the benefits remains as it is, neither the planters nor the laborers dependent on them can have the improvements that they need and seek. Without improving the situation of the planters it will be most unreasonable to demand of them to increase the wages of their laborers. But the situation of the laborers should be ameliorated, and if the planters must do it their finances must be also bettered. There should be a readjustment of the distribution of benefits from the industry. The situation demands that in some form or another it must be effected.

RECENT CONGRESSIONAL LEGISLATIONS AFFECTING THE FINANCES OF THE PLANTERS

We have already pointed out that the development of our sugar industry has been brought about by the free market of the United States. Today fully 100% of our sugar exported go to that country. Our sugar is absolutely dependent upon that market and any legislation mo-

difying the free trade relations between the two countries and including sugar would naturally be reflected in the finances of those engaged in the industry. The effects will be most greatly felt by the planters.

JONES-COSTIGAN ACT

Although this law was passed later than the Tydings-McDuffie it went into effect first. We shall, therefore, first take up its effects on the planters.

Quota.—The quota provisions of the law were retroactive. Passed in May, 1934, the quotas were made effective as of January 1. The quota assigned the Philippines was 1,015,185 short tons and the planters were caught unprepared to meet this limitation. After the rejection by the Philippine Legislature of the Hare-Hawes-Cutting law in 1933, the planters were confident that there would be no limitation for at least two years. Accordingly they planted the full crop for 1934. When the quota under the Jones-Costigan law was announced the 1933-34 crop that reached 1,554,686 short tons was practically all harvested and the crop for 1934-35, equally as big if not bigger, was already in the field. The excess of the 1934 crop on the quota was, however, permitted to enter the United States to be deducted from the quota of the following year, 1935. Since the quota for this year was 991,307 short tons and the excess of the preceding year which amounted to 466,701 short tons was deducted from it, the effective quota for 1935 was 524,606 tons only. Therefore, about two-thirds of the crop for 1935 had to be destroyed.

Thus during the two years under the Jones-Costigan law our production suffered a reduction of about 1,000,000 tons. The value of the loss at the minimum selling price of ₱6.00 per picul of sugar was about ₱86,000,000 of

which over 50% would have been part of the planters' income.

Processing Tax.—The theory of this tax is that it will be shifted to and borne by the consumer. In effect, however, in the Philippines it was collected from the planters, if not totally, partly. Our proof for this is the simple fact that during all the time the tax was in operation the local selling price of the planter's sugar was very low, as low as ₱6.22 per picul. On the other hand after the tax was declared unconstitutional prices went up to as high as ₱9.25 per picul.

There is no question but that the planters had suffered heavy financial losses from the abrupt curtailment of the crop which forced them to destroy their excess cane and from the operation of the processing tax which was collected from them instead of being shifted to the consumer. Fortunately the planters were included in the system of benefit payments instituted by the Agricultural Adjustment Administration. These helped reduce but never made up the losses of the planters.

THE NEW SUGAR LEGISLATION

Quota.—This would be bigger than that provided in the Tydings-McDuffie act, but as will be explained later unless the latter act is amended, the planters will not be benefited by the bigger quota.

Excise Tax.—Like that of the processing tax, the incidence of the excise tax will fall on the planters. Before the announcement of this legislation local prices of our export sugar were as high as ₱9.15 per picul. Shortly, however, after it was announced with the three-quarters of a cent tax on our sugar entering the United States prices dropped and continued to go down until they reached the

low level of ₱7.15 per picul. Whether the tax will be three quarters or one-half of a cent it will be reflected in the prices in the Philippines and the planters will be the sure heavy sufferers.

Benefit Payments.—The new law provides for benefit payments, but unfortunately the Philippine planters will be left out of the scheme. The tax on Philippine sugar is to be returned to the Philippine Government with the proviso that no part thereof “shall be paid directly or indirectly for the production or processing of sugar cane in the Philippine Islands.” This is most unjust to the planters. Since the planters will bear the burden of the tax and their earnings will be adversely affected, it is only fair that they should directly share at least a part of the benefits from it.

TYDINGS-McDUFFIE ACT

The new government set-up under this law was inaugurated in November, 1935, and commencing with the following year, 1936, the sugar provisions of the law were enforced.

Quota.—This is 800,000 long tons raw and 50,000 long tons refined, equivalent to 971,566 short tons raw value, free of duty until 1940. The Jones-Costigan law assigns to the Philippines a larger allotment, and although for two years now the planters and centrals had been given the option to fill the difference between the quotas of the two laws, they have never taken advantage of it because of the full duty. Shipping the sugar to the United States and paying the full duty of ₱5.23 per picul will not pay the planters and centrals.

The new sugar control legislation also would give the Philippines a bigger quota but unless the full tariff on the difference of the quotas is eliminated the bigger quota in the law can never benefit the planters.

Export Taxes.—Beginning with 1941 the export tax shall operate, 5% of the full duty in that year and increasing 5% every year until it reaches 25% in 1945. If the present full tariff of 1.875 cents gold per pound should continue until 1945 the export taxes to be collected on Philippine sugar would be as follows:

1941 ...	0.09375	¢	per lb.	... ₱0.26	per picul
1942 ...	0.1875	"	" "	... 0.52	" "
1943 ...	0.28125	"	" "	... 0.78	" "
1944 ...	0.3751	"	" "	... 1.05	" "
1945 ...	0.46875	"	" "	... 1.31	" "

With the present cost of production during the first and second years of the tax the planters will be able to continue in their business. Small planters, lessees, and those having plantation milling share less than 60% will be the first to feel the pinch of economic thinness. During the last three years it is extremely doubtful whether the planters will be able to survive. By that time, the small planters, the lessees and planters operating with low plantation milling shares, shall have been eliminated in the business.

The effects of this situation of the planters on labor and social conditions will be very serious. The moment the falling of income begins to register in the books of the planters, these will be forced to adopt measures of economy.

In the first place the give-the-laborer-work practice during the off-seasons will be abandoned and instead of one-half of the laborers being retained during the off-season, thanks if one-fifth would be kept. Secondly the planters will resort to the mechanization of work on the plantations, using labor-saving machineries and imple-

ments. The adoption of these two measures will result in the throwing out of work and unemployment of thousands of laborers. A third measure of economy would be the lowering of wages to level unknown heretofore.

LOW WAGES, LARGE NUMBER OF UNEMPLOYED LABORERS, AND THE INCREASING NUMBER OF SMALL PLANTERS AND LESSEES ELIMINATED FROM THE BUSINESS WILL CONSTITUTE A GRAVE PROBLEM THAT WOULD ENDANGER SOCIAL ORDER AND STABILITY.

Should the new sugar control legislation continue to operate with its excise tax of .5 cent per pound during the last five years of the transition period the planters shall have to shoulder two taxes. If under the export tax alone the planters will not be able to survive what chance will they have under the two taxes? Their elimination in the business will be surely hastened.

Full Tariff.—The Tydings-McDuffie act provides that after independence is granted in 1946 Philippine sugar shipped to the United States will be subjected to the full duty. Supposing the present rate of 1.875 cents per pound which is equivalent to ₱5.23 per picul would remain in force indefinitely which, however, is not possible because American tariffs are revised from time to time according to circumstances and the revision is more likely to be upward than downward, it is not difficult to foresee what will happen to the industry. We need not, therefore, discuss what chance the planters, centrals and the industry will have of surviving.

Preferential Tariff.—Supposing after independence is granted and a trade agreement with a preferential tariff is concluded with the United States will the industry survive? Would the tariff rate be better, that is lower, than

that of Cuba? If no better but just equal to that of Cuba how would the industry fare? Should the present Cuban rate of .9 cent per pound continue it would mean a duty of ₱2.51 per picul on our sugar. If at the rate of ₱1.31 per picul of export tax the planters will have to give up their business, much less chance will they have to survive under the duty of ₱2.51 per picul. The industry can not compete with that of Cuba with her low production and shipping costs either under the quota system or in the open market if the sugar marketing control is discontinued.

Other Markets.—What is the chance of our sugar in other countries of the world? Practically all Europe is producing its own sugar and is protected with high tariffs. Our neighbor China with her four hundred million people is a potential market but the Chinese are consuming very little sugar because of the low purchasing power of the masses and it will be many many years before sugar would reach the masses. Furthermore, the production of sugar in China is monopolized by the government and to protect the monopoly the duty on imports is prohibitive. Japan produces in Formosa all that she needs. India is practically self-supporting also and when in need of more sugar the British possessions supply it. Cuba and Java had to reduce their production because they can not sell all their crop. Under these circumstances our sugar has absolutely no chance in other markets.

IMPORTANCE OF THE INDUSTRY IN THE LIFE OF THE COUNTRY

Sugar cane occupies 7.6% only of the total agricultural area under cultivation. Yet the value of its products constitutes 46.4% of the total value of our agricultural products.

Annually centrifugal sugar and its by-products contribute around ₱130,000,000 to the wealth of the country.

In 1932 sugar constituted 63% and today about 60% of the total value of our exports.

The government derives about 40% of its revenue from sugar and its by-products.

Investment of planters, centrals and others in the industry amount to ₱575,025,070.00.

Approximately 1,980,000 people are directly and indirectly dependent upon the industry.

Our sugar industry is thus a very vital factor in our national economy. It is the life-blood of the country.

In 1934, in a report to the Secretary of War, the then Governor-General Frank Murphy said of the industry as follows:

“Sugar accounted for 63% of all income derived from export trade in 1932. Remove it from the list and a favorable visible balance of trade of \$15,500,000 would have been converted into a negative balance of \$44,500,000.

“The total annual income from all sources is estimated at \$200,000,000, sugar comprising nearly 30% of the total.

“There are 10 banks in the Philippines and in addition 3 private companies engaged in agricultural financing. The total loans, overdrafts and advances of these 13 establishments amounted to \$72,500,000. Of this about \$34,000,000 or 47% is advanced on sugar.

“Considering the Government-owned Philippine National Bank alone its loans, overdrafts and advances amounted to \$22,500,000, of which \$17,500,000 or 77% is advanced on sugar.

"The Government-owned Manila Railroad collected \$2,300,000 as freight revenue in 1932. Of this amount, nearly \$1,000,000 or over 40% was derived from handling sugar.

"The Philippine Railways in Cebu, Iloilo and Panay, in large part guaranteed by the Government, also derive the bulk of its freight revenue from sugar.

"Five of our leading provinces, Occidental Negros, Oriental Negros, Pampanga, Laguna and Tarlac are largely supported by taxation from sugar. Extreme withdrawal of this support in these provinces would seriously affect the public finances and be reflected in cessation of public works and closing of schools."

What will America and our leaders do with this great industry so important in our national existence?

OUR PETITIONS

As the element that, together with labor, will be the most adversely affected in case the industry is shattered to pieces, we are, naturally, interested in preserving that industry. But we want to preserve the industry not for ourselves alone but for the rest of the 1,980,000 people dependent upon it and for our country that needs it. We know that until now and for many years to come no other industry can take its place. For our own part, therefore, we present the following petitions:—

1. THE TEN-YEAR ECONOMIC TRANSITION PERIOD. Planters and others engaged in the industry have made plans and commitments for at least this length of time and if no other arrangement with better terms can be effected, it will seem fair to allow them the necessary period of time for adjusting their business.

2. THE EXPORT TAXES BEGINNING WITH THE SIXTH YEAR OF THE TRANSITION PERIOD BE ABOLISHED. The object of the tax is to provide

funds for the payment of the country's bonded indebtedness. We believe that the Government with the funds it sets aside every year for the redemption of the bonds will be able to pay the debt without the need of the tax which will be an unnecessary burden to the planters.

3. THE NEW SUGAR MARKETING CONTROL LAW OR ANY OTHER SIMILAR ACT THAT CONGRESS MAY ENACT IN THE FUTURE WITH THEIR BIGGER QUOTAS, BE ALLOWED TO GOVERN THE QUANTITY OF PHILIPPINE SUGAR FREE OF DUTY ADMITTED INTO THE UNITED STATES.

4. WHILE THE AMERICAN FLAG FLIES OVER THE PHILIPPINES ANY EXCISE TAX COLLECTED ON PHILIPPINE SUGAR ENTERING THE UNITED STATES BE RETURNED AS BENEFIT PAYMENTS DIRECT TO PHILIPPINE PLANTERS. The industry is already heavily taxed and the excise tax will make the burden on the planters still heavier. To lighten the burden Philippine planters should be included in the program for benefit payments for American, Hawaiian and Puerto Rican producers. The return of the excise tax to the planters as benefit payments will enable them to improve considerably the lot of the laborers dependent on them.

5. AFTER JULY FOURTH NINETEEN HUNDRED AND FORTY SIX IRRESPECTIVE OF THE POLITICAL STATUS OF THE PHILIPPINES, FREE TRADE BETWEEN THE TWO COUNTRIES SHOULD CONTINUE INDEFINITELY.—Nothing short of free trade can save and preserve our sugar industry.

In the American market our sugar does not replace a single pound of American produced sugar. We are not, therefore, competing with the American sugar producers. In pleading for the continuation of the free entry of our sugar into the American market we are merely asking for

a share of the market which the American producers themselves can not fully supply. In return for this privilege our planters, laborers and others engaged in the industry buy millions of dollars worth of American goods among which are tractors and other farm implements, fertilizers, trucks, automobiles, cotton products, dairy products, etc. We believe these free exchange of products are mutually beneficial to the two countries and should be continued.

In submitting the above petitions we do not pretend to claim that they are the best solution to our trade relations with reference to sugar. If better arrangement that would ensure the preservation and stability of the industry can be effected we shall not oppose such arrangement. However, being the element in the industry most vitally concerned, we feel that in any future arrangement affecting the industry, we are entitled to the consideration that is due us.

Respectfully submitted,

CONFEDERACION DE ASOCIACIONES Y
PLANTADORES DE CAÑA DULCE, INC.

By: (Sgd.) OSCAR LEDESMA,
President.

MANILA, PHILIPPINES
September 10, 1937.

APPENDIX I.

District Associations Confederated

<i>No.</i>	<i>Name</i>	<i>Short Tons</i>
3	Bacolod-Murcia	46,131.657
7	Bearin	11,444.540
8	Binalbagan	49,057.667
15	Danao	9,662.298
19	Hawaiian-Philippines	58,496.817
20	Isabela	29,824.225
22	La Carlota	73,694.606
24	Sagay (Lopez)	18,261.367
26	Ma-ao	44,298.974
28	Manapla	60,661.050
38	San Carlos	37,597.706
44	Talisay-Silay	47,776.447
42	Barotac-Dumangas (Santos-Lopez)	13,205.669
17	Region Oeste de Batangas	30,792.008
TOTAL		530,904.526

Non-Confederated Associations Subscribing to this Brief

<i>No.</i>	<i>Name</i>	<i>Short Tons</i>
4	Bais	40,733.885
9	Bogo-Medellin	9,078.140
35	Pasudeco	66,997.927
32	Ormoc	6,755.972
TOTAL		123,565.924
GRAND TOTAL		654,470.450

APPENDIX II

Philippine Production and Exportation of Sugar During American Occupation

Year	Production (Short tons) ¹	Total	EXPORT ²		
			Percent- age of total value of all exports	Exports to the United States (short tons)	Percent- age of total sugar exported
1899	No Data	94,608	23.80	24,126	25.50
1900	No Data	71,860	10.43	2,373	3.30
1901	No Data	62,250	10.43	5,761	9.18
1902	No Data	108,682	11.67	5,644	5.19
1903	No Data	94,035	10.26	32,314	34.36
1904	No Data	95,959	10.61	28,547	29.75
1905	No Data	119,598	15.16	48,051	40.18
1906	136,614	142,697	13.95	13,071	9.16
1907	158,158	141,002	12.68	12,113	8.59
1908	137,993	159,541	17.50	51,485	32.27
1909	130,048	142,558	16.06	58,502	41.04
1910	228,238	133,899	17.78	111,002	82.90
1911	213,586	230,429	24.70	206,856	89.77
1912	173,825	217,237	17.84	147,576	67.93
1913	260,692	173,429	14.72	33,859	19.52
1914	232,601	260,692	22.71	186,873	71.68
1915	372,017	232,600	21.02	91,315	39.26
1916	226,974	372,016	26.58	145,377	39.08
1917	242,211	226,972	12.84	68,759	30.29
1918	218,724	301,212	11.69	116,933	38.82
1919	234,457	149,979	13.44	35,449	23.64
1920	286,544	198,790	32.83	136,627	68.73
1921	389,530	319,530	23.96	165,873	51.91
1922	469,112	399,112	26.77	269,900	67.63
1923	369,807	299,307	23.59	254,141	84.77
1924	342,730	394,436	30.93	331,646	84.08
1925	548,508	602,773	30.57	511,455	84.85
1926	406,209	453,301	23.55	376,222	77.35
1927	590,597	609,929	32.33	560,318	91.87
1928	633,857	628,243	30.66	588,881	93.73
1929	771,360	767,055	32.00	739,591	96.42
1930	867,096	820,089	39.00	812,610	99.09
1931	875,876	829,957	48.00	829,242	99.91
1932	1,100,721	1,120,563	63.00	1,120,230	99.97
1933	1,263,973	1,189,011	61.00	1,188,948	100.00
1934	1,578,406	1,270,789	59.00	1,270,000	100.00
1935	695,145	569,049	35.00	568,106	99.83
1936	932,221	991,902	45.39	991,656	99.97

¹ Data from 1908 to 1920 were taken from Report No. 73, United States Tariff Commission, 1924. Data from 1921 to 1936 were taken from Reports of the Philippine Sugar Association. All data are crop years. Muscovado sugar from 1906 to 1911 inclusive. Mixed muscovado and centrifugal sugar from 1912 to 1931. All centrifugal from 1922.

² Data taken from Reports of Philippine Sugar Association. All figures are for calendar year.

APPENDIX III

Plantation Milling Shares

No.	MILL District Name	Total No. of Planta- tions	Plantation MILLING Shares ¹					
			50%	55%	60%	65%	70%	75%
1	Arayat	330	330					
5	Balanga	131	131					
6	Bamban	1,750	1,750					
10	Cabiao	98	98					
11	Calamba	1,008	1,008					
12	Calatagan	3	3					
13	Calumpit	414	414					
16	Del Carmen	1,455	1,455					
17	Don Pedro	529	500			29		
18	El Real	367	367					
27	Mabalacat	234				234		
29	Manaoag	604				604		
31	Norte	614	614					
34	Paniqui	876	876					
35	Pasubeco	972	972					
45	Tarlac	3,348	3,348					
TOTALS FOR ILOILO		12,853	11,976			907		
3	Bacolod-Murcia	361					361	
4	Bais	536					536 ²	
7	Bearin	217			217			
8	Binalbagan	567					567	
15	Davao	36			36			
19	Hawaiian-Phil.	201			201			
20	Isabela	177					177	
22	La Carlota	184					184 ²	
23	Leonor	11					11	
24	Lopez	120			109		11	
26	Maao	356					356	
28	Manapla	359			359			
33	Palma	201						201 ²
36	San Carlos	190			80		110	
39	San Ysidro	751			742		9	
40	Sta. Anaista	12					12	
44	Talisy-Silay	139			139			
46	Victorias	134			134			
TOTALS FOR NEGROS		4,552			2,017		2,334	201
2	Asturias	532			532			
21	Janinay	664			652	12		
25	Lourdes	40					40	
36	Pilar	123				123		
42	Santos-Lopez	405				405		
43	Sara-Ajuy	138				138		
TOTALS FOR PANAY		1,902			652	1,210		
9	Bogo-Medellin	346				346		
14	Cebu	1,220				1,220		
TOTALS FOR CEBU		1,566				1,566		
32	Ormoc	303				303		
37	Rosario	267					267	
TOTALS FOR LETTE		570				303	267	
30	Mindoro	20	20					
TOTALS FOR THE P. I.		21,493	11,996	652	6,008	267	2,514	201
PERCENTAGES			55.81%	3.04%	27.93%	1.24%	11.04%	0.94%

¹ Taken from the Supplement to Executive Order No. 96 and 901.

² 60% Plantation milling shares became effective after the Executive Orders were issued.

³ The Executive Order gave 61% as the uniform plantation milling share in their district. These are, however, planters who receive as high as 65% of the sugar, but these planters deliver their cane to the factory. The central is small, having a capacity of 600 metric tons of cane daily.

APPENDIX IV

Number of Plantations, Their Management and Allotments

MILL DISTRICT			PLANTATIONS										
			1937 ALLOTMENTS IN POUNDS ¹										
No.	NAME	Total No. ¹	No. Under Lease ¹	Total Farming Units ¹	EXPORT			DOMESTIC			COMBINED		
					Total	Per Plantation	Per Farming Unit	Total	Per Plantation	Per Farming Unit	Total	Per Plantation	Per Farming Unit
12	Calatagan	3	1	77	9,851,215	3,283,738	127,937	895,920	298,440	11,628	10,746,585	3,582,178	139,565
18	El Real	367	48	448	8,395,440	22,875	18,740	1,011,795	2,757	2,258	9,407,235	25,632	20,898
11	Calamba	1,008	229	1,071	86,112,448	85,429	80,403	8,103,949	8,040	7,567	94,216,397	93,468	87,970
16	Del Carmen	1,455	547	1,622	117,897,790	81,029	72,687	9,548,991	6,563	5,887	127,446,781	87,592	78,574
35	Pasudeco	972	442	1,108	123,619,266	127,180	111,569	10,376,587	10,676	9,365	133,995,853	137,856	120,735
17	Don Pedro	629	97	948	55,963,265	88,971	59,033	5,620,740	8,936	5,929	61,584,005	97,908	64,962
27	Mabalacat	234	21	236	5,085,088	21,517	21,335	2,192,481	9,369	9,290	7,227,569	30,837	30,625
13	Calumpit	414	99	418	9,263,533	22,375	22,161	913,132	2,206	2,185	10,176,665	24,581	24,346
29	Manaoag	604	121	607	3,475,471	5,754	5,725	4,524,529	7,491	7,154	8,000,000	13,245	13,180
5	Balanga	131	71	162	6,358,519	48,538	39,250	1,641,482	12,530	10,138	8,000,001	61,069	49,382
6	Bamban	1,750	513	1,806	48,607,726	27,776	26,914	4,607,737	2,633	2,551	53,219,463	30,408	29,465
10	Cabiao	98	11	101	5,694,950	58,111	56,385	2,305,050	23,521	22,322	8,000,000	81,632	79,207
1	Arayat	380	113	411	18,149,784	47,762	44,160	1,755,946	4,621	4,472	19,905,732	52,383	48,432
45	Tarlac	3,848	682	3,661	112,002,120	33,452	30,593	10,094,111	43,015	2,757	122,096,231	36,468	33,350
34	Paniqui	876	311	909	16,354,729	18,669	17,992	1,602,548	1,829	1,763	17,957,275	20,499	19,755
31	Norte	614	38	614	3,873,666	6,309	6,309	4,126,335	4,644	4,644	8,000,001	10,953	10,953
TOTALS AND AVERAGES LUZON		12,883	3,294	14,199	630,655,008	48,953	44,416	69,320,733	5,381	4,882	699,975,741	54,333	49,298
40	Sta. Aniceta	12	6	12	9,391,138	782,594	782,595	636,921	53,077	53,077	10,028,059	835,671	835,671
7	Bearin	217	136	239	21,181,955	97,812	88,627	1,707,128	7,867	7,143	22,889,081	105,499	95,770
38	San Carlos	190	80	193	69,709,017	366,889	361,186	5,486,395	28,775	28,427	75,195,412	395,765	389,613
33	Palma	201	153	274	16,818,381	83,674	61,381	1,185,658	5,899	4,327	18,004,239	89,573	65,709
28	Manapla	359	254	406	111,168,727	309,662	273,814	10,153,372	28,232	25,008	121,322,099	337,944	298,823
39	San Isidro	751	570	995	18,904,670	25,172	19,009	1,524,994	2,031	1,538	20,429,664	27,208	20,532
22	La Carlota	134	98	213	137,093,325	745,099	643,654	10,290,866	65,929	48,314	47,389,211	801,028	691,968
20	Isabela	177	137	226	54,507,930	307,954	241,185	5,140,520	29,042	22,746	59,648,450	336,997	263,931
4	Bais	536	425	650	75,110,356	140,131	115,554	6,357,414	11,861	9,781	81,467,770	151,992	125,335
46	Victorias	134	96	149	80,653,775	601,894	541,300	7,095,786	52,954	47,623	87,749,561	654,847	588,923
19	Hawalian-Phil.	206	146	211	109,330,365	530,730	518,153	7,592,269	36,856	35,182	116,922,634	567,586	554,135
3	Bacolod	361	280	438	85,108,017	194,311	235,756	7,155,297	19,821	16,336	95,263,314	263,887	217,496
26	Ma-a	356	289	448	81,904,404	230,068	182,882	6,693,544	18,802	14,941	88,597,948	248,870	197,763
8	Binalbagan	567	450	748	90,713,303	159,983	121,274	7,402,031	13,055	9,896	98,115,334	173,043	131,170
44	Talisay-Silay	139	94	166	89,003,318	640,315	536,167	6,549,077	47,116	39,452	95,552,895	637,431	575,620
15	Danao	36	24	47	17,650,386	490,288	375,546	1,674,209	46,506	35,621	19,324,595	536,794	411,161
24	Lopez	120	78	27	32,918,149	274,318	1,219,190	3,604,586	30,038	133,503	36,522,735	304,356	1,352,694
23	Leonor	11	6	11	4,375,732	397,884	397,885	1,727,371	106,120	106,120	6,104,130	504,004	504,005
TOTALS AND AVERAGES NEGROS		4,552	3,322	5,553	1,105,549,648	5,242,871	6,199,091	91,977,456	20,206	16,564	1,197,527,104	263,077	215,654
2	Asturias	532	265	635	31,075,188	68,412	48,937	2,099,332	3,946	3,306	33,174,520	62,358	52,243
36	Pilar	123	50	128	26,918,357	218,848	210,299	2,021,964	16,439	15,797	28,940,321	235,287	226,096
43	Sara-Ajuy	138	73	155	12,539,562	90,866	80,900	1,070,639	7,758	6,907	13,610,201	98,624	87,807
42	Santos-Lopez	405	204	420	24,329,900	60,074	57,928	2,081,439	5,139	4,956	26,411,339	65,213	62,884
25	Lourdes	40	30	41	1,367,289	34,182	33,348	1,862,304	46,557	45,422	3,223,593	80,739	78,770
21	Januay	664	405	705	11,570,599	17,426	16,412	1,295,319	1,951	1,837	12,865,918	19,377	18,249
TOTALS AND AVERAGES PANAY		1,902	1,027	2,084	107,800,895	56,678	51,728	10,430,997	5,484	5,005	118,231,892	62,162	56,733
14	Cebu	1,220	617	1,250	14,163,296	11,609	11,330	1,425,472	1,168	1,140	15,588,768	12,777	12,471
9	Bogo-Medellin	346	43	349	16,241,167	46,939	46,536	1,915,114	5,535	5,487	18,156,281	52,475	52,023
TOTALS AND AVERAGES CEBU		1,566	660	1,599	30,404,463	19,415	19,015	3,340,586	2,133	2,089	33,745,049	21,548	21,104
32	Ormoc	303	230	320	12,134,167	40,046	37,919	1,377,778	4,547	4,306	13,511,745	44,594	42,224
37	Rosario	287	186	299	1,423	5	5	7,998,577	29,957	28,669	8,000,000	29,962	28,674
TOTALS AND AVERAGES LEYTE		570	416	599	12,135,590	21,291	20,260	9,376,355	16,450	15,654	21,511,945	37,741	35,914
30	TOTALS AND AVERAGES MINDORO	20	13	19	17,443,236	872,161	601,491	1,405,090	46,836	48,451	18,848,326	942,416	649,942
TOTALS AND AVERAGES PHILIPPINE ISLANDS		21,493	8,732	24,063	1,903,988,840	88,586	71,125	185,851,217	8,647	7,724	2,089,840,057	97,233	86,849

¹The data in these columns were taken from Bissinger, G. H.—Philippine Sugar Control III, Sugar Cane Farm Operators in the Philippines, Vol. 17, No. 12, 1936.

²The allotments in this and Appendix V were taken from the Sugar Orders of the Sugar Section, Office of the High Commissioner, and of the Domestic Sugar Administration.

APPENDIX V

Number of Planters and their Quotas

MILL DISTRICT	No.	NAME	PLANTERS								
			NO. (1)			QUOTAS IN POUNDS (1937)					
			Owner	Lessee	Total	EXPORT		DOMESTIC		EXPORT AND DOMESTIC	
			Total	Per Planter	Total	Per Planter	Total	Per Planter			
	12	Calatagan	2	75	77	9,851,215	127,938	895,320	6,628	10,746,535	139,565
	18	El Real	319	129	448	8,395,440	18,740	1,011,795	2,258	9,407,235	20,998
	11	Calamba	780	290	1,070	86,112,448	80,479	8,102,949	7,574	94,216,397	88,052
	16	Del Carmen	924	688	1,612	117,897,790	73,138	9,548,991	5,924	127,446,781	79,061
	35	Pasudeco	531	576	1,107	123,619,266	111,670	10,376,587	9,373	133,995,853	121,044
	17	Don Pedro	532	416	948	55,963,265	59,033	5,620,740	5,936	61,584,005	64,962
	27	Mabalacat	213	23	236	5,035,088	21,335	2,192,481	9,290	7,227,569	30,625
	13	Calumpit	315	103	418	9,263,533	22,162	913,132	2,185	10,176,665	24,346
	29	Manaoag	483	124	607	3,475,471	5,726	4,524,529	7,453	8,000,000	13,180
	5	Balanga	61	96	157	6,358,519	40,500	1,641,482	1,046	18,000,001	50,955
	6	Bamban	1,237	566	1,803	48,607,726	26,959	4,607,737	2,556	53,215,463	29,514
	10	Cabiao	87	14	101	5,694,950	56,386	2,305,050	22,822	8,000,000	79,203
	1	Arayat	268	143	411	18,149,784	44,160	1,755,946	4,772	19,905,730	48,432
	45	Tarlac	2,727	931	3,658	112,002,120	30,618	10,094,111	2,759	122,096,231	33,377
	34	Paniqui	568	337	905	16,354,727	18,072	1,602,548	1,771	17,957,275	19,842
	31	Norte	577	37	614	3,873,666	6,309	4,126,335	6,720	8,000,001	13,029
Totals and Averages Luzon			9,624	4,548	14,172	630,655,008	445,000	69,320,733	4,891	699,975,741	49,391
	40	Santa Aniceta	6	6	12	9,391,138	782,595	636,921	53,077	10,028,059	835,671
	7	Bearin	81	153	239	21,181,955	88,627	1,707,126	7,143	22,889,081	95,770
	38	San Carlos	117	76	193	69,709,017	361,187	5,486,395	28,427	75,195,412	289,613
	33	Palma	48	227	275	16,818,584	61,158	1,185,658	4,311	18,004,239	65,470
	28	Manapla	105	299	404	111,168,727	275,170	10,153,372	25,132	121,322,099	300,302
	39	San Isidro	182	813	995	18,904,670	19,000	1,524,994	1,533	20,429,664	20,532
	22	La Carlota	87	126	213	137,098,325	643,654	10,290,886	48,314	147,389,211	691,968
	20	Isabela	39	187	226	54,507,930	241,186	5,140,520	22,746	59,648,450	263,931
	4	Bais	111	536	647	75,110,356	116,090	6,357,414	9,826	81,467,770	125,916
	46	Victorias	37	112	149	80,653,775	541,301	7,095,786	47,623	87,749,561	588,923
	19	Hawaiian-Phil.	55	156	211	109,330,365	518,153	7,592,269	35,982	116,922,634	554,136
	9	Bacolod-Murcia	82	355	437	85,108,017	194,755	7,155,297	16,374	92,263,314	211,129
	26	Ma-ao	70	377	447	81,904,404	183,231	6,693,544	14,974	88,597,948	198,206
	8	Binalbagan	121	625	746	90,713,303	121,600	7,402,031	9,922	98,115,334	131,522
	44	Talisay-Silay	45	121	166	89,003,813	536,168	6,549,077	39,452	95,552,895	575,618
	15	Danao	12	35	47	17,650,386	375,540	1,674,209	35,621	19,324,595	411,161
	24	Lopez	42	85	127	32,918,149	259,198	3,604,586	28,383	36,522,736	287,530
	23	Leonor	5	6	11	4,376,732	397,885	1,787,371	57,033	6,104,103	554,918
Totals and Averages Negros			1,245	4,300	5,545	1,105,549,648	199,378	91,977,456	6,588	1,197,527,104	215,965
	2	Asturias	267	368	635	31,075,188	48,937	2,099,332	3,306	33,174,520	52,243
	36	Pilar	78	50	128	26,918,357	210,300	2,021,964	15,797	28,940,321	226,096
	43	Sara-Ajuy	65	90	155	12,539,562	80,900	1,070,639	6,907	13,610,201	87,808
	42	Santos-Lopez	201	218	419	24,329,900	58,067	2,031,439	4,968	26,411,339	63,034
	25	Lourdes	11	30	41	1,367,289	33,349	1,862,304	45,425	3,229,593	78,771
	21	Januay	266	439	705	11,510,399	16,412	1,295,319	1,837	12,865,718	1,815
Totals and Averages Panay			888	1,195	2,083	107,800,895	51,753	10,430,997	5,008	118,231,892	56,760
	14	Cebu	608	634	1,242	14,163,296	11,404	1,425,472	1,148	15,588,768	125,513
	9	Bogo-Medellin	306	43	349	16,241,167	46,536	1,915,114	5,487	18,156,281	52,024
Totals and Averages Cebu			914	677	1,591	30,404,463	19,700	3,340,586	2,100	33,745,049	21,210
	32	Ormoc	74	246	320	12,134,167	37,919	1,377,778	4,306	13,511,945	42,225
	37	Rosario	81	198	279	1,423	5	7,998,577	28,669	8,000,000	28,674
Totals and Averages Leyte			155	444	599	12,135,590	20,260	9,376,355	15,653	21,511,945	35,913
Totals and Averages Mindoro			7	22	29	17,443,236	601,491	1,405,090	48,451	18,848,326	649,942
Totals and Averages Phil. Is.			12,833	11,186	24,019	1,902,988,840	79,270	185,851,217	7,738	2,089,840,057	87,008

* Taken from Bissinger, G. H. Philippine Sugar Control IV, Range and Distribution of Production Allowance, SUGAR NEWS, Vol. 18, No. 6, pp. 209-214.

THE SUGAR INDUSTRY AND ITS RELATION TO
AMERICAN-PHILIPPINE AFFAIRS

A BRIEF ANALYSIS OF THE HISTORICAL, POLITICAL,
ECONOMIC, AND SOCIAL BACKGROUND

SUBMITTED BY

HARRY B. HAWES

U. S. REPRESENTATIVE, PHILIPPINE SUGAR ASSOCIATION

(Photographic Reprint)

FOREWORD

ON APRIL 14, 1937, announcement was made by the State Department, through Hon. Francis B. Sayre, Chairman of the Interdepartmental Committee on Philippine Affairs, that President Roosevelt had approved "the setting up of a Joint Preparatory Committee of American and Philippine experts to study trade relations between the United States and the Philippines."

The personnel of the Committee, approved by President Roosevelt for the United States, and President Quezon, for the Commonwealth of the Philippines, follows:

HON. FRANCIS B. SAYRE,
*Assistant Secretary of State,
Acting Chairman.*

American Group

JOSEPH E. JACOBS, *Vice Chairman of the Committee, and Chairman of the American Group.* Mr. Jacobs is Chief of the Office of Philippine Affairs, Department of State.

LOUIS DOMBRATZKY, *Chief, Division of Regional Information, Bureau of Foreign and Domestic Commerce, Department of Commerce.*

LYNN R. EDMISTER, *Chief Economic Analyst, Division of Trade Agreements, Department of State.*

COLONEL DONALD C. McDONALD, *Assistant to the Chief, Bureau of Insular Affairs, War Department.*

CARL ROBBINS, *Assistant Chief, Sugar Section, Agricultural Adjustment Administration, Department of Agriculture.*

FRANK A. WARING, *Senior Economist, United States Tariff Commission.*

Philippine Group

JOSE YULO, *Vice Chairman of the Committee and Chairman of the Philippine Group.* Mr. Yulo is Secretary of Justice of the Philippine Commonwealth.

CONRAD BENITEZ, *Dean, College of Business, University of the Philippines.*

JOAQUEN M. ELIZALDE, *Member of National Economic Council.*

QUENTIN PAREDES, *Resident Commissioner in the United States for the Commonwealth of the Philippines.*

JOSE E. ROMERO, *Floor Leader, Majority Party in the Philippine National Assembly.*

MANUEL ROXAS, *Floor Leader, Minority Party in the Philippine National Assembly.*

On July 12, 1937, it was announced that Honorable John Van A. MacMurray would act as Chairman of the Joint Committee.

It is to that distinguished Committee and to its members this brief is respectfully addressed.

MR. CHAIRMAN

and

MEMBERS OF THE COMMITTEE:

Students of history will find no parallel or precedent in the annals of human events for either the past or present relationship between the Philippine people and the American Government.

As we approach a termination of this relationship, we shall either carry on under the established policy of 39 years, or abandon it and subject ourselves to the condemnation of intelligent thought throughout the world.

Fortunately, an abandonment of the traditional policy is not necessary. No selfish consideration can justify a change. Clarification is advisable, removal of uncertainty is necessary, and an agreement on a definite fixed program in accord with our past policy is essential. Certainty for a fixed period is as important from the international viewpoint as from considerations of reciprocal trade.

While the future of American-Philippine relationship cannot be determined solely upon the basis of sugar, copra, abaca or any other commodity, these are the major present blood streams that keep alive a valuable trade between the two countries.

The control and direction of this relationship has been with the American Congress, which, with the approval of our Presidents, has always followed the initial policy of guardian and ward, a trusteeship of as high and moral an obligation as that of parent and child, but of even greater responsibility because created by a great nation in its treatment of a dependent people whose destiny it had assumed by force of arms.

In dealing with the future, in making plans for the immediate years ahead of us, whether in carrying out the 1946 plan agreed to, or in shortening that period, or in specific preparation of conventions at the conclusion of any determined period, there must be a sustained consistency with past policy.

When your distinguished Committee makes its report to President Roosevelt to be transmitted for acceptance or rejection to the American Congress, and to President Quezon for acceptance or rejection by the Philippine Assembly, the necessity of keeping in mind a complete understanding of the past, with its fine inspirational history, is obvious, that it may not be changed in any way from that clear period of enlightened advancement in political fundamentals, with its Christian philosophy in a part of the world where it is not so well known.

If there be some deviation here from the immediate subject of sugar, with which this brief is primarily concerned, it is because no single

item of commerce can be segregated from the rest, and the question of commerce cannot be understood without some knowledge of its political origin and growth.

Fortunately, the rest of the world will consider our future relationship to the Philippines with an understanding indulgence. They would pursue the same course under similar circumstances. All foreign nations will expect a transition period for readjustment, unless a covetous eye, or a grasping hand interferes with the broad principle of the status of guardian and ward. The American people can hardly be expected to say: "You are of age", "be on your way", "we are through with you". The world knows we will never forget the Philippines and that the Philippines will never forget us. No one expects a permanent dividing curtain to fall, shutting out the past and obscuring the glorious pages of American-Philippine history.

Because of a war with Spain in 1898, the Philippines came under the sovereignty of the United States. For 39 years since American Occupation, on August 13, 1898, the course of the Philippine people has been charted by the United States.

Whatever mistakes have been made in the enactment or enforcement of laws passed by the American Congress, an impartial observer will record America's achievement in the Philippines as unique in history for unselfish interest in a dependent people. The record of the Filipinos is one of cooperation and appreciation.

HISTORIC BACKGROUND

Under the Treaty of Paris, which terminated the Spanish-American War, Spain ceded to the United States the entire Philippine archipelago. Article IV of the Treaty provided that the United States would, for ten years, admit Spanish ships and merchandise to the ports of the Philippines on the same terms as ships and merchandise of the United States. This became later an important factor in determining the commercial relations between the United States and the Philippines. The Treaty also provided in Article X, that the civil rights and political status of inhabitants of the Philippines would be determined by Congress.

The acquisition of the Philippines raised the Constitutional question of whether this possession, inhabited by people entirely different in race, culture, customs and civilization had ceased to be a "foreign country".

This was decided in 1901 by the United States Supreme Court in the Insular Tariff Cases, under which decision the Philippines became a territory "appurtenant" to the United States, but not a part of the United States, within the revenue clauses of the Constitution.

Early Civil Government

Following the decision of the Insular Tariff Cases, Congress established a civil government in the Philippines by the Organic Act of July 1, 1902. In that act, the Filipinos were given practically the same guarantees of individual liberty as are incorporated in the Constitution of the United States. The Government was established on the pattern of the American Government, consisting of three separate departments, the Executive, Legislative and Judicial.

The next important legislative enactment affecting civil government was the Jones Act of 1916, in which Congress gave the Philippine people an enlarged autonomy and a greater participation in the conduct of their domestic affairs.

For the thirty-six years prior to the enactment of the Independence Act, the Philippine status was uncertain. At one time it was considered a part of the United States within the American unit; at another it was referred to as a foreign country outside the limits of the United States.

The United States exercised complete and absolute control over the Islands. The Governor General of the Philippines was the agent of the War Department in the administration of the Philippine Government.

American sovereignty was universally recognized, and the Philippines, in the international sense, was a part of the United States.

Despite these uncertainties, the Philippines steadily continued progress in government, commerce, and public welfare.

Commercial Relations

Commerce between the United States and the Philippines, prior to the Independence Act of 1934 was controlled by the United States tariff acts.

The tariff policy of the United States underwent four phases of development. The first phase covered the period from the date of American Occupation in August, 1898 to March 8, 1902. This was characterized by no tariff reductions or preferences, as though the relationship was that of foreign countries.

The second phase of trade relationship occurred during the period from March 8, 1902 to August 5, 1909, during which tariff concessions were granted on products of the Philippines entering the United States. The American policy during this period was embodied in the Act of Congress of March 8, 1902, providing for a reduction of 25% in the tariff on Philippine products. But no corresponding reduction in the Philippine tariff was granted on American goods entering the Philippines, due to the provision of the Treaty of Paris, giving the same treatment to Spanish

merchandise and ships entering the Philippines accorded to goods and vessels of the United States.

The third phase of American tariff policy towards the Philippines was characterized by the establishment of free trade with certain limitations.

Free Trade

This was brought about by the enactment of the Tariff Act of August 5, 1909, when the ten-year period provided in the Treaty of Paris expired. Reciprocal trade permitted Philippine products, (with the exception of rice, and certain quantitative limitations on Philippine sugar, cigars and tobacco) to enter the United States duty free, provided such products did not contain more than 20% of foreign materials in value. Concurrently, American products, (except rice) entered the Philippines free of duty, without any limitations as to quantity or materials used in manufacture.

The fourth phase of American Tariff policy which was still in force at the time of the enactment of the Independence Act, was inaugurated by the Tariff Act of October 3, 1913. The essential change in policy was the removal of the limitations on the quantity of Philippine sugar, cigars and tobacco provided in the Act of 1909 and the elimination of the exception on rice. Except for the limitation on the foreign material content of Philippine products granted duty free admission, the Act of 1913 established complete reciprocity in commerce and trade.

The underlying purpose of Congress in establishing free trade was to give special preferences to Philippine producers, and enable American exporters to enjoy the Philippine market.

An analysis of free trade will demonstrate that Philippine products received only an incidental tariff protection in the American market, since the tariff laws were enacted primarily for the purpose of giving protection to goods produced in the United States. Sugar, coconut oil and other Philippine products received American protection only because of their being identical with or similar to products produced in the United States and protected under the American tariff laws.

Conversely the Tariff Act in force in the Philippines since its enactment by Congress in 1909, contained specific provisions giving direct protection to American products entering the Philippines against competition of similar foreign products. In enacting the Philippine Tariff Act, the United States decided for the Philippines which American products should be protected in the Philippine market.

The United States Tariff Commission Report No. 18, 1931, in an analysis of this subject found that—

The proportion of the United States products enjoying tariff preferences in the Philippines under duty-free trade relations has never been less than 97 per cent while the proportion of Philippine trade so favored in the United States has ranged from as low as 22.5 per cent (during the World War year 1917-18) to a maximum of 77.8 in 1929.

When free trade was being considered by Congress in 1909, the Philippine people, through their Assembly, opposed its establishment in a petition which they submitted to Congress, on the ground that—

* * * free trade between the United States and the Islands would in the future become highly prejudicial to the economic interests of the Philippine people and would bring about a situation which might hinder the attainment of the independence of the said people.

Despite this protest, Congress deemed it advisable to establish free trade in order, in the words of the late statesman, Elihu Root, that the United States duty towards the Philippines would be fulfilled "by giving to them the opportunities to national power, to grow in the accumulation of property and the diffusion of wealth lying at the foundation of civilization."

The late Congressman Oscar Underwood, speaking on the floor of the House in support of his proposal in the Tariff Bill of 1913, removing the limitations on Philippine products, portrayed the situation of American-Philippine trade relations as follows:

We could not honestly face those dependent people who give us free trade in their markets if we close our doors here * * * Because we do not want to stand and face that world in such a position as that and say (to the Filipinos) that under our law we command you to open the door, so that American goods can flow into your country, because we have the power to do it, and then turn around and say to them that on the only thing they can import, practically, into our country and make a market for we will close our doors and prevent them developing their trade. I say that no true-born American citizen who faces the question fairly and squarely and understands the situation will consent to that.

Benefits of Free Trade

Notwithstanding the difference in the application of reciprocity to the commerce of the two countries, the result of free trade has been mutually advantageous.

With the opening of the tariff protected American market to their products, the Philippine people were able to develop sugar, coconut oil

and other industries, which have later become the foundation of their economy and the main source of their income.

Governor General Frank Murphy in his last message to the Philippine Legislature, November 14, 1935, said:

• • • The public benefits that have accrued from the wealth created during the last 35 years are too numerous to catalog fully. A few may be sketched:

1. Higher standards of diet, clothing and housing have lifted the Filipino laborer far above the level on which he formerly lived.

2. State funds have been provided out of which railroads, highways, bridges, and ports have been brought into useful being.

3. State payrolls make possible the highest average salary for government employees and the largest number per capita to be found in the Orient or Tropica.

4. Private capital is available for investment in sugar mills, oil mills, stores and offices, land and houses; capital that has been used to modernize the old industries and create new ones.

5. Less tangible but equally important are the requirement of better health, wider education, and higher scientific and artistic culture, and all the chain of advancing social standards, which come with an expanding and diffused economy.

The free trade arrangement gave the United States a virtual monopoly of the Philippine market.

During the last ten-year period of the Spanish régime, from 1885 to 1894, of a total of \$111,307,961 of merchandise imported by the Philippines, the United States supplied only \$3,202,432 or 2.87 per cent.

During the first ten-year period of American sovereignty, but before the establishment of free trade, from 1900 to 1909, of a total value of \$298,936,198 of Philippine imports, the United States supplied \$45,459,084, or 15.21 per cent.

After the establishment of free trade, of the total \$1,121,124,419 of merchandise purchased by the Philippines for the ten-year period, 1924 to 1933, the United States supplied \$684,361,995 or 61.04 per cent.

These figures portray a concrete picture of the metamorphosis of Philippine commerce from one distributed to countries of the world, before American occupation, to one largely confined to a single country.

Offers of Independence

Soon after the Philippines came under the sovereignty of the United States, the Philippine people were informed that America's object was to administer the affairs of the Islands in their behalf and that eventually, if they desired, they would be given their independence.

Every President made public statements of this intention. President Wilson, in a message to the Philippine people in 1912, said—

We regard ourselves as trustees, acting, not for the advantage of the United States, but for the benefit of the people of the Philippine Islands. Every step we take will be taken with a view to ultimate independence, and we hope to move towards that end as rapidly as the safety and the permanent interests of the Islands will permit.

The Organic Act of 1916 embodied this American policy to withdraw "sovereignty over the Philippine Islands and to recognize their independence as soon as a stable government can be established therein."

The Philippine people repeatedly petitioned Congress to grant their independence and mission after mission was sent at intervals to Washington for this purpose.

The First Offer

In 1931 Congress began extended study of a bill providing for ultimate independence. It passed the first independence offer, by an overwhelming vote, but the offer met with the disapproval of the then President of the United States who vetoed it.

The House, on January 13, 1933, and the Senate, on January 17, 1933, passed the measure (by more than two-thirds majority in each case) over the Presidential veto.

The original offer was not to become effective until approved by the Philippine people. It was, accordingly, promulgated through the Governor General, and the Philippine Legislature met to consider the proposal.

The result was rejection of the first offer of independence contained in the Act of 1933.

The Second Offer

The Honorable Manuel L. Quezon, now the distinguished President of the Commonwealth of the Philippines, then visited the United States with a Mission to negotiate with President Franklin D. Roosevelt, and with Congress, a new offer of Independence.

After several conferences between the Philippine Mission, the President and leaders of Congress, a second Independence offer was passed by Congress, approved by the President on March 24, 1934.

This second offer differed from the first offer in some respects but there was no change in the economic provisions.

A Significant Historical Fact

Here develops a fact having a direct bearing upon the study which your Committee is making of this subject.

The Philippine Legislature, after examining the terms and conditions under which the original independence offer was made by the Congress of the United States, rejected that offer because the conditions were not satisfactory to the Philippine people.

When the President of the United States, on March 2, 1934, recommended the renewal of the second Independence offer he stated:

I do not believe that other provisions of the original law need be changed at this time. Where imperfections or inequalities exist, I am confident that they can be corrected after proper hearing and in fairness to both peoples.

The second Independence offer was passed by Congress and approved on March 24, 1934.

The Philippine Senate and House of Representatives, in joint session, on May 2, 1934, passed a concurrent resolution accepting the second offer, and expressing the gratitude of the Philippine Legislature and the Philippine people to the President and the Congress of the United States and to the American people.

In the preamble to the Philippine Legislature's resolution, will be found the following:

Whereas, although the Philippine Legislature believes that certain provisions of said act need further consideration, the said Legislature deems it its duty to accept the proffer of independence thus made by the Government of the United States—

(a) Because the Filipino people cannot, consistent with their national dignity and love of freedom, decline to accept the independence that the said Act grants, and

(b) Because the President of the United States in his message to Congress on March two, Nineteen Hundred and Thirty-Four, recommending the enactment of said law stated: "I do not believe that other provisions of the original law need be changed at this time. Where imperfections or inequalities exist, I am confident that they can be corrected after proper hearings

and in fairness to both peoples" a statement which gives to the Filipino people reasonable assurances of further hearings and due consideration of their views.

The message of the President becomes part of the official acceptance by the Philippine Legislature of the offer of independence.

Following the adoption of a Constitution, the Commonwealth of the Philippines was established during a memorable ceremony on November 15, 1935. At a Joint Session of the Philippine Senate and House, the Vice President of the United States and the Speaker of the House of Representatives accompanied by a distinguished group of United States Senators and Congressmen and their wives were present.

The American Vice President said:

Our trade relations have grown to such proportions that you have until recently ranked as our eighth best customer, and, through the laws passed by our Congress, we have not only been your best customer, but practically your sole customer.

Trade relations of a beneficial character rest exclusively upon two things: the ability to sell, giving the ability to buy.

Our great President, Franklin D. Roosevelt, in sending the last independence bill to Congress, accompanied it with a recommendation that where there were inequalities in our trade relations, they should be adjusted by a Commission representing both peoples who could arrive at an equitable decision which would prove advantageous to our 120,000,000 people and to your 14,000,000 people.

And this, I hope, after thoughtful consideration and investigation, will be worked out to the mutual advantage of both nations.

The late Speaker Byrnes, following Vice-President Garner, said:

When the time comes for the Republic to replace the Commonwealth, we believe that the conduct of its affairs during this period will so impress the nations of the world that the new Republic will begin its career with not only the old friendship of my country, but that all the enlightened nations of the earth will unite in its protection and in the preservation of its sovereignty.

The great American Nation will watch your development with keen interest and, wherever we may, will extend a helping hand.

You raise products which are not raised in the United States. We sell you manufactured articles which are not made in your country. We believe that the President's Commission will work out an equitable plan beneficial to both our nations, and

that the result of its recommendations will strengthen the ties that will become stronger with the years.

The Senate Committee on Territories and Insular Affairs, in its report on February 24, 1932, recommending the passage of the first Independence offer, stated :

Twenty-five years ago free-trade relations were established between the United States and the Philippine Islands. This was done by the American Congress against the expressed desire and despite the opposition of the people of the Islands. As a consequence of free trade, Philippine industries and trade with the United States have developed on that basis.

This arrangement resulted in an artificial stimulation in the production of certain articles and manufactures in the Philippines, and an extraordinary increase in the volume of American-Philippine trade with a corresponding decrease in the trade of the Islands with foreign countries.

Obviously the existing free trade relations between the United States and the Philippines cannot be terminated abruptly without serious injury to Philippine economic interests and American trade with the Islands. Both require a definite time to prepare for the change. Investments made on the basis of free trade must be given time for adjustment or liquidation without loss. Philippine interests must be given time to establish themselves on a competitive basis before they are placed outside of the tariff walls of the United States.

DEVELOPMENT OF THE SUGAR INDUSTRY

When Magellan discovered the Islands in 1521, he found that the Filipinos were already engaged in the growing of sugarcane.

The development of the sugar industry in the Philippines may be divided into three stages: first, during the Spanish Regime, prior to American Occupation; second, during the first ten years of American sovereignty; and, third, during the establishment of free trade.

Under the Spanish Regime, the industry in the Philippines was in a reasonably high state of development. It was established on a competitive basis with the other sugar producing countries of the world. Production was then, as it is now, carried on by small farmers each of whom installed on his little farm a wooden mill powered by a carabao. Under such equipment sugar of the low grades, commercially known as muscovado, pilon, and panocha was produced, and found a world market.

During this period, sugar constituted from 30 to 50% of the value of all agricultural products exported from the Philippines. In the last

four years of Spanish Regime, from 1892 to 1895, an average of almost 300,000 short tons of Philippine sugar was exported, while in 1895, 376,402 short tons was shipped abroad, an exportation not exceeded until twenty-seven years later.

It is significant to note that during the Spanish Regime, the United States was the best market of the Philippines for its sugar and at one time as high as almost 70% of its total sugar exports went to the United States.

With the outbreak of the Philippine revolution against Spain in 1896 and against the American Army of Occupation in 1899, which lasted until 1901, the sugar industry received a severe setback. Sugar exports from the Islands decreased to approximately one-fourth of the pre-revolution level.

In order to alleviate the distressed condition of the industry resulting from these six years of war, Congress reduced, by 25%, the tariff duty applicable to Philippine sugar in the Tariff Act of March 8, 1902.

This did not bring the relief sought; the industry continued in a distressed condition, during this first 10-year period of American occupation.

The United States could not establish a reciprocal trade, as the Treaty of Paris gave Spain a period of 10 years of equal treatment with the United States.

With the expiration of the 10-year period, the United States established closer commercial relations and enacted the Tariff Law of 1909 establishing free trade with a limitation of 300,000 long tons duty-free sugar. This limitation was removed in 1913.

American capital began to flow into the Islands. Encouraged by the government, it made investigations, and its enterprises were stimulated by government approval.

In 1910 an American company erected the first modern factory at San Jose on the Island of Mindoro. Later, in 1912, other American capitalists erected the first cooperative central at San Carlos on the Island of Negros and another at Calamba on the Island of Luzon.

These were the first modern factories erected in the Islands which did the pioneering work in the modernization of the method of manufacture.

It took from 10 to 15 years of inducement on the part of the representatives of the American Government before Philippine producers realized the full benefits of modernizing their methods of production.

The Philippine Government created a Sugar Control Board in 1915, charged with the duty of promoting and giving financial aid to the

industry through loans to corporations and purchase of bonds. In 1916 the Philippine National Bank was created which gave further financial aid to the industry and accelerated the change from the old muscovado mills to the modern centrals.

With the broadening of the American market, production increased. This was accelerated by: first, the change in the method of manufacture from primitive mills, to modern centrals, resulting in an increase in recovery from 60 to 95 per cent; and, second, the increase in the unit yield per acre by the introduction of higher yielding varieties of cane, the same varieties of cane planted in other sugar producing areas, including Java, Hawaii and Puerto Rico.

There was only a slight increase in the Philippine acreage devoted to cane, and no extensive expansion as in other countries. The greater portion of lands devoted to cane today has been utilized for cane culture for centuries. The increase in production was much less, comparatively, than that of other sugar areas.

In 1895, the Philippines produced approximately 431,000 short tons while its peak production was 1,652,593 short tons in the crop year 1933-34. In a period of 40 years the Philippines increased production 383 per cent; for the same period Cuba increased 489 per cent; Puerto Rico, 662 per cent; Hawaii, 412 per cent; United States beet, 1,988 per cent; and Java, 546 per cent, as disclosed in the following statistics:

	Record production prior to American occupation in 1898		Record production in recent years		Percent increase
	Short tons	Year	Short tons	Year	
Cuba _____	1,180,000	1893-94	5,775,000	1922-29	489
Puerto Rico _____	168,000	1897	1,115,000	1933-34	662
Hawaii _____	251,000	1897	1,055,000	1932-33	412
United States (beet) _____	87,000	1895	1,730,000	1933-34	1,988
Philippines _____	431,000	1895	1,652,593	1933-34	383
Java _____	602,000	1895	1,292,000	1927-28	546

Importance To National Economy

As sugar is the most valuable product which the Philippines sells abroad and from which it derives money to finance its requirements, the condition of the industry is necessarily the best barometer of the national economic life.

The Commonwealth Government derives a large portion of its revenue from the taxes paid by the industry. Sugar furnishes the major portion of the total national income; it supplies the bulk of the business of the banks and the freight for Government railroads; it provides support for 2,000,000 people who directly depend upon the industry for a livelihood.

With the income derived from its sale in the United States, the Philippine people have been able to finance their improvements in sanitation and health service, public works and education, and to enjoy an economic prosperity which has enabled them to raise their standard of living to 300 per cent over that of their neighbors.

A nation buys as it sells. This is true of the Philippines. Sugar, the principal product, provides the major portion of revenue with which to purchase American products.

Cooperative System

One feature of the present system of production is the cooperative relationship between planters and centrals. In other countries the factories not only own the land but also grow the cane; in the Philippines the centrals generally depend upon the independent growers to supply them with cane.

Acquisition or lease of public lands is limited by law to 1,024 hectares, or 2,500 acres, preventing excessive land holdings. A central has from 50 to 4,000 farmers on whose good will it is dependent for its output.

This cooperative system is based on a milling contract entered into between the factory and the farmer, under which the planters obligate themselves to grow cane to be milled by the central while the central furnished transportation and mills the cane into sugar. The planters give rights-of-way for the railway of the centrals over their property and plant at least one-half of the area of their land upon which they agree to grow cane during the life of the milling contract. The central receives as compensation for milling the cane and furnishing the transportation a share of from 40 to 50 percent of the sugar produced while the planters receive the balance of from 50 to 60 percent.

There are at present 46 centrals with some 23,000 farmers, a majority of whom own only a few acres, who have entered into contractual relations with the centrals.

Main Export

Of the total value of \$136,448,053 of products exported from the Philippines in 1936, excluding gold bullion and ores, sugar constituted 46 percent, as the following Insular Customs Collector's data show:

	To all countries		To the United States	
	Value	Total percent	Value	Total percent
Sugar	\$ 61,937,322	46	\$ 61,927,184	99
Coconut products	35,098,145	26	28,097,038	33
Hemp	17,088,599	12	5,336,711	31
Tobacco products	5,244,783	4	2,562,049	49
Embroideries	4,274,535	3	4,266,336	99
Others	12,804,649	9	5,336,008	42
Total	\$136,448,053	100	\$107,525,326	79

Investment

The industry is financed mainly by Philippine-American capital. The total aggregate investments in the industry amounts to \$260,753,886.67 of which \$93,253,886.67 represents investments in factories.

Of the capital invested in the centrals amounting to \$93,253,886.67, 43 percent is Filipino, 33 percent American, 23 percent Spanish and 1 percent cosmopolitan.

NEW THEORY OF CONTROL

At the time of the passage of the Independence Act, and at the time the Philippine people accepted the conditions under which independence was offered, there was an entirely different situation presented with respect to sugar from that which has prevailed since the passage of the Sugar control provisions of the Agricultural Adjustment Act.

When the original Independence Act was being drawn, Congress had not considered the matter of quota control. While domestic production did not supply domestic requirements, there was a sugar tariff, but it did not apply to the Philippines.

Whatever fear may have existed at that time has been dissipated by the adoption of the quota plan.

Congress determined a "status quo" for 1931-2, which was fixed in the first Independence offer of 1933 at 850,000 long tons, of which 50,000 tons was to be refined and all of which may enter the United States duty free during the ten-year period of adjustment.

The present Independence Act, establishing this status quo of 850,000 long tons, duty-free (the equivalent of approximately 972,000 short tons, raw value) was approved by the President on March 24, 1934. The duty-free limitation of the 1934 Act is identical with the duty-free limitation of the original Independence offer.

The co-author of the first Independence offer, the Honorable Butler B. Hare, Chairman of the House Committee on Insular Affairs, after a personal investigation in the Philippines, in a written memorandum, recommended that the limitation be increased to 1,100,000 long tons.

He said:

If we are going to take the 'status quo' or 'existing investments' as the basis for fixing the limitation, I think, instead of taking the export figures of 1931 as a basis for the limitations on sugar, we should take as near as possible the export figures at the

time the limitations go into effect, because many of the planters, as I have stated, have already made their investments in better seed and in some cases provided a system of irrigation which will result in the indicated production by the time the proposed legislation can be made effective. In that event, the limitations on sugar, as already suggested, should be at least 1,050,000 long tons raw and 50,000 tons refined.

By the time the second Independence offer of March, 1934, became operative, productivity of sugar in the Philippine Islands had reached 1,600,000 short tons.

The Commonwealth of the Philippines was not inaugurated until November, 1935. Had the Philippine industry been governed only by the Independence Act, it could have marketed in the United States, prior to November 15, 1935, its entire production.

On May 9, 1934, 46 days after the passage of the second Independence Act, Congress enacted the Sugar Control (Jones-Costigan) Act.

Between the passage of the Control Act in May, 1934, and the inauguration of the Philippine Commonwealth in November, 1935, the Philippines not only complied with the new quota regulations, but the Philippine Legislature curtailed production to comply with the theory of the United States Agricultural Adjustment program, and the industry bore the loss of 500,000 tons per annum.

Under a Commonwealth statute, to conform with the United States Control Act, Philippine production is limited to the amount permitted free entrance into the United States, plus an amount necessary for reserve and local consumption.

There has been continued cooperation of Philippine officials and sugar interests with the United States Government during the various changes of control.

As a result of the control principle, a new situation is created, the control of imports by quota, rather than by tariff. The situation with respect to the relationship between Philippine sugar and that from other domestic areas is therefore changed.

In March, 1937, the Philippine Sugar Association, conforming its position to the attitude of officials of the Commonwealth Government, officially announced by Honorable Quintin Paredes, Commissioner from the Islands, who appeared before the Subcommittee of the House Committee on Agriculture, agreed to the provisions of H. R. 5326, which limited Philippine imports annually to the 850,000 long tons (972,000 short tons, raw value) fixed in the Independence Act.

Philippine Quotas

On three different occasions, a quota for Philippine sugar has been fixed at an amount in excess of the duty free limitations of the Independence offer.

1. A conference was called by the Secretary of Agriculture, under provisions of the Agricultural Act, in Washington in the summer of 1933, continuing for three months in which representatives of producers and refiners of the continental and off-shore areas participated, at the conclusion of which all of the areas under the American flag (Cuba, a foreign nation, not being included) signed a voluntary agreement allotting a quota to the Philippines of 1,100,000, with a reserve of 100,000 tons additional, or a total of 1,200,000 tons available for export to the United States.

2. On February 8, 1934, President Roosevelt in his message to Congress proposing a quota system of control, suggested a quota for the Philippines of 1,037,000 short tons.

3. The Secretary of Agriculture, administering the provisions of the Control Act, fixed the basic quota of the Philippines at 1,049,571 short tons and has, upon that basis, allotted to the Philippines annual quotas ranging from 981,000 to 1,098,000 short tons.

By agreeing to the duty free quota of the Independence Act, Philippine producers are accepting 228,000 tons less than the allotment under the voluntary agreement, 65,000 tons less than the quota suggested by the President, and 77,571 tons less than the basic quota fixed by the Secretary of Agriculture.

At the time of the adoption of the Independence Act, the question of Philippine sugar control was a matter of interest to other areas.

With the adoption of the quota system came an entirely new theory of control, and when the quotas were fixed at such a low basis for the Philippines, no sugar area has requested a further curtailment.

Quota control established for the first time a limitation on all sugar marketed in the United States. It extended the marketing control to Continental beets, Continental cane, the off-shore areas of Hawaii, Puerto Rico, and the Virgin Islands, and to foreign countries including Cuba.

These quotas have all been based upon an estimate of American consumption now placed at approximately 6,682,000 tons annually.

No objection was raised by any domestic area to the maintenance of the Philippine quota in the Independence Act. Apparently no domestic sugar interest objects to the Philippine allotment of either raw or refined sugar during the adjustment period prior to independence. The quota

fixed in the Independence Act does not deprive Continental and other off-shore domestic areas of a ton of production.

REFINED SUGAR

An American Refiners' witness before your committee made certain statements to which reference is now made for the purpose of clarifying the record.

In his testimony of June 22, 1937, appears the following statement by the representative of the American Sugar Cane Refiners:

In view of the obligations undertaken by this country under the Philippine Independence Act, and assuming that the entire program of trade relations prescribed by that Act is to remain undisturbed, we are not asking for any reduction in the quantity of refined sugar permitted to enter this country subject to the provisions of that Act, prior to the independence of the Philippines.

This would indicate that, insofar as the quantity of refined sugar coming from the Islands into the United States during the transition period prior to complete independence is concerned, the American sugar refiners have no objection to the quantity fixed in the Independence Act.

Assuming this to be the attitude of the American Refiners, there would seem to remain but one issue, whether Philippine refined sugar should share relatively in any preference granted to the Philippines after withdrawal of American sovereignty, whether in 1946 or in any other year.

Congress recognized refined sugar in the Independence Act. If the basic theory of an adjustment period subsequent to complete independence is to be uniformly applied, it would seem that refined sugar should not be omitted from the adjustment formula.

Philippine sugar refineries place their yearly output capacity (based upon 300 working days) at 140,500 long tons, divided as follows:

	Yearly Capacity Output	U. S. Export Quota
Insular Sugar Refining Corporation.....	73,500	33,893
Victorias Milling Co.	33,500	7,375
Malabon Sugar Co.	33,500	8,232
	<u>140,500</u>	<u>50,000</u>

These refineries supply about 15,600 tons of refined sugar annually to the Philippine market. This gives them a total annual business of about

65,600 long tons permitting them to operate only at less than 47% of productive capacity.

The investment in these refineries, exclusive of working capital, is estimated to exceed \$2,000,000.

These refineries buy most of their machinery, repair parts and other operating supplies from the United States, contribute their proportionate share to the maintenance of the Philippine Government in the form of annual sales taxes, tax on real estate and income, and promote the economic stability of the communities in which they are respectively located.

The 50,000 long tons or 59,000 short tons, raw value, of Philippine refined sugar constitutes less than 10% of the total quantity of refined sugar annually brought from off-shore areas, as follows: 440,000 from Cuba, 30,000 from Hawaii, 129,000 from Puerto Rico and 59,000 from the Philippines.

INTERNATIONAL SUGAR AGREEMENT

Realizing the necessity of maintaining an orderly relationship between the supply and demand for sugar in the world market, representatives of 22 countries held a conference in London, April 5 to May 6, 1937, and entered into an agreement regulating the world production and marketing of sugar. The Conference Agreement was signed by Norman H. Davis for the United States, and by Urbano A. Zafra who represented the Commonwealth of the Philippines in the United States Delegation.

The treaty is now under consideration by the Foreign Relations Committee of the United States Senate.

This international sugar convention will have a broad effect upon American-Philippine affairs and upon international relations. The Conference acted upon the theory that the United States has control of and sovereignty over the Commonwealth of the Philippines. While the Commonwealth of the Philippines was represented in the United States Delegation, it was not a contracting party to the Agreement. The Conference proceeded on the theory that sugar grown and produced in the Philippines is a domestic supply of the United States.

In the treatment of the Philippine quota in the American market, the agreement considers the Philippine quota commitment as being in the nature of a treaty obligation.

The Philippines forego the export of sugar to the free market of the world so long as it maintains its present quota in the United States.

Of far-reaching importance, insofar as the future relationship between the United States and the Philippines is concerned, is the recognition by the other 21 contracting governments of the special American-Philippine relationship by agreeing

not to claim, in virtue of any most-favored-nation rights granted to them by the Government of the United States, the benefit of any advantages with respect to sugar which may be accorded to, or agreed upon with, the Philippines by the Government of the United States during the period of the present Agreement.

This would make possible the formulation of a trade agreement between the United States and the Philippines with respect to sugar in the event of a change in the political status of the Philippine Commonwealth.

GRADUATED EXPORT TAXES

The second Independence Act requires the Government of the Commonwealth of the Philippines to impose during the last five years prior to independence certain export taxes on sugar coming to the United States.

This export tax is a graduated 5, 10, 15, 20 and 25 percent of the sugar tariff and will apply on the duty-free sugar permitted under the Act. It has been humorously referred to as the "stair-steps" provision.

Whether these "stair-steps" are to be used in going to the cellar or whether they are stair-steps that lead to the roof, only future developments will determine.

These export taxes do not add one dollar to the Treasury of the United States.

The revenue from these taxes are collected in the Philippines and deposited in its Treasury. They do not affect the American budget nor its balancing, nor will they add one ton of either raw or refined sugar to other sugar areas.

They will not affect either the United States beet or cane producer, Puerto Rico or Hawaii, or prices in the domestic market.

These taxes, however, very vitally concern Philippine economy and Philippine finance and government.

The "stair-step" export taxes provision is apparently inconsistent with the underlying philosophy of the Independence Act. The Independence offer was predicated upon a grant of greater autonomy to the Philip-

pine people, that they might prepare themselves for the responsibilities of an independent government.

The power of taxation is a right of government which was certainly not intended to be withheld from the Philippine people. The Act prevents its exercise by the inclusion of the export taxes provision.

The purpose of the export stair-step taxes as stated in the bill, was to guarantee the payment of the bonded indebtedness of the Philippine Government. The Philippine Commonwealth has provided a system of sinking funds for retirement of bonds through taxation adapted to Philippine conditions, as determined by the Philippine Legislature.

Congressional enactments, as we know, frequently involve compromise, and sometimes illogical provisions find their way into final enactment.

When the first independence offer was reported to the Senate (with only one adverse vote) it provided for a fifteen-year transition period, which the Committee thought necessary to prepare for ultimate independence.

Another section provided that a plebiscite of the people of the Philippines should be held at the end of the transition period to determine, with experience back of them, whether they still desired complete independence.

That was the thought of the Senate Committee on the subject. The bill, as reported, provided for 10 years of uninterrupted free-trade reciprocal exchange and then, at the end of ten years, and not until then, was this graduated tax to be imposed upon sugar, the proceeds of which were to be placed in the Philippine Treasury for the purpose of liquidating its bonded indebtedness.

The period of 10 years uninterrupted trade relationships was the same that was allowed Spain when the United States acquired the Philippine Archipelago, and it was considered only fair that the new Commonwealth should be entitled to equal treatment with that accorded Spain.

In the final offer the transition period was cut to 10 years, the plebiscite was placed at the beginning of the transition period, which destroyed its original object, and the "stair-steps" export taxes, instead of beginning at the end of 10 years, were made to begin at the end of 5 years.

Two years have passed since the new Commonwealth came into existence. The condition of its finances today removes the doubt as to the payment of the bonds.

Changed conditions occurring in the United States and throughout the world may compel the Government of the Philippines to levy some other form of taxes for the liquidation of its outstanding indebtedness. In any program of adjustment, it should be permitted to discover its own sources of revenue and to levy its own taxes and meet its own obligations in a manner determined by it, subject to the safeguards provided elsewhere in the Act.

Consideration of the subject will convince United States producers and refiners that the "stair-steps" taxes do not affect them.

IN CONCLUSION

As United States Representative of the Philippine Sugar Association, somewhat familiar with the complexities of the problems which you are considering, I sympathize with you in your difficult undertaking, and, on behalf of those whom I have the pleasure to represent, wish for you successful achievement.

The American-Philippine problem can be solved equitably, fairly, and justly if historical background and national responsibility are given consideration.

The world is cognizant of our past and present relationship. It has watched with sympathetic interest the 39 years' advance.

It has not been so long since November 15, 1935, when bells rang, bands played and cannons boomed in the very heart of the Orient as 15,000,000 Christian Filipinos celebrated another step in the fulfillment of an American promise.

The story went round the world. Americans were satisfied for they were redeeming a promise; the Philippine people were happy in the vision of a prosperous future.

That historic event should not be now marred by lack of statesmanship, by shortsightedness or by misguided selfishness.

Respectfully submitted,

HARRY B. HAWES,
*United States Representative
Philippine Sugar Association.*

MEMORANDUM
SUBMITTED BY THE
JAPANESE CHAMBER OF COMMERCE OF MANILA
SEPTEMBER 1937
(Photographic Reprint)

**Memorandum submitted to the
Joint Committee of American - Philippine
Experts on Philippine Affairs by the
Japanese Chamber of Commerce of Manila**

The Japanese Chamber of Commerce of Manila deems it a great honor to be given the privilege of presenting herewith a memorial to the Joint Preparatory Committee of American-Philippine Experts on Philippine Affairs.

On the 18th of March, 1937, a statement was issued in Washington by President Manuel L. Quezon of the Philippine Commonwealth and Assistant Secretary of State Francis B. Sayre, the text of which reads as follows:

**OFFICIAL TEXT OF THE STATEMENT
ISSUED BY PRESIDENT QUEZON OF THE
PHILIPPINE COMMONWEALTH AND ASSIST-
ANT SECRETARY OF STATE FRANCIS B.
SAYRE CONCERNING THE TRADE AND IN-
DEPENDENCE SITUATIONS**

"Arrangements are being made for the appointment shortly of a joint preparatory committee of American-Philippine experts. The committee is to

study trade relations between the United States and the Philippines and recommend a program for adjustment of Philippine national economy.

"This announcement followed conferences between President Quezon of the Philippine Commonwealth and the inter-departmental committee on Philippine affairs, which is acting on behalf of President Roosevelt in the preliminary discussions. Assistant Secretary of State Sayre is acting chairman of this committee.

"Inasmuch as the independence act provides that complete political independence of the Philippines shall become effective on July 4, 1946, and inasmuch as President Quezon has suggested that the date of independence might be advanced to 1938 or 1939, it was agreed that the joint committee of experts would be expected, in making recommendations, to consider the bearing which advancement in the date of independence would have on facilitating or retarding execution of the program of economic adjustment of the Philippines.

"It further was agreed that preferential trade relations between the United States and the Philippines are to be terminated at the earliest practicable date consistent with affording the Philippines reasonable opportunity to adjust the national economy. Thereafter, it is contemplated, trade relations between the two countries will be regulated in accordance with a reciprocal trade agreement on a non-preferential basis."

On the eve of the arrival of the Joint Preparatory Committee of American-Philippine Experts on Philippine Affairs, Ambassador MacMurray, chairman of the committee, issued a statement, through the American High Commissioner's office, an extract of which reads as follows:

"To assist the Committee in preparing its recommendation, written statements will be received, and public hearings such as those already held in Washington and San Francisco, will be held in Manila beginning September 15, 1937 * * *."

"All information and views in writing and all application for supplementary oral presentation of views shall be submitted to the Committee not later than 12 o'clock noon, September 10, 1937 * * *."

Conforming to the tenor of the above statements, we, the Japanese Chamber of Commerce, wish frankly to express our humble but explicit opinion based upon available data on the trade relations between the United States, the Philippines and Japan.

To begin with, we wish to clarify our attitude and state that we, for one, are not opposed either to the advancement of the date of Philippine independence or to the revision of the Tydings-McDuffie Law. But we believe that in the adjustment of American-Philippine trade relations preparatory to the concession of Philippine independence the economic re-

lations between the Philippines and Japan and other foreign countries cannot be overlooked.

(I) *The relative trade interests among the United States, the Philippines and Japan.*

The commerce between the United States, the Philippines and Japan furnishes an excellent example of that "triangular" trade arrangement which Secretary of State Hull fervently advocates. By this is meant that the surplus merchandise balance in favor of the Philippines in its trade with America is offset or counteracted by a balance against it reaching up to Y15,574,000 in 1936, in its trade relations with Japan. On the other hand, the United States enjoys a heavy surplus in its exports to Japan.

According to statistics (released by the Governments concerned), the imports and exports between the United States, the Philippines and Japan for the year 1936 are as follows:

Philippine exports to U. S.	P237,504,000.00
" imports from U. S.	122,994,000.00
" over-export to U. S.	114,510,000.00
United States exports to Japan	¥847,490,000.00
" " imports from Japan	594,252,000.00
" " over-export to Japan	253,238,000.00
Japan's exports to the Philippines	51,846,000.00
" imports from the Philippines	36,266,000.00
" over-export to the Philippines	15,580,000.00

As can be ascertained from the above, each of the three nations shows a favorable balance of trade and the ratios between the imports and excess of the exports of these nations are as follows:

United States	42.6%
Philippines	93.10%
Japan	43%

Moreover, there lies the so-called reciprocal trade relations among these three nations, that is to say: Philippine purchases of cotton textiles from Japan, for example, help to finance Japan's purchases of raw cotton from the United States which in turn form part of the economic set up whereby the United States is enabled to buy approximately twice as much from the Philippines as she sells to the Islands. Consequently, the rise in price of the Japanese goods occasioned by the elevation of customs tariff or by other measures adopted by the Philippines, will discourage the people of these islands from buying the Japanese goods, a fact which will lead to the decrease in consumption of raw materials which Japan has been importing from the United States.

When we take into consideration the evident fact that such a well-balanced reciprocal trade relation will be of great benefit to the three nations concerned, we cannot but be of the opinion that it would be most desirable to try to maintain the status quo

and to eliminate any activity destructive of this reciprocal relation, as for instance, raising the customs tariff on Japanese articles, or establishing the quota system on Philippine imports.

(II) *Specialized fields of the Japanese and the American goods.*

Japanese and American goods have their own respective fields in the Philippine market, naturally allotted according to their quality and price, so that generally speaking, they cannot compete with each other. This is so because Japanese goods are intended for the daily necessities of the common people, especially the farmers and laborers, and it will be almost impossible for the superior and high-priced American goods to substitute them.

Let us roughly classify the goods coming to the Philippines from the United States and Japan respectively. First, we shall see what kind of goods are imported from the United States: i.e. automobiles, trucks, cotton cloth (high quality), general machinery, electrical machinery, tobacco, tobacco products, canned articles, manufactures of India rubber, iron, steel, leather and paper. They are mostly products of heavy industries, in the manufacture of which Japan today can hardly compete with America.

Then let us turn our eyes to the Japanese goods: i.e. cotton cloth (low quality), rayon cloth, glass-

ware, porcelain, lamps, knitted goods, toys, bicycles and accessories and other cheap sundry goods. These are all products of Japanese industries and owing to their low prices, they are heartily welcomed by the majority of the laborers, and American goods can never be accepted as substitutes because they are 30% to 50% higher in price. In order to bring about the prosperity and welfare of the laborers of the archipelago, for which President Quezon and the Philippine Government are both working we have to, first of all, supply them at reasonable prices with such articles as they are most desirous of obtaining. For this purpose, we believe, there will be none better than Japanese goods.

(III) *Enormous increase of import of Japanese goods is mere rumor as statistics verify.*

There is a belief that Japanese goods have been gradually ousting American goods from the Philippine market. This is ridiculous. The Japanese goods are mostly commodities for the laboring class and are exhibited in such a way as to draw their attention as much as possible, so that they look quite abundant in quantity although their value be really insignificant. Recent statistics show the fact that the import of American goods exceeds that of Japanese goods as follows:

TABLE SHOWING COMPARISON OF P. I. TRADE

	<i>P. I. Total Trade</i>	<i>P. I. Trade with U. S.</i>	<i>P. I. Trade with Japan</i>
<i>1935</i>			
Volume of Trade	₱359,539,059	₱258,604,078	₱35,061,678
Ratio to Total Trade ..		71.92%	9.75%
<i>1936</i>			
Volume of Trade	₱497,602,664	₱360,499,388	₱43,314,802
Ratio to Total Trade...		72.44%	8.70%
Ratio of Increase as compared with 1935	38.40%	39.40%	23.59%

The above statistics show that Philippine foreign trade made remarkable progress in the year 1936, the ratio of increase as compared with that of the year 1935 being 38.40%. During the same period Philippine-American trade increased 39.40% while Philippine-Japan trade increased by 23.59%.

An examination of these figures shows how fabulous is the rumor that it is only with Japan that the Philippine trade is making progress. In order to make it much clearer, let us examine the figures of Philippine imports.

TABLE SHOWING COMPARISON OF P. I. IMPORTS

	<i>P. I. Total Imports</i>	<i>Imports from U. S.</i>	<i>Imports from Japan</i>
<i>1935</i>			
Volume of Imports	₱171,047,699	₱108,733,000	₱24,342,949
Ratio to Total Imports		63.56%	14.23%
<i>1936</i>			
Volume of Imports ...	₱202,252,349	₱122,994,525	₱26,528,530
Ratio to Total Imports		60.81%	13.12%
Ratio of increase as compared with 1935 ...	18.24%	13.12%	8.98%

The ratio of increase of the whole imports is 18.24%, of which the imports from United States show an increase of 13.12%, whereas those from Japan show no more than 8.98%. In other words, there is a difference of 4.14% between them.

More remarkable still are the ratios between the total imports and those from United States and from Japan respectively. The former presents 60% and the latter 13%.

As to the much disputed cotton piece goods, they are only 11% of the whole value of American exports to the Philippines. The Japanese cotton piece goods imported into these Islands now exceed the American goods in quantity, but the American goods are far ahead in value, as shown in the following statistics:

TABLE SHOWING COMPARISON OF IMPORTS
OF COTTON GOODS

<i>1935</i>	<i>Total Imports</i>	<i>Imports from U. S.</i>	<i>Imports from Japan</i>
Volume	₱ 30,599,841	₱ 13,534,941	₱ 13,071,817
Ratio to total imports		44.23%	42.72%
<i>1936</i>			
Volume	₱ 30,535,257	₱ 13,563,761	₱ 10,942,729
Ratio to total imports		44.42%	35.65%
Ratio of increase (+) or decrease (-) as compared with 1935	(-).21%	.(+).20%	(-) 16.28%

The details of this trade are clearly shown in an extract from the Annual Report of the Secretary of

Finance of the Philippine Commonwealth for the year 1936, which is quoted hereunder for reference. To raise the customs duties or to adopt an import quota system will result in nothing but discouraging the farming and laboring classes from using foreign goods. This will in turn bring about pessimistic future for the other two countries.

AN EXTRACT FROM THE ANNUAL REPORT
OF THE SECRETARY OF FINANCE, 1936

"The foreign trade of the Islands increased to almost the level of the boom year of 1929, being P497,602,664 as compared with P359,539,059 in 1935, or an increase of P138,063,605 or 38.40 per cent
* * *

"The United States continued to hold the dominant position in the foreign trade of the Philippines with the same percentage (72 per cent) as in 1935 in its share. In value, however, the total trade with the United States increased from P258,604,073 in 1935 to P360,499,388 in 1936, or by P101,895,315 or 39.40 per cent. Since 1930, Japan has always held the second position in our trade with the outside. Her trade with the Islands in 1936 amounted to P43,314,802, representing 8.70 per cent of the total trade, which constituted an increase of P8,253,124 or 23.54 per cent over that of her trade with this country in 1935. *It is of interest to note that while the United States increased her trade with the Islands by P101,895,315 or 39.40 per cent, Japan increased hers only by P8,253,124 or 23.54*

*per cent. And while the United States maintained her share of 72 per cent of the total trade, Japan suffered a reduction in her share, being 5.69 (¹) per cent in 1935 and 5.68 (²) per cent in 1936. These facts are significant in that they belie the greatly exaggerated fear of Japanese incursions in our foreign trade at the expense of the United States
* * *"*

In order to accelerate Philippine exports to Japan the country should develop the natural resources and produce such goods as Japan keenly needs. But, there is a strict rule in the Constitution of the Philippines that 60% of the capital must be owned by American or Philippine citizens. So we can say that the door to developing the natural resources is closed to foreigners, and it will be impossible for Japan by herself to improve the export business. Such being the case, it is quite advisable for the Philippines to put in force the so-called "Economic Control" in the Archipelago through the cooperation of the three countries, i.e. Japan, America, and the Philippines, as to capital, machinery, labor, etc., adopting an ideal policy of open-

(¹) According to the Annual Report of the Collector of Customs, 1936, p. 17, the figure 5.69 per cent is the data for export only and does not include the imports. The correct figure for the total trade is 9.75% as shown on p. 17, Annual Report of the Collector of Customs, 1936.

(²) The explanation is the same as (1); the figure 5.68% should be 8.70%. (p. 16, Annual Report of the Collector of Customs, 1936.)

door and equal opportunity for all nations. Only in this way can she foster her national industries and increase the purchasing power of her people and thus benefit these three nations concerned, and in the long run perhaps all the nations of the world.

(IV) *Raising of customs tariff or establishing a quota system may cause social unrest.*

There are not a few who cannot discriminate between the standard of living and the cost of living. Merely from the fact that the cost of living in Manila and other cities is much higher than that prevailing in other Oriental countries, some are misled into thinking that the standard of living in the former is higher than that of the latter. But we understand that in reality, the great majority of the inhabitants of the Archipelago belong to the labor class and can hardly afford the high-priced goods. If the price of commodities be raised as a consequence of the raised customs duties or if a quota system on imports be established we fear it will bring about social unrest and discontent. On the other hand, the decrease of governmental income through the decrease of customs duties, which form about a quarter of the whole income of the Philippine Government, will not only cause financial embarrassment to the government, but will raise the production cost of exports through the rise in price and

wages. All these factors will first bring about inactivity in the export trade and then decrease the purchasing power of the people for American goods.

(V) *Adjustment of trade relations between the Philippines and Japan.*

Some are of the opinion that there is a so-called one-way trade between the Philippines and Japan. But, it is clearly explained by the following statistics that the trade between the Philippines and Japan is approaching an equilibrium owing partly to the rise of market prices of Manila hemp and lumber and partly to the increasing exports of various kinds of minerals to Japan.

TABLE SHOWING COMPARISON OF P. I. EXPORTS

	<i>P. I. Total Exports</i>	<i>Exports to U. S.</i>	<i>Exports to Japan</i>
<i>1935</i>			
Volume of Exports ...	₱203,858,255	₱165,231,482	₱10,718,729
Ratio to total exports ..		81.05%	5.25%
<i>1936</i>			
Volume of Exports ...	₱295,350,969	₱237,504,863	₱16,786,272
Ratio to total exports ..		80.41%	5.68%
Ratio of increase as compared with 1935	44.88%	58.47%	56.61%
<i>6 months of 1936</i>			
Volume of Exports ...	₱162,619,561	₱134,329,537	₱ 6,040,370
Ratio to total exports ..		82.60%	3.71%
<i>6 months of 1937</i>			
Volume of Exports ...	₱178,629,069	₱146,848,226	₱11,756,691
Ratio to total exports ..		82.20%	6.58%
Ratio of increase as compared with 6 months of 1936	8.96%	8.52%	49.62% 97.63

From the above figures, it is self-evident that the Philippine exports both to the U. S. A. and to Japan have made a striking increase in the year of 1936 compared with those of 1935.

The increase as shown above, of the Philippine imports from Japan for the year of 1936 presents the ratio of 8.98% compared with that of the preceding year. While this rather insignificant figure has been gossiped about as if it were very significant, a far bigger figure appeared in the ratio of increase of Philippine exports to Japan, i.e. 56.61%. This will serve to show clearly that the trade relations between the Philippines and Japan are rapidly and steadily approaching an equilibrium.

TABLE SHOWING COMPARISON OF P. I. TRADE
WITH JAPAN

	<i>Imports</i>	<i>Exports</i>	<i>Exports Ratio to Imports</i>
1935	P24,342,949	P10,718,729	44.02%
1936	P26,528,530	P16,786,272	63.27%
6 months of 1937	P15,012,693	P11,756,691	78.31%

The ratio between exports and imports is 44.02% for the year of 1935. It jumps up to 63.27% for the year of 1936, showing an increase of 19.25%; and still soars up to 78.31% for the first 6 months of the year 1937 adding 15.04% to the figure of last year. Those figures show every sign of reaching the equilibrium in the very near future.

(VI) *Complementary Trade Relations
Between Japan and the Philip-
pines.*

The geographical positions of the Philippines and Japan will naturally improve the economic relation between these two countries. The Philippines produces abundant agricultural and natural products, specially minerals, which she can sell to other countries. On the other hand, Japan, being an industrial and manufacturing country, will have to purchase her materials from abroad. This means that both the Philippines and Japan are in a so to speak satisfactory position to cooperate with each other.

In the year of 1936, Japan purchased her materials from foreign countries as shown below:

Pulp	¥67,107,000
Hide and leather	29,849,000
Crude rubber	72,956,000
Iron Ore and other minerals .	51,150,000
Lumber	55,547,000

No one will deny, we believe, that there is a possibility of Philippine raw materials, such as mentioned above, finding a promising market in Japan as the development of the natural resources of the islands is accelerated.

We, therefore, are of the opinion that economic control and independence can be better attained

among other things by taking advantage of the tremendous possibilities offered by the Japanese market.

(VII) *Conclusion*

As is shown statistically, we have been exerting our efforts and will do our utmost to attain a trade equilibrium between the Philippines and Japan, but there lies a stumbling-block in our course towards that goal; that is a constitutional restriction as to the development of the natural resources in the archipelago. If this restrictive ban be either completely or partly lifted, our course will be clearer and our pace will be much accelerated. The Philippine industries and exports, consequently, will be enlivened, and naturally the purchasing power of the Philippine public will be increased.

Once we come to such a state of affairs, we believe, the triangular trade relations among the United States of America, the Philippines and Japan will be enhanced.

Under such circumstances, if the Philippines should raise her customs tariff or establish a quota system on her imports she will be committing suicide, speaking figuratively, for such an act will bring about the demolition of the otherwise well-balanced trade relations among the three nations

and the decrease of the purchasing power of her own people, thus eventually causing social unrest throughout the archipelago.

On the other hand, the complementary nature of Philippine-Japan trade will no doubt be a decisive factor not only in preserving but also in promoting the aforesaid triangular economic relations among the United States, Japan and the Philippines.

Our memorandum has now come to an end, and we humbly hope that the honorable committee will take it up and give it their consideration for the mutual benefit of the three nations bordering on the Pacific Ocean.

Respectfully submitted,

THE JAPANESE CHAMBER OF
COMMERCE OF MANILA,



By SHOGO DAZAI,
President

BRIEF
SUBMITTED BY THE
JOHNSON-PICKETT ROPE COMPANY
AND
GENERAL MANUFACTURING COMPANY, INC.
SEPTEMBER 1937
(Photographic Reprint)

FUNDAMENTALS

We Subscribe to the Following as the Fundamentals of Philippine-American Trade Relations:

1. *The trade relations between the United States and the Philippine Islands were definitely determined by the provisions of the Tydings-McDuffie Act until July 4, 1946. That Act, after approval by the President and the Congress of the United States, was formally accepted by the Filipino people. Based thereon many citizens and residents of and investors in the Philippine Islands have incurred obligations and made commitments. The trade relations so determined, in good faith and in fairness, cannot, therefore, be altered to their prejudice. Thus, at least until July 4, 1946:*

(a) *Articles the growth, product, or manufacture of the Philippine Islands should, with no greater limitations than those imposed by that Act, and on a basis of equality with articles the growth, product, or manufacture of the United States, be admitted free of duty into the United States; and*

(b) *Articles the growth, product, or manufacture of the United States should, on a basis of equality with articles the growth, product, or manufacture of the Philippine Islands, be admitted free of duty into the Philippines.*

(c) *No excise or other taxes which directly or indirectly result in any discrimination against the products of either country should be imposed.*

2. *The imposition of export taxes on shipments from the Philippine Islands to the United States from November 15, 1940, and the imposition of import duties by the United States and the Philippine Islands, each on articles the growth, product, or manufacture of the other, from July 4, 1946, will be disastrous to the producers and manufacturers of both countries, and, the time being too short to make the necessary readjustments, to the Philippine Islands in particular, therefore,—*

(a) *The export taxes should be repealed; and*

(b) *Free trade between the two countries, with present or other reasonable quantitative limitations, should be continued after July 4, 1946.*

3. *Irrespective of any change in the political status of the Philippine Islands, a continuation of the present free-trade relations between the United States and the Philippine Islands would be advantageous to both countries;— to the Philippine Islands, because the United States is an essential market for many Philippine products; and to the United States, because the Philippine Islands is a large market for products of agriculture and industry of the United States, and will, if the products thereof continue to be admitted free of duty into the Philippine Islands, be a much larger market in the future. Such free-trade relations between the two countries should, therefore, after July 4, 1946, be continued indefinitely.*

BRIEF

SUBMITTED BY

JOHNSON-PICKETT ROPE COMPANY

AND

GENERAL MANUFACTURING COMPANY, INC.

BEFORE THE

JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS

Under section 6 of the Tydings-McDuffie act approved March 24th, 1934, the Philippines was permitted to ship duty-free to the United States 3,000,000 pounds of yarn, twines and rope made wholly or in chief value of abaca. No restriction was made as to the quantities which might be shipped paying duty.

Under Act No. 137 of the 74th Congress approved on June 14th, 1935, superseding the section of the Tydings-McDuffie act mentioned in the preceding paragraph, the Philippines may export duty free, "yarns, twines, cords, cordage, rope and cable, tarred or untarred, wholly or in chief value of manila (abaca) or other hard fiber" not exceeding *six million* pounds. This limitation is absolute, meaning that it cannot be exceeded even if the exporter may be willing to pay duty.

The Congressional Record of May 3, 1934, page 7974, contains the following statement by Mr. Tydings:—

"Mr. Tydings: Let me point out—and I hope Senators will listen to this remark—that under the terms of the Philippine independence bill we virtually reduce by 40 percent their imports to the United States. In the matter of cordage alone we assumed they were importing 3,000,000 pounds into this country each

year. We thought the figure had reference to pounds. As a matter of fact, it has reference to kilograms. In other words they are importing three million and a fraction kilograms a year, or about 6,000,000 pounds. Yet under the terms of the independence bill we cut their imports 40 percent, on the average, with reference to sugar, coconut oil, and cordage or hemp. That is a tremendous obstacle which they must overcome in order to get their independence."

It is evident from the above that the contemplated quota under the Tydings-McDuffie Act was—3,000,000 kilos or 6,600,000 lbs. without any restriction as to the quantities which might be exported paying duty, and it is very probable that this is the tonnage that would have been fixed had it not been for the mistake pointed out by Mr. Tydings.

We are in favor of the continuation of the Cordage Act of 1935, but in considering its extension, this fact should be remembered and we think the necessary amendment should be made to give the Philippine Cordage Industry what it really should have obtained under the Tydings-McDuffie Act.

Consequently we would like to suggest that the quota be at 3,000,000 kilos, and that the allottees be permitted to ship such quantities in excess of this figure as they may require, paying duty, to satisfy their distributors in the United States.

The difficulties imposed by an absolute quota are too obvious to need their being enumerated here. On the sale of an article such as cordage, for the disposal of which, manufacturers have to depend on a large number of distributors located in different parts of the United States, these difficulties are bigger, particularly considering that rope consumption fluctuates widely and it is next to impossible to make an accurate estimate of the tonnage each distributor will need.

The elimination of the absolute limitation should benefit the cordage industry in America and in the Philippines. The Philippine factories cannot sell rope profitably in the United States if they have to pay duty. Thus the only shipments they would make paying duty would be to fill some small orders which might be received from distributors who may have oversold their allotment. On the other hand, the elimination of the handicap imposed by the inability of the Philippine manufacturers to guarantee to supply such quantities as may be required by its distributors, should they oversell their allotment, would enable Philippine manufacturers to obtain better prices.

If there is opposition to eliminate the absolute limitation provided in the Cordage Act of 1935, the quota should be 3,000,000 kilos or 6,600,000 lbs., and no limit on the duty-paid product, thus making the amount conform to the tonnage which, according to Mr. Tydings himself, the Philippines should have received under the Tydings-McDuffie Act. Errors should be corrected.

BINDER TWINE—The imports of this article into the United States during the last four years have been as follows:—

<i>Year</i>	<i>Pounds</i>
1933	46,806,154
1934	25,200,116
1935	56,243,050
1936	75,028,523
Total	203,277,843

All the above-mentioned quantities have been entered without payment of a single cent of duty. Binder Twine is included in the free list of products entering the United States. It may be imported free of duty in unlimited quantities from any country in the world, except the Phil-

ippines because of a misunderstanding when the Cordage Act of 1935 was discussed. The Philippine Representatives did not think that this article was included in the limitation as it was strictly on the free list, and therefore did not ask to have it specifically mentioned as not being included in the quota.

It is unbelievable that such a clear discrimination should be made against the Philippines which is still under the American flag. That it is not a matter of competition or a desire to protect the American industry against foreign made binder twine, is evident from the large quantities being imported annually of this product into the United States apparently without any protest from the American factories.

Therefore, this discrimination should be removed by having it definitely understood that Binder Twine is not included in the Cordage Act Public No. 137—74th Congress, and thus give the Philippines the same privilege which any nation, Japan or Mexico, for example, have to ship in unlimited quantities of Binder Twine to the United States absolutely free of duty. This is our Cordage Correction plea.

Freight Differentials—The present Conference Freight rates from Manila to Atlantic Ports on Cordage—

Per long ton of 1,000 kilos	\$45.00 U.S. Currency
On Fiber per 1 ton of 1,000 kilos	28.00 U.S. Currency
Measurement average per assorted dimensions of cordage—1,000 kilos (52 cubic feet)	
For 1 long ton of bales fiber 8 bales at 13 ft. per bale— (104 cubic feet)	

While raw material, fiber in bales, occupies twice the space that the same product would manufactured, the manufactured article pays twice the amount of freight, so while we talk of 3,000,000 kilos free entry we find in fact that

cordage now is paying more than 1 cent gold per pound tariff to the subsidized U. S. A. Merchant Marine.

We ask that cordage which occupies $\frac{1}{2}$ the space required by fiber be carried on U. S. A. steamers at the same rate per long ton as is charged for fiber. Only then can we begin to receive some of the benefits of free entry of 3,000,000 kilos of cordage.

This is our plea for the correction in freight rates from Manila to the Atlantic Coast of the United States.

SUMMARY

1. Correct the Legislative error in weights, making the free entry of 3,000,000 kilos of Cordage.
2. Re-enact Paragraph (c), Section 6, of the Tydings-McDuffie Act under heading of "Relations with the United States Pending Complete Independence."

Section 6 (c)—"There shall be levied, collected, and paid on all yarn, twine, cord, cordage, rope and cable, tarred or untarred, wholly or in chief value of manila (abaca) or other hard fibers, coming into the United States from the Philippine Islands in any calendar year in excess of a collective total of 3,000,000 kilos in place of 3,000,000 pounds of all such articles hereinbefore enumerated, the same rates of duty which are required by the laws of the United States to be levied, collected, and paid upon like articles imported from foreign countries."

3. That manila fiber raw and manufactured be carried in U. S. A. subsidized ships at exactly the same rate per long ton (1,000 kilos) ; that rate not to be higher than the average rate charged on all other Philippine products, raw and/or manufactured.

Such an arrangement would allow manila fiber to compete favorably with sisal and other fibers not raised in the United States.

Holland is given a preferential tariff entry into the United States on cordage made of sisal because she raises the sisal fiber.

We in the Philippines raise manila fiber and are just as much entitled to a preferential tariff on our manufactured product as any other nation.

This equality should be assured to the Filipino people so that, when Independence is fully established, we will receive the same treatment as any most favored nation receives from the United States.

Respectfully submitted,

JOHNSON PICKETT ROPE COMPANY

By: (Sgd.) JOHN T. PICKETT,
General Manager.

GENERAL MANUFACTURING COMPANY, INC.

By: (Sgd.) ALFONSO Z. SY CIP,
President.

MANILA, PHILIPPINE
September, 1937

NOTES OF EXPLANATION ON CORDAGE

SUBMITTED BY

THE CORDAGE INTERESTS IN THE PHILIPPINE ISLANDS**KINDS OF ROPE**

Section 6 of the U. S. A. Federal Standard Stock catalogue, part 5 TR-601A, lists 26 sizes of 3-strand rope. To this may be added 12 sizes of 4-strand rope, making 38 kinds for Federal uses and all of one lay.

When we make rope for the United States and other parts of the world we are required to furnish a minimum of 120 sizes and different lays of each grade, viz: Slack—soft—medium—hard, etc. The Cordage Trade Journal of July, 1937, lists 4 grades of different manila fiber rope at 4 different prices Nos. 1, 2, 3 and Hardware rope, making in all 480 makes of rope needed to supply all the trade. Obviously it would not be good business for any Manila Factory to stock such a variety in any market in the world.

When hemp passes through the spinners it becomes cordage yarn and in that state of preparation it can be profitably stored. As we can sell rope only of the kind and quality our customers will need three (3) months hence, when we receive an order for rope we draw from our stock of cordage yarn, make the order according to specifications and ship.

It seems to us that almost immediately the trade in the United States is made acquainted with the marks and destination, and, if it is a sizeable shipment, some ambitious salesman calls on our customer and by the time our shipment has reached him, our customer is suspicious, and

claims seem to be in order. This and many more disadvantages are what a manila rope-maker has to contend with, when on a quota.

LABOR, WAGES, RESULTS

Yes, we have low-priced labor but they are also low in efficiency. They accomplish about $\frac{1}{4}$ as much, with twice the supervision, that the efficient life-time worker does in the United States. We are not complaining about them, but we want to explain the figures on page 130, Report No. 118, United States-Philippine Trade.

PUBLIC ACT No. 137—APPROVED JUNE 14th, 1935

At the time this seemed a generous concession on the part of the Cordage Institute of the United States, and we worked under it quite satisfactorily through 1936, having to deny our customers during the first four months of 1937 further shipments until May 1st, 1937. This worked a severe hardship on them as they had sold more than their allocation, and we were helpless because we could not ship their balances and pay duty which we would have done to hold their trade. In some cases other nations had to supply this.

1937—6,000,000 POUNDS QUOTA

His Excellency, President Manuel L. Quezon, made just and fair allocation of this quota. We proceeded to offer our product to old customers without success. We do not care to reduce prices to secure this business. We feel grateful to the United States Cordage Institute for allowing the increase but we find now that an absolute quota, without the same right as other nations to import into the United States by paying duty is not workable.

Unless we are allowed to meet our customer's requirements during the closed season we will be forced to dispose

of the present allocation at cut-throat prices. The free entry of all cordage would not injure the United States Cordage market a particle, but forcing us to *dump* our quota because of loss of old customers and in order to get new ones will have a serious effect for a few months.

BINDER TWINE

Free Binder Twine from the Philippines is just a small part of 75,000,000 pounds now imported free from all nations. It is no answer to say that, because we are allowed a short 3,000,000 kilos of rope free entry, we should be deprived of a right given to every nation on earth, when we have been under United States tutelage for forty years and bought our plants from the United States, and today are buying all sundry supplies from the tutor country. Our shipments of Binder Twine will not deprive a single American workman of one hour of labor, but will *give us* an opportunity to assist the central states in making an economical harvest of their wheat and corn, a goodly share of which we are buying and consuming here. There is no justice in depriving us of this right.

FREIGHT RATES

The most heinous crime that has been committed is the placing of an unreasonable freight rate on our paltry 3,000,000 kilos of rope that is supposed to have free entry into the United States. A \$45.00 and \$30.00 freight rate per metric ton is the same as putting a 4½ cent per kilo duty on our ~~Pacific~~ shipments.

Space is the valuable asset in an ocean going steamer. Baled fiber occupies twice the space that the same weight of manufactured rope does. Rope in small coils can be chucked in small holes around other cargo without injuring it and serves the purpose of dunnage in stowing the cargo. Each bale of manila hemp must have its 13 cubic

feet or one hundred four to their metric ton. As an economical proposition both rope and fiber might pay the same rate per metric ton without any injustice to either product. This should be brought to the attention of the Department of Commerce U. S. Shipping Board, and application of a uniform rate be given in United States bottoms. Please understand that we do not recommend a \$45.00 and \$30.00 rate for both hemp and cordage, but rather a rate consistent to the service given by the steamer as compared to other Philippine products, say sugar, copra, and other products shipped to the United States. The present rate on manila rope is much too high as is the rate on baled fiber. This \$45.00 and \$30.00 freight charge not only makes U. S. business unprofitable to us, but also the South American trade, and it has shut us out of Europe entirely; in fact, it has closed the door of profitable marketing on all territory west of Colombo.

Why the U. S. Shipping Board should do this to us we cannot understand. (Report and Order of the Department of Commerce, U. S. Shipping Board Bureau, in the matter of No. 180—Johnson-Pickett Rope Company vs. Dollar Steamship Lines, Inc., Ltd., Et Al). We can understand how large shippers of Manila can dictate to the Steamship Association Conference but cannot see why the United States Shipping Board should allow this injustice. If continued, it will only be a few years until hemp fields will be converted into coconut groves.*

SISAL SUBSTITUTE

The Philippine Islands can raise an L Grade fiber that will compete in color and surpass in strength the sisal now used in and raised outside of the United States. The price depends much in the freight charges by the U. S. Shipping Board boats.

Please give the Islands a living chance.

*Associated Steamship Lines figures:

1 ton of 1016 kilos of rope equals 70 cu.ft.

1 ton of 1016 kilos of hemp equals 104 cu.ft.

BRIEF, SPEECH, AND SUPPLEMENTARY REMARKS

BY

NARCISO LAPUS

SEPTEMBER 22, 1937

(Photographic Reprint)

**ORIGINAL BRIEF SUBMITTED TO THE JOINT
PREPARATORY COMMITTEE ON PHILIPPINE
AFFAIRS BY NARCISO LAPUS BEFORE THE
PUBLIC HEARINGS ON THE SESSION HALL
OF THE PHILIPPINE SENATE ON
SEPTEMBER 22, 1937**

**THE PHILIPPINES ARE READY
RIGHT NOW
FOR COMPLETE AND ABSOLUTE
INDEPENDENCE
POLITICALLY AND ECONOMICALLY**

I believe that my country, the Philippines, has reached the point, whereby she should be set free, politically and economically, from the United States for the following reasons:

I

We have already complied with all the political, social and economical requisites imposed upon our country by the United States, from the McKinley regime up to the present administration.

II

The provisions of the Tydings-McDuffie Act are being faithfully complied with in every way from the part of the Philippines, by fulfilling the people's and government parts in the independence program, by paying and bearing from our own resources the obligations and expense of the Philippine government and by maintaining peace and order.

That our economic sufficiency to live in an independent existence is emphatically an evidence because we are, perhaps, if not the best prepared country, economically speaking, in the whole Orient.

Our natural resources are more than enough to meet our material needs as soon as we set them up on its running basis. Our mineral resources are the richest in the whole Orient. Our taxation system, specially on luxuries is the lowest.

Our income taxation is the lowest in the world. Foreign goods, business and residents are not yet adequately taxed.

By readjusting such things, we can more than afford to bear all the expenses of an independent government. We can put on a relatively solid foundation our National Defense as prepared and planned by our military authorities and leaders.

IV

Sugar, Coconut, Hemp are not the only material resources of the country where we can derive our income for the survival of an independent country, if and when the United States deems it not to admit free entry into its market such commodities. The Philippines is over 2,000 years old and yet it never lived exclusively on these products during these past centuries.

We can diversify our products or we can look for other markets, if America is no longer willing to take our products on reciprocal basis, but we should never allow that our freedom be subservient upon sugar interests, if we want to be true to the history of our country.

**EXTEMPORANEOUS SPEECH OF LAPUS BEFORE THE
JOINT PREPARATORY COMMITTEE ON PHILIPPINE
AFFAIRS ON SEPTEMBER 22, 1937 ON THE FLOOR
OF THE SESSION HALL OF THE OLD PHILIPPINE
SENATE AS A REBUTTAL TO ALL PROPHECIES OF
DISASTERS, DESTRUCTIONS AND ECONOMICAL RUIN
OF THE ISLANDS IN THE EVENT OF POLITICAL IN-
DEPENDENCE OF THE COUNTRY AND SEVERANCE
OF FREE TRADE WITH THE UNITED STATES AD-
VANCED BY THE NEMESIS OF PHILIPPINE FREEDOM.**

**MR. CHAIRMAN AND
GENTLEMEN OF THE COMMITTEE:**

Before going further in my speech, I wish to ask indulgence of the Committee to extend my time in case I may not be able to finish in 5 to 10 minutes as I have requested to Doctor Dorfman in my letter with my original brief for I did not figure it out that I shall have to refute now statements which, in my belief, are harmful to the cause of Philippine independence.

I wish to go on record that I belong to the Association of the Filipino Veterans of the Revolution with, more or less, hundred thousand members all over the country, the Philippine Independent Church with about four million members in accordance with the 1919 Census, General Treasurer and member of the Supreme Council of the Philippine Civic Union, the first Association that fought at the outset the HHC law and the only non-gubernamental civic Association that was able to send its delegate to Washington with the Mission that brought the Tydings-McDuffie Act to the Islands, notwithstanding the fact, that our delegate, former Resident Commissioner Isauro Gabaldon went

on record with his dissenting vote against the Tydings-McDuffie Act although he was over-voted by the members of the majority in that mission.

Although, I do not officially represent them now before this Honorable Committee, however, I am almost confident that in this moment I interpret faithfully the true sentiment of the majority of the members of these Associations as regards to the fundamental question of the Islands, the Philippine Independence.

Going down to brass tacks as an addition to my supplementary remarks which I propose to read after this oral statement, I wish to ask permission of the Committee to allow me to answer certain statements advanced before this Honorable Body by prophets of disasters and destructions, specially the sugar interests. I would confine most of my rebuttal to sugar for I consider it the most powerful and the largest interest that has sent representations before this Committee and as the most important outspoken elements who advocate for free trade disregarding political freedom of the country, altho I have to tackle, first of all, the statements of a certain young man of the so-called Commonwealth Association who has appeared here yesterday, stating that "independence means nothing" and that "if you wanted to be independent you should go to the mountains, but I am sure that after a while you will go down to civilization to look for interchange of business with the civilized people because that is the natural sequence of the natural law of offer and demand."

You see, gentlemen of the Committee, immediately after the revolution we, who rose up in arms to fight for our complete and absolute independence had foresaw and feared this consequence, in the event that the grant of our freedom by the United States is unduly delayed, because we figured it out, that easy living, as cine, picnics, dancing, nice cloth, automobiles, big salaries and easy jobs, would eventually lure them to the extent of renouncing, some of

them, the ideals for which their forefathers fought and gave their lives in the field of battle for the freedom of this country. Because of their age, they did not have the opportunity to see, to feel and to touch the bitterness of that struggle for the liberty of the motherland. As the Spanish adage goes: "Ojos que no ven corazón que no siente." Imagine a boy like that would say before this respectable body and before the public that "independence means nothing"! Nevertheless, I admired his courage and nerves, because as far as I know, there has been no Filipino or Filipinos so far who had the insolence to appear before a public gathering like this openly advocating against the freedom of his country. But what can we do? Everybody is free to express his own opinion and I have no alternative but to respect such opinion. However, I wish to call attention here to the fact that if "independence means nothing" as stated by that boy who appeared before this Honorable Committee, then, the "independence" for which the very same United States has fought, the 21 republics of South and Central America and a score of other nations who fought for their independence like our heroes also "means nothing"?

We cannot help it, if as the Spanish saying goes: "De todo hay en esta viña del Señor," or in English, "In this godly earth everything grows." America had its Benedict Arnold, Columbia its Manuel Jose Marroquin and Rafael Reyes. Well, we cannot stop it that once upon a time appears a Benedict Arnold, Manuel Jose Marroquin and Rafael Reyes in some places of the earth. It is just beyond our control and we cannot do anything about it.

That boy brought up before this Committee the Japanese menace in his statements against Philippine Independence and said, more or less, that once we are set free and independent, we would be swept out and carried along the line of imperialistic design and territorial expansion of Japan. like what she is now doing in China. To such alle-

gation, I can only say this: That, if Japan had contemplated such desire to gobble up this country once free and independent, she had a better chance to do it with a little difficulty during the over three hundred fifty years of Spanish domination, because Spain was not powerful enough to stop her (Japan). It is true that Japan is now carrying out forward undeclared war in China disregarding treaties and the rest of the world, but gentlemen of the Committee, we should not judge at its face value the drama in China. I know from my personal experience and contacts with many Japanese friends with whom I am dealing in mining business, that Japan is only trying to give a fraternal spanking to China to bring her back to normal life, stop and eradicate the chaos prevailing in that country and fix the Chinese for their own good, in particular, and for the general good and discipline of the whole Chinese people in general to bring them back to their senses and stable existence, because, as the Japanese believe, if they did not do what they are now doing in China, the occidental peoples are getting in little by little into Chinese territory by way of commercial intercourse or by way of diplomacy which Japan looks at it as a menace to her very existence. If Japan really desires to gobble up orderly and normal living nations in the Orient she would have done it with the Islands during the Spanish regime, for it was easier to do so. Take, for instance, Siam. This country is just as far as the Philippines to Japan and as big as our country, yet Siam has been an independent nation for a long long time and Japan never touched it, because there exist no chaos in that country and there is not a remote menace to the very life and existence of Japan as a power in the Orient.

Let us take for granted the arguments of that boy who opposed our freedom that it is true, that Japan has an imperialistic design to gobble up this country once we are free and independent. Japan is now very busy fixing

China. It would take her to finish the Chinese imbroglio, perhaps, twenty years, may be fifty, or who can tell, if it would take her hundred years? Then, by that time, we might be ready to defend ourselves against any foreign invasion. Let us take in lump sum that all these arguments are true as regards Japanese bugaboo. The man who is afraid to defend himself against any menace of invasion of other nations does not deserve to ask for freedom because it is a shame to the world. Cowards are not fitted for liberty and are unfit to live in this country.

As to the prophets of economic disasters and destructions of this country, in the event that our sugar is cut off free of entry into the American markets, I can only say this: I challenge anybody here now to point out a single case of starvation ever since this country has been known as the Philippines or when sugar centrals were not yet established in the Islands. After all, we had only these sugar centrals in the country for a little bit over a decade ago, yet during all these years previous to this period nobody died of starvation in the Islands as the prophets of economic disasters and collapses advanced before this honorable Committee.

This is one country that I know that is very rich in natural resources. We have even gold under the churches. The churches of Paracale and Mambulao in Camarines Norte are staked for gold mining claim. Even under my small house in San Francisco del Monte I found sometime ago a piece of stone that contains gold, altho it was not of commercial volume, yet this fact shows that we have everywhere gold, copper, chromite and what not. Yet this is a country, where everyday we are using drinking glasses, porcelain plates, cloth, papers and many others but we do not count with a single decent factory to manufacture these commodities that are of daily needs in this life. We have plenty of water power to harness to cheapen electric current and get down to the level of Japan which has around

a penny and a half per kilowatt for her industries, in order to enable us to produce cheap commodities and compete in open market, not like now electric current costs us around 15 to 30 centavos per kilowatt. We can manufacture plenty of our varied needs, such as papers, houseware, construction materials, galvanized iron and pig iron. Cloth, rayon silk and films from our abaca like what Japan is now doing from our hemp, where she has a great colony in Davao for raw material. It is really funny though that Japan is buying from us raw material, then brings it back to our market in manufactured goods and sells us at a very low price. Well, why can we not do it like Japan, if we study scientifically as this nation did over seventy years ago? Japan has nothing original at all. What she did was to take a little of everything good from all nations and adapted the best part of it and used it in accordance to its needs and capacity. If Japan has been successful in this respect, I believe, we can do the same thing, for the standard of living of the Japanese people is very near to ours, and besides, this race came out from the same stock of the Malayan people as the Filipinos.

How in the earth a country like this, with an estimated wealth in 1932 of around seven billion pesos worth or at the rate of about ₱600.00 per capita would perish in starvation as it is foreseen and foretold by these prophecies of destruction, disasters, ruin and collapses? It is unbelievable. As I have pointed out in my brief that this country has the lowest per capita in taxation system, I am pleased to give the following statistics in this respect compared with other independent countries:

<i>Country</i>	<i>Revenue</i>	<i>Population</i>	<i>Per Capita Tax</i>
Philippines	₱ 130,000,000	13,266,700	₱ 5.48
Brazil	" 284,874,843	43,323,660	" 6.58
Ecuador	" 20,064,000	2,600,116	" 7.72
Venezuela	" 57,900,000	3,026,878	" 19.13
Portugal	" 192,506,028	6,825,882	" 28.20

Switzerland	"	178,081,080	4,066,400	"	43.06
Chile	"	246,717,542	4,287,445	"	57.54
Canada	"	648,124,000	10,376,786	"	62.46
Argentina	"	835,134,471	12,055,069	"	69.28
Norway	"	219,438,400	2,814,194	"	77.98
Uruguay	"	174,062,695	1,993,234	"	87.34

*Estimated Source of Wealth of the Philippines from its
Four Major Industries in 1936*

Philippine Forest Products	P	33,510,692.00
" Mineral Products	"	52,200,000.00 plus
" Agricultural Products	"	368,245,000.00 plus
" Fisheries-Latest Estimate	"	85,000,000.00 plus
		Total P 538,955,692.00 plus

As you may see, gentlemen of this Honorable Committee, the wealth of this country, is highly promising, altho some of our industries are at its stage of infancy like mining, for instance, yet its results already reached the point that no other industry could be compared to. Our taxation system as these statistics show is the lowest, yet in 1919, it was estimated, that if we impose tax adequately upon luxuries, great estates and incomes as it was reliably gathered this source of additional taxation would yield to the government annually additional income around eight million pesos plus. So as you see, this country could not perish economically, if we judge from these statistics and if we compare our capacity to live in an independent existence to the above cited countries we are more capable economically commensurate to the number of our population.

There are also claims before this Honorable Committee that, if sugar ceases to enter free into the United States market the present high standard of living of the native laborers will drop down to the extent of starvation, be-

cause it was said that our present daily labor average wage is between 30 centavos to 50 centavos. This assertion is wrong, because they are forgetting that in past generation or during the Spanish regime, although the average daily labor wage was between 15 to 25 cents Mex, the par value, then, of our monetary system was equivalent to double par value of present currency. Besides they are overlooking the fact that in those days the cost of living was far below the present price of commodities and there were not many things for the money to spend for as it is today. Therefore, in fact, and in truth as history attests, in those days, living was cheaper, easier, happier and the standard higher in values than the present.

This allegation of higher standard of living might be true to some extent to the privileged ones and to some of the medium class but not in the case of the masses. So in the event, that these prophecies of disasters, collapses, ruin and economic destructions come true as a sequence of suspension of free trade with the United States, it would not be of immediate effect to the masses for it could not be worse than it is now for the native laborers. The effects of disasters advanced by the prophets of destructions might, perhaps, be to the few privileged class, because whether we like it or not it might be that way, but I believe, it would be worthy this material sacrifice for our freedom compared to the hardships and sacrifices of lives and bloods of our forefathers who gave their all at the altar of liberty and independence.

I see to the present claim for free trade and at the same time, it is provided in the Tydings-McDuffie Act, that the Islands should be neutralized for which the President of the United States should negotiate for such treaties of neutralization. Well, I doubt if there could be another nation out of the United States, who would sign such a treaty unless given the same privileges as the United States in the matter of free trade arrangements and naval reser-

vations. So, I believe that these provisions of the Tydings-McDuffie Act are a contradiction in itself and therefore unpracticable, because, if we follow to the letter these provisions in accordance to what reality prevails, time would come that our country would be a free lunch for all, not for the benefit of the Filipinos but to foreigners. The outcome would be that the Filipinos will be foreigners in their own country and in a few generations our race might, perhaps, be wiped out entirely from the map of the world supplanted by intruders.

I believe that the most important issue and the paramount point for the Filipinos as regards our relationships with the United States is our complete and absolute independence, because once we are free and independent nation everything will automatically be settled up to the satisfaction of all concern, for liberty is the greatest and most sacred virtue of mankind and it is the whip of all evils.

May I be allowed by this honorable Committee to read before I conclude the supplementary remarks to my original brief which I propose to submit for the records of the Committee?

SUPPLEMENTARY REMARKS

MOBILIZE OUR INDUSTRY AND IMPROVE OUR
AGRICULTURE SCIENTIFICALLY

Improve scientifically our sugar production and others to compete in an open world market, instead of creating a difficult problem to solve by forcing the duty-free entry of our products into the American market.

The fear for an unemployment problem would not be a reality even if the United States' market shuts up to our sugar and other products if we develop to the best of our ability and scientifically our diversified industries.

By mobilizing scientifically our factories and industries the over P300,000,000 imports annually to the Islands will be reduced to its minimum volume for the benefit of the country and will solve, in some way, the so-called fear for an unemployment problem advanced and forecasted by the prophets of disasters and pessimism.

If the effects on export tax during the 10-year transition period in the Tydings-McDuffie Act is so fearful as painted by our pessimists, why not cut it off and have our commercial reciprocal treaties with the United States once we are set free and independent rather than to be at the mercy of the interests against our products and exports.

Some groups advocate for a longer economic transition period than what is provided in the Tydings-McDuffie Act and allege that the country is not yet ready for a full independent life. To this allegation, I can only answer that since 1898, we have been ready to assume an independent existence.

"Immediate, absolute and complete independence" for the country was invariably the platform embodied in almost all the political parties existed in the Islands since 1907. If this was true then, the attacks in America that

we were not sincere in our demand for "immediate, absolute and complete independence" for the country were true and correct?

Being a free and independent nation, the Philippine Islands will be in a better position to look around for better commercial interchange elsewhere.

We are tied up now with one market and with no tariff autonomy but if we are granted our freedom we would be free to look for our own salvation in accordance with our needs.

No party, nor individuals in the Philippines since 1907 came up to power against the banner of "immediate, absolute and complete independence." Most of those who profited out of this political plank are now, I think, the dominant elements in our economic, political and social life and some are captains of industries. It seems that they are the same forces and groups, at present, who are afraid of the *Buga-boo* that has been built upon false premises for selfish ends.

Many of them became so materialistic and practical, indeed, that they go to the extent of forgetting those "who fell in the dark of the night," for the supreme ideal of freedom and independence of the country. The idea to barter the birthright and liberty of 15 million people "for a mess of pottage" is all wrong. We have rose up in arms in the revolution not for sugar, etc.

As for us, the small and the so-called forgotten men would rather put aside sugar, coconut, hemp, etc. and have rather absolute and complete freedom and independence right now. The sooner the better.

This reminds me once more the historical pronouncement of that great and brave oppositionist, martyr of Corregidor, Dr. Dominador Gomez, who said once in the peak of his political glory that "every dollar invested in the Islands is a chain for Philippine Independence." In this regard, I should say, instead, that every pound of sugar

produced now in the Philippines is a nail to the coffin of our liberty, freedom and independence.

Others alleged that some 2,000,000 Filipinos are dependent upon sugar. May be so, but how?

As regards to this matter I wish to quote here a fragment of a statement of an agricultural economist who visited recently the country as an observer of Philippine Affairs, Dr. Frank B. Morrison, a professor of Cornell University who had expressed in the following way as regards to bad treatment of the Filipino tenants in Nueva Ecija and in Negros:

"I have seen the conditions of your workers in the ricefields of Nueva Ecija and the canefields of Negros," he declared. "And I do not blame them if they should feel discontented. It seems that the hacenderos in these places showed more care and concern for their carabaos and sugarcane than for their workers."

"I read in a Manila paper while I was in Cebu that the average income of your farmer is P60.00 a year. Now, this is too meager for adequate happiness. One of the problems of the Philippines, if it expects to survive long, is the happiness of the masses. They must be helped to earn more, and their standards of living must be raised considerably."

It is an unusual act for a man to ask and beg his father to give him permission to marry a girl and set him free to form his own family and home and then asks and begs his father at the same time to support and protect him and his family during his marriage life.

Well, this is what the pessimists and prophets of destructions are now asking to the United States as regards Philippine Independence. Year in and year out for over 30 years we have been asking "immediate, absolute and

complete independence" for the Islands and now that the time has come for Uncle Sam to grant us what we have been longing for some sweet brothers of mine are afraid to take what we have been begging for during all these years. Is it not funny?

The genuine Filipinos who love this country and those who, in their veins runs the blood of those who gave their lives for the liberty and independence of this country are ready to suffer hardships and are not afraid to die for it.

The Tydings-McDuffie Act is unjust to the Filipinos and many of its provisions are contradictory and discriminatory.

While its provisions carry iniquities against the Filipinos it restricts nothing of the United States.

We are limited to 50 persons annually to enter into the United States while American citizens are free to come to the Philippines.

Our products are limited of free entry and are to be taxed gradually after the 5th year of the Commonwealth to the market of the United States while the American products and goods are not restricted to come to the Islands.

We are taken in the United States as aliens while we owe allegiance to the American flag and are duty-bound to defend it at any cost.

While there is a clause about naval reservations for the United States in the Tydings-McDuffie Act, it is also provided thereof that the President of the United States should negotiate with other powers for the neutralization of the Philippines.

The President of the United States can call at will to service our Army yet our President cannot do the same thing to the American troops.

So, I believe that it is better for the Philippines to have our independence now or the abrogation of the Tydings-McDuffie Act is respectfully urged for unjust, unpractica-

ble, and unequitable for the Philippines, if it is not possible to remove its objectionable parts and provisions.

"Self preservation is the first law of nature" is the common adage. The American people cannot be blamed if they refuse free entry to Philippine products, if such commodities compete to their means of living. If we are really just and consistent in our desire for freedom and independence, we should not insist on to have free trade with the United States, if such arrangements would be harmful to the Americans. We should, rather, have our independence first, then ask the United States for reciprocal trade arrangements and, if this is not possible, we must look for our own salvation by adapting methods of competitive scope for the open markets of the world, otherwise, we should not ask complete and absolute independence for it puts us in an inconsistent ridiculous position.

Being a free and independent country, the Philippines will be in a better position to look for better markets for its trade and will not be handicapped to deal with any country for reciprocal commercial treaties.

All these balderdashes and talks about "collapses," "ruin" and "destruction economically of the country" is a wasted gesture, because, no matter how great the United States' love for the Filipinos she would never sacrifice for them at the cost of her own citizens, who are striving also to survive in this eternal struggle for existence and who wanted to get rid of any competition harmful to the American products. Sooner or later, we have to face the bitter reality of facts and that we have to take care of ourselves alone is an undisputable conclusion. Then, why not do it now and learn how to crawl alone instead of yelling vainly for help all the time and at the same time asking for complete freedom?

I presume, that all these shouts of the prophets of disasters is a vain gesture by pretending to force the entry of our products into the American market free of duty. We

might as well forget it and get busy with our laboratories and find out scientifically the best method to improve our average production and exports and reduce its cost in order to enable us to face the world in an open competition.

If Java can produce 280 piculs of sugar per hectare by which she outsells us in an open market, why can we not do the same thing by improving scientifically our method of production?

We are in the same litoral and of the same tropical climate. After all, we are not supposed to hang up on anybody forever. So it might as well be better for us to start now and get busy to find our own salvation, if we really are desirous to live an independent existence.

Japan rose up to a rank of first potential power in less than 70 years without the natural gift of its land as our soil is blessed.

I believe, we might be able to do the same thing if we are free and independent nation, for we will be free to act and direct our own destiny in our own way and in accordance with our needs and idiosyncracies.

When a country wishes to enjoy the blessings of free life and independent existence she should not worry very much about material difficulties, rather, we should be optimistic that the future has in store for us a beautiful compensation after our bitter struggle for freedom for nearly four long consecutive centuries.

After all, the claim of this so-called high standard of living we have at present is an artificial one for the Filipinos, because it is not adapted to our true life and economical capacity and could not stand the test of time, for it is too expensive for the real and true life of the masses, with the exception, of course, of the few and privileged ones.

Sugar is so sweet but when it is mixed up with the liberty of a people of 15 million souls it turns into a bitter

and deadly poison for it shatters up the hope of a country for which thousands of lives of the best of our race were sacrificed at the altar of liberty and freedom.

The longer we wait for our liberty and independence the farther we are at our goal as we see it now as a sequence of the easy living in some sectors of our youth. It seems to me that they are forgetting entirely the ideals of their forefathers and others barter it for material comforts, etc. So, it might be a better idea to have our independence now while the Democratic Party is in power, for we would never be sure of the future and the unforeseen circumstances and reactions in the event that the Democratic Party is relieved in the Washington administration.

We, the majority of the small people, who are not dependent upon sugar, respectfully beg this Honorable Committee to recommend to the President and Congress of the United States to grant us our complete and absolute independence as it is compatible to our economic and political existence and as proposed by the last gesture in America of our President, that is, our independence be granted by December 1938 or July 4th, 1939, instead in 1946 as provided in the Tydings-McDuffie Act otherwise, we would respectfully recommend the complete abrogation of the Tydings-McDuffie Act for a law that would restore at once the first Philippine Republic established in the Orient in 1898 for which our heroes gave their lives. The remnants of that glorious struggle for liberty are getting every day older and older and their only eternal hope and happiness is to see once more the glorious restoration without any further delay of the Philippine Republic.

I thank you,

NARCISO LAPUS

Sept. 22, 1937.

DR. BEN F. DORFMAN'S LETTER TO LAPUS AND
SCHEDULE OF PUBLIC HEARINGS FROM
SEPTEMBER 15 TO 22, 1937

JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS
Room 362, Legislative Building
Manila, Philippines

September 13, 1937

My dear Mr. Lapus:

I am enclosing a copy of the schedule of appearances which was released to the press this afternoon. You can determine from it the day on which you will be expected to appear before the Committee.

Very truly yours,

For the Chairman:

(Sgd.) BEN DORFMAN
*Member, Joint Preparatory Committee
on Philippine Affairs.*

Mr. Narciso Lapus,
Kentucky Avenue and Riverside
San Francisco del Monte,
San Juan, Rizal.

JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS
FOR THE PRESS

September 13, 1937.

A total of 50 briefs were submitted to the Joint Preparatory Committee on Philippine Affairs, 26 of which were accompanied by requests for hearings. The organ-

izations and individuals which requested hearings are being notified to appear in the following order at the public hearings which are to begin at 9:00 a. m. on September 15 at the Senate Chamber of the National Legislative Building:

- September 15—Philippine Coconut Oil Mills
Philippine Coconut Association
Agusan Coconut Company
Cooperative Coconut Products, Inc.
- September 16—Confederation of Sugar Cane Planters
Philippine Sugar Association
Johnson-Pickett Rope Company and General Manufacturing Co.
- September 17—Group of Embroidery Manufacturers
Philippine Button Corporation
Rattan Products Manufacturing Co.
Philippine Textile Committee
Representatives of American Leather Tanners
Buntal Hat Weavers Association
- September 20—Manila Chamber of Commerce
Chamber of Commerce of the Philippine Islands
American Chamber of Commerce
Philippine-American Trade Association
- September 21—Labor Mining Association
National Executive Council of the Popular Front
Sakdalista Party of the Philippines, Manila.
Sakdalista Party of the Philippines, Cavite.
Commonwealth Association (Pedro Blanco)
- September 22—Mr. Narciso Lapus
Mr. Patrick McCrann
Mr. Tomas Rivera
Mr. Antonio A. Zolina
Mr. Gerard C. Monden
Mr. Salvador Araneta

The Joint Preparatory Committee on Philippine Affairs cannot designate the exact time but only the order

in which the representatives of the above are expected to appear on the days indicated. The only official record of the proceedings of the hearings will be kept in English. Speakers may address their remarks either in English or Spanish. Those who speak in Spanish, however, are requested to bring their own interpreters unless they prefer to use the interpreter designated by the Committee.

The organizations and individuals which submitted briefs, but which did not request hearings, are as follows:

Philippine Motor Transport Association
Dr. Agustin Y. Lotuaco
Japanese Chamber of Commerce
Mr. J. A. Wolfson
Insular Sugar Refining Corporation
American Retired Teachers Association
El Dorado Oil Works
Central Executive Committee of the Communist Party
of the Philippines
Philippine Hardwood Manufacturers Export Association
Mr. Jose Ma. Espino
Hon. Jose Fuentebella
Philippine Desiccated Coconut Industry
Mr. A. V. H. Hartendorp
Comite Redactor del Memorial del Trabajo
Mr. Manuel Gamboa Belleza
Mr. Mateo Guanzon, Sr.
Philippine Automobile Dealers
Manila Tobacco Association
Philippine Civic Union
Messrs. Vicente C. Aldaba and Manuel L. Roxas
Association of the Veterans of the Philippine Revolution
Municipal Council of Lucban

PRESS COMMENTS ON LAPUS' SPEECH BEFORE THE
JOINT PREPARATORY COMMITTEE ON PHILIPPINE
AFFAIRS ON SEPTEMBER 22, 1937.

"El Sr. Lapus informó, principalmente sobre el hecho de que Filipinas, según él, ya ha llegado al punto de madurez para vivir vida propia e independiente, no faltando sino la movilización de sus industrias y el mejoramiento de su agro. De paso, tuvo palabras de admonición para los que en frase propia, son agoreros del pesimismo, de la ruina económicos de Filipinas por causa del azúcar y otros productos de exportación mayores de las cuales, por 2,000 años no ha dependido la existencia de Filipinas . . ."—LA VANGUARDIA, September 22, 1937.

* * *

"Narciso Lapus compareció en su capacidad de amante de la libertad urgiendo la independencia inmediata y completa de Filipinas. Denuncia a los azucareros de bebés que se quejan sin razón y están dispuestos a vender su patrimonio por consideraciones materiales. En un párrafo de su peroración Lapus afirmó 'que cada libra de azúcar exportada a America es una anilla mas en la cadena que nos une con los Estados Unidos'. 'Añadio que las diferentes industrias que han comparecido podrían ser sustituidas con otras que rendirían igual beneficio . . ."—LA OPINION, September 22, 1937.

* * *

"Narciso Lapus compareció ayer mañana como representante de la Union Cívica, de la Asociación de Veteranos de Filipinas, del Consejo Nacional Supremo y de la Iglesia Aglipayana. Lapus ataco a los comerciantes que comparecieron ante el Comité para predecir el desastre económico Filipino después de la suspensión del libre cambio. Alegando representar el verdadero sentimiento de todo el pueblo Filipino, sometió un memorandum en el que expre-

saba confianza en la habilidad de la nación Filipina para sobrevivir la suspensión del libre cambio . . ."—EL DEBATE, September 23, 1937.

* * *

"Narciso Lapus lambasted businessmen who have appeared before the Committee to foretell disaster after free trade. Claiming to represent the real sentiment of the entire Filipino people, he submitted a memorandum in which he expressed confidence in the ability of the nation to survive severance of free trade . . ."—PHILIPPINES HERALD, September 22, 1937.

* * *

"CONTRARY PLEAS HEARD AT CONCLUDING TRADE COMMITTEE HEARING"

"While Salvador Araneta, local attorney, urged on the one hand the extension of the transition period to at least fifteen years, Narciso Lapus, speaking in behalf of the Civic Union and the Philippine Veterans Association, proposed absolute independence by December, 1938 or July 4th, 1939 . . ."

"Mr. Lapus on the other hand insisted on complete freedom as soon as possible, urging abrogation of the Tydings-McDuffie law as being unjust and unjustifiable."

"'Improve scientifically our sugar production and others to compete in an open world market instead of creating a difficult problem to solve by forcing the duty-free entry of our products into the American market,' Mr. Lapus declared . . ."—THE TRIBUNE, September 23, 1937.

* * *

"Lapus called the attitude of those who ask for independence and free trade in one breath, 'funny,' he said."

"Year in and year out, for over thirty years we have been asking 'immediate, absolute and complete independence' for the Islands, and now that the time has come for

Uncle Sam to grant us what we have been longing for, some sweet brothers of mine are afraid to take what we have been begging for during all these years. Is it not funny?"

"Lapus attracted considerable attention some years ago when he challenged to a pistol duel Nicholas Roosevelt, the writer. Roosevelt wrote a book on the Philippines which many considered unfair to the Filipinos . . ."—THE MANILA DAILY BULLETIN, September 23, 1937.

* * *

"Si Narciso Lapus ay nagsalita rin sa papulong kaha-pon ng umaga sa ngalan ng Union Civica, Samahan ng mga Beteranos ng Rebolucion sa Filipinas at Iglesia Filipina Independiente. Hiningi niya ang ganap na pagsasarili at ipinahayag ang pananalig na walang sukat pangani-ban ang malayang Filipinas, maging sa politica at gayon din sa kabuhayan . . ."—MABUHAY, September 23, 1937.

* * *

"May tatlo pang nagsipagsalita silang nauna kay G. Araneta. Ito ay sina Narciso Lapus, na kumakatawan sa Union Civica at sa Sambahang Sarili . . ."

"Si Narciso Lapus ay nagpahayag na ang Batas Tydings-McDuffie ay tiyak na hindi makatarungan sa mga Filipino sapagka't marami ang mga tadhana nitong hindi makatarungan gaya ng pagpapataw ng buwis sa kalakal panindang Filipino naipinasok sa Estados Unidos sa loob ng panahon sa pagpapalitan ng pamahalaan samantalang ang panindang Amerikano na ipinapasok naman sa Kapu-luan ay hindi mapapatawan. Hiningi niya ang pagsasarili ngayon o ang pagpapawalang bisa sa Batas Tydings-Mc-Duffie. . . ."—TALIBA, September 22, 1937.

LAPUS MISQUOTED BY CERTAIN SECTION
OF THE PRESS

The Editor
Philippines Herald
Manila

Sir :

On the 22nd instant the Herald carried a news item as regards the hearing conducted by the Joint Preparatory Committee on Philippine Affairs in reference to my appearance before that body in the following manner:—

“Narciso Lapus also testified this morning as representative of the Civic Union, Philippine Veterans Association, Supreme National Council and the Philippine Independent Church.”

“Narciso Lapus lambasted businessmen who have appeared before the Committee to foretell disaster after free trade. Claiming to represent the real sentiment of the entire Filipino people, he submitted a memorandum in which he expressed confidence in the ability of the nation to survive severance of free trade.”

In the first place, I wish to repeat what I have said more or less, before the Committee at the beginning of my speech as a supplementary remarks to my original brief which I have submitted previously to said Committee, in the following way:—

“I wish to go on record that I belong to the Association of the Veterans of the Filipino Revolution with, more or less, 100,000 members all over the country, the Philippine Independent Church with about four million members in accordance with the 1919 Census.

General Treasurer and Member of the Supreme Council of the Philippine Civic Union, the first Association that fought at the outset the HHC law and the only non-gubernamental civic association that was able to send its delegate to Washington with the mission that brought the Tydings-McDuffie Act to the Islands, notwithstanding the fact, that our delegate, former Resident Commissioner Hon. Isauro Gabaldon went on record with his dissenting vote against the Tydings-McDuffie Act although he was over-voted by the members of the majority in that mission."

"Altho, I do not officially represent them now before this Honorable Committee, however, I am almost confident that in this moment I interpret faithfully the true sentiment of the majority of the members of these associations as regards to the fundamental question of the Islands, the Philippine Independence."

As to the part of the information of your paper, attributed to me that "Nariso Lopus lambasted businessmen who have appeared before the Committee," I wish to correct this for the sake of truth that I have not attacked or lambasted any businessmen. It is true that I have refuted certain prophecies of "disasters," "collapses," "ruin" and "economic destruction of the country" that were stated before the Committee coming from reactionary economic sector of the ranked traditional pessimism, but I never lambasted any businessmen nor any particular individuals of our business world.

It is also true that I have refuted certain assertions made before the Committee in that our people will starve in the event that our free trade with the U. S. is discontinued and that our Government can not maintain its expenses as it is now as a sequence of our complete independence. To this allegation I have cited before the Committee comparative statistics of the actual and probable wealth

and income of the Government, and also the estimated wealth of the country and the present average taxation per capita of the Filipinos compared with a score of independent countries, to show to the Committee that this country is capable to maintain an independent existence by increasing and reorganizing its taxation system on luxuries, big incomes and the great "haciendas" (estates) which are not at present taxed by the government, and that the money coming from these sources will replace the taxes that our government would lose on sugar, etc.

I also have refuted the allegation that the so-called present high standard of living of our laborers will drop down to the extent that would ensue starvation in our people in the event that the country would be cut off abruptly its free trade with the U. S. by adducing before the Committee that there is no truth to such prophecies, and I have challenged anybody to point out to, at least, a single case of starvation in this country when sugar centrals, were not yet established in the Islands for which nobody could belie my contention in this respect. I also have contended, that there is no truth of the so-called present high standard of living of our laborers, as attested by the same arguments of the prophets of disasters that, the average native daily wage is between 30 to 50 centavos. Taking into account the laborer daily wage in the past generation which was 15 to 25 cents more or less but considering, then the double value of the Islands' currency in the Spanish regime the Mex peso was equivalent to two pesos of the present Filipino currency. Furthermore, we must not overlook that the cost of living in that time was far below than the price of present commodities, thus we shall arrive at a conclusion that the standard of living of our laborers in olden days was higher in value, easier and more pleasant than the claim of present higher standard of living.

This allegation of higher standard of living might be true to some extent to the privileged ones and to some of

the medium class but not in the case of the masses. So in the event, that these prophecies of "disasters," "collapses," "ruin" and "economic destruction" come true as a sequence of the suspension of free trade with the United States, it would not be of immediate effect to the masses for it could not be worse than it is now for the native laborers. The effects of disasters advanced by the prophets of destruction might be to the few privileged class, because, whether we like it or not it might be that way, but I believe, it would be worthy this material sacrifice for our freedom, compared to the hardships and sacrifices of lives of our forefathers who gave their all at the altar of liberty and independence.

To correct the mistakes in your news as regards my appearance and statement before the Committee, I would greatly appreciate the publication of this correction and much obliged,

Very truly yours,

NARCISO LAPUS

September 24, 1937

BRIEF
BY
L. D. LOCKWOOD
FOR THE PHILIPPINE MOTOR TRANSPORT ASSOCIATION
(Photographic Reprint)

**BEFORE THE JOINT PREPARATORY
COMMITTEE**

on

PHILIPPINE AFFAIRS

RE: CIVIL RIGHTS OF CITIZENS AND CORPORATIONS OF THE UNITED STATES IN THE PHILIPPINE ISLANDS AFTER INDEPENDENCE, ESPECIALLY THOSE INTERESTED IN PUBLIC UTILITIES, INCLUDING TRANSPORTATION.

It is estimated that there are some 7,000 Americans residing in the Philippines, not counting members of the U. S. Military Forces stationed in the Islands. It is believed that the number has increased somewhat during the last three years as a result of the so-called mining boom.

Many of these Americans have resided here for over thirty years. Many came with the U. S. Volunteers during the Spanish-American War and remained after peace was established. Many others came as civil officials or employees and served the Government for many years. Each and every one has done his or her part in developing this country and bringing about the remarkable progress which has taken place here since American occupation. Many have married here and their children are American citizens. The business activities of these Americans and the American capital invested in the Islands are well set forth

in the report of Dorfman and Waring on United States Philippine Trade (U. S. Tariff Commission Report No. 118) pp. 188-192, and it is not necessary to make a restatement of the same here. Naturally, these Americans are concerned regarding what their civil status will be after independence. And this is specially true since it has been proposed to *advance* the date of independence, a matter which it is understood your Committee is to take into consideration.

Present Status. The Tydings-McDuffie Law, after providing for the framing of a "Constitution for the Government of the Commonwealth of the Philippine Islands", provides that the Constitution formulated and drafted shall contain a bill of rights and shall, either as a part thereof or in an ordinance appended thereto, contain provisions to the effect that, pending the final and complete withdrawal of sovereignty of the United States over the Philippine Islands, (among others)—

Citizens and corporations of the United States shall enjoy in the Commonwealth of the Philippines all *civil rights* of the citizens and corporations, respectively, thereof. (Sec. 2, -(16)-.) (Italics ours.)

This condition has been complied with and we find the said provision in Par. (17) of Section 1 of the Ordinance Appended to the Constitution.

This defines the *present* status of American citizens in the Philippines. The term "civil rights", as here used, has not been judicially defined. Some have suggested that it includes the right to vote and to hold office. Others have suggested that these are political and not civil rights. At any rate, no Amer-

ican has insisted on the right to vote or hold office and in fact, in actual practice, American citizens in the Philippines are now enjoying all civil rights, the same as Filipinos, with the possible exception of the right to vote and to hold office and no question regarding the same has been raised.

Status after Independence. In the very next paragraph, the Tydings-McDuffie Law makes the following provision:

(b) The constitution shall also contain the following provisions, effective as of the date of the proclamation of the President recognizing the independence of the Philippine Islands, as hereinafter provided:

(1) That the property rights of the United States and the Philippine Islands shall be promptly adjusted and settled, and that all existing property rights of citizens or corporations of the United States shall be acknowledged, respected, and safeguarded to the same extent as property rights of citizens of the Philippine Islands.

And:

(5) That by way of further assurance the government of the Philippine Islands will embody the foregoing provisions except paragraph (2) in a treaty with the United States.

This condition has also been complied with and we find the same provision in Art. XVI. Sec. 1, of the Philippine Constitution entitled "Special Provisions Effective Upon the Proclamation of the Independence of the Philippines".

It will be observed that, according to the existing law and constitutional provisions, citizens of the United States enjoy all "civil rights" during the life of the

Commonwealth; but after independence, will enjoy only "existing property rights".

Now what is the meaning of the term "existing property rights"? Is it to be understood in a broad and general sense, or in a narrow sense? Is it to be understood in the same broad sense that the term "property" is understood as used in the 14th Amendment to the Constitution of the United States, providing that no one shall be deprived of "life, liberty or property" without due process of law? Does the term "property" here refer to only real estate and chattels, or does it embrace, as has been judicially determined, "every species of valuable right and interest, including real and personal property, easements, franchises and hereditaments"? (46 N. Y. Super. Ct. 138.) And in either case, does it refer only to rights to property existing upon the date of the proclamation of independence, or does it refer to the right to buy, acquire, sell or otherwise dispose of property after independence?

If the term is to be understood and interpreted in its broadest sense, and we believe that Congress so intended, then the rights of citizens of the United States in the Philippines will be fairly well protected. But, unfortunately, other provisions of the Philippine Constitution are not in harmony with this theory.

Public Utilities Including Bus Transportation. The members of the Philippine Motor Transportation Association are principally interested in public utilities and particularly in bus transportation. The rest of this brief will, therefore, refer to the rights of citizens of the United States so interested.

There is a large amount of American capital

invested in public utilities in the Philippines. The amount stated by Dorfman and Waring is \$31,850,000, but the amount stated by them as invested in "Truck and Bus Transportation", \$972,500, is very much under the true amount as we shall shortly show.

Bus transportation in the Islands has been peculiarly developed by the Americans. With the exception of the Manila Railroad which operated between Manila and Dagupan, there were practically no land transportation facilities during the Spanish régime. There were very few roads and those that existed were impassable during the rainy season. The motor vehicle had not yet arrived. Most transportation or travel was by water.

During the first years of American occupation the Government was occupied in perfecting its organization, establishing law and order, sanitation, etc., and it was about 1908, under the leadership of Hon. W. Cameron Forbes, then Secretary of Commerce, that a comprehensive road-building program was begun and which has been carried thru to the present date. This has resulted in a good system of highways covering practically all of the well-populated islands. Some of the least populated islands, such as Mindanao, Mindoro, Palawan and some smaller ones, have relatively few roads.

It is a coincidence that the motor vehicle arrived at the same time that the roads were being built and the result has been a rapid and extensive development of motor vehicle transportation.

The first motor bus in the Philippines was operated by Mr. A. L. Ammen in Camarines in 1911. About the same time, Mr. Walter S. Price started bus opera-

tions on the Island of Leyte. It is somewhat strange that these two beginnings were made at places distant from Manila, but such is the case. While the growth of the business was slow during the first few years, with the extension of the roads and the improvements in motor vehicles, it later expanded rapidly. When Mr. Ammen, for example, incorporated his business and formed the A. L. Ammen Transportation Co., Inc. in 1914, he was operating 9 buses. Today the Company is operating 225 buses and 50 hire automobiles and transports over 12,000,000 passengers a year. Mr. Ammen also founded the Pangasinan Transportation Co. and his associates started the Batangas Transportation Co., Laguna-Tayabas Bus Co., Bohol Land Transportation Co. and others. Other Americans started bus operations in other parts of the Islands. Uniformly these operations have been successful and have expanded. Today the investment of citizens of the United States in bus transportation is as follows:

	Total Capital Invested	Capital Invested by Citizens of U. S.
A. L. Ammen Transportation Co.....	₱1,000,000	₱ 700,000
Batangas Transportation Co.....	475,000	235,750
Laguna-Tayabas Bus Co.	500,000	189,700
Pangasinan Transportation Co.	500,000	420,000
Pampanga Bus Company.....	523,800	323,500
Red Line Transportation Co.	233,500	204,400
Northern Luzon Transp., Inc.	151,700	106,500
Rural Transit Co.	400,000	400,000
Cebu Autobus Co.	500,000	350,000
Bohol Land Transportation Co.	300,000	189,000
Mindanao Bus Co.	150,000	102,000
Manila Electric Co. (bus business only).....	600,000	600,000
Leyte Land Transportation Co.....	120,000	120,000
Panay Autobus Co.	400,000	168,000
Bulacan Bus Co.	58,000	46,000
Cebu Transit Co.	100,000	54,000
Total.....	₱6,012,000	₱4,208,850

The book value of this investment of ₱4,208,850 is at least 50% greater than the actual investment and the real or market value of the investment has at least doubled, as, for example, Mr. Price, practically the sole owner of Leyte Land Transportation, values his business at ₱700,000, while only the original investment of ₱120,000 is listed above. And shares of some of these companies, like the Batangas Transportation Co., have been selling for between ₱200 and ₱300, the par value being ₱100.

All of the above mentioned investment, except that of the Manila Electric Co., is by citizens of the United States *residing in the Philippine Islands*.

All of the above-named companies are corporations organized under the laws of the Philippine Islands by Americans and all, with the exception of the Panay Autobus, are managed by Americans.

Only one large bus company has been organized, financed and successfully operated entirely by Filipinos. This is the Pasay Transportation Co. It was not organized until 1928. Filipinos have, however, acquired a very important minority interest in the companies listed above, amounting to ₱1,804,150 and this interest is gradually increasing. There are also small Filipino bus operators operating from one to fifty buses each. The total number of buses operated in the Philippines is approximately 3,700.

Americans have not gone into the trucking business very extensively. One firm, the Luzon Brokerage, does a very large trucking business, more or less in connection with its customs brokerage business. Mr. L. W. Nantz also does a good-sized trucking business. But these operate as private contractors and not as

public utilities. Most of the trucking is done by small Filipino truckers.

The Manila Railroad Co., owned by the Government, operates a large fleet of buses and trucks, especially in making connections for both passengers and freight between the railroad and Baguio.

These utilities operate under franchises or certificates of public convenience which have from time to time been granted by the Government of the Philippine Islands as authorized by Section 28 of the Jones Law (Act of Congress of August 29, 1916).

These franchises and certificates of public convenience are property. There can be no doubt about that. The courts have repeatedly so held.

Undoubtedly, under the existing law, this property (franchises or certificates already granted) when owned by citizens of the United States, will be acknowledged, respected and safeguarded after independence to the same extent as similar rights of citizens of the Philippines.

But is the term "existing property rights" to be interpreted as to refer only to franchises and certificates of public convenience *in existence on the date of proclamation of Philippine Independence?*

Or is it to be interpreted in a broader sense to include the right to buy or acquire franchises and certificates? As before stated, the term "property rights" usually means not only the right to own, but the right to acquire and sell property.

Citizens of the United States *now* have the right to acquire and obtain franchises and certificates of public convenience. The present law regarding the granting of certificates of public convenience is found

in the Public Service Act (Commonwealth Act No. 146), which was enacted at the last session of the National Assembly. It reads as follows:

SEC. 16. *Proceedings of the Commission, upon notice and hearing.*—The Commission shall have power, upon proper notice and hearing in accordance with the rules and provisions of this Act, subject to the limitations and exceptions mentioned and saving provisions to the contrary:

(a) To issue certificates which shall be known as Certificates of Public Convenience, authorizing the operation of public services within the Philippines whenever the Commission finds that the operation of the public service proposed and the authorization to do business will promote the public interests in a proper and suitable manner: *Provided*, That hereafter, certificates of public convenience and necessity will be granted only to citizens of the Philippines or of the United States or to corporations, copartnerships, associations or joint-stock companies constituted and organized under the laws of the Philippines: *Provided*, That sixty per centum of the stock or paid-up capital of any such corporation, copartnership, association or joint-stock company must belong entirely to citizens of the Philippines or of the United States: *Provided, further*, That no such certificates shall be issued for a period of more than fifty years.

It would seem that this is an *existing* property right; and, if such, it should be acknowledged, respected and safeguarded after independence. In other words, that after independence citizens of the United States should have the right to acquire, obtain and own franchises and certificates of public convenience.

But as above stated, there are other provisions of the Constitution which are in conflict with this theory.

The "Constitution of the Philippines" is obviously intended to be the constitution of the future Republic.

It is nowhere referred to as the constitution of the Commonwealth and for that reason, in our humble opinion, it should never have been approved by the President of the United States, because it is not a "Constitution for the Government of the Commonwealth of the Philippines" as is provided for in the Tydings-McDuffie Law. The ordinance appended to the Constitution makes it workable during the life of the Commonwealth.

So it is that we now know what the constitution of the Republic will be. We, therefore, have a rather extraordinary opportunity to look into the future and determine what our rights will be. As before stated, the provision acknowledging, respecting and safeguarding the existing property rights of citizens of the United States is incorporated in the Constitution,—and very properly in the Constitution itself and not in the ordinance appended to the Constitution which will become inoperative after independence.

But in Art. XIII, Sec. 8, of the Constitution we find the following:

No franchise, certificate, or any other form of authorization for the operation of a public utility shall be granted except to citizens of the Philippines or to corporations of other entities organized under the laws of the Philippines, sixty *per centum* of the capital of which is owned by citizens of the Philippines, nor shall such franchise, certificate, or authorization be exclusive in character or for a longer period than fifty years. No franchise or right shall be granted to any individual, firm, or corporation, except under the condition that it shall be subject to amendment, alteration, or repeal by the National Assembly when the public interest so requires.

It is, therefore, perfectly clear that it is not the intention to acknowledge, respect and safeguard the existing rights of citizens of the United States to acquire franchises or certificates of public convenience.

And apparently, when present franchises expire it will be impossible for the holders of the same to acquire or obtain new franchises or extensions of the old ones.

The same principle is expressed in Art. XII, Sec. 1, regarding natural resources, as follows:

All agricultural, timber, and mineral lands of the public domain, waters, minerals, coal, petroleum, and other mineral oils, all forces of potential energy, and other natural resources of the Philippines belong to the State, and their disposition, exploitation, development, or utilization shall be limited to citizens of the Philippines, or to corporations, or associations at least sixty *per centum* of the capital of which is owned by such citizens, subject to any existing right, grant, lease, or concession at the time of the inauguration of the Government established under this Constitution. Natural resources, with the exception of public agricultural land, shall not be alienated, and no license, concession, or lease for the exploitation, development, or utilization of any of the natural resources shall be granted for a period exceeding twenty-five years, renewable for another twenty-five years, except as to water rights for irrigation, water supply, fisheries, or industrial uses other than the development of water power, in which cases beneficial use may be the measure and the limit of the grant.

Under this provision the present right of citizens of the United States to locate mining claims will disappear.

And the right to buy and sell even existing real property is limited by Sec. 5 of the said article, which reads as follows:

Save in cases of hereditary succession, no private agricultural land shall be transferred or assigned except to individuals, corporations, or associations qualified to acquire or hold lands of the public domain in the Philippines.

The above quoted Sec. 8 of Art. XIII has already been interpreted by the Supreme Court in the case of *Genehichi Ishi vs. Public Service Commission*, G. R. No. 45134. In that case the petitioner, a Japanese subject, held a certificate of public convenience to operate one hire automobile, issued prior to the establishment of the Commonwealth. After the Commonwealth he applied for authority to increase his equipment by one automobile more. His application was denied by the Public Service Commission on the ground that it would be unconstitutional to grant the increase and this decision was sustained by the Supreme Court which said:

The question presented is whether petitioner's application for an increase of his equipment comes within the constitutional prohibition contained in section 8, Article XIII of the Constitution of the Philippines, it appearing that petitioner had been granted, before the Constitution took effect on November 15, 1935, a certificate of public convenience to operate an automobile "Ford" for transportation of passengers in the province of Davao. We must answer the question in the affirmative. Petitioner is admittedly not a citizen of the Philippines, nor a corporation sixty per centum of the capital of which is owned by citizens of the Philippines. His application for an increase of equipment may not

call for the granting of a new franchise or certificate, but it certainly calls for an "authorization" the granting of any form of which is limited by the Constitution to citizens and corporations above mentioned. This was clearly admitted by the petitioner himself when he made the averment in paragraph 3 of his petition for a writ of certiorari that in filing below the application which was afterwards denied by the respondent Commission, he sought for "authority" to increase his equipment. In other words, it is conceded by petitioner that he may not increase his equipment without previously being "authorized" to do so by the respondent Commission, as provided in express terms in his certificate of public convenience. The phrase "any other form of authorization" used in sec. 8, Article XIII, of the Constitution is comprehensive enough to include the "authority" asked for by petitioner.

The Constitution provides for the nationalization not only of national resources and all forces of potential energy but also of public utilities, saving solely those rights which were acquired prior to its adoption. This was one of the avowed purposes of the framers of that fundamental law, as declared in its preamble. We cannot agree to the suggestion that because petitioner is the lawful holder of a certificate of public convenience to operate an automobile "Ford" in the province of Davao, he has a vested right to be authorized to increase his equipment by the addition of one or more cars. The challenged order of the respondent Commission is in conformity both with the letter and spirit of the Constitution and it must be upheld.

Would the decision of the Court be any different with regard to citizens of the United States after independence, taking into consideration the other provision of the Constitution that existing property rights of the same shall be acknowledged, respected and safeguarded? We believe not.

But as this is a matter which is to be embodied in a treaty to which the Government of the United States will be a party, it will become the duty of the United States to see to it that the rights of its citizens in the Philippines are duly safeguarded and protected.

Conclusion and Suggestions. In view of the foregoing, it is respectfully submitted:

1. That in case the date of independence is advanced, it should be provided that the "civil rights" which citizens and corporations of the United States now enjoy in the Philippines should be continued in force and effect until July 4, 1946, the date set for independence by the Tydings-McDuffie Law; and *furthermore*, in case a preferential trade-treaty is made and entered into, as is much discussed at the present time, then and in that case, preferential civil rights should go along with preferential trade relations and the present civil rights enjoyed by citizens and corporations of the United States should be continued in force and effect during the life of the preferential trade-treaty.

2. That the term "existing property rights" as used in the Tydings-McDuffie Law, the Philippine Constitution, and to be embodied in a treaty, should be clarified by legislation and/or by the treaty to be made and interpreted in the sense intended by Congress, so that there will be no misunderstanding regarding what these rights are.

Manila, Philippines, August 21, 1937.



L. D. LOCKWOOD

For the Philippine Motor Transport
Association.

BRIEF
SUBMITTED BY THE
MANILA CHAMBER OF COMMERCE
SEPTEMBER 1937
(Photographic Reprint)

FUNDAMENTALS

We Subscribe to the following as the Fundamentals of Philippine-American Trade Relations:

1. *The trade relations between the United States and the Philippine Islands were definitely determined by the provisions of the Tydings-McDuffie Act until July 4, 1946. That Act, after approval by the President and the Congress of the United States, was formally accepted by the Filipino people. Based thereon many citizens and residents of and investors in the Philippine Islands have incurred obligations and made commitments. The trade relations so determined, in good faith and in fairness, cannot, therefore, be altered to their prejudice. Thus, at least until July 4, 1946:*

(a) *Articles the growth, product, or manufacture of the Philippine Islands should, with no greater limitations than those imposed by that Act, and on a basis of equality with articles the growth, product, or manufacture of the United States, be admitted free of duty into the United States;*

(b) *Articles the growth, product, or manufacture of the United States should, on a basis of equality with articles the growth, product, or manufacture of the Philippine Islands, be admitted free of duty into the Philippines;*

(c) *No excise or other taxes which directly or indirectly result in any discrimination against the products of either country should be imposed.*

2. *The imposition of export taxes on shipments from the Philippine Islands to the United States from November 15, 1940, and the imposition of import duties by the United States and the Philippine Islands, each on articles the growth, product, or manufacture of the other, from July 4, 1946, will be disastrous to the producers and manufacturers of both countries, and, the time being too short to make the necessary readjustments, to the Philippine Islands in particular; therefore,—*

(a) *The export taxes should be repealed; and*

(b) *Free trade between the two countries, with present or other reasonable quantitative limitations, should be continued after July 4, 1946.*

3. *Irrespective of any change in the political status of the Philippine Islands; a continuation of the present free-trade relations between the United States and the Philippine Islands would be advantageous to both countries—to the Philippine Islands, because the United States is an essential market for many Philippine tropical products which are urgently required there; and to the United States, because the Philippine Islands is a large market for the products of agriculture and industry of the United States, and will, if the products thereof continue to be admitted free of duty into the Philippine Islands, be a much larger market in the future. Such free-trade relations between the two countries should, therefore, after July 4, 1946, be continued indefinitely.*

B R I E F
TO THE
JOINT PREPARATORY COMMITTEE
ON PHILIPPINE AFFAIRS
FROM THE
MANILA CHAMBER OF COMMERCE
ON THE
TRADE SITUATION
BETWEEN THE UNITED STATES AND THE
PHILIPPINE ISLANDS.

The Manila Chamber of Commerce is an international body whose membership includes American, Philippine, British, Spanish, Swiss, German, Japanese and Chinese firms—sixty in all. The Chamber was formed in 1899, and is a purely commercial organization, with no political activities of any kind. Its Members are largely interested in Import and Export business and in Shipping, but include also Banks, Manufacturers, Insurance Companies, Public Utilities, Mines, Accountants and Law-firms.

2. While not concerned in the political side of proposed changes in United States and Philippine relations, the Chamber feels that in the considerable trading and financial questions involved in those relations, the knowledge and experience of its Members make their views as to commercial facts and probabilities useful and worth consideration. And it further suggests that the large interests they have at stake between them, built up over many years of business efforts and giving employment to many thousands of Filipinos whose livelihood is also at stake, give them a legitimate concern in the future economic position of the Islands and justify them in making

such representations as may help to prevent any serious decline in business, disastrous to the country and to traders alike.

3. A measure of the general economic progress of the Islands may be obtained from the advance of exterior trade figures between 1900 and 1936 (excluding bullion)—

	<i>Imports</i>	<i>Exports</i>	<i>Total</i>
1900	P 49,727,000	P 45,981,000	P 95,708,000
1936	202,252,000	272,896,000	475,148,000

The Philippines have been subject, as have all countries, to fluctuations due to the world war and to trade depressions, from the latest of which the Islands have not yet fully recovered, but progress on the whole has been steady, with prospects of a further advance if conditions remain favorable.

4. Industries in the Philippines during the same years increased to an even greater degree than the external trade. But that expansion has been due almost entirely to the existence of this healthy external trade. Without the latter the major items of produce—sugar, hemp, copra, coconut oil, tobacco—and such industries as embroideries, cordage, hats, etc., would have found a considerable expansion impossible in the absence of an external market, as no home demand has been available to promote a growth of any great size. Even industries mainly of internal activities, such as saw mills, power plants, public utilities, rice mills, iron foundries, etc., would have found no means of attaining their present development, had there not been the prosperity and resources existing from an active and growing external trade. And it follows that, if external trade declines, industries of nearly all kinds must dwindle also in the absence of internal resources adequate to maintain them.

5. The growth of national revenue has also depended fundamentally on the expansion of external trade, not merely directly in such matters as import duties, sales tax, etc., but indirectly in the amounts collected from income tax and excise and other taxes on industry, which could not have attained their present proportions without the stimulus of a considerable external trade. And naturally without this larger national revenue there could not have been the improvement and expansion of national institutions and functions which have been attained and which are now essential for the well-being of the Islands. And here too, it follows that if external trade declines, and industries as well, then national revenue also cannot avoid decreasing and embarrassing the administrative services which depend on it.

6. And as between Import and Export trade it should be noted that the growth of the former has been entirely dependent on the latter. If exports had not attained so considerable a figure, imports could not have grown as they have; the import market depends almost entirely on exports, as the internal resources of the country in themselves cannot yet support imports of any size. There is usually a balance of trade in favor of the Islands, and it has been argued that the Philippines benefit unduly from the excess exports, but this is not the case, as interest and dividends on Philippine bonds and investments held outside the country are met in part by excess exports, while freight, insurance and other transportation charges on imports and exports accrue mainly to non-Philippine interests. If allowance is made for these, the gap between the import and export totals will be largely closed. Moreover, Philippine products (raw materials) are bulk commodities which require processing in the United States thus providing work for labor there, whereas imports from the United States are almost entirely composed of manufac-

tured goods. Also, under the "free-trade relationship" between the two countries American goods can still enter the Islands without any limitation as to volume or value, whereas Philippine free exports to the United States have now been considerably restricted by Congress—which also tends to reduce the gap between imports and exports.

7. The importance of the export trade as the essential factor in the maintenance alike of the import trade, of island industries and of national revenue, and consequently national institutions, cannot be too strongly emphasized. It has been estimated that 48% of the total production of insular industries of every kind is exported, leaving only 52% for internal consumption, including such local essentials as rice and other foodstuffs, house construction, etc. A decrease of 66% in total exports is a moderate estimate of the effect of abolishing mutual free trade between the United States and the Philippines, and this would involve a decline, or waste, of 32% of total national production. Such a result, especially on top of the depression of recent years, would amount to a national calamity, which would affect every phase of the industries and the institutions of the Philippine Islands, which would render impossible the satisfactory continuance of many matters now considered as moderate necessities, and which would lead to unsettled conditions and unrest, perhaps even to serious local disorder.

8. To summarize the above—the prosperity of the Philippines depends entirely on its external trade, particularly exports. If that trade should decline to any marked extent not only would concerns interested in it suffer heavily, but it is the full conviction of the Chamber that many industries would be almost ruined and others at least very adversely affected, and further that national revenues would shrink to an extent making it impossible to maintain adequate and normal administrative functions—

health, education, communications, public order, etc., employment would shrink, there would be wide-spread suffering, and the whole structure of the country as it has developed during the past 40 years would be injured and perhaps endangered. The Chamber feels that this outlook is exceedingly probable, and so serious as to justify all efforts to prevent any material decline in that external trade, particularly exports, which is the vital prop of the whole situation.

9. In considering the external trade situation, the essential factor since 1909 has been the mutual free trade relation of the Islands with the United States. Without that special relation imports and exports could not have grown to their present level, and the commercial and other development of the Islands would have been on a lesser and slower scale. Smaller trade would have meant smaller expansion of produce production and industries, and also lower national revenue. There would have existed now a less developed State, with a more primitive standard of living and better able to bear the shock of economic adversity. As it is, the free trade relation has established mutual markets for American goods in the Islands and for Philippine products in the United States to an extent that these markets have become of very considerable value to the United States and of vital importance to the Philippines. And this free trade relation has not only developed large external trade totals, but has stimulated industries to a high level, and has facilitated the collection of adequate national revenue to sustain an Administration which maintains educational, social and other services of a high standard. If external trade declines, as it must if the free trade relation is terminated, there is every reason to fear a crash of other developments and of national resources as mentioned above—an economic disaster which may undo

much of the good work done in the Islands during the last 40 years.

10. In examining the course of trade since the American occupation one very satisfactory feature has been the absence of too abrupt changes in policy, tariffs, etc. Even the establishment of free trade was delayed for 10 years, and though this was due to circumstances no longer existing, it is a precedent for adequate notice of vital changes to allow time to adjust the country to new economic conditions. The Tydings-McDuffie Act also provides a 10 years' notice period, apart from the export taxes proposed. Merchants, Shipping firms and Industrialists, American, Filipino and other, laid their plans, as far as they were able, looking to the economic terms of that Act at least to cover the situation till 1946, but still hoping for some favorable modification of the economic conditions which would enable the external trade with the United States, imports as well as exports, to continue even after that date; and they felt that the terms of the Act were an assurance of security (apart from export taxes) for not less than that period of years. It was a 10-year interval for liquidation, adjustment and settlement not only of their own commitments, but also of the economic structure of the Islands, if this proves possible. Any shortening of that period will intensify the damage to Philippine economy and the injury to merchants and others; while if the period is made very brief, there will be insufficient time for a considered preparation and adequate notice of Tariff changes, Trade agreements and other necessary economic adjustments.

11. At the same time, Merchants and others, while clinging to the 10-year interval of the Act as at least some protection from immediate disaster, feel strongly that the ultimate effect of the economic provisions of the Act will be ruinous to the Islands, their industries and trade.

a. The export taxes will mean for certain commodities speedy, even immediate, ruin within the 10-year period instead of abrupt disaster on the cessation of mutual free trade. They will involve automatic destruction of business in a time too short to allow of liquidation in an orderly manner or to diversify trade into other channels if such be possible, and it is claimed they are unnecessary for the purposes for which introduced as these are covered by other safeguards.

b. Termination of mutual free trade from 1946 onwards will complete the ruin of American-Philippine trade, import and export. Almost certainly two-thirds of the export trade will disappear, and there is no suggestion of how it can possibly be replaced or switched to other countries. Such a reduction will make it impossible to import anything except the cheapest of goods and probably only a little of those; ordinary American products will be quite beyond the purchasing capacity of the Islands as a whole. The ultimate result will be the same as forecast above if the mutual free trade relation should come to an end abruptly within 2 or 3 years—merely delayed a few years which may enable a few mercantile concerns to liquidate their position, but which will not save the country as a whole from decline of external trade, ruined industries, dwindling national revenues, hampering of Administrative functions, and perhaps internal disturbance.

c. The decline of the external trade of the Islands, whether before 1946 or after, will inevitably inflict a most serious blow on trans-Pacific Shipping, especially American; and the lack of Philippine export cargo, in particular, will be ruinous for many lines unable to secure adequate return cargoes to the United States from other parts of the Orient.

12. Suggestions have been made that as a remedy for the decline in trade and production of sugar cane and other products which must result from terminating free trade, the Philippines should turn to diversification of agricultural products under Government auspices. Efforts have already

been made in fomenting new activities to promote trade readjustment, but, as is usual in agricultural communities, it has been found impossible to move quickly. The change-over from the production of sugar to such articles as cassava, kapok, derris root and peanuts is not easy of accomplishment, for the Oriental agriculturalist, apart from being inherently conservative, is disinclined to give up the production of a remunerative crop in which he is thoroughly well-versed for that of unknown commodities the value of which is hypothetical and the market for which may never be developed to an equal degree. In time, changes will doubtless be possible, but they will come slowly, and a 10-year period is all too short for the radical innovations which must be introduced into the agricultural life of the Philippines if such an important commodity as sugar is to be replaced by other products which can be profitably sold in the open markets of the world.

13. In urging the retention of the free trade relation, in one shape or another, as a fundamental necessity for saving the whole economic system of the Islands from serious danger and possible collapse, emphasis must be laid on the fact that this relation is MUTUAL and RECI-PROCAL. What the Philippines sell to the United States is matched by the American goods they buy in return. Not indeed equally, for in 1936 Philippine exports to the United States, excluding bullion, were ₱215,044,000 against only ₱122,994,000 imports, and other years show similar differences. Not only, however, must it be borne in mind, as mentioned above, that the factors of bond interest and of freight and other transportation expenses diminish the real gap between import and export figures, but there are also the circumstances

a. that the Philippines must inevitably bring in Far Eastern foodstuffs and other oriental supplies that cannot be obtained from the United States;

b. that as a country still relatively poor the Philippines are often not in a position to purchase high priced goods; and

c. that on the basis of population the per capita purchase by Filipinos of American goods is more than 5 times the per capita purchase by Americans of Philippine products.

Apart, moreover, from the above, the possibilities of the future must be considered. If mutual free trade comes to an end in 1939 or 1946 or later, commerce will be ruined and other disasters will follow, with probably no recovery ever of the American-Philippine trade position. If, however, the present free trade relation, in one form or another, is maintained, then mutual prosperity may be reasonably expected, for the Philippine population is increasing rapidly, and the United States have in the Islands their twelfth largest export market and, except Japan, their finest Oriental market already accustomed to American merchandize and with its credit so far unimpaired; the expansion of the mining business in the Islands in recent years and the steady increase of imports of mining supplies from America indicate the future possibilities of this market. As America must always have a source of supply of tropical produce, this may as well be the Philippines where the United States for so many years followed a policy of encouraging expansion of production, and where there is in return a considerable preferential market for all American goods. If the Philippines can sell to the United States, then they can also buy from them—but not otherwise. The retention of their existing markets against outside competition is now a world problem for many highly industrialized countries, and it would be a misfortune for the United States and still more for the Philippines if their mutual markets should be deliberately sacrificed by a voluntary change of policy.

14. The Manila Chamber of Commerce, therefore, respectfully urges on the Joint Preparatory Committee on Philippine Affairs the following conclusions and suggestions which are believed to be reasonable and in accordance with the facts—

a. The continuance of the external trade of the Philippines at a satisfactory level is essential for the commercial well-being of the Islands and for the maintenance of national institutions.

b. A material decline in external trade will be followed by the collapse of many industries and a dangerous decrease in national revenues, with inevitable internal difficulties.

c. Such a decline in external trade will inflict very serious injury on United States Export trade to the Islands, and will have a very adverse effect on United States Shipping to and from the Orient.

d. The policy of the economic developments of 40 years has led to a belief that abrupt and sudden changes of commercial legislation will not be imposed on the Islands.

e. The maintenance of the American-Philippine mutual free trade relationship for the full period arranged by the Tydings-McDuffie Act, and for as long as possible afterwards, is essential to avoid acute commercial distress, decline of national industries, and perhaps economic ruin.

f. Prior to 1946 there should be no economic changes in American-Philippine trade relations less favorable than those embodied in the Tydings-McDuffie Act; if an earlier political change should be decided, the free trade relationship should be continued in an equivalent form for the mutual benefit of both countries.

g. Export taxes threaten serious injury and early stoppage of the trade in the commodities involved, and should be eliminated.

h. Excise taxes in the United States, particularly as regards the copra and coconut oil businesses, are a definite restriction of trade, inflict considerable damage on the interests involved, and do not seem to fit in with the terms of the Tydings-McDuffie Act; it is urged that they be rearranged so that, without neglecting American agricultural interests, they will inflict no unnecessary injury on the Philippine products concerned.

i. After 1946 trade relations should be continued for as long as necessary along present lines on a reciprocal basis safeguarded wherever advisable by quotas and other conditions, but enabling existing trade and shipping to be maintained to the mutual advantage of both countries, besides saving the Islands from disaster by giving them a reasonable opportunity to adjust their national economy.

Respectfully submitted,

MANILA CHAMBER OF COMMERCE

By H. C. WHITTALL,
President.

BRIEF
ON THE
TOBACCO TRADE BETWEEN THE UNITED STATES AND
THE PHILIPPINE ISLANDS
SUBMITTED BY THE
MANILA TOBACCO ASSOCIATION
SEPTEMBER 1937
(Photographic Reprint)

MANILA TOBACCO ASSOCIATION

OFFICERS AND DIRECTORS FOR 1937

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MANUEL V. GALLEGO

PRESIDENT OF "KATUBUSAN" CIGAR AND CIGARETTE FACTORY

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TOBACCO EXPORTERS

JULIAN SAMSON

OF "LA CONCHITA" CIGAR FACTORY

VICENTE CHAN QUEP

OF "PHILIPPINE AROMATICS" CIGAR & CIGARETTE FACTORY

August 20, 1937.

**THE JOINT PREPARATORY COMMITTEE
ON PHILIPPINE AFFAIRS
MANILA, P. I.**

GENTLEMEN:

We have the honor to enclose herewith a brief survey of the tobacco trade between the United States and the Philippine Islands, prepared especially for the study of the effects of the export tax as provided in Section 6 of Act 127 of the 73rd Congress.

In submitting this statement we are prompted simply by our desire to cooperate in presenting facts and figures for a better knowledge of the tobacco industry of the Philippines. It is a brief record of our tobacco trade with the United States as it was during the past few years and as it is at present.

A supplement is also inserted in which we record the figures for the first six months of this year and our views as to the future relations between the two countries with regard to tobacco and tobacco products should an abbreviation of the transition period be decided upon.

Hoping that our efforts may prove helpful to your Committee, we are,

Yours very sincerely,

MANILA TOBACCO ASSOCIATION

MANUEL V. GALLEGO,
President.

FUNDAMENTALS

We Subscribe to the Following as the Fundamentals of Philippine-American Trade Relations:

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(a) *Articles the growth, product, or manufacture of the Philippine Islands should, with no greater limitations than those imposed by that Act, and on a basis of equality with articles the growth, product, or manufacture of the United States, be admitted free of duty into the United States; and*

(b) *Articles the growth, product, or manufacture of the United States should, on a basis of equality with articles the growth, product, or manufacture of the Philippine Islands, be admitted free of duty into the Philippines.*

(c) *No excise or other taxes which directly or indirectly result in any discrimination against the products of either country should be imposed.*

2. *The imposition of export taxes on shipments from the Philippine Islands to the United States from November 15, 1940, and the imposition of import duties by the United States and the Philippine Islands, each on articles the growth, product, or manufacture of the other, from July 4, 1946, will be disastrous to the producers and manufacturers of both countries, and, the time being too short to make the necessary readjustments, to the Philippine Islands in particular, therefore,—*

(a) *The export taxes should be repealed; and*

(b) *Free trade between the two countries, with present or other reasonable quantitative limitations, should be continued after July 4, 1946.*

3. *Irrespective of any change in the political status of the Philippine Islands, a continuation of the present free-trade relations between the United States and the Philippine Islands would be advantageous to both countries;— to the Philippine Islands, because the United States is an essential market for many Philippine products; and to the United States, because the Philippine Islands is a large market for the products of agriculture and industry of the United States, and will, if the products thereof continue to be admitted free of duty into the Philippine Islands, be a much larger market in the future. Such free-trade relations between the two countries should, therefore, after July 4, 1946, be continued indefinitely.*

MANILA TOBACCO ASSOCIATION
MANILA, PHILIPPINE ISLANDS

BRIEF
TO THE
JOINT PREPARATORY COMMITTEE
ON PHILIPPINE AFFAIRS

*January, 1937.**

THE TOBACCO TRADE BETWEEN THE UNITED
STATES AND THE PHILIPPINE ISLANDS.

The Act of Congress establishing the Commonwealth of the Philippine Islands provides for the imposition and collection of an export tax on all Philippine articles entering the United States from the sixth year of the transition period. This export tax is increased yearly as follows:

During the sixth year, 5 per centum of the rates of customs duty collected in the United States; on the seventh, 10%; on the eighth, 15%; on the ninth, 20% and 25% on the tenth.

On recommending the approval of the Tydings-McDuffie bill, the President of the United States acknowledged the existence of adverse economic provisions in the measure, inequalities which he considered could be modified and adjusted later.

With regard to the trade between the United States and the Philippines in tobacco and tobacco products, the export tax is visibly a nullifier for the Philippine industry. To understand this, we must carefully examine the following facts and figures:

* This brief or memorandum was prepared for the United States-Philippine Trade Conference before the Joint Preparatory Committee was appointed.

FREE TRADE

The free trade legislation enacted by Congress in 1909, with certain limitations at first, developed the export trade of tobacco products from the Philippines to the United States. Gradually this trade became reciprocal and to-day, it is the product which makes for real reciprocity between the two countries. A glance at the statistics copied hereunder will convince the reader of our statement.

TABLE I

Value of Imports of Leaf Tobacco and Tobacco Products from the United States

Year	Value	Per cent of total tobacco importations
1926	P3,935,337	91.62
1927	4,928,593	89.74
1928	6,010,912	96.91
1929	6,302,411	96.34
1930	5,607,794	95.24
1931	5,337,943	98.06
1932	5,253,936	97.55
1933	4,169,254	98.33
1934	5,714,657	97.62
1935	7,392,173	98.55
1936 (10 months)	6,324,323	....

The figures quoted above do not include other items imported from the United States and which are in direct relation with the tobacco trade. These items are cigarette paper, labels, lithographs, flaps, bands, wrappers, cigar-box shooks and tobacco machinery. They are not included in the summary of the Bureau of Customs regarding tobacco importations. A detailed record of all tobacco importations and of other articles used in the tobacco industry will be found in Table XI, pages 27, 28, and 29.

The figures shown above demonstrate that the trend of tobacco importations from the United States is increasing steadily. It also shows that the Philippine Islands get from the United States almost all of their tobacco importations compared with other countries.

TABLE II

Value of Exports to the United States of Tobacco and Tobacco Products.

Year	Value	Per cent of total exports of tobacco and tobacco products
1926	₱9,448,793	54.73
1927	8,058,060	45.23
1928	8,768,293	51.15
1929	6,849,684	38.96
1930	6,705,605	42.79
1931	6,813,908	45.91
1932	6,486,682	50.68
1933	5,951,968	57.48
1934	6,727,306	64.75
1935	6,577,130	54.79
1936 (10 months)	4,424,210	....

The figures copied above clearly show that our exports to the United States have been decreasing in value while our imports increased considerably as shown in Table I. In the period from 1926 to 1935 the increase in value of Philippine imports from the United States is equivalent to 188 per cent while the decrease in value of our exports went as low as 63 per cent. Taking these proportions as an index, we must admit that the advantages in the tobacco trade between the two countries are in favor of the United States.

TABLE III

Cigarette Importations from the United States Compared with the Total Production of Said Article in the Philippine Islands.

Year	Imports	Total cigarette production in P. I.	Per cent of Imports
	Number	Number	
1926	417,936,501	4,954,572,127	8.43
1927	542,053,520	4,995,022,912	10.85
1928	708,957,981	5,110,187,247	13.87
1929	1,019,805,620	4,974,599,866	20.50
1930	1,075,737,000	4,718,684,523	22.79
1931	1,131,929,900	4,236,038,893	26.72
1932	1,053,483,207	3,953,734,473	26.64
1933	762,168,761	3,554,651,125	21.44
1934	1,488,725,890	2,966,435,450	50.18
1935	2,056,224,343	2,986,494,142	68.85
1936 (10 mo.) ..	1,710,042,899	.....	.....

This is a very illuminating table which corroborates the statement made above.

An impartial analysis of this table will show that the cigarette importations from the United States are imperilling the local production in an accelerated rhythm. These inroads of cigarette importations have been noted by our manufacturers and attempts have been made to produce locally a substitute by blending American cigarette tobacco with native leaf, but all efforts have been fruitless.

Many reasons have been advanced for this failure, the most insistent being the assertion that the generation that has been moulded in the public schools has adopted American ways and tastes in almost everything. For our part we ascribe the failure to climatic conditions and methods of manufacture.

In the Memorandum we submitted to the Philippine National Assembly last September we said, with regard to

the local tobacco industry, the following concerning cigarettes:

"LOCAL TOBACCO INDUSTRY

"Yearly averages of cigarettes withdrawn for local consumption during the 10-year period 1926-1935—

Philippine manufacture ...	4,176,396,820	79.93%
Imported cigarettes	1,048,322,520	20.07%
	5,224,719,340	100 %

"Year 1926—

Philippine manufacture ...	4,903,210,975	92.22%
Imported cigarettes	413,748,233	7.78%
	5,316,959,208	100%

"Year 1935—

Philippine manufacture ...	2,969,962,760	59.93%
Imported cigarettes	1,985,401,578	40.07% ¹
	4,955,364,338	100%

¹ This percentage differs from the proportion mentioned in Table III. The figures quoted here refer to the exact number of cigarettes withdrawn for consumption in 1935 while the percentage in Table III for 1935 refers to the total number of cigarettes imported that year as compared with the local production of the same period. December importations generally are not withdrawn for consumption until the next year.

"Export of Philippine cigarettes was always negligible, it, therefore, has no bearing upon the matter at issue.

"The above figures show that the local industry reduced within 10 years its participation in the total of local consumption from 92.22% to 59.93% which, unfortunately, brought along a considerable reduction in the personnel employed in the manufacture and packing of cigarettes. The trend to prefer imported cigarettes continues uninterrupted due, to a large extent, to the example given by those to whom the youth of the country looks for guidance."

TABLE IV
Import and Export of Leaf Tobacco

Year	Imports from the U.S.		Exports to the U. S.	
	Quantity in Kilos	Value	Quantity in Kilos	Value
1926	332,562	P1,210,001	4,250	P 7,639
1927	298,780	1,292,166	71,294	57,795
1928	359,074	1,707,249	56,526	31,792
1929	201,532	990,312	47,178	25,208
1930	166,835	608,454	191,656	97,391
1931	348,470	604,705	107,097	82,535
1932	836,562	704,812	193,663	83,723
1933	1,665,457	1,126,144	60,998	17,029
1934	566,729	896,218	20,120	7,318
1935	193,921	575,612	.....	.....
1936 (10 mo.)	242,255	627,346	200	106

American leaf tobacco is imported in the Philippines mostly for the wrapper of cigars intended for the United States market.

In a Brief presented to the Agricultural Adjustment Administration in Washington, D. C., in November, 1933, we had the following paragraphs regarding leaf tobacco:

“At a safe estimate *upwards of 70% of Philippine Cigars* shipped to the United States are wrapped with American grown tobacco (Florida, Georgia and Connecticut). Also a large part of Philippine Cigars shipped to Far Eastern countries and Europe are wrapped with American grown tobacco, chiefly Florida and Georgia wrappers. The reason for this lies in the fact that a majority of cigar smokers prefer cigars with a light colored wrapper, and Philippine grown tobacco is mostly dark in color.

“While American leaf tobacco growers increase their shipments of wrapper tobacco to the Philippine Islands, at their prices, shipments of Philippine tobacco (mostly filler) to the United States are steadily decreasing because the Philippine product (currently used by Manila cigar factories) is higher in price

than corresponding types of American filler tobacco as used by American factories. Manila cigar factories have never dared to offer Filipino cigar leaf growers (whether filler or wrapper) such low prices for their products as were prevalent in the United States during the last two or three years."

From a Memorandum submitted to the Philippine National Assembly in September of 1935 we quote the following:

**"PHILIPPINE LEAF TOBACCO TRANSACTIONS DURING THE
10-YEAR PERIOD, 1926-1935 YEARLY AVERAGES**

	Kilos	Percentage of production
Rawleaf Export—		
To Spain	13,349,982	30.95
To other countries	6,240,390	14.45
Stripped Tobacco, Scraps, etc.—		
To U. S.	1,332,850	3.10
To other countries	308,102	0.70
Leaf used in local factories ...	10,020,093	23.20
Loss in manufacture * (stems, waste, etc.)	4,000,000	9.30
Growers' home consumption B-14, losses †	7,894,583	18.30
Estimated Production according to Bureau of Agriculture ..	43,146,000	100.00%

* Estimated.

† Estimated to arrive at crop total.

"Not considering Growers' home consumption, B-14, losses, the *legitimate industry and commerce* dealt with an average yearly volume of 34,251,417 kilos distributed as follows:

Rawleaf exported to Spain	37.90%
Rawleaf exported to other countries	17.70%
Stripped Tobacco, etc., exported to U. S.	3.80%
Stripped Tobacco, etc., exported to other countries	0.80%
Used in local factories, including loss through stemming, waste, etc.	39.80%
	100.00%

"In other words, the proportion of absorption by foreign markets and consumption of the local industry is about 60-40. Of the total Manila cigar production 60% (182,405,000)—(10 years average) was shipped to the United States, at a rawleaf equivalent of some 2,500,000 kilos per year.

"Resuming, the prices that can be paid to the tobacco growers depend upon the demand for Philippine tobacco in Spain, some other European countries and the United States. How much these consumer countries are prepared to pay will, of course, also depend upon offers from other tobacco producing countries which compete with the Philippines.

"Usually, the lowest bidder gets the business. Philippine tobacco growers, as well as exporters, are subject to the law of supply and demand.

"Aside from the law of supply and demand, the question of suitable trade arrangements, economically satisfactory for the Philippines, will eventually also have to enter into the picture. That the local industry could absorb the quantity of tobacco heretofore shipped abroad, seems out of question."

TABLE V

Cigar Exports to the United States

	Quantity Number	Value Pesos
1926	195,326,896	9,138,435
1927	167,300,765	7,537,831
1928	179,569,767	7,711,343
1929	150,945,425	6,026,710
1930	144,767,520	5,620,557
1931	158,520,284	5,770,731
1932	164,615,726	5,771,048
1933	180,714,153	5,646,233
1934	203,895,812	6,463,543
1935	204,013,225	6,060,436
1936 (10 months)	137,927,420	4,139,377

This table denotes a persistent tendency towards decrease in value, notwithstanding the increase in quantity. Depression prices may be responsible for the decrease in value, although we are not optimistic of a reaction upward because of the very keen competition of American machine-made cigars. Prior to the world depression, Philippine cigars were sold in the United States at not less than 5 cents each. When retrenchment became the watchword, prices went down and 2 for 5 cents had to be offered in the market.

There is quite a number of American factories turning out daily millions of 2 for 5 cents cigars by machine. The cost of such machine production is considerably less than the hand-made product of the Philippines.

Of the total cigar production, over 60% are shipped to the United States, less than 5% exported to foreign countries, the balance being consumed locally. The once most flourishing market for medium and high grade Manila cigars, China, which up to the early 1920s bought an average of some 30,000,000 annually, has come down to about 6,000,000 per year. This enormous reduction is a consequence of the ever recurring tariff increases which, however, did not result in the anticipated higher revenues.

TABLE VI

Value of Total Tobacco Importations from the United States During the Last Decade, Including Other Commodities and Merchandise Used in the Tobacco Industry.

Year	Value
1926	P 4,050,770
1927	5,014,559
1928	6,116,773
1929	6,359,773
1930	5,701,583

TABLE VI—*Continued*

Year	Value
1931	5,533,195
1932	5,326,339
1933	4,558,186
1934	6,214,895
1935	7,651,418
1936 (10 months)	6,337,992

This table is a more complete record of imports from the United States than Table I which gave the value of tobacco and tobacco products only. Other commodities imported for the tobacco industry are included in this table which make for the difference in the figures of the two Tables.

TABLE VII

Comparative Value of Total Tobacco Trade Between the United States and the Philippines

Year	Imports	Exports
1926	P 4,050,770	P 9,448,793
1927	5,014,559	8,058,060
1928	6,116,773	8,768,293
1929	6,359,773	6,849,684
1930	5,701,583	6,705,605
1931	5,533,195	6,813,908
1932	5,326,339	6,486,682
1933	4,558,186	5,951,968
1934	6,214,895	6,727,306
1935	7,651,418	6,577,130
1936 (10 months)	6,337,992	4,424,210

A simple glance at the numbers above will lead one to conclude that the Philippine Islands get the balance of the trade in their favor by adding the respective figures for the ten years. Such a conclusion is not, however, the true index for a study of future development, because other factors are not visible in these records.

FREIGHT AND INSURANCE

To the total value of imports from the United States of tobacco, tobacco products and other commodities for the tobacco industry, we must add the freight and insurance that every shipment requires, most of which redounds to the benefit of American companies.

Merchandise originating in the United States require railroad and maritime transportation; from the Philippines every shipment pays the ocean freight and if consigned inland the consequent railway transportation.

Exact figures for this particular aspect of the trade are not available. There is no official nor private agency devoted to making any record of these items. However, to give just an approximate idea we will quote the following letter of the Dollar Steamship Lines:

“Manila Tobacco Association
35 El Hogar Building, Manila.

Gentlemen:

“In accordance with your request we give you below figures covering cigar shipments to the United States for the years 1933-1934-1935 and six months 1936. The total figures for this year will not be available until about the end of January.

Tons of 40 Cubic Feet

Cigars	Pacific Coast	Overland	Atlantic
1933	1567	4630	2544
1934	1649	5868	2548
1935	1586	5787	1753
1936 (6 months)	585	2255	640
	5387	18540	7480

“The estimated freight revenues on this cargo is as follows:

\$53,870	\$129,780	\$112,200
----------	-----------	-----------

"In addition to this, on the overland portion, based on the rate to Cincinnati of \$2.75 per 100 lbs. we estimate freight paid to the railroad at about \$700,000.

"Of the above the following moved by American vessels:

Cigars	Pacific Coast	Overland	Atlantic
1933	1474	3492	2180
1934	1459	4860	1908
1935	1371	4376	1384
1936 (6 months)	552	1935	402
	4856	14663	5874

"We regret that until recently statistics which we have do not itemize tobacco shipments and we are therefore unable to furnish you with details covering this movement. We understand tobacco shipments to U. S. A. average about 250 tons per month which, on the basis of present freight rate, would produce revenue to the steamship lines of \$3,125.00 monthly or \$37,500.00 annually.

"We hope that these figures will be of some value to you.

"Very truly yours,

"THE ROBERT DOLLAR CO.

"General Agents

By: (Sgd.) "L. B. JEPSON."

The figures quoted above deal exclusively with exports.

With reference to imports we can give the following estimate on cigarettes, plug or chewing tobacco:

Year	Cigarettes Tons of 40 c. ft.	Chewing Tobacco Tons of 40 c. ft.	Freight Rail and Ocean	Insurance
1933 ...	4647	353	P 111,466	P 11,558
1934 ...	9078	223	193,882	19,151
1935 ...	12538	301	267,414	26,923

The freight and insurance on other items such as imported leaf tobacco, cigars, smoking tobacco, cigarette paper, cellophane, lithographs, labels, flaps, bands, wrappers; cigar-box shooks and cigarette machinery are not mentioned here. Nor is there any exact record of the insurance paid on exports of tobacco products from the Philippines to the United States.

These invisible items are very important in a detailed discussion of the tobacco trade because they illustrate the characteristics of the interchange between the two countries and can readily point the vital parts of its structure in case of a dislocation.

TABLE VIII

Cigar Exports by U. S. Classification

Year	A	B	C	D	E
	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Number</i>
1930	151,231,542	1,797,492	1,014,670	1,200	89,510
1931	164,547,258	1,211,982	426,025	800	7,100
1932	175,295,494	686,730	236,450	800	39,730
1933	184,733,304	166,990	152,955	800	2,200
1934	207,571,212	516,695	178,275	600	2,000
1935	208,181,968	299,965	160,170	32,830	1,250
Total	1,091,560,778	4,679,854	2,168,545	37,030	141,790

Tax per M., Cost of Production and Market Value

U. S. Class	Tax Per M.	Cost of Production Per M.	Market Value Per M.
A	P 4.00	P 20 to P 28	P 28.60
B	6.00	44 to 56	80.00
C	10.00	55 to 90	117.00
D	21.00	—	180.00
E	27.00	—	300.00

The figures quoted above clearly show that our export of cigars to the United States consists mainly of the

cheaper grades and any extra burden placed upon them cannot possibly be supported by the industry.

TABLE IX
Government Revenue from the Tobacco Industry
(Taxes Collected)

ITEMS	1930	1931	1932
Sales Taxes	₱ 137,584.66	₱ 120,416.50	₱ Not secured
Specific taxes:			
(a) Domestic	6,325,272.72	5,650,288.82	5,157,157.84
(b) Imported	1,641,514.56	1,253,735.86	2,311,798.84
Privilege tax	535,925.12	1,283,741.18	427,985.84
U. S. Specific taxes on tobacco collected in the Philippines and re- vertible to the Philip- pine Treasury	637,410.32	690,691.40	709,858.74
Tobacco inspection fees	143,830.84	161,416.42	160,081.86
Total	9,421,538.22	8,360,290.18	8,766,882.62
ITEMS	1933	1934	1935
Sales Taxes	₱ 66,057.28 ^a	₱ 121,157.04 ^b	₱ 126,532.68 ^c
Specific taxes			
(a) Domestic	5,058,755.24	4,266,804.04	4,332,841.04
(b) Imported	1,444,773.06	2,377,673.86	2,740,068.08
Privilege tax	411,179.64	415,220.04	410,048.90
U. S. Specific taxes on tobacco collect- ed in the Philip- pines and reverti- ble to the Philip- pine Treasury ..	755,644.34	852,773.64	838,523.36
Tobacco inspection fees	145,205.80	136,080.54	163,609.46
Total	7,881,635.36	8,169,709.56	8,611,623.52

NOTE: ^a Sales tax on leaf tobacco and tobacco products exported to foreign countries other than the United States.

^b Sales tax on (a) plus that on leaf tobacco sold by dealers in Manila (₱66,243.64).

^c Sales tax on leaf tobacco alone (₱126,532.68).

As an average, the government obtains about eight and a half millions annually from the tobacco industry, a revenue which is susceptible of great increase if the tax burden is lightened to a prudential level. It is a fallacy to think that any source of revenue will yield more by merely increasing the rate of the levy. Many a fountain of wealth has simply dried up because of the pressure exerted on it. Some other methods must be devised to promote further expansion if the industry is expected to survive and continue to provide revenue for the government.

TABLE X

Value of the Tobacco Trade Between the United States and the Philippine Islands for the Years 1933, 1934 and 1935.

In favor of the United States

Value of total tobacco imports	P18,424,499
Freight on imports—Ocean and Railway ..	572,762
Freight on exports—Ocean and Railway ...	2,004,230
Insurance on Imports and Exports	330,747
Grand total	<u>P21,332,238</u>

In favor of the Philippines

Value of total tobacco exports	<u>P19,256,404</u>
Balance favorable to the United States	2,075,834

N. B.—Rate of insurance on import products % of 1%
 On exports 1%
 The insurance estimated has been based on the total value
 of Imports and Exports.

In this summary the freight on some items are not included. The figures quoted are simply those which appear in the freight and insurance chapter of this memorandum.

THE EFFECTS OF THE EXPORT TAX*

The export tax provided in Act No. 127 of the United States Congress will affect the cigar exports of the Philippines to the United States adversely.

From a pamphlet prepared by the Philippine Economic Association we quote the following:

"CIGARS

"The full duty on cigars imported into the United States under the Hawley-Smoot Tariff Act is \$4.50 per pound plus 25% ad valorem. The average cost of class A cigars including taxes and marketing expenses up to New York is \$14 per thousand. Under the full duty, therefore, 1 pound of Philippine cigars (average 50 units) would be subject to a duty of ₱9.35 or ₱0.187 per cigar. Considering the fact that 99 per cent of our cigar exports to the United States consist of Class A which sell at 2 for 5 cents, there is no argument over the fact that Philippine cigars would have absolutely no chance in the American market under the full duty.

"The following table will show in detail the probable effects of the export tax under the Hare-Hawes-Cutting Act on Philippine cigars:

	6th Year	7th Year	8th Year	9th Year	10th Year	Full Duty
Cost per unit in centavos ..	2.80	2.80	2.80	2.80	2.80	2.80
Export tax per unit in centavos .....	.94	1.88	2.82	3.76	4.70	18.70
Total Cost	3.74	4.68	5.62	6.56	7.50	21.50
Selling price in New York .	5.00	5.00	5.00	5.00	5.00	5.00
Profit or Loss to U. S. importers and distributors	Profit 1.25	Profit .32	Loss .62	Loss 1.56	Loss 2.50	Loss 16.50

"In the sixth year of the Commonwealth period a levy of 5 per cent will amount to \$4.68 per 1000 cigars. Thus the cost per unit of Class A cigar at \$14.00 per

*See explanatory letter dated September 28, 1937.

thousand will be 2.8 centavos. This, added to .94 of a centavo which represents the export tax per unit, will bring the cost of one cigar to 3.74 centavos, exclusive of the importer's and distributor's profit. If this is to be sold in the American market at 5 centavos a piece, the importer is left with a margin of 1.26 centavos per unit.

"It is the consensus of opinion among local cigar manufacturers that even the 5 per cent levy would be a most difficult problem to overcome. For importers and distributors of Philippine cigars in the American market expect to realize a wider margin of profit on our cigars than in the home made products in view of the systematic and intensive advertising of American made cigars and the exceedingly large volume of sales made on them. Consumption of Philippine cigars in the United States represents barely 3 per cent of the total and therefore cuts a negligible figure into the American trade on cigars.

"In the 7th year of the transition period, United States importers and distributors of Philippine cigars would realize a profit of .32 of a centavo per unit as shown in the table, which evidently would not be sufficient to induce anyone to handle Philippine cigars.

"From the 8th year on to the 10th, it will be a loss which increases in direct proportion to the increase of the export tax.

"Thus the export tax provisions of the Act will place a serious handicap on the Philippine cigar industry."

On our part, we may be permitted to say that the effects of the future export tax are now being felt. Informations received lately state that importers and wholesalers in the United States, anticipating that the proposed levy of 5% of the Customs duty would no longer enable them to deal profitably in Philippine cigars, are not inclined to spend any further effort in building up a business

which would have to be given up within a comparatively short time. This feeling, we fear, will spread among dealers in Philippine tobacco products to the extent that we may witness a gradual decrease of orders as the period of the enforcement of the export tax approaches.

COST OF MANUFACTURE

In the foregoing chapter, a statement is made that the average cost of Class A cigars including taxes and marketing expenses up to New York is \$14.00 (P28.00) per thousand. As an average it must be understood that it does not mean the cost of standard Class A cigars. There are factories which sell Class A cigars at a higher price than \$14.00 per thousand because their cost of manufacture is also higher due to the standard of quality they require in material and workmanship. The reputation for quality is considered by many bona fide manufacturers as a supreme asset because it assures a ready market and a continued patronage by discriminating customers.

To give an idea of the cost of manufacture of one thousand cigars, standard quality, we shall enumerate below the different items that make up the details of production:

United States Internal Revenue Tax	P4.00
Packing & shipping expenses	4.50
Leaf tobacco Philippine Islands filler & binder ..	4.10
Leaf tobacco wrapper Georgia or Florida	4.00
Cigarmaker's wage	4.50
Preparing materials	
Filler strippers	}
Wrapper strippers	
Cigar boxes	0.95
Paper and labels	0.80
Labellers (Precinteros)	}
Boxers (Envasadores)	
	0.65

Cellophaning & Banding by machine (material & labor)	1.40
	<hr/>
Balance left for overhead, interest and margin of profit	26.40
	<hr/>
Total	P29.00

This sum of P29.00 is the minimum cost of Class A cigars, standard quality, which sell in the American market at 2 for 5 cents.

In the discussion of the cost of manufacture we must bear in mind some uncontrovertible facts. The mechanization of tobacco manufacture in the United States has reached such a point of perfection that human intervention has been limited to a minimum of labor, saving thus quite a large amount of money which some years ago went for wages. This saving is the reason why American manufacturers can offer perfectly made cigars at 2 for 5 and, in some cases, 3 for 5 cents.

About ten or twelve years ago, there was much ado in the United States against Philippine cigars. Threats were made to limit our exports to the American market because we were competing advantageously through cheap labor and lower customs duty on Sumatra wrapper. This last argument was discarded when the Philippine Legislature modified the tariff duty on tobacco. The labor aspect disappeared when machines were perfected and a great saving was obtained with their use. These facts are responsible for the non-limitation of Philippine tobacco products in the independence legislation.

Another aspect in the sale of Philippine cigars in the United States is that being thousands of miles away our products reach the market not in as fresh a condition as the products of American factories. In many cases our cigars arrive in a somewhat deteriorated con-

dition which necessarily means a loss to the manufacturer. Again, sellers of American products can buy very limited quantities at a time because they are within easy reach of the factories, whereas importers of Philippine cigars must make large orders to keep a stock ready to supply the demand. How much of this stock can be kept on hand for some months without deteriorating is a problem which has been the subject of annoyance.

At the time of writing this we are informed that our export of cigars to the United States during 1936 has decreased over 20% as compared with 1935. The reason for this considerable diminution can be found in what we have just said above.

OTHER ASPECTS OF THE PROBLEM

One of the natural and logical consequences of a stoppage of cigar exports to the United States is unemployment for a considerable number of cigar makers and other employees and factory hands.

It is estimated that about 575,000 persons—farmers, farmhands, factory laborers, etc.—are dependent upon the industry. Of course, not all of these will be affected by a paralyzation of our cigar exports to the United States. Quite a number, however, about 40,000 to 50,000 will find themselves without work, thus aggravating our economic situation.

The amount of money which factory pay-rolls represent annually in connection with tobacco exports to the United States is estimated at over P2,000,000 per year.

The quantity of leaf tobacco which will not be purchased when cigar exports to the United States cease is estimated, as an average, at 52,000 quintals, the average annual absorption by the factories which manufacture

for export to the American market. This tobacco at P10.00 per quintal would mean a decrease of P520,000 per year to the farmers and their dependents.

The resultant consequence of all these diminutions will be a lessening of the purchasing power of the Philippine Islands which will, undoubtedly, have its repercussions in the general import of merchandise from the United States.

SUMMARY

Summing up all the arguments presented in this Memorandum we can enumerate, in a brief manner, the profit and loss which the export tax would cause immediately upon its collection and payment in the first year of its enforcement.

For American manufacturers it means undisturbed export of cigarettes, cigarette paper, cellophane, lithographs, labels, flaps, cartons, bands, wrappers, tobacco machinery and a quantity of leaf tobacco.

For American railway companies all of the above mean land transportation.

For American steamship companies they also mean maritime transportation.

For American insurance companies the premium covering the risk.

For the Philippine Islands the significance is detrimental in every respect.

The growing importations of American cigarettes may, in some years to come, so diminish the local production to a minimum that manufacturers will not consider it profitable to continue in business.

With cigar exportation to the United States suspended, the farmers will sell less tobacco, a large number of factory laborers will be unemployed, the government revenue dwindling, the purchasing power of the country weakened and, consequently, the standard of living seriously affected.

Thus, while for the United States it is all favorable, for the Philippine Islands the situation looks gloomy and negative.

The idea supporting the imposition of the export tax is, no doubt, plausible. But when it comes to levying it on export tobacco products, the framers of the bill did not take into account the very limited capacity of absorption of the industry. The tobacco industry of the Philippine Islands in its relation with the United States stands as a class by itself. The benefit which it derives from the American market is reciprocated by the advantages which the Philippines offer to the same industry of the United States.

As a conclusion and for the benefit of all concerned, we earnestly plead for the continuation of the present free-trade relations between the United States and the Philippines concerning tobacco and tobacco products by the repeal of such portions of section 6 of Act 127 of the 73rd Congress which provide for the levy of the export tax.

Respectfully submitted,

MANUEL V. GALLEGO,

President

Manila Tobacco Association.

TABLE XI

*Imports From the United States—Tobacco, Tobacco
Products and Other Articles Used in
the Tobacco Industry*

Year	Leaf Tobacco		Cigars		Cigarettes	
	Quantity	Value	Quantity	Value	Quantity	Value
	Kilos	Pesos	Number	Pesos	Number	Pesos
1909	6,930	16,236	—	354	—	418
1910 ¹	25,990	98,468	—	16,354	—	23,462
1911	6,852	19,614	—	58	—	27,538
1912 ²	6,195	17,584	—	58	1,814,000	30,738
1913	3,060	7,234	6,250	894	5,094,500	60,546
1914	3,122	18,132	200	40	8,598,352	93,278
1915	6,474	31,774	300	27	12,484,941	125,453
1916	3,445	10,507	2,029	545	13,859,000	148,404
1917	14,446	108,233	50	10	32,778,100	253,117
1918	26,692	229,968	3,100	1,003	59,121,200	460,052
1919	27,428	99,418	—	—	71,910,210	654,501
1920	268,624	1,327,236	4,800	117	128,679,903	1,215,110
1921	105,773	570,881	5,700	181	230,538,831	2,175,269
1922	35,903	135,941	375	37	154,764,650	1,101,712
1923	45,169	274,172	59,950	2,883	190,507,400	1,031,952
1924	100,239	572,823	5,547	133	241,194,371	1,267,429
1925	225,435	894,831	500	42	361,514,989	1,704,690
1926	332,562	1,210,001	100	4	417,936,501	1,920,034
1927	298,780	1,292,166	500	60	542,053,520	2,641,028
1928	359,074	1,707,249	1,003	94	708,957,981	3,267,641
1929	201,532	990,312	—	—	1,019,805,620	4,251,289
1930	166,835	608,454	2,940	532	1,075,737,000	4,063,585
1931	348,470	604,705	4,100	930	1,131,929,900	3,816,781
1932	836,562	704,812	78,000	4,807	1,053,483,207	3,889,884
1933	1,665,457	1,126,144	26,195	2,033	762,168,761	2,312,027
1934	566,729	896,218	12,902	1,004	1,488,725,890	4,355,849
1935	193,921	576,612	105	8	2,056,224,843	6,153,235
1936 ³	242,255	627,346	226	30	1,710,042,899	5,319,432

¹ The figures for 1910 are for six months only, July to December.

² The figures for 1912 are for a whole fiscal year ending June 30, 1912.

³ The figures for 1936 are for ten months only, January to October.

TABLE XI (Continued)

*Imports From the United States—Tobacco, Tobacco
Products and Other Articles Used in
the Tobacco Industry*

Year	Smoking Tobacco		Plug and Chewing Tobacco		All Other	
	Quantity in Kilos	Value	Quantity in Kilos	Value	Quantity in Kilos	Value
1909 ...	—	—	8,364 P	17,090	—	P64,000
1910 ¹ ..	22,124 P	54,194	60,034	101,686	—	103,794
1911 ...	123,168	176,762	40,102	59,986	—	33
1912 ² ..	132,185	206,170	71,598	102,184	—	8,672
1913 ...	86,331	212,192	161,206	224,720	—	76
1914 ...	55,055	129,690	175,132	249,878	—	68
1915 ...	70,439	166,085	249,905	362,721	—	34
1916 ...	86,254	201,549	253,375	368,681	—	101
1917 ...	82,474	197,024	295,659	449,395	—	258
1918 ...	38,598	108,069	323,123	503,145	—	220
1919 ...	125,106	387,695	232,738	570,799	—	—
1920 ...	54,511	144,014	281,230	519,669	—	—
1921 ...	110,028	249,600	344,891	708,485	17	31
1922 ...	141,335	278,352	229,200	512,826	876	516
1923 ...	16,045	69,263	294,243	705,028	183	713
1924 ...	26,494	92,260	333,536	707,947	99	317
1925 ...	25,132	69,961	354,594	731,004	1,478	3,728
1926 ...	12,376	46,288	357,182	758,115	273	895
1927 ...	14,967	46,590	448,792	948,346	122	403
1928 ...	21,092	34,305	465,667	1,000,761	289	862
1929 ...	15,957	44,139	465,661	1,016,269	94	402
1930 ...	17,473	44,440	400,003	890,125	222	650
1931 ...	17,574	47,967	405,949	867,368	24	192
1932 ...	20,742	45,357	295,000	607,440	552	1,636
1933 ...	15,741	39,071	319,944	677,656	29,482	12,323
1934 ...	11,506	28,718	201,870	432,139	6,265	729
1935 ...	37,679	80,404	272,844	577,928	5,774	4,986
1936 ³ ..	17,863	41,034	146,727	335,416	310	1,065

¹ The figures for 1910 are for six months only, July to December.

² The figures for 1912 are for a whole fiscal year ending June 30, 1912.

³ The figures for 1936 are for ten months only, January to October.

TABLE XI (Continued)

*Imports From the United States—Tobacco, Tobacco
Products and Other Articles Used in
Tobacco Industry*

Year	Cigarette Paper		Cellophane		Lithographs, Labels, Flaps, Bands, Wrappers and Cigar- Box-Shooks		Cigarette and other Tobacco Machinery	
	Quantity	Value	Quantity	Value	Quan.	Value	Quan.	Value
	Kilos	Pesos	Kilos	Pesos		Pesos		Pesos
1909	—	—	—	—	—	—	—	—
1910	—	—	—	—	—	—	—	—
1911	—	—	—	—	—	—	—	—
1912	—	—	—	—	—	—	—	—
1913	882	1,284	—	—	—	24,002	—	—
1914	2,587	3,346	—	—	—	26,302	—	—
1915	3,773	4,363	—	—	—	21,459	—	—
1916	3,730	6,017	—	—	—	28,413	—	499
1917	10,322	34,887	—	—	—	62,040	—	1,826
1918	2,681	9,403	—	—	—	252,363	—	486
1919	5,715	21,988	—	—	—	265,339	—	56,303
1920	7,751	32,544	—	—	—	311,830	—	141,772
1921	54,600	80,654	—	—	—	437,326	—	132,339
1922	2,955	9,780	—	—	—	133,934	—	44,340
1923	16	16	—	—	—	190,478	—	10,482
1924	376	683	—	—	—	189,399	—	4,549
1925	—	—	—	—	—	144,871	—	30,669
1926	260	456	—	—	—	104,786	—	10,191
1927	434	1,899	—	—	—	67,210	—	16,857
1928	302	850	—	—	—	100,220	—	4,791
1929	102	214	—	—	—	46,529	—	10,619
1930	84	180	—	—	—	73,000	—	20,617
1931	—	—	—	—	—	55,976	—	139,276
1932	240	215	—	—	—	9,331	—	62,857
1933	12,082	12,979	119,922	271,134	—	2,509	—	102,310
1934	6,604	11,414	143,143	308,442	—	36,056	—	144,326
1935	1,247	1,570	125,286	224,307	—	19,831	—	13,537
1936 ^a	—	—	—	—	—	—	—	13,669

^a The figures for 1936 are for ten months only, January to October.

TABLE XII

*Exports to the United States of Tobacco and
Tobacco Products*

Year	Leaf Tobacco		Cigars		Cigarettes	
	Quantity (Kilos)	Value (Pesos)	Quantity (Number)	Value (Pesos)	Quantity (Number)	Value (Pesos)
1909 ¹	5,520	3,338	37,076,000	1,474,792	2,173,000	5,924
1910 ¹	3,372	3,014	61,526,000	3,121,598	8,823,000	31,798
1911 ¹	2,545	1,488	38,112,000	1,804,756	5,547,000	21,564
1912 ¹	40,205	25,034	90,000,000	3,916,642	10,968,000	47,928
1913 ²	4,485	4,518	71,513,141	3,285,776	6,747,560	27,156
1914 ²	23,650	10,302	56,205,050	2,400,252	3,054,807	10,202
1915 ²	41,017	20,671	61,169,500	2,302,444	3,706,575	16,684
1916	466,419	237,306	111,478,216	4,066,242	2,993,600	11,622
1917	1,360,550	1,204,051	202,198,534	7,725,966	2,505,360	10,125
1918	606,006	584,030	248,747,584	11,365,675	6,405,000	15,715
1919	35,751	31,250	263,942,555	13,828,639	3,978,450	17,984
1920	386,562	592,403	316,862,859	21,092,607	2,144,900	15,300
1921	36,817	53,886	68,216,608	3,960,503	833,048	8,494
1922	9,864	12,304	173,317,045	8,519,576	823,060	5,990
1923	129,758	105,704	219,898,014	10,298,229	1,716,250	10,624
1924	30,105	19,143	175,761,928	8,839,563	435,800	3,659
1925	2,872	1,824	207,279,935	10,051,192	888,030	6,921
1926	4,250	7,639	195,326,896	9,138,435	1,743,070	13,771
1927	71,294	57,795	167,300,765	7,537,831	1,949,122	16,143
1928	56,526	31,792	179,569,767	7,711,343	1,857,340	15,313
1929	47,178	25,208	150,945,425	6,026,710	3,932,048	32,325
1930	191,656	97,391	144,767,520	5,620,557	2,995,950	21,115
1931	107,097	82,535	158,520,284	5,770,731	1,445,350	13,757
1932	193,663	83,723	164,615,726	5,771,048	1,012,100	9,548
1933	60,998	17,029	180,714,159	5,646,233	911,000	8,775
1934	20,120	7,318	203,895,812	6,463,543	1,374,700	11,698
1935	—	—	204,013,225	6,060,436	1,387,980	12,687
1936 ³	200	106	137,927,420	4,139,377	593,950	5,087

¹ The figures for 1909, 1910, 1911 and 1912 are for fiscal years ending June 30.

² Leaf tobacco and all other unmanufactured tobacco have been added together.

³ The figures for 1936 are for ten months only, January to October.

TABLE XII (Continued)

Exports to the United States of Tobacco and Tobacco Products

	Scraps, Stripped Filler and Cigar Ends		Smoking or Cut Tobacco		All Other	
	Quant. Kilos	Value Pesos	Quant. Kilos	Value Pesos	Quant. Kilos	Value Pesos
1909 ¹ ...	—	—	—	—	—	—
1910 ¹ ...	—	—	—	—	—	—
1911 ¹ ...	—	—	10,073	13,544	—	—
1912 ¹ ...	—	—	11	26	—	—
1913	—	—	40	60	—	—
1914	—	—	1,706	2,662	—	600
1915	—	—	—	—	—	—
1916	159,780	86,715	57,076	36,369	—	18,366
1917	1,722,974	1,559,258	1,874	1,155	—	44,390
1918	2,351,258	2,676,187	180	116	—	26,152
1919	170,182	143,220	—	—	—	—
1920	580,635	406,243	30,905	26,752	—	—
1921	121,764	49,420	5,262	4,497	—	—
1922	624,103	248,005	3,594	1,588	—	—
1923	599,882	286,604	53,723	25,497	140	142
1924	478,954	278,745	—	—	—	—
1925	582,346	372,568	398	199	—	—
1926	434,625	287,128	5,676	1,820	—	—
1927	711,657	445,311	1,853	980	—	—
1928	1,985,436	1,008,285	—	—	27,600	1,560
1929	1,669,052	765,296	43	52	6,830	93
1930	1,981,552	965,963	—	—	13,527	579
1931	1,691,111	945,441	3	4	7,310	1,440
1932	1,292,186	618,619	—	—	9,340	3,744
1933	793,959	279,931	—	—	—	—
1934	733,053	244,647	—	—	300	100
1935	1,370,845	504,006	—	—	5	1
1936 * ...	755,383	278,546	—	—	—	—

¹ The figures for 1910 are for six months only, July to December.

* The figures for 1936 are for the ten months only, January to October.

TABLE XIII

Value of Total Imports and Exports

Year	Imports	Exports
1909	P 98,098	P 1,484,054 ⁴
1910 ¹	397,958	3,156,408 ⁴
1911	283,996	1,841,352 ⁴
1912 ²	365,406	3,989,630 ⁴
1913	530,948	3,317,517
1914	520,734	2,424,018
1915	711,916	2,339,799
1916	764,716	4,456,620
1917	1,106,790	10,544,945
1918	1,564,709	14,667,875
1919	2,056,043	14,021,093
1920	3,692,292	22,133,305
1921	5,354,766	4,076,800
1922	2,217,438	8,787,463
1923	2,284,987	10,726,800
1924	2,790,540	9,141,110
1925	3,579,796	10,432,704
1926	4,050,770	9,448,793
1927	5,014,559	8,058,060
1928	6,116,773	8,768,293
1929	6,359,773	6,849,684
1930	5,701,583	6,705,605
1931	5,533,195	6,813,908
1932	5,326,339	6,486,682
1933	4,558,186	5,951,968
1934	6,214,895	6,727,306
1935	7,651,418	6,577,130
1936 ³	6,337,992	4,424,210 ³
Total	P91,186,616	P204,353,125

¹ The figures for 1910 are for six months only, July to December.

² The figures for 1912 are for a whole fiscal year ending June 30, 1912.

³ The figures for 1936 are for the ten months only, January to October.

⁴ The figures for 1909, 1910, 1911 and 1912 are for fiscal years ending June 30.

SUPPLEMENT

The foregoing Memorandum was prepared during the last month of last year and, at that time, only the figures for ten months were available. To complete the data for 1936 and for the first six months of this year, this supplement is added in order to give the most comprehensive survey of the tobacco trade of the islands with the United States and vice-versa.

From the 1936 Annual Report of the American Trade Commissioner, on page 27, we have the following:

"Exports of leaf tobacco fell off sharply in 1936, amounting to only 12,545,690 kilos, a reduction of about 32 per cent from the 1935 figure of 18,517,000 kilos. Exports were moderate in the first half of 1936 due to limited supplies and in the latter part of the year due to lack of foreign demand, with Spain out of the market most of the time. There was a fairly large amount exported in December to France, with other ports optional, and it will doubtless go to Spain if conditions permit. It is apparent, however, that exports will be at a relatively low level so long as conditions in that principal market continue so uncertain, and prospects for export trade in 1937 are not promising. The Japanese and Korean monopolies took a large shipment in February but were out of the market for the rest of the year, aside from a very moderate shipment in December. Exports of scraps to the United States totaled 1,000,000 kilos in 1936, or about 25 per cent less than in 1935.

"The manufacture of cigars fell off badly in 1936, due to the sharp decrease in exports to the United States, which fell off to 164,905,000 in 1936, a decrease of over 20 per cent from the 1935 figure of 208,676,000. Exports of the better grade cigars increased in 1936, but these are still a negligible quantity. Exports to other foreign countries fell off moderately, amounting to 14,637,306 units in 1936, against 15,771,427 in

1935. Domestic sales totaled 103,865,826 in the first eleven months of 1936, or about the same as in 1935.

“Production of cigarettes amounted to 2,809,000,000 units in the first eleven months of 1936, a very slight increase over 1935. Domestic sales totaled 2,753,000,000 in the eleven months period, or about two to three per cent better than in the same period of 1935, while exports amounted to 16,000,000 and deliveries to the United States Army and Navy 33,000,000. Cigarette production declined steadily from 5,110,000,000 in 1928 to 2,965,000,000 in 1934, on account of increasing preference for American cigarettes. It has held even or increased very slightly, however, in the past two years.”

The Collector of Internal Revenue, in his Annual Report for 1936, has these pertinent paragraphs:

“THE TOBACCO PROMOTION WORK OF THE BUREAU

“THE PHILIPPINE CIGAR TRADE IN THE UNITED STATES

“The total number of cigars exported to the United States during 1936 was 164,905,078, as compared with 208,676,183 in 1935, showing a decrease of 43,771,183 cigars, or 20.9 per cent. While a decrease in quantity was recorded during the year under review, there was slight increase in the average price paid per thousand from ₱29.99 in 1935 to ₱30.28 in 1936. The decrease in the quantity of cigars exported to the United States was due largely to the strong competition offered by the American cigars which made a substantial gain in the American market, on account of the well systematized and heavily financed advertising campaign behind them. The strike of the longshoremen in the United States during the last quarter of the year which caused the tying of American ships has contributed, to some extent, to the decline in the cigar exports, as the manufacturers in the Philippines had an estimated total of 16,498,000 cigars

intended for the Christmas season held on different vessels on the Pacific Coast waiting to be unloaded upon the termination of the strike. The slight increase in price was due to the bigger shipment this year of Class A cigars invoiced to retail at more than two-for-five-cents.

"The Philippine tobacco agents in the United States, Messrs. C. A. Bond and D. F. Morris, continued their propaganda work. They visited different sections of the country with the purpose of popularizing the sale of Philippine cigars and of ascertaining whether or not the Philippine cigar importers observed the requirements of this Bureau regarding prices. In their travels, they endeavored to learn intimately the cigar market situation in the different sections of the country. They were convinced of the gradual shifting in the sale of cigars in that country from the cheap kind to the five-cent and other higher grades. The manufacturers in the Philippines, however, were reluctant to heed their recommendation to return to the manufacture of five-cent cigars for the American market, because the American importers have never indicated to them any desire to shift their orders from the two-for-five-cent to the five-cent class of cigars. They asserted that the abandonment of the two-for-five cent cigar trade would mean the closing of their factories. As stated above, the export of cigars to be retailed at more than two-for-five cents has increased slightly in 1936, and it is hoped that more five-cent cigars will be shipped in the year 1937 with a corresponding decline in the shipment of the cheaper grade of cigars."

The abandonment of the manufacture of two for five cent cigars does not seem to be entirely sustained by facts and to substantiate this, we quote below a letter sent to Manila by Mr. Bond and forwarded to us, for the information of our members, by the Bureau of Internal Revenue.

**"The Manila Tobacco Association
Room 35, El Hogar Filipino Bldg.
Juan Luna & Muelle de la Industria
Manila.**

"Gentlemen :

"For your information, I have the honor to quote hereunder the contents of a self-explanatory letter forwarded to this Office by Mr. C. A. Bond, one of the Philippine Tobacco agents in the United States :

'Dear Mr. Bond :

'We have your letter of the 26th, dated at New York, and note you are direct agent for the tobacco industry of the P. I.

We are in the market for an A-1 class of 2 for 5¢ Cigars made in the P. I. and exported to the U. S. A., direct to us for our exclusive Distribution.

'We wish to add an Imported line of Cigars to our Domestic Made line of Cigars.

'Our customers extend from the Atlantic to the Pacific Coast and are among the largest Jobbers and Wholesale traders in the U.S.A. We want a strictly high grade Cigar made in the P. I., to retail at 2 for 5¢ or .25¢ for a Handfull of Cigars. This is our Slogan and all our Cigars retail at not more than 2 for 5¢ and sold at .25¢ for a Handfull. This is an entirely new set-up in the retail sale of Cigars.

'We have ample Cash to trade with one of your best Manufacturers. It not necessarily must be one of your largest Cigar Makers; we must have a reliable connection however that can step-up production as demand would require and if the quality and Workmanship was right with the price such that would be just a few jumps ahead of the other competitors we could no doubt create volume sale of Cigars.

'We are and always have been ready to cooperate with our Cigar Manufacturers with a view to Volume Sales and this justifies a very close margin of profits on the initial sales.

'You can go over your field down in the Islands and see just what there is there to take care of a business of this nature for mutual sales and profits interests.

'We must be direct Importers from the Islands ourselves and no middle men would be considered under any circumstances. Note this please.

'We have ample working capital to finance all shipments with Cash money as well as our direct to customer shipments from the P. I. so they can figure on the closest margins on any sample lines submitted which may be charged for and we will remit for samples.

'We are most respectfully yours,

(Sgd.) 'E. SNYDER & SON

'P. S. We would prefer two Shapes at least all Light Colors packed 1/10th and 1/20ths. Very Nice and Mild well cured tobacco Long-Filler.'

"The address of the sender of the above quoted letter is P. O. Box No. 68, Hampstead, Md., U. S. A.

"Very respectfully,

(Sgd.) "A. L. YATCO,
"Collector of Internal Revenue."

Going back to the report of the Bureau of Internal Revenue, the following figures are very interesting in the study of the tobacco trade between the United States and the Philippines.

EXPORTS TO THE UNITED STATES IN DETAIL

The following table indicates the number of cigars exported to the United States during the last nineteen years and the average price per thousand:

Year	Number of cigars exported	Average price per 1,000
1918	265,234,126	P43.68
1919	261,514,367	53.14
1920	321,616,983	65.16
1921	73,303,964	55.25
1922	174,186,363	49.01
1923	219,702,360	52.25
1924	185,536,675	56.98
1925	212,873,752	47.76
1926	205,995,581	47.04
1927	173,190,208	43.29
1928	187,360,260	42.01
1929	156,641,727	40.85
1930	154,134,414	39.43
1931	166,193,165	36.34
1932	176,259,204	34.45
1933	185,056,249	30.52
1934	208,268,782	31.10
1935	208,676,183	29.99
1936	164,905,078	30.28

The wrappers used for the cigars sent to the United States are estimated as follows:

Year	Total number of cigars	With U. S. wrappers	With Sumatra wrappers	With Philippine wrappers
		<i>Per Cent</i>	<i>Per Cent</i>	<i>Per Cent</i>
1918	265,234,126	.65	1.57	97.78
1919	261,514,367	2.00	2.75	95.25
1920	321,616,983	1.00	3.05	95.95
1921	73,303,964	2.85	3.00	94.15
1922	174,186,363	2.00	2.55	95.45
1923	219,702,360	4.25	3.75	92.00
1924	185,436,675	8.35	2.65	89.00
1925	212,873,752	10.50	2.15	87.35
1926	205,995,581	54.67	1.12	44.21
1927	173,190,208	45.05	1.86	53.09
1928	187,360,260	56.72	.76	42.52
1929	156,641,727	41.50	3.70	54.80
1930	154,134,414	37.69	2.98	59.33
1931	166,193,165	39.54	2.58	57.88
1932	176,259,204	48.13	1.63	50.24
1933	185,056,249	56.48	2.01	41.51
1934	208,268,782	75.75	.22	24.03
1935	208,676,183	78.14	.25	21.61
1936	164,905,078	82.71	1.38	16.91

The following table indicates that the bulk of the trade in the United States is built on Class A cigars:

Class	Tax per M	1932	1933	1934	1935	1936
A ..	\$ 2.00	175,295,494	184,733,304	207,571,212	208,181,968	164,317,208
B ..	3.00	686,730	166,990	516,695	299,965	322,330
C ..	5.00	236,450	152,955	178,275	160,170	129,930
D ..	10.50	800	800	600	32,830	129,860
E ..	13.50	39,730	2,200	2,000	1,260	5,750
Total		176,259,204	185,056,249	208,268,782	208,676,183	164,905,078

That the tobacco trade in the United States is not entirely confined to the exportation of cigars can be seen from the following tables:

Cigars

Quarter	1932	1933	1934	1935	1936
First	39,262,058	30,191,261	55,781,951	53,711,912	38,410,167
Second	39,312,145	30,675,410	55,176,473	43,215,685	42,068,417
Third	50,944,154	54,468,050	33,242,881	52,321,200	46,141,548
Fourth	46,740,847	69,721,528	64,067,477	54,427,386	38,284,946
Total	176,259,204	185,056,249	208,268,782	208,676,183	164,905,078

Cigarettes

Quarter	1932	1933	1934	1935	1936
First	293,830	670,800	548,300	419,900	115,000
Second	292,700	221,100	700,200	519,650	197,000
Third	306,420	218,450	196,500	351,450	180,000
Fourth	490,100	454,000	461,600	395,000	251,000
Total	1,382,050	1,564,350	1,906,600	1,686,000	743,000

Partially manufactured tobacco

Quarter	1932		1933		1934	
	Stripped tobacco	Scrap tobacco	Stripped tobacco	Scrap tobacco	Stripped tobacco	Scrap tobacco
First	<i>Kilos</i> 315,682	<i>Kilos</i> 229,362	<i>Kilos</i> 113,541	<i>Kilos</i> 72,214	<i>Kilos</i> 119,494	<i>Kilos</i> 81,132
Second	264,818	174,900	53,226	66,755	99,646	71,297
Third	161,865	110,830	54,544	200,681	35,235	60,598
Fourth	126,030	91,357	133,083	156,108	83,065	204,612
Total	868,390	606,449	354,394	495,758	342,440	417,627

Quarter	1935		1936	
	Stripped tobacco	Scrap tobacco	Stripped tobacco	Scrap tobacco
	<i>Kilos</i>	<i>Kilos</i>	<i>Kilos</i>	<i>Kilos</i>
First	91,588	332,003	101,555	100,097
Second	167,633	161,462	116,729	181,038
Third	91,419	196,509	111,193	94,350
Fourth	95,249	219,116	111,296	175,288
Total	445,889	909,090	440,773	550,773

No leaf tobacco was exported to the United States in 1936.

From the Annual Report of the Collector of Customs we copy the following:

IMPORTS

Tobacco products.—Imports in tobacco products, which constituted 4 per cent of the total imports, decreased from P7,500,559 in 1935 to P7,130,860 in 1936, or 5 per cent. The slump was due to decrease in imports of tobacco products from all supplying countries of the world. The importations per capita in 1903 and from 1928 to 1936 were as follows:

Year	Value	Per capita	Per cent of total imports	Increase (+) or decrease (-) over preceding year
	Pesos			Per cent
1903 ...	27,142	^a	^b	....
1928 ...	6,202,070	0.49	2	+ 11
1929 ...	6,541,455	.50	2	+ 5
1930 ...	5,887,775	.44	2	- 9
1931 ...	5,443,428	.40	3	- 7
1932 ...	5,386,142	.39	3	- 1
1933 ...	4,240,219	.30	3	- 21
1934 ...	5,853,802	.45	4	+ 38
1935 ...	7,500,559	.57	4	+ 28
1936 ...	7,130,860	.54	4	- 5

^a Less than one-half of a centavo

^b Less than one-half of 1 per cent

As in previous years, the United States supplied practically all our demands of tobacco products, 98.6 per cent of our supply in 1936 having come from that country, 1.24 per cent from Dutch East Indies, 0.13 per cent from China, and 0.03 per cent from other countries, as shown on the following data:

Imported from	1936		1935	
	Value	Per cent	Value	Per cent
	<i>Pesos</i>		<i>Pesos</i>	
United States	7,031,197	98.60	7,392,173	98.55
Dutch East Indies	88,314	1.24	92,128	1.23
China	1,782	.03	3,915	.06
Total	7,130,860	100.00	7,500,559	100.00

EXPORTS

Tobacco products.—Exports in tobacco products during the year amounted to ₱10,489,566 compared with ₱12,003,658 in 1935, or a decrease of 13 per cent. The decrease was due mainly to the decline in exports to the United States and Spain which were the principal markets of these products. Exports per capita in 1903 and from 1928 to 1936 were as follows:

Year	Value	Per capita	Per cent of total exports	Increase (+) or decrease (-) over preceding year
	<i>Pesos</i>			<i>Per cent</i>
1903 . . .	3,893,750	0.51	6	.. .
1928 . . .	17,142,873	1.36	6	- 4
1929 . . .	17,379,888	1.37	5	+ 5
1930 . . .	15,672,771	1.19	5	- 11
1931 . . .	14,841,675	1.11	7	- 5
1932 . . .	12,800,118	.94	7	- 14
1933 . . .	10,955,787	.74	5	- 19
1934 . . .	10,389,407	.80	5	*
1935 . . .	12,003,658	.92	6	+ 16
1936 . . .	10,489,586	.79	4	- 13

* Increase of less than one-half of 1 per cent.

Exports to the United States, Spain, Korea, Japan, and China declined, while those to Hawaii, France, Hongkong, British East Indies, Italy, and other countries increased, but the increases were not enough to offset the decreases as shown on the following:

Exported to—	1936		1935	
	Value	Per cent	Value	Per cent
	<i>Pesos</i>		<i>Pesos</i>	
United States ...	5,124,090	48.85	6,577,130	54.79
Spain	2,956,089	28.18	3,177,450	26.47
Italy	402,391	3.84	2,119	.02
France	387,412	3.69	173,133	1.44
Korea	334,506	3.19	739,662	6.16
Japan	277,622	2.65	334,428	2.79
China	275,408	2.63	288,400	2.40
Hawaii	212,031	2.03	205,688	1.71
Hongkong	96,925	.92	93,455	.78
British East Indies	91,730	.87	89,185	.74
Other countries	330,753	3.15	323,008	2.70
Total	10,489,566	100.00	12,003,658	100.00

As for 1937, the following statistics are pertinent:

Imports from January 1st to June 30th

	1936		1937	
	Quantity	Value	Quantity	Value
<i>Leaf Tobacco</i>	<i>Ks.</i>		<i>Ks.</i>	
United States	174,394	₱415,027	273,071	₱249,224
Dutch East Indies ..	2,006	22,654	3,346	29,310
	176,490	₱437,681	276,417	₱278,534
<i>Cigars</i>	<i>Nos.</i>		<i>Nos.</i>	
United States	200	₱ 20	6,210	₱ 190
Cuba	420	26	....	...
	620	₱ 46	6,210	₱ 190

Imports from January 1st to June 30th

	1986		1987	
	Quantity	Value	Quantity	Value
<i>Cigarettes</i>				
United States. Nos.	913,971,904	₱2,865,102	995,484,280	₱3,170,084
Austria	100	2	1,000	8
China	6,800	147	6,300	162
Germany .....	....	...	10,000	100
Hongkong	16,450	260	19,720	403
	913,995,254	₱2,865,511	995,521,300	₱3,170,757
<i>Chewing</i>				
United States . Ks.	81,962	₱ 197,680	162,325	₱ 347,609
<i>Smoking</i>				
United States . Ks.	10,772	₱ 24,350	13,333	₱ 32,139
Great Britain	21	130	50	326
China	2,899	4,450	2,488	3,968
Netherlands	2	6	...	...
Switzerland	1	1	...	...
Hongkong	39	423	75	750
Japan	1	1	...	...
	13,735	₱ 29,361	15,946	₱ 37,183
<i>All Other</i>				
United States . Ks.	279	₱ 965	175	₱ 560
TOTALS				
Leaf tobacco .. Ks.	176,490	₱ 437,681	276,417	₱ 278,534
Cigars Nos.	620	46	6,210	190
Cigarettes .. Nos.	913,995,254	2,865,511	995,521,300	3,170,757
Chewing Ks.	81,962	197,680	162,325	347,609
Smoking Ks.	13,735	29,361	15,946	37,183
All other Ks.	279	965	175	569
Total	₱3,531,244		₱3,834,842	

The figures quoted above are for the first six months of this year and they already evince an upward tendency

in the import of leaf tobacco from the United States. In the year 1936 the total amount of leaf tobacco imported from America was 295,238 kilos at an average cost of ₱2.53 per unit. The quantity imported from January to June of this year is 273,071 kilos at an average cost of ₱2.38 per kilogram. It is to be presumed that by the end of 1937 our imports of leaf tobacco from the United States would exceed those of 1936 and 1935, and possibly equal the volume of 1934 which was 566,729 kilos.

Cigarette importations have also increased as compared with last year and we will not be at all surprised if the figures for the whole year of 1937 should exceed those of 1935 which was over two billion units.

Imports of chewing tobacco for the six months have almost doubled those of 1936 for the same period.

Smoking tobacco has registered a slight increase over the same period of last year.

Exports from January 1st to June 30th

	1936		1937	
	Quantity	Value	Quantity	Value
<i>Leaf Tobacco</i>				
United States ... Ks.	200	₱ 106	.....	.....
Other countries ...	6,989,585	2,726,565	5,232,708	₱1,815,197
	6,989,785	₱2,726,671	5,232,708	₱1,815,197
<i>Cigars</i>				
United States .. Nos.	79,987,282	₱2,373,659	74,464,241	₱2,190,585
Other countries	9,524,065	873,510	13,125,432	442,252
	89,511,347	₱2,747,169	87,589,673	₱2,632,837
<i>Cigarettes</i>				
United States .. Nos.	279,450	₱ 2,392	365,560	₱ 3,510
Other countries	6,109,840	12,939	4,659,010	9,628
	6,389,290	₱ 15,331	5,024,570	₱ 13,138
<i>Scraps, stripped filler and cigar end</i>				
United States ... Ks.	494,355	₱ 177,958	1,333,228	₱ 623,655
Other countries	46,180	15,724	74,530	28,892
	540,535	₱ 193,682	1,407,758	₱ 652,547

	1936		1937	
	Quantity	Value	Quantity	Value
<i>Smoking or cut tobacco</i>				
United States ... Ks.	.....	.....	.....	.....
Other countries	769 P	663	817 P	671
	769 P	663	817 P	671
<i>All other</i>				
United States ... Ks.	.....	.....	.....	.....
Other countries	45,959 P	2,728	55,596 P	1,441
	45,959 P	2,728	55,596 P	1,441
TOTALS				
Leaf tobacco ... Ks.	6,989,785	P2,726,671	5,232,708	P1,815,197
Cigars Nos.	89,511,347	2,747,169	87,589,673	2,632,837
Cigarettes Nos.	6,389,290	15,331	5,024,570	13,138
Scraps, stripped filler and cigar end . Ks.	540,535	193,682	1,407,758	652,547
Smoking or cut to- bacco Ks.	769	663	817	671
All other Ks.	45,959	2,728	55,596	1,441
Total		P5,686,244		P5,115,831

For the period recorded above no leaf tobacco in its raw form has been exported to the United States.

Cigar exports have decreased and so have cigarettes.

Scraps and stripped filler have more than doubled.

Making a summary of the six months trade in tobacco and tobacco products between the United States and the Philippines we have the following figures:

Imports	Value
Leaf tobacco	P 249,224
Cigars	190
Cigarettes	3,170,084
Chewing	347,609
Smoking	32,139
All other	569
Total	P3,799,815

Exports	Value
Cigars	P2,190,585
Cigarettes	3,510
Scraps, stripped filler, etc.	628,655
Total	P2,817,750
Balance in favor of the United States	P 982,065

*Local Production of Cigars and Cigarettes from
January 1st to June 30th, 1937*

Cigars	152,027,477 units
Cigarettes	1,728,522,635 units

These figures are not definite as some factories have not yet sent in their reports for June production.

Local production of cigarettes has increased slightly though not very perceptibly and still too far below the former normal output.

*Salient Facts in the Tobacco Trade Between the
United States and the Philippines*

1.—Imports of tobacco and tobacco products from the United States are increasing every year.

2.—Consumption of American cigarettes in the Philippines is steadily driving from the Philippine market the like article manufactured by local factories.

3.—Cigarette importations compared with the total local production of the same article in 1926 was 8.43 per cent. In 1935 it was 68.85 per cent.

The steady decrease of local production and the enormous increase of American cigarettes can be seen below:

Year	Local production of cigarettes Number	Imported cigarettes Number	Per cent of imports
1928	5,110,187,247	708,957,981	13.87
1930	4,718,684,523	1,075,737,000	22.79
1932	3,953,734,473	1,053,483,207	26.64
1934	2,966,435,450	1,488,725,890	50.18
1935	2,986,494,142	2,056,224,343	68.85
1936	3,071,244,827	1,893,867,719	61.66

4.—American leaf tobacco has become an indispensable adjunct of cigar exports from the Philippines to the United States. In 1918 we exported 266,234,126 cigars to the American market and the wrappers used in them are figured by the Bureau of Internal Revenue as follows:

Year	With U. S. wrappers	With Sumatra wrappers	With Philippine wrappers
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
1918	0.65	1.57	97.78
1925	10.50	2.15	87.35
1935	78.14	0.25	21.61
1936	82.71	1.38	16.91

5.—The average price per thousand of cigars exported to the United States has been decreasing steadily. In 1918, the average was P43.68; 1919, P53.14; 1920, P65.16; 1925, P47.76; 1930, P39.43; 1935, P29.99; and 1936, P30.28.

6.—Philippine cigar exports to the American market is insignificant if compared to the total output of that product in the United States. The amount we send barely represents three per cent of the total consumption of cigars in the United States.

7.—Philippine cigars cannot possibly make much headway in the American market because it is not supported by large budgets for advertising.

8.—Perfected machines which make millions of cigars daily in the United States have reduced the cost of production to a point where Philippine hand-made products are now a little more expensive to manufacture.

9.—Ninety-eight per cent of the cigars from the Philippines are retailed in the United States at 2 for 5 cents and sometimes 5 for 10 cents.

10.—Export duties on cigars intended for the American market would entirely stop shipments to the United States.

11.—The balance in the tobacco trade between the United States and the Philippines is in favor of the former.

12.—The effects of a paralyzation of cigar exports to the United States would be:

- (a) More than half a million people would become idle without any occupation.
- (b) Less money would circulate.
- (c) Unemployment would become acute.
- (d) Agitators will find a propitious element to work upon.
- (e) Purchasing power curtailed.
- (f) The standard of living will suffer a set-back.
- (g) General importation of American merchandise will decrease.
- (h) American bottoms, railways and insurance companies will be affected.

On the other hand, if Section 6 of Act 127 of the 73rd Congress is not repealed:

- (i) American manufacturers will enjoy undisturbed export of cigarettes, cigarette

paper, cellophane, lithographs, labels, flaps, cartons, bands, wrappers, and tobacco machinery.

- (j) Farmers and dealers will continue to sell us American leaf tobacco.
- (k) American railway and steamship companies the transportation of all these exports.
- (l) Insurance companies the premium covering the risk.

OUR PLEADINGS

From the time we wrote our Memorandum to this day, there has been no change of any material extent or importance to warrant a change of opinion.

We pleaded for the repeal of the export tax as provided in Section 6 of Act 127 of the 73rd Congress and we reiterate our stand.

If the advancement of the date of independence should become a reality, we believe that free trade in tobacco products between the United States and the Philippines should be provided for after the change of sovereignty over the Islands.

As we have noted in our Memorandum, tobacco is the product which offers the two countries a real reciprocal trade and we see no reason whatsoever for the imposition of duties, taxes, restrictions or burdens of any nature since the benefit of the interchange is mutual.

Respectfully submitted,

MANILA TOBACCO ASSOCIATION

M. V. GALLEGOS,
President.

BRIEF
SUBMITTED BY
NATIONAL FOREIGN TRADE COUNCIL, INC.
AND
NATIONAL FOREIGN TRADE ASSOCIATION, INC.
(Photographic Reprint)

FOREWORD

The National Foreign Trade Council for twenty-four years has served as a channel for crystallization of the views of foreign traders in the United States and has taken a position of leadership on important questions affecting foreign trade. It and its affiliate National Foreign Trade Association now represent approximately five hundred of the leading exporters, importers, foreign trade banks, shipping companies and other institutions from thirty-one different states, all interested in foreign trade and affected by our relations with the Philippines, many of them actively engaged in Philippine trade.

The National Foreign Trade Council, therefore, presents this brief not in the interest of any specific product in the Philippine-American trade, but in the national concern.

INTRODUCTORY

The United States has just cause for pride in its political relationships with Cuba and the Philippines. Measures to discharge the political responsibility which it acquired as a result of the Spanish War will stand as continuing evidence to the world of the freedom of the United States from imperialistic ambition.

Measures to discharge the economic responsibilities which it assumed towards both peoples present greater complexities. There remains, at least so far as the Philippines are concerned, the task to make sure that the high attitude of the United States on the political aspects of Independence will not be blemished by inadequate or improper provision on the economic side. For a better appreciation of the background of the economic problems involved, a short excursion into historical aspects may be helpful.

It is interesting that the possible future attitude toward the Spanish possessions affected by the Spanish American War was given consideration at the very outset. The sinking of the Maine in Havana Harbor on February 15, 1898 naturally incited congressional discussion not only of war with Spain but of the motives of the United States in undertaking such a war. At

that time attention was directed solely to Cuba. After debate in which emphasis was laid upon the humanitarian aim of the United States, the Joint Resolution authorizing the use of the armed forces was adopted on April 20, 1898, containing an express disclaimer of any intention to exercise sovereignty over the Island of Cuba, except for its pacification. This Joint Resolution read:

“Joint Resolution For the recognition of the independence of the people of Cuba, demanding that the Government of Spain relinquish its authority and government in the Island of Cuba, and to withdraw its land and naval forces from Cuba and Cuban waters, and directing the President of the United States to use the land and naval forces of the United States to carry these resolutions into effect.

“Whereas the abhorrent conditions which have existed for more than three years in the Island of Cuba, so near our own borders, have shocked the moral sense of the people of the United States, have been a disgrace to Christian civilization, culminating, as they have, in the destruction of a United States battle ship, with two hundred and sixty-six of its officers and crew, while on a friendly visit in the harbor of Havana, and can no longer be endured, as has been set forth by the President of the United States in his message to Congress of April eleventh, eighteen hundred and ninety-eight, upon which the action of Congress was invited: Therefore,

“Resolved by the Senate and House of Representatives of the United States of America in Congress assembled,

First. That the people of the Island of Cuba are, and of right ought to be, free and independent.

“Second. That it is the duty of the United States to demand, and the Government of the United States does hereby demand, that the Government of Spain at once relinquish its authority and government in the Island of Cuba and withdraw its land and naval forces from Cuba and Cuban waters.

“Third. That the President of the United States be, and he hereby is, directed and empowered to use the entire land and naval forces of the United States, and to call into the actual service of the United States the militia of the several States, to such extent as may be necessary to carry these resolutions into effect.

“Fourth. *That the United States hereby disclaims any disposition or intention to exercise sovereignty, jurisdiction, or control over said Island except for the pacification thereof, and asserts its determination, when that is accomplished, to leave the government and control of the Island to its people.* (Italics added).

“Approved, April 20, 1898.”

By declaration of April 25, 1898, war was formally declared against Spain.

While the war was primarily directed to the objectives set forth in the Joint Resolution, the Philippine Islands became involved due to the fact that Admiral Dewey's fleet was at that time in Chinese waters, close to the Philippines. The battle of Manila was fought and an expeditionary force sent from San Francisco took from Spain control of the Islands. Though there had been as regards the Philippines no express declaration of intention as in the case of Cuba, “to leave the government and control of the Island to its people”, such was assumed to be the intention, particularly by the Filipinos. In fact, it is believed that the declaration in regard to Cuba may have motivated Aguinaldo and other Philippine leaders in rendering aid to the American forces.

Perhaps due to the military fervor engendered by the war, perhaps due to the fact that no express provision had been made regarding the Philippines in the declaration of war, a distinction was made in the Treaty of Peace signed at Paris December 10, 1898, as between Cuba and the Philippines.

Consonant with the Joint Resolution declaring war, the Peace Treaty provided in regard to Cuba merely that “Spain relinquishes all claims of sovereignty over and title to Cuba”, and provided merely for American “occupation”, rather than

sovereignty, and American responsibility during such occupation for obligations under international law resulting therefrom.

As to the Philippines, however, the Treaty provided for absolute cession:

“ARTICLE III

“Spain cedes to the United States the archipelago known as the Philippine Islands, and comprehending the islands lying within the following line:

* * * *

“The United States will pay to Spain the sum of twenty million dollars (\$20,000,000) within three months after the exchange of the ratifications of the present treaty.

“ARTICLE IV

“The United States will, for the term of ten years from the date of the exchange of the ratifications of the present treaty, admit Spanish ships and merchandise to the ports of the Philippine Islands on the same terms as ships and merchandise of the United States.”

Notwithstanding the distinction made in the Treaty, and notwithstanding the payment of \$20,000,000 to Spain, the United States by the Tydings-McDuffie Act of 1934 has complied with any implied promise or obligation as towards the Philippines “to leave the Government and control of the Island to its people”. While the period for granting freedom may be considered long to the present generation, it will undoubtedly appear in retrospect, and in comparison with the attainment of freedom by colonial peoples under the sovereignty of other nations, relatively short.

The foregoing historical resumé is of importance as showing:

First, the greater degree of responsibility of the United States toward the Philippine Islands than toward Cuba,—sovereignty in the one case as distinguished from protectorate in the other;

Second, the reason which the United States had in 1909 in extending to the Philippine Islands the advantages of free trade with the United States; and

Third, that if, as will be shown, the advantages flowing from the free trade status have brought with them serious economic problems attendant upon independence of the Philippine Islands, those economic problems must be considered and solved entirely apart from the question of political independence and upon such terms as to preserve rather than destroy the advantages which the free trade status has brought in economic development of the Philippine Islands.

I. COMMERCIAL POLICY IN TRADE RELATIONS WITH THE UNITED STATES IS PRIMARILY RESPONSIBLE FOR PRESENT PHILIPPINE DEVELOPMENT AND ECONOMY.

To appraise the problem now confronting Philippine-American trade, we must review the legislative foundation upon which that trade has been developed and the effect upon the Philippine people and Philippine trade of the commercial policies pursued.

A. Legislative Policy has established a Virtual Free Trade Status as between the United States and the Philippines.

From 1898 to March 8, 1902, products exchanged between the United States and the Philippines were treated by each country in the same manner as similar goods imported from foreign countries with the exception of Spanish goods. The *United States Revenue Act* of March 8, 1902 granted to imports from the Philippines a reduction of 25% from specified United States tariff rates but products of the United States entering the Philippines were accorded no preferential treatment.

In 1909 the ten year period for equal treatment of Spanish goods (Article IV of the Treaty of Paris) expired. The Philippine Tariff Act passed by Congress and approved August 5,

1909 established virtual free trade between the Philippines and the United States and the concurrent Payne-Aldrich Act fixed a quota on duty free imports of sugar and tobacco from the Philippines. The latter Act also limited the maximum content of non-Philippine or non-American materials which could be included in Philippine manufactures in order to allow them duty-free entry in the United States. The *United States Tariff Act* of October 3, 1913 modified in minor respects the Act of 1909 and abolished the quota on sugar and tobacco.

The *Tydings-McDuffie Act* approved March 24, 1934, the Independence Act, fixed certain duty-free quotas on sugar, coconut oil and yarn, cordage and hemp products. The *Jones-Costigan Act* of May 9, 1934 modified the sugar quotas and the *Cordage Act* of 1935 doubled the cordage quota contained in the *Tydings-McDuffie Act* and changed it from a duty-free to an "absolute" quota.

The *United States Revenue Acts* of 1934, 1935 and 1936 placed an excise tax on coconut oil.

Thus virtual free trade has existed since 1909, except for the duty-free sugar quota, imposed from 1909 to 1913 and again imposed, with restrictions on other products, by the Independence Act of 1934 and subsequent legislation. The excise tax on coconut oil levied by the Revenue Acts of 1934, 1935 and 1936 may be considered more than a trade restriction and in effect an abrogation, in part at least, of the duty-free status accorded to coconut oil products (within quota limitations) by the Independence Act.

B. Under the Free Trade Policy the Philippine Islands have experienced Remarkable Growth and Development.

Not to be ignored even in an appraisal of trade conditions and problems, but indeed one of the primary indices of the standard of living attained in a given country, is the cultural and educational advancement of the people.

The education of the Filipinos since the acquisition of the Islands by the United States has reached a high standard. In the year 1934 there were 26,769 teachers of the Filipino race teaching in the schools of the Islands, as compared to only 188

American teachers. The Government of the Islands has wisely devoted a large part of its expenditures to education. In 1931 these expenditures reached \$17,027,378, representing 20.2% of the total government expenditures.

It is estimated today that literacy in the Islands is approximately 50%. According to Table No. 1 of the United States Tariff Commission Report No. 118, 2nd Series (1937),* the number of schools in the Philippines during the school year 1935 to 1936 was 7,830, while the number of students enrolled in those schools was 1,200,998. Information obtained from Philippine educational authorities indicates that this number represents 40% of the children of school age in the Philippines. The school system has caused the younger generation to use in the main English, while both English and Spanish are used in the courts and in the National Assembly.

In addition to the grade schools and high schools in the Islands, the Government supports a Normal School, a School of Arts and Trades, a Nautical School and the Central Luzon Agricultural School. There are also Provincial Trade Schools. Higher education may be obtained by the Filipino at the University of the Philippines which ranks with the better Universities of the United States and in the school year 1933 to 1934 had five thousand students. The Dominican University of Santo Tomas, which was founded in the year 1611, is twenty-five years older than Harvard University. It has about 800 students.

Land Distribution

The distribution of land in the Philippines is unique and the history of this question will indicate how widespread may be the effect of curtailment of markets forced by threatened withdrawal of the duty free status, later discussed. When Dewey sailed for Manila, he took with him Aguinaldo and several other Filipino insurgent leaders who cooperated with the American forces in the conquest of Manila and of the Philippines. At the close of the war, when the insurgents were informed that the United States did not intend immediate withdrawal from the Islands, an insurrection was precipitated which lasted two years and which finally was subdued after an expenditure of several

* hereinafter referred to simply as the Tariff Commission Report.

thousand lives on both sides and over \$5,000,000. In 1899, the United States sent a commission headed by Jacob Gould Schurman to the Philippines to formulate some plan for government. This Commission and its successor headed by William Howard Taft found that one of its most difficult problems was the question of church lands. During the insurrection the friars had been expelled and upon restoration of law and order they demanded the return of their property by the United States authorities. Faced with this, Taft was ordered *unofficially* to conduct negotiations for the purchase of these lands from the Holy See. After two months of negotiation, he successfully obtained these church lands by paying the sum of \$7,239,000 to the Vatican. The lands were then turned back to the Philippine Government and through homesteading grants became the property in small parcels of Filipino farmers. The aversion the ownership of large blocks of land by any organization or individual instilled in the Filipinos by these incidents led to the passage of their unusual law limiting the amount of land that may be held by any person or private corporation. As a result, of the 9,318,000 acres of land actively cultivated during the year 1931, 96% was owned by over 2,000,000 Filipinos, a remarkable distribution of land wealth. (See "The Development of the United States Since 1865" by Nelson P. Mead, pages 257-261; "Mission of Governor Taft to the Vatican", Yale Law Journal, November 1902; "The Philippines, Past and Present" by Dean C. Worcester, Secretary of the Interior of the Philippine Islands during the years 1901 to 1913, page 586 et seq.).

Political Development

Political development has been rapid. The Honorable Ralston Hayden, Vice-Governor of the Philippine Islands from 1933 to 1936, has written in "Foreign Affairs" for July of 1936:

"The form and organization of the present Philippine government were determined by the Filipinos themselves. The Commonwealth constitution was drafted in Manila by a popularly elected convention that was genuinely representative of the best in Filipino character, intellect and political experience. In personnel and leadership it also

represented the overwhelming preponderance of Philippine political power. It produced an organic law which was agreed to by all but one of its 202 members and which was subsequently accepted by the vast majority of the Philippine electorate. Few national constitutions have expressed more completely the free and deliberate choice of a people as to the form of government under which they shall live.

“Although in the main reflecting the influence of American political philosophy and practices, the Commonwealth government contains a number of features that have grown out of Philippine experience. Despite a distinct separation of executive, legislative and judicial powers, the executive is definitely the predominant branch of the government. The President is chosen by popular vote for a six-year term, and is not immediately eligible for re-election. While he holds office he has those powers vested in the chief executive of the United States plus important additional powers. He has an itemized veto in appropriation and tax bills; authority to recommend appropriations that cannot be increased by the legislature (except those for the National Assembly and the judicial department); authority to overrule the decisions of the auditor-general; power in prescribed circumstances to suspend the writ of habeas corpus or place the Philippines or any part thereof under martial law; and broad powers that may be authorized by the National Assembly in time of national emergency.”

Growth of Trade

This cultural and political advancement has gone hand in hand with marked development of trade. Though reliable figures are not available for trade prior to 1899, the United States Tariff Commission Report No. 118-2nd Series (1937) shows in Table 3 an adverse trade balance in the period 1899-1901 and average exports for the period of only \$20,780,000, of which \$3,814,000 or 18% were exported to the continental United States and the balance of approximately \$17,000,000 to other countries. The growth of this trade has been rapid, starting in 1902 when 25% reduction in duties on Philippine products was granted, but particularly after 1909 when the equality of treat-

ment for Spanish ships and goods under the Paris Treaty expired and free trade with the United States was extended to the Philippine Islands. The period from 1923 through 1930 shows the greatest volume of exports, not only to all countries but also to the United States, and the most significant feature is that while exports to the United States as compared with the 1899 to 1901 period increased from \$3,814,000 to an average of \$106,605,000 or approximately 28 times, the exports to all other countries increased only from an average of \$16,966,000 to an average of \$37,158,000, or only $2\frac{1}{8}$ times.

In relative terms, the dependence of the Philippine Islands upon the United States as a market for its products increased from 18% in the 1899 to 1901 period to an average of 74% for the 1923 to 1930 period. In the subsequent period 1931 to 1935, affected by the world-wide depression, exports to all countries dropped to an average of \$101,946,000, those to the United States to \$84,835,000 and to all other countries to \$17,113,000, revealing an even greater relative dependence of the Philippine Islands upon markets of the United States during these adverse trade conditions (an average of 83% of their export products going to the United States), a striking example of the advantage of a market free from exchange and clearing agreements and other restrictive measures. It is worthy of note that in this depression period the exports of the Philippines to markets other than continental United States dropped back to approximately the amount of exports to such markets during the period 1899 to 1901, whereas exports to the United States during this depression period were still some twenty-two times those of the 1899 to 1901 period.

Imports into the Philippines have followed a generally similar course, except that their rate of increase was commendably less than the rate of increase of exports. The first three years after the Spanish war found the Philippines with an unfavorable trade balance averaging approximately \$4,000,000. This was corrected in the period 1902 to 1909, but is found again in the period from 1909 to 1914 and only once thereafter in 1923. From 1919 to date, the Philippines have, on average, maintained a comfortable balance of trade for an economically developing, debtor, country.

Economic and Social Benefits

Reviewing the trade situation of the Philippine Islands since the Spanish war, it is clearly apparent that if conditions prevailing up to the enactment of the Tydings-McDuffie Bill were to continue, Philippine-American trade would give every promise of further normal development. Governor General Frank Murphy in his message of November 14, 1935 summed up as follows "the public benefits that have accrued from the wealth created during the last 35 years":

1. Higher standards of diet, clothing, and housing have lifted the Filipino laborer far above the level on which he formerly lived.
2. State funds have been provided out of which railroads, highways, bridges, and ports have been brought into useful being.
3. State pay rolls make possible the highest average salary for government employees and the largest number per capita to be found in the Orient or Tropics.
4. Private capital is available for investment in sugar mills, oil mills, stores and offices, land and houses; capital that has been used to modernize the old industries and create new ones.
5. Less tangible but equally important are the acquirement of better health, wider education, and higher scientific and artistic culture, and all the chain of advancing social standards, which come with an expanding and diffused economy."

The difficulty now faced, however, is that this trade has been built up through the free trade relationship between the Philippines and the United States. The Tariff Commission report succinctly reviews the development and states the problem:

"The existing structure of the economy in the Philippines is very largely the result of the present economic dependence of the Islands on the American market, and that, in turn, is almost entirely the result of the free trade rela-

tions which have existed between the two areas for the past quarter of a century. This relationship has created opportunities for the Philippines to sell in the United States, free of duty, increased quantities of such products as sugar, coconut oil, tobacco products, cordage, embroideries, and pearl buttons, all of which are subject to duties when imported into the United States from foreign countries. In consequence of this relationship, the tendency has been for the Islands to develop those industries which produce commodities for sale in the American market at prices kept above world levels by the United States tariff and more recently, in the case of sugar, by quota restrictions. The resulting increase in the production of export commodities thus protected in the American market has to some extent operated to discourage the production both of export commodities not so protected and of commodities intended for Philippine consumption. On the other hand, the increased sale of goods in a preferential United States market has made it possible for the Philippines to buy more goods from the United States and from other countries than they would otherwise have been able to buy. But the dependence of the Islands on the American market has introduced an element of uncertainty into the situation by reason of the fact that the maintenance of their economy depends largely upon decisions made in the United States." (page 39)

II. THE ECONOMIC PROVISIONS MADE IN THE TYDINGS-McDUFFIE ACT ARE INADEQUATE AND UNLESS SATISFACTORILY MODIFIED WILL LEAVE THE PHILIPPINE ISLANDS ECONOMICALLY HELPLESS AND VULNERABLE.

Political independence has been uppermost in the minds of the Philippine leaders. While the economic aspects of independence have received much consideration, they have been subordinated to the ideal of political independence.

Despite the great pressure for political independence of the Philippine Islands, the 1932 Hare-Hawes-Cutting Independence

Act was rejected by the Philippine Legislature for the reason, among others, that:

“The provisions of the law affecting trade relations between the United States and the Philippine Islands would seriously imperil the economic, social and political institutions of this country and might defeat its avowed purpose to secure Independence to the Philippine Islands at the end of the transition period.” (Concurrent Resolution No. 46; 9th Legislature, 3rd Session.)

Later, however, the pressure for political independence was so great that economic considerations were sacrificed, upon the implied promise, or with the hope, that effective provision would be made during the ten-year interval before political independence should become effective and, preferably, during the five-year period before the export taxes under the Tydings-McDuffie Act should become effective. Political independence was finally accepted by the Philippine Legislature by Joint Resolution of May 1, 1934, accepting the revised Tydings-McDuffie Independence Act approved March 24, 1934.

The economic provisions of the Tydings-McDuffie Act will later be discussed in more detail, but it is quite apparent from a comparison of its terms with those of the rejected Hare-Hawes-Cutting Act that it did not fully respond to the desires of the Philippine people regarding future trade relations. One important addition, upon which great reliance was evidently placed, was the provision in Section 13 for calling a conference of representatives of the Government of the United States and the Government of the Philippine Islands “for the purpose of formulating recommendations as to future trade relations” between the two governments. Although the Act merely specifies that such conference shall be held “at least one year prior to the date fixed in this Act for the Independence of the Philippine Islands” (July 4, 1946), the appointment of this Joint Preparatory Committee some eight years prior to the final date fixed for the conference shows the increasing importance now attached to the economic questions arising from independence and realization that definite and satisfactory steps must be taken preparatory to such independence.

It is the confident belief of all parties interested in the continued economic progress of the Philippine Islands that this Committee and the Conference provided for in Section 13 of the Act will recommend, and the Congress of the United States and the Legislature of the Philippine Islands will adopt, measures really adequate to protect the trade relations between the United States and the Philippine Islands, so as not to impair the economic, social and political institutions of the Islands, nor defeat the avowed purpose to secure real and effective independence at the end of the transition period.

A. The Tydings-McDuffie Act makes no Provision for Trade Relations after Independence and its Provisions for Transition during the Commonwealth Period are Arbitrary and Destructive of Existing Trade.

The outstanding economic provision of the Tydings-McDuffie Act is to establish a supposedly transitional period from the sixth to the tenth year after the inauguration of the Commonwealth Government, during which the latter shall collect export taxes starting at 5%, and increasing by 5% per annum, of the regular rates of duties collected by the United States, thus reaching 25% of such duties in the tenth and last year prior to Independence. In addition to the provisions for levying this export tax, the Act imposes the duty free quotas upon sugar, coconut oil and cordage mentioned above.

The most casual appraisal of the effect of the export tax provision reveals it as arbitrary and capricious in that:

A few products might withstand the imposition of this export tax burden progressively for the entire five-year period; export of other products, however, might be curtailed or prevented by the tax in a shorter time, after perhaps one or two years of imposition of the tax.

Even if the export of some products may survive the imposition of the full tax, the change from the payment of tax equal to 25% duties to the full duty status upon Independence of the Philippine Islands would be so violent as completely to disrupt and largely destroy any remaining export trade from the Philippine Islands to the United States.

The problems raised by, and the probable consequences of, the Tydings-McDuffie Act are nowhere more convincingly and authoritatively stated than by Hon. Ralston Hayden, Vice-Governor of the Philippines from 1933 to 1936, writing in Foreign Affairs for July, 1936:

“The most serious problems faced by the new Commonwealth are those of public order and national economy. The two are closely interrelated. If the latter can be solved the former will not prove insurmountably difficult. This is not to say, however, that there is no danger of internal disorder in the Philippines. The possibility arises from three sources: economic unrest, political discontent, and unstable or dissatisfied minority racial groups. Agrarian unrest, played upon by unscrupulous local leaders, has caused a number of minor uprisings in recent years. In certain sections of the country many tenants and agricultural laborers continue to live under well-nigh intolerable conditions. To these malcontents is now added a growing class of dissatisfied industrial workers, including the employees of the great tobacco factories, the bus companies, the lumber and coconut mills and the longshoremen. * * * The agricultural and industrial laborers who live on the margin of subsistence provide a fine field for subversive activities by the political ‘outs’ and by a small but energetically-led communist party. Violence and bloodshed have often attended the struggles of these depressed classes to better their lot, even during the period of relative national prosperity made possible by the duty-free access of Philippine goods to the American market.

“* * * Should there be a serious economic breakdown the existing economic and political discontent would be extended and intensified and might produce disorder that could be suppressed only by the stern use of considerable military force. The solution of the problem of public order, therefore, as of most of the other problems of the Commonwealth, will depend primarily upon the continuation of the economic prosperity of the Philippines and the financial soundness of its government.

“ * * * The primary purposes of the export taxes are to compel the Philippines to diversify its products, decrease production costs and seek non-American markets. But both Filipinos and the American resident in the Islands are virtually unanimous in the conviction that these purposes cannot be accomplished in the allotted time. There is grave danger, moreover, that before the end of the period the following Philippine export industries would be seriously depressed, or in some cases destroyed: sugar, molasses, alcohol (from molasses), coconut oil, copra cake, desiccated coconut, cordage, tobacco scrap, cigars, embroideries and buttons. Now these industries comprise about 90 per cent of all Philippine exports. Upon them depends the livelihood of millions of Filipinos and the financial structure of many provinces as well as of the Commonwealth Government itself. In jeopardizing them at a time when serious economic and political discontent already exist in the Philippines the economic provisions of the Tydings-McDuffie Act endanger not only the prosperity of the Filipino people but the financial and political stability of the Commonwealth.

“The imposition of the prescribed export taxes, and the uncertainty in which the Tydings-McDuffie Act left post-independence trade relations between the United States and the Philippines, might fail to produce the dire consequences so widely feared. But there can be little doubt that the application of the full American tariff to Philippine products when independence had been achieved would soon be followed by economic ruin and political and social chaos. Leading Filipinos believe that the only way in which they could avert these disasters would be by becoming a part of the economic and political system of their great industrial and military neighbor to the north. Most of them agree with the President of their Constitutional Convention, who stated publicly that such a course would mean “economic pauperism and political extinction” for themselves and their descendants.

“ * * * If there are sound reasons for believing that the economic provisions of the law jeopardize the accomplishment of this purpose those provisions should be altered. The

failure of the Commonwealth—even the eventual failure of the Philippine Republic that is to succeed it—would be first of all an American failure. It would be a particularly bad failure, too, because it would mean that the United States had not met its obligations towards a weak and dependent people over whom it had extended its rule by force.

“The case for assuring the success of the Commonwealth is equally clear from the standpoint of self-interest. It would be costly and thankless to cope with any economic-political collapse that might occur in the Philippines before 1946. And if such a collapse occurred it might well defeat the fundamental purpose of the Tydings-McDuffie Act—the early separation of the Philippines from the United States. Whether both countries, or either of them, will desire this separation when the allotted ten years shall have expired, cannot be said definitely now. Already there is a growing realization among thinking Filipinos that their long sought ‘independence’ from the United States may mean nothing more than immediate freedom to starve and ultimate domination by some other nation.”

B. Application of the Economic Provisions of the Tydings-McDuffie Act would gravely imperil the Internal Economy of the Philippines.

The effect of the Tydings-McDuffie Act on Philippine economy has been well considered by Professor Grayson L. Kirk of the Department of Political Science at the University of Wisconsin in his recent work “Philippine Independence, Motives, Problems, and Prospects” published at New York by Farrar & Rinehart in 1936. Therein, at page 162, Professor Kirk states:

“ . . . at best the economic and financial prospects are bad, so bad indeed that there is no ground for optimism on the part of a brave and intelligent people whose long fight for freedom should entitle them to a happier future than the one which the United States has now spread before them.”

Viewed from the standpoint of an independent self-sufficient national economy, the present economy of the Philippines is over-

balanced and abnormal. It has been built up in reliance on the protected American market which the free trade policy of the 1909 Act set in motion. The result has been in some industries high costs which would make competition in the world market difficult if not impossible. Quantities are also produced in some industries which could not be disposed of profitably in competition with other areas outside the customs barriers and restrictions imposed by American and Philippine law.

If the provisions of the Independence Act were allowed to become effective as they now are, the Philippine products which would be seriously and disastrously affected are:

- Sugar
- Coconut Oil
- Tobacco and Tobacco Products
- Embroideries
- Pearl Buttons

Other products which would be affected very unfavorably are cordage, straw hats, desiccated coconut, canned pineapple and cutch.

No elaborate discussion is necessary to emphasize the repercussions, both economic and political, which would follow upon the stoppage or abrupt curtailment of the exports of these major products.

The first fact then is the destruction of the Philippine economy which the enforcement of the provisions of the Independence Act would bring about. The second fact is the effect on the standard of living, or more accurately, the sources of existence of thousands of the Filipino people.

The realization of the effect on the Philippine people is becoming, with the shortening of time before political Independence, only too vivid. The Philippine Islands are not as yet highly developed industrially. Their needs of industrial products, and indeed of capital goods for establishing their own industries, have heretofore been supplied through the proceeds of their export trade. Throughout the larger part of the Islands every-day necessities and conveniences are supplied from the proceeds of their exports of agricultural products.

From figures furnished by the Department of Commerce for the six years from 1929 through 1936, the following table, showing the percentage of the principal Philippine products which enter the export trade and the percentage of those products exported to the United States, has been prepared:

Product	Exported to All Countries		Exported to United States		
	Average Production 1929-1936	Average Quantity	Per Cent. of Total Production	Average Quantity	Per Cent. of Total Production
Sugar (Short tons)	1,089,943	947,729	96	943,117	95
Abaca (Metric tons)	174,089	159,813	92	43,199*	25
Cordage (Metric tons)	No figures available	6,319	**	2,861	**
Tobacco (Metric tons)	40,142	19,938	49	78	—
Cigars (Thousands)	274,924*	194,219	70	170,806	62
Cigarettes (Production in Millions) (Exports in Thousands)	3,915*	43,851	1	1,725	—
Total tobacco & Products (1,000 pesos)	No figures available	13,017	**	6,405	**
Coconuts (Production in Millions of Nuts) (Ex- ports in 1,000 pesos)	308*	58,985	***	48,639	***
Copra (Metric tons)	483,566	219,350	45	153,349	32
Coconut oil (Metric tons)	184,240	155,850	84	150,043	81

* 1936 figures not available, hence not used in computing average.

** Production figures not available, thus making these items impossible to compute. In cordage and total tobacco, however, export figures show that 45% and 49%, respectively, of all exports went to the United States.

*** Different units make computation of these items impossible. 82% of all exports of coconuts went to the United States.

What would be the effect of depriving the Philippines of the United States market for the products listed above? Figures are not available for all, but those which are available indicate the devastating effect which would follow.

As to sugar alone, the Tariff Commission Report states:

“15 percent of the Philippine population are directly dependent on the industry and 5 important provinces rely almost entirely on it for their revenue.” Page 62.

As to the coconut industry, the Tariff Commission Report states:

“It is estimated that more than 25 percent of the total population of the Islands are directly dependent upon the growing of coconuts for their livelihood.” Page 118.

Of course, if the Philippines were deprived of the American market for sugar and coconut products, the entire industry, for each of these products, would be vitally affected. If upon these two industries alone 40% of the population of the Islands are directly dependent, the effect of deprivation of American markets upon the laboring class and the standard of living generally throughout the Islands would be disastrous.

As to the dependence of the Islands upon the American market for sugar John E. Dalton, Former (1934 and 1935) Chief of the Sugar Section of the A.A.A. and professor of business and government at Harvard Graduate School of Business Administration has stated in "Sugar a Case Study of Government Control", (Macmillan, New York, 1937) at pages 204-5.

"In the Philippine Islands the favorable American market for her sugar has raised the standard of living substantially over that of peoples in neighboring countries like Java. . . . The sudden withdrawal or drastic curtailment of the protection which has been given to these areas for over 35 years would upset their one-crop economies and would culminate in disorder and social chaos. Few informed persons with no axe to grind suggest today that these islands be completely exposed to the winds of international competition.

"It may or may not have been a manifestation of destiny to take these areas under the American flag. It may or may not have been poor and ineffective national planning to stimulate their industries by a protective system which brought about a one-crop economy so vulnerable to economic change. Our tariff policy may have unduly enriched certain capitalistic producers. These are matters of debate and conjecture, but there is one undeniable fact: our sugar policy, with its power to change the economic and social life of these islands, cannot be drastically shifted without creating chaos and distress."

Obviously the Philippine Islands cannot abruptly find other markets to consume the enormous quantity of Philippine products thus far imported by the United States. The effect of abrupt deprivation of the United States market for these prod-

ucts may perhaps best be appreciated by attempting to visualize the effect upon farm labor and farm owners in this country if suddenly deprived of roughly 81% (according to value) of their domestic market (for the United States has hitherto been the equivalent economically of a domestic market for Philippine products) for their important agricultural products, wheat, cotton, corn and others. Obviously, it would mean ruin and destruction of agriculture in this country and the necessity for finding other employment, other means of livelihood, for a very substantial portion of our population.

As an illustration to attempt to bring home the effect which termination of free trade status would have, we may consider as a supposititious case the effect of political and economic Independence for the largest State of the Union, Texas. Texas obviously could not for many years even approach the economic Independence which the United States as a whole now has. Its economic dismemberment, subjecting Texas oil, meat products and cotton to duty upon entry into the rest of the United States, would have some effect upon the economy of the balance of the United States. This effect, however, would not be nearly so great as the effect on production, values, labor and the standard of living in Texas through depriving that State of the duty-free market which it now enjoys in the rest of the United States.

This simple illustration makes readily apparent that political dismemberment, *if accompanied by economic dismemberment*, from an organized political and economic society will inevitably disrupt existing channels of trade. It cannot but result in the splitting up into a greater number of economic hegemonies and the creation of additional artificial barriers of trade. No one can doubt that the fundamental economic strength of the United States lies in the extent of territory and variety of products freely interchangeable without the hindrance of trade barriers. This strength enures to the benefit of all participants in that economic society and the dismemberment of any portion of it naturally weakens the two parts into which it is divided.

Since 1909 the Philippine Islands have been virtually in the same economic and trade status as any state or territory of the United States. Their products, however, have been largely complementary to, rather than competitive with, products of

the United States, and this fact means that relatively greater, rather than less, trade dislocation would result from economic dismemberment of the Philippine Islands than from the dismemberment of a State of the United States.

Without debating whether the existing free trade status has been more beneficial to the Philippine people or to the United States, we must recognize that the advantages of free trade have been mutual and that termination of free trade will harm both countries. Because of the difference in magnitude of the markets of the two countries, the effect will undoubtedly be more pronounced, as has just been indicated, upon Philippine production, labor and the standard of living. However, the effect upon United States production and trade will also be appreciable, and will be dealt with under Point III below.

C. Economic Independence will leave the Philippine Islands vulnerable to Trade Agreements, dislocating Trade and increasing Trade Barriers.

The Philippine Islands, if abruptly deprived of the United States market and left with agricultural products greatly exceeding what may normally be disposed of on world markets, will be left prey to the very type of compensatory and restrictive trade agreements which the United States has so consistently opposed. It is well known that whenever economically weak nations have an excess of production, other nations which have resorted to restrictive agreements have by threatening to place an embargo on the products of the economically weak country forced it to adopt a barter basis to dispose of its products. Where threats are not actually resorted to, certain countries, notably Germany, have outlined a program of increased consumption as an inducement to enter into such agreements. The general effect has been that Germany has secured, against credits exchangeable only for German goods, raw materials of international consumption, the excess of which beyond German requirements are disposed of for cash in normal consuming markets.

For instance, if the Philippine Islands were cast out to shift for themselves economically, Germany could obtain coconut

oil through issuing credit exchangeable only for German goods. It could then dispose of the coconut oil in the United States and receive from American consumers payment in international currency for the German exports to the Philippines. The American tariff on coconut oil received through German sources would not act as a deterrent to its entry into the United States to the same degree as if shipped directly by Philippine producers, for this would be virtually offset by Germany's current subsidizing of exports and by the premium which the international currency would enjoy in Germany. The foregoing supposition is not without foundation, for it is based on actual facts and occurrences in Germany's operations with other countries.

Another possibility which cannot be disregarded is that of eventual economic and perhaps political dependence upon Japan. The "Far Eastern Survey" for April 14, 1937, published by the American Council—Institute of Pacific Relations, in an article by Catherine Porter on "An Independent Philippines and Japan", states:

"There are varying shades of feeling in the Islands with regard to their future relations with Japan. It is quite commonly believed that the end of free trade with the United States, unless a quite favorable trade treaty is made, spells economic disaster for the new Republic. According to Ralston Hayden, former Vice-Governor of the Philippines, 'Leading Filipinos believe that the only way in which they could avert these disasters would be by becoming a part of the economic and political system of their great industrial and military neighbor to the north. Most of them agree with the President of their Constitutional Convention, who stated publicly that such a course would mean "economic pauperism and political extinction" for themselves and their descendants.' "

III. AMERICAN INDUSTRY, LABOR AND CAPITAL HAVE BUILT UP, UNDER THE COMMERCIAL POLICIES FOLLOWED BY OUR GOVERNMENT, IMPORTANT INTERESTS IN THE PHILIPPINES WHICH WILL BE PREJUDICED OR DESTROYED BY ABRUPT ABANDONMENT OF THE FREE TRADE POLICY.

The present stake of American industry, labor, and capital in the Philippines is a direct one which has been built up over a period of forty years of increasing commercial relationships with the Philippines. Their legitimate interests in the Philippines are naturally the subject of much concern in the face of the economic provisions of the Tydings-McDuffie Act and their inevitable effect. They, like the Filipinos, look to your Committee to recommend, and to the Philippine Legislature and Congress to adopt, measures which will give full consideration to the protection of their legitimate interests.

A. American Initiative has Contributed largely to the Economic Development of the Philippine Islands.

Economic development of the Philippine Islands, as the result of the commercial policies adopted by the United States, has been shown under Point I above. To this development American initiative and enterprise have largely contributed, in building up trade and industry in the Philippines and developing shipping to the Islands and utilities and other local improvements.

1. The American export trade to the Philippines is an important factor in the employment of labor and in trade and other service occupations in the United States.

Exports from the United States grew from an annual average of \$2,347,000 in the period 1899 to 1901 to an average of \$72,217,000 in the "peak" period from 1923 through 1930. The average from 1931 through 1935 has been \$53,144,000.

The Philippine Islands now rank ninth as a customer of the United States.

To quote again from the Tariff Commission Report:

“The chief import from the United States in 1935 consisted of iron and steel products. Their value amounted to \$8,516,040 or about 16 percent of the total imports from the United States. These imports also represented about 77 percent of the aggregate imports of iron or steel products into the Islands from all countries. The second most important import from the United States consisted of cotton goods. Their value totaled \$6,767,471 during 1935, or 44 percent of the imports of such materials from all countries. Mineral oil ranked third in importance, and the United States supplied 87 percent of the total imported from all countries; tobacco products ranked fourth, with the United States supplying almost 99 percent of the total. Automobiles and parts (exclusive of rubber tires) were next, the imports from the United States accounting for over 99 percent of the total from all countries. Electrical machinery and apparatus, chemicals and drugs, dairy products, rubber and manufactures thereof, and unprinted paper ranked next, the United States supplying 86 percent, 67 percent, 53 percent, 88 percent, and 66 percent, respectively, of the totals of these imports from all countries.

“Other important Philippine imports of which the United States was a major supplier in 1935 were wheat flour, fertilizer, leather and its manufactures, fruits and nuts, silk manufactures, meat products, fish products, and vegetables. The United States supplied in each case 40 percent or more of the total imports of these goods from all countries.” (Pages 27-28).

The diversification of Philippine imports and the extent of Philippine purchases of American products is shown from the following table giving values of principal Philippine imports for the year 1935, as published on page 29 of the Tariff Commission Report:

<i>Commodity</i>	<i>Total</i>	<i>From the United States</i>
Cotton goods	\$15,299,921	\$6,767,471
Iron and steel and manufactures.....	11,088,419	8,516,040
Mineral oil	7,442,514	6,486,532
Tobacco products	3,750,280	3,696,087
Automobiles and parts.....	3,600,224	3,581,046
Dairy products	3,076,362	1,625,290
Wheat flour	2,855,627	1,222,345
Chemicals, drugs, dyes and medicines.....	2,577,318	1,724,789
Silk, rayon, and manufactures.....	2,425,700	970,566
Electrical machinery, apparatus and appliances	2,153,668	1,857,808
Paper, unprinted	2,122,078	1,395,877
Fertilizers	1,810,096	1,146,399
India rubber and manufactures.....	1,664,242	1,464,752
Vegetables	1,639,239	767,822
Meat products	1,576,550	940,432
Fish and fish products.....	1,360,835	704,552
Fruits and nuts.....	1,322,508	990,956
Leather and manufactures.....	1,063,691	1,011,594
All other	18,694,578	9,496,142
Total.....	\$85,523,850	\$54,366,500

2. *American investments in the Philippine Islands are estimated at \$200,000,000.*

The American commercial policy, as well as the political security of American rule, has encouraged the flow of American capital to the Islands. Over \$36,000,000 is invested in Philippine bonds and certificates of indebtedness. The holders of these bonds and certificates are naturally vitally affected by our policy in the Islands. The larger and more direct American investment, however, is in industry, agriculture and commerce which calls for very special consideration. This investment — about \$160,000,000—has been a major factor in creating the prosperity of the Islands.

It is the vogue to consider inferior the claims to fair and equitable treatment of capital, particularly capital which has gone abroad. The Philippine investments, however, not only have contributed toward development of the Philippine economy in furtherance of our governmental policies, but by their very nature argue for equitable treatment for the individuals who have invested funds in reliance upon a long established policy of the United States.

Of these investments the Tariff Commission Report says:

“The diversification of American investments in Philippine industries is even greater than appears from table 79. For example, the six industries listed under coconut products consist of three companies making desiccated coconut, two producing coconut oil, and one manufacturing such products as soap, vegetable lard, and margarine. The 14 concerns engaged in general manufacturing produce a wide variety of products, among which the more important are cigars, rope, pearl buttons, catch, and canned pineapples. The plantations are devoted primarily to the growing of coconuts, abaca, and rubber. The public utility classification includes three radio companies, one cable company, one telephone company, one gas company, and three electric light and power companies. Investments in transportation are represented by truck and bus companies, railroads, steamship lines, and airplane companies. The 49 concerns engaged in merchandising also cover a wide range of commercial activity; 7 are engaged in retail merchandising, 6 in distributing automobiles and tires, 6 in selling machinery, 5 in distributing motion pictures. Other products handled by the merchandising group are cotton textiles, hardware, drugs, jewelry, foods of all kinds, and wearing apparel. In the miscellaneous group, the nine American companies include a steam laundry, a newspaper, a magazine, an advertising company, a customs warehouse and brokerage company, a loan company, and a hospital. American capital in the mining industry is invested primarily in gold mines. Investments in iron and chromium mines are comparatively small.

“American capital is either a dominant or important factor in 189 different concerns which include corporations, partnerships, and individually-owned enterprises. These concerns employed over 1,000 United States citizens to whom they paid an aggregate annual salary of more than \$4,000,000 in 1935,

“The American investments in the Philippines are so extensive and diversified that they are likely to be materially affected by the future welfare of the Islands. The status of

these investments, therefore, will depend largely on what the economic effects of the Independence Act will be on Philippine agriculture, industry, and commerce." (Pages 191-2).

3. *American ships carry an important part of Philippine trade.*

The desire on the part of the Government of the United States and the American people generally to rebuild and maintain a merchant marine lends added importance to the effect of Philippine Independence upon American shipping.

Table 72 of the Tariff Commission Report (p. 183) shows that during the year 1935 of the total trade carried amounting to \$179,770,000, American vessels carried 37.4%, British vessels 25.1%, Japanese vessels 13.2%, Norwegian vessels 8% and all other vessels 16.3%. Over a period of ten years, from 1926 to 1935, American vessels occupied first place in the Philippine carrying trade, based on the value of cargo. This predominance of American vessels in the Philippine trade is unquestionably due to the fact that the major percentage of Philippine exports goes to the United States and, in like fashion, a major percentage of the imports of the Islands comes from the United States. It is estimated in the Tariff Commission Report at page 186 that approximately 30% of the total trade is accounted for by Philippine-United States commerce.

The American merchant marine, particularly in recent years, has gained an increase in the trade in the Philippines apart from any increase of imports into the United States from the Philippines. In 1934 the United States imports of Philippine products totaled \$54,376,000 and the American merchant marine carried 29.3% of this trade, while in 1935, without further increase but rather a slight decrease in American imports of Philippine products, that portion of the trade carried by the merchant marine rose to 48.2%. Concurrently the percentage of tonnage carried on American ships from the United States to the Philippines increased from 33.3% in 1934 to 45.7% in 1935. This seemingly indicates that American shipping is today regaining its former position in Pacific commerce, while foreign shipping has suffered a marked decline.

This increase in the carrying trade with the Philippines indicates that, if existing trade continues unimpaired, American shipping can successfully compete with that of other countries.

B. The Economic Provisions of the Tydings-McDuffie Act will seriously prejudice Legitimate American Interests in the Philippines.

The termination of free trade between United States and the Philippines in 1946, it is sometimes said, will not affect appreciably the economy of the United States, emphasizing the contrast with the adverse effect on Philippine economy. The comparison, however, is not fair in its implications. True, there would be no grave social or political repercussions in the United States directly attributable to the termination of free trade. But it cannot be argued that the economic loss to American citizens would not be appreciable.

The export of American products to the Philippines is dependent upon the important American importation of Philippine products. It has been built up on the basis of the virtual free trade policy which has existed since 1909.

The ability to sell American goods in the Philippines in competition with products of other countries, particularly those of the neighboring industrial nation, Japan, has admittedly been due in large part to the protection enjoyed by American products under the free trade policy.

The degree of this protection has been determined by the Philippine tariffs and developments of Japanese competition of recent years, particularly in the textile industry, have permitted grave inroads into American trade.

American exports to the Philippines will suffer a twofold effect from the provisions of the Tydings-McDuffie Act: first, inability, upon removal of tariff protection, to compete with the products of competitive nations where cheaper labor conditions prevail; and second, the substantial reduction in purchasing power of the Philippine Islands in the event the economic provisions of the Tydings-McDuffie Act are not suitably amended so as to preserve the Philippine economy. Measures to be recommended to preserve that economy will, it is assumed, safeguard the present American export trade to the Philippines.

Unusual conditions surround American export trade with the Philippines. First, as there have been no tariffs or other artificial barriers to restrict its development, Philippine consumers have become accustomed to the use of American products just as though they were dwellers on the mainland. Second, the Philippine consumers have been able to purchase these products at practically the same cost as though they lived in the Continental United States. Third, having unrestricted access to American production, they have purchased to a large degree semi-finished and finished goods in which the American labor content is high and of a character not sold to other Far Eastern countries. Fourth, since it has been American, the Philippine market is not now a "low-priced market" and it requires, in the main, products of far higher quality than is usual throughout the Orient. The abolition of preferences or the imposition of full duties would materially change all of these conditions, with the result that channels of trade, slowly built up over many years, would be seriously disrupted, the loss to American labor would be large and the readjustment would be exceedingly difficult for many in this country whose livelihood is dependent upon maintenance of cleared channels of trade with the Philippines.

Attention may be directed to the fact that, in certain products, a large portion of all overseas sales are to the Philippines. This is particularly true of cigarettes, evaporated milk and cream, and certain types of textiles, rubber products, drug and pharmaceutical preparations and paints. For instance, Table 68, published at page 173 of the Tariff Commission Report, shows 35.4% of dairy product exports from the United States for the year 1935 went to the Philippine Islands, and similarly 48.6% of cocoa exports, 26.5% of cotton piece goods, 26.1% of coffee, 22.4% of spirits, wines and fermented liquors, 21.5% of starch exports, 17.6% of soap, 17.4% of explosives and 12% of perfumery, cosmetics and toilet preparation exports went to the Philippine Islands. The very fact that such a large proportion of our overseas trade in certain lines goes to the Philippines indicates that that trade has been due to the unusual conditions induced by the American commercial policy towards the Islands. If this trade should be destroyed or curtailed, as will clearly be the result of the Tydings-McDuffie Act, it cannot be expected

that these products will readily find compensating outlets in other countries.

Philippine consumers and Philippine workers are accustomed to American goods, American tools, American evaporated cream and milk, American flour, American products of every sort. To subject American goods to Philippine tariffs would in many cases so increase prices that cheaper non-American products would be substituted. In the period since the Philippines have been an integral part of American economy and have enjoyed the full freedom of the use of mainland products, this business and trade—mutually satisfactory and expanding as the Philippine standard of living has risen—has created a large amount of employment in this country. Its disruption, by the Tydings-McDuffie Act, would adversely affect many thousands of persons, in nearly every State of the Union, and necessitate costly change and undesirable readjustment.

Study of the course of American sales to the Philippines shows that its loss would seriously affect employment in this country, particularly in the manufacturing field, as for example, textiles, rubber, automobile, radio, electrical, machinery, drug and similar workers, in many parts of the United States. Likewise, there would be diminution in numerous other fields, although, unfortunately, most of these workers do not now realize that the product of their employment finds its eventual sales in the Philippines and they are not yet conscious of the danger confronting them. Finally, tracing out this trade to its ultimate effects, railway and transport workers, handlers of cargo, together with insurance, financial and other workers—engaged in overseas trade—would also be adversely affected. The full effect upon industry, labor and related services in this country will be appreciated when it is realized that this export trade to the Philippines averaged from \$53,000,000 to \$72,000,000 over the past fifteen years.

Just as American trade will suffer from curtailment of Philippine purchasing power, American investments will suffer. Observations already made concerning the character of the Philippine economy makes the conclusion here logical that the provisions of the Independence Act, if applied as they now stand, would destroy a substantial part of the investment of Americans

in the Philippines for it is obvious that the time allotted prior to independence and prior to the effect of the export tax does not permit amortization or readjustment in the great majority of cases.

Here again wise statesmanship dictates effective measures to preserve the Philippine economy as at least the first indispensable factor in policy. Investments which contributed toward upbuilding the Philippine economy should not be subjected to loss or destruction by any policy which might imperil that economy.

Similarly, the shipping industry, which in recent years has shown remarkable gains, as mentioned above, will be vitally affected by any diminution of American-Philippine trade. When it is considered that sugar, copra and coconut oil accounted for 92% of the tonnage carried in United States ships from the Philippines to the continental United States in 1934, it will be readily apparent that any substantial reduction in that trade would seriously affect American shipping.

The argument is advanced in the Tariff Commission Report that American shipping in the aggregate will lose nothing by great reduction of exports from the Philippines to the United States, because the products heretofore imported from the Philippines will necessarily be imported from other countries. This argument, however, fails to take into consideration the subsidized competition by other nations, whose ships are now handling the similar products of other countries which would be imported in lieu of those now being imported from the Philippines.

The argument is that shipping would not be so much reduced in the aggregate, as merely dislocated. Even were the conclusion sound, the argument is unconvincing, since dislocation of shipping may often be as prejudicial as actual reduction in volume. The quota of trade to and from the Philippines is naturally an important element in the maintenance of existing American shipping lines to the Far East.

IV. RECIPROCAL TRADE ADVANTAGES MAY, CONSISTENTLY WITH FUNDAMENTAL PRINCIPLES OF UNITED STATES TRADE POLICY, AND SHOULD, BE CONTINUED AFTER POLITICAL INDEPENDENCE OF THE PHILIPPINES FOR SUCH PERIOD AS MAY BE NECESSARY TO AVOID DISLOCATION OF TRADE AND TO ASSURE CONTINUED INDEPENDENCE OF THE PHILIPPINES.

The task of the Joint Preparatory Committee is obviously to make such recommendations for the future trade policy between the two countries as will assure continuance of the economic, social and political institutions which have been built up in the Philippine Islands and to make political Independence a reality. Section 13 of the Tydings-McDuffie Act, accepted by the Philippine Legislature, recognizes that future trade relations are the keystone of Independence and that adequate provision must be made therefor. We cannot urge too strongly that all measures necessary to implement the Tydings-McDuffie Act, to preserve the economic gains in the Philippines, made while they were under American control, be taken at the earliest possible date.

A. The United States has assumed responsibilities towards the Philippines which compel it to extend for a continuing period reciprocal trade advantages.

We have seen that the United States through its legislation has controlled and stimulated the economic development of the Philippine Islands. We have seen that that development, remarkable as it is, is an abnormal development based upon the free trade status which the Tydings-McDuffie Act would abruptly withdraw. We have seen the effect which is bound to ensue from such termination of the free trade status.

If the Philippines, through their Legislature, should request modification of the economic provisions of the Tydings-McDuffie Act, the United States, responsible as it is for the economic factors in present day Philippine life, would be derelict in discharging the responsibility which it assumed if it should deny such a request emanating from the Philippine people.

B. The extension of Reciprocal Trade Advantages beyond the period stipulated for Independence will be consistent with the Fundamental Principles of United States Trade Policies.

The United States has consistently opposed governmental subsidies, dumping and other means of disposing of production abnormally depressing world prices.

The United States has consistently opposed exchange restrictions and clearing and compensation agreements, the effect of which has been to divert purchases from normal suppliers to those of the country imposing the restrictions. Their net effect is ultimately to restrict trade and reduce purchasing power.

The underlying principle of the policy of the United States in opposing all of the practices just mentioned is the policy to avoid artificial restrictions on trade.

Applying these principles to Philippine-American trade, it is obvious that sudden denial of reciprocal trade advantages will force the Philippines to governmental subsidies (if it can afford them), to dumping or other measures abnormally depressing world prices; to exchange restrictions, clearing and compensation agreements with other nations; or to preferential tariff agreements with other nations in order to build up new trade to replace that of which it is forcibly deprived.

Thus it is seen that if on the one hand the United States continues reasonable reciprocal trade advantages, designed to prepare the Philippine economy gradually for lesser advantages and perhaps ultimately complete economic independence, it will further the fundamental principles of its foreign trade policies. If on the other hand it abruptly terminates the free trade status, it will not only fail to discharge the duties which it assumed towards the Philippines in 1898, but it will definitely aid and abet the very trade policies it has opposed and its own action will definitely contribute towards new and increased trade barriers and further dislocation of world trade.

C. The extension of Reciprocal Trade Advantages to the Philippines after Independence is justified by Precedent in the case of Cuba.

We have seen the important distinction between the relationship of the United States to the Philippines and its relationship to Cuba, sovereignty as distinguished from a mere protectorate. The protectorate over Cuba was exercised for a considerably shorter period of time than the sovereignty over the Philippines and yet, upon the termination of the protectorate over Cuba, the economic relationship between it and the United States has been considered so close as to justify preferential trade advantages in agreements negotiated between the two as independent nations.

We have seen that as a result of American sovereignty and legislative control, a Philippine economy has been developed which is distinctly complementary to and dependent upon the economy of the United States. Not only is the dependence of the Philippines upon United States markets at least as great as the dependence of Cuba upon such markets, but the responsibility of the United States towards the Philippines is even greater than its responsibility towards Cuba. No plausible reason is seen, therefore, why reciprocal trade advantages should not be extended to the Philippines after its political independence and for such period as may be necessary to avoid dislocation of trade and to assure its continued independence. Of course, the extent of the advantages accorded to Cuba will not necessarily be the measure of advantages which must be accorded to the Philippines. The quantum of such advantages in the case of the Philippines should be considered independently and they should be sufficient to maintain the existing economy of the Philippine Islands.

That this course was commendably foreseen appears in the reservations placed in various recent trade agreements made by the United States under the Trade Agreements Act.

When these agreements were negotiated, Cuba was a foreign country. The Philippine Islands were not as yet a foreign country, but the possibility of their becoming such was definitely provided for. To reserve the right to accord preferential treatment to the Philippines, after Independence, as is accorded

to Cuba, Article XIV of the French Agreement specifically provides that the advantages now accorded or hereafter to be accorded by the United States to the Republic of Cuba shall be excepted from the operation of the agreement, including the most-favored-nation clause, and like provision is to apply to advantages now or hereafter accorded by the United States to the Philippine Islands, "irrespective of any change in the political status of the Philippine Islands".

Similar provision has been made in numerous other trade agreements, including those with El Salvador, Nicaragua and Costa Rica. The analysis prepared by the State Department of general provisions and reciprocal concessions of the El Salvador agreement states:

"Article XIV defines the territorial application of the agreement and contains the *customary* exceptions to the pledge of most-favored-nation treatment in respect of United States relations with Cuba *and the Philippines.*" (Italics added).

Obviously, therefore, the United States has left the door open in these trade agreements, as presumably it will continue to do, to accord special advantages or preferences to the Philippine Islands. The granting of reciprocal trade advantages to the Philippines after political independence and preparatory to economic independence therefore finds support not only in principle but in precedent.

D. The extent of Reciprocal Trade Advantages must be measured by the needs of the Philippine economy and the mutual advantages which may be derived consistently with established principles of Trade.

Of the various interests mentioned in this brief, that of the Philippine economy must be paramount. This flows not only from the fiduciary responsibility of the United States towards the Philippines, but also from the fact that since the acceptance of the Tydings-McDuffie Bill the Philippine Islands must be treated as an ultimately independent nation. Consequently, it is assumed that only such reciprocal trade advantages during

the period of economic adjustment following independence will be mutually accorded as shall be freely determined by the Philippine and United States Governments.

We feel that it has been shown, and may be accepted, that so far as the United States is concerned, it is imperative, and will be entirely consistent with the underlying principles of United States trade policies, to accord to the Philippine Islands, upon a reciprocal basis, the full trade advantages reasonably necessary to assure the maintenance and orderly adjustment of the Philippine economy and to avoid leaving a record of internal economic failure and the Philippines a prey to trade agreements dislocating trade channels and erecting new barriers of trade.

The consideration to which the legitimate American interests of exporters to and investors in the Islands are entitled flows from the fact that these interests were built up on the faith of the commercial policy of free trade and a sudden abandonment of that policy will prejudice or destroy them. However, the die has been cast by the Tydings-McDuffie Act, which grants independence to the Philippines on July 4, 1946.

We have seen that trade arrangements with the Philippines, necessary to preserve the Philippine economy, are fully justified and indeed required. It is therefore apparent and equitable that the reciprocal trade arrangements necessary to preserve and safeguard Philippine economy should be granted on such terms as to preserve and protect also, in equitable measure, the legitimate American interests in Philippine trade and industrial and other activity.

Facts, rather than theory, will for many years to come shape and determine the measures which define the trade relations between the United States and the Philippines. The governments of the United States and of the Commonwealth of the Philippine Islands are confronted with a situation of fact which is controlling. If previously any doubt existed on this point, it was effectively removed by the publication of report No. 118 (second series) of the Tariff Commission on "United States—Philippine Trade". In this report are assembled and presented facts which reveal, on the one hand, the dependence of the Philippines on the American market, and, on the other, the financial and commercial businesses which

American citizens have developed in reliance upon the commercial policy established by the American Congress in 1909.

Granted a theoretical solution which may be regarded as an ultimate objective, the complexity of conditions, the dynamic character of trade and finance, and the non-economic elements which play an important role,—these and other factors will invite a pragmatic approach and an avoidance of a too dogmatic attitude toward policy.

We favor measures, as pointed out, which will afford the Philippines every reasonable opportunity to maintain and adjust their national economy. Of at least equal importance is the policy which affords to particular American business interests an opportunity to adjust themselves to any new commercial policy with which they are faced. We believe also that it may be urged with justice that losses to particular lines of trade, which are shown may result from an ultimate non-preferential policy, should be definitely compensated by effective action of the American Government in obtaining the removal of preferences against that line of trade in other parts of the world. The American Congress and the present Administration in its trade policy has already laid down the principle of reciprocity. Good neighborliness can be effective only in case it is reciprocal. Philanthropic unilateral action which surrenders rights and advantages for American nationals does not increase American prestige among nations. Commercial policy is not expected to be altruistic. If therefore any American interests in the Philippines are impaired by any measure tending toward non-preferential trade agreement, those interests should be taken care of in other markets by a vigorous policy of the American government which removes discriminations and restrictions which burden those lines of trade.

Since the announcement of hearings and of the opportunity to file briefs before the Joint Preparatory Committee on United States Philippine Trade it has not been possible to explore fully the views and interests of the business community. This brief is of necessity preliminary and will therefore be supplemented from time to time by additional information and exposition, including in particular a detailed analysis of the export interest in the United States.

We believe, however, that the situation which confronts us in United States-Philippine trade justifies several generalizations at this time:

1. The economic provisions of the Philippine Independence Act and Acts amendatory thereto do not reflect a sound commercial policy called for by the facts of Philippine economy and the United States-Philippine trade. To allow them to continue and to become operative will precipitate distress and disorder in the Islands and endanger the object of the Independence Act and be destructive of American business. Hence the first conclusion which should be reached by the Conference provided for in Section 13 of the Act is that existing law must be revised and amended in important respects.
2. The policy of reciprocal trade advantages cannot be abandoned in 1946, nor should the arbitrary and capricious export tax be allowed to become effective in 1940.
3. Reciprocal trade advantages during the period of adjustment after political independence must be, towards the Philippines, such as to protect existing Philippine economy and at the same time encourage the development of an independent Philippine economy; and, as to American interests in Philippine trade and the Philippines, such as to protect, consistently with the foregoing, the legitimate claims of American industry, labor and investments.
4. The Department of State should proceed immediately to obtain the necessary exceptions in our existing commercial treaty structure in order to permit the continuation of preferences during the above mentioned period after the Philippines become a "foreign nation".

Respectfully submitted:

NATIONAL FOREIGN TRADE COUNCIL, INC.
NATIONAL FOREIGN TRADE ASSOCIATION, INC.

By: EUGENE P. THOMAS, *President*.

SUPPLEMENTAL BRIEF
SUBMITTED BY
NATIONAL FOREIGN TRADE COUNCIL, INC.
AND
NATIONAL FOREIGN TRADE ASSOCIATION, INC.
SEPTEMBER 28, 1937
(Photographic Reprint)

INTRODUCTORY

In a brief filed before the Joint Preparatory Committee on United States-Philippine Trade July 10, 1937, subsequent to the hearings held by the Committee in Washington, D. C., in June, 1937, this Council set forth arguments which seemed convincing that the economic provisions of the present Tydings-McDuffie Act should be amended to provide for the continuance of reciprocal trade advantages between the Philippines and the United States after Independence of the Philippines in 1946 and to abolish the export taxes which it requires the Philippines to levy during the period 1941 to 1946.

In that brief this Council sought to show that the commercial policy of the United States in trade relations with the Philippines was responsible for great economic development of the Islands; that the economic provisions of the Tydings-McDuffie Act as they now stand would leave the Philippine Islands economically helpless and vulnerable after their independence; that American industry, labor and capital have built up under our Government's commercial policies important interests which would be prejudiced or destroyed by abrupt abandonment of the free trade policy; and in conclusion that reciprocal trade conditions may, consistently with fundamental provisions of the United States trade policy, and should, be continued after political independence of the Philippines for such period as may be necessary to avoid dislocation of trade and to assure continued independence of the Philippines.

The mere fact that a brief was presented to your Committee expounding certain views is sufficient to indicate that the questions involved are controversial ones on which conflicting views are held. Certainly, upon the great economic questions here involved, as in fact upon all economic questions, divergent views may be expected. The testimony taken by your Committee in Washington and in San Francisco showed such divergent views by interested parties. Though the record of the Philippine hearings is not available when this brief is being written, presumably they also will show some, though perhaps less, divergence of opinion.

The purpose of this supplemental brief will be to attempt to analyze the more important divergent views presented to

your Committee and to endeavor to recommend the course of preponderant benefit to the greater number affected. Fortunately, the conflicting viewpoints are not national (for now that independence has been definitely granted by the Tydings-McDuffie Act, the Philippine Islands must be considered as potentially at least an independent nation, though independence is to be effective only in 1946). These viewpoints cut across national lines and obviously, as in all economic decisions, are determined by self-interest,—sometimes of long term view, sometimes short sighted.

Succinctly stated, the effect of the Tydings-McDuffie Act, unless amended, will be to terminate in 1946 the free trade relationship between the United States and the Philippines, to subject Philippine products to full American duties and to subject American products to full Philippine duties. During the so-called period of transition, from 1941 to 1946, graduated export taxes are to be imposed by the Philippine Government, presumably designed to accustom Philippine economy to the payment of duties in the principal market for their products,—but such result obviously cannot be attained within the short period allotted, if at all. Consequently, the result will be to close the American market to the principal Philippine products leaving the Philippines with little chance of finding substitute markets, reducing the standard of living and purchasing power in the Philippine Islands and, with the added barrier of the Philippine tariff, virtually precluding the Philippines from continuing to purchase from the United States.

Broadly speaking, the groups whose points of view conflict may be classified, we believe, as follows:

Those who favor the amendment of the Tydings-McDuffie Act so as to provide continuance of reciprocal trade advantages between the Philippine Islands and the United States include:

The American consumer, who desires to continue the enjoyment of products he now receives at prices he now pays, so far as possible;

American labor, industrialists and manufacturers (both those selling to the Philippines and those utilizing raw materials from the Philippines), American exporters, importers, banks, transportation and shipping, all those engaged in forwarding and service trades who stand to

benefit, directly and indirectly, by the continuance of our present export and import trade with the Philippines;

American investors, both those holding direct investments in the Philippines and those holding investments in corporations engaged in Philippine trade, who would be directly prejudiced by any curtailment of that trade;

Sugar and coconut planters and agricultural labor in the Philippines, who would be plunged into chaotic conditions by deprivation of their markets;

The great body of Philippine merchants, exporters, and importers, who would be severely prejudiced by curtailment of trade relations with the United States;

All citizens of the Philippine Islands solicitous of maintaining the present high standard of living and the political independence which is tendered by the Tydings-McDuffie Act.

Those who favor the economic provisions of the Tydings-McDuffie Act and the abrupt severance of free trade relations include:

The beet and cane sugar industries in the United States, desirous of curtailing the duty-free importation of Philippine sugar, to stimulate further a crop which has had relatively slight increase and is unable to supply the American market although it has enjoyed important protection and subsidies;

A section of the dairy industry, in the erroneous belief that duties on coconut oil would substantially increase the price of oleomargarine and turn more consumers to the use of butter; the cotton growers in the effort to force coconut oil out of edible oil consumption channels in the United States;

Those who fear, or state for political motives, that political independence cannot be complete or satisfactory without severing economic ties.

During its twenty-four years of existence as a national organization, the National Foreign Trade Council has endeavored to foster every legitimate measure to expand foreign trade and extend domestic prosperity. It has always sought, as it now seeks, to approach each problem from the broad view-

point of the general welfare and in such spirit will attempt to analyze the soundness of the contentions of the respective groups just mentioned.

POINT I

PHILIPPINE AND AMERICAN ELEMENTS WHICH FAVOR CONTINUANCE OF RECIPROCAL TRADE ADVANTAGES WOULD BE SERIOUSLY PREJUDICED BY ABRUPT TERMINATION OF FREE TRADE STATUS.

In view of the hearings which the Committee has held in Washington, San Francisco and Manila and the extensive investigations it has made, it would be superfluous to attempt to give detailed data and figures on the questions involved. Rather, an attempt will be made to sketch briefly the effect upon the various groups as shown by information gathered by the Council from various sources.

A. The American consumer will be affected in products deemed necessities in every American home.

The United States has purchased 99% of Philippine sugar exports, obtaining from that source approximately 14% of the sugar required for its consumption. The United States is likewise the principal purchaser of Philippine copra and coconut oil, obtaining from that source the major part of its copra and coconut oil requirements. The chief uses of coconut oil are for soap products and, to a lesser extent, for oleomargarine products.

Discounting the stabilizing effect in recent years of quota limitations, the amount of Philippine sugar utilized in this country is obviously dependent upon the competitive price of domestic sugar and the entry price of imported sugar. The natural consequence of shutting out by heavy duties* 14% of the sugar annually consumed in this country, now imported from the Philippines, would seem to be to increase the price of this necessary product. Though some contend that it would be small in amount, any increase in sugar prices would be felt in every

* Even if Philippine sugar could compete on a full duty basis, which apparently it could not, present quota restrictions limit full duty sugar to 1.4% of United States consumption.

home in the country. Furthermore, elimination of one present competitive source of supply would facilitate action by other countries in controlling prices to their own advantage and to the detriment of the American consumer.

For the purpose for which coconut oil is chiefly utilized, soap making, experience has shown that there is no satisfactory domestic substitute because no domestic oil or fat contains lauric acid, the fatty acid which is required to impart free lathering qualities to soap. While substitutes have from time to time been utilized to varying degree, it has been found that the number of consumers who would switch from coconut oil base soap to soap utilizing other bases is limited and the American public would still demand soap made from coconut oil or other oils containing lauric acid. If the effect of the imposition of full duties would be to increase the price of coconut oil, the result would be to increase the price of the soap principally utilized in this country or to bring about the greater importation from other countries of other oils containing lauric acid.

Other Philippine products currently imported under the free trade status are even less competitive in character. Domestic fibre for rope and cordage would not nearly supply the American market. Manila fibre is apparently of a quality not produced elsewhere. The Philippine cigar is not directly competitive with domestic or other imported cigars. It sells for a great deal less than other cigars and reaches a market which cannot afford the higher priced cigars. The imposition of full duties upon Philippine cigars would result in the great curtailment of their sale in this country to the class of purchasers who now buy them, without fully corresponding benefit to the American tobacco industry. Any advantage which the American tobacco industry might gain thereby would seemingly be more than offset by the curtailment of sale of American cigarettes to the Philippines which have been of a value greater than that of cigar importations. In the tobacco industry the balance of trade decidedly favors the American producer, tables 4 and 5 of the Tariff Commission Report, at pages 27 and 29 respectively, show that Philippine imports of tobacco products of the United States in 1935 totalled \$3,696,087, while United States imports of Philippine tobacco products during the same year were considerably less, \$3,288,565.

B. American labor, industry, trade and transportation would suffer seriously from the termination of free trade status with the Philippines.

The direct effect of the economic provisions of the Tydings-McDuffie Act on American labor, industry, trade and transportation will be twofold. Even assuming (as cannot fairly be done) the maintenance of present Philippine purchasing power, the great bulk of present American exports to the Philippines (which averaged \$72,217,000. a year from 1923 through 1930) could not pay Philippine duty and compete with the products of cheaper labor of other countries, notably Japan.* But, as stated, if the first assumption is not warranted the Philippine purchasing power would be so crippled by the exclusion of the major Philippine products from the American market, through imposition of United States duties, that from this cause alone Philippine purchases in the American market, as elsewhere, would necessarily be greatly reduced. Thus the combined effect of elimination of our sales through competition from cheaper production and the curtailment of the purchasing power of the Philippines

* Labor conditions in Japan, responsible for its present ability to undersell world competitors, are of twofold interest, first as explaining the competitive conditions to which American products are subject and secondly, as indicating the retrogression in standard of living with which the Philippines are threatened by the economic provisions of the Tydings-McDuffie Act. An interesting description of such conditions is given in an article entitled "The Rising Sun of Japan" in the September 1936 issue of "Fortune", at page 116:

"Elsewhere in the world the industrial revolution has meant a general rise in the standard of living which has meant in turn a general increase in wage scales which has meant higher costs which have meant eventually a competitive drubbing at the hands of more recently industrialist countries. Elsewhere in the world, specifically in Italy, nations poor in national resources have thought themselves obliged to use machine guns and prison camps to depress the living standards of their workers in an attempt to escape from that chain of causation. In Japan the industrial revolution has not meant a general rise in the standard of living.

"The agricultural half of the population, always too numerous to live fatly upon Japan's limited farmlands has long been habituated to an existence of extreme frugality and has long possessed a communal life making that frugality endurable. Partly by government policy, partly by social habit and partly by the sheer weight of its own numbers it has been held, since the industrial revolution, somewhat, but not far, above the level it knew three or four hundred years before that revolution. And remaining itself at that level it has held down the living standards of the rest of the country, since it makes constantly available a reservoir of surplus labor ready and eager to work in industry at any wage above the bare subsistence level of the farms. The consequence is that Japan, outwardly industrialized, maintains inwardly the life of a simple agrarian country. The further consequence is that her industrialization is an industrialization which must sell its goods abroad since her domestic market is incapable of buying her industrial products. And the end consequence of all this is that the industrial workers of Japan live on one economic level while their goods sell on another."

will be to deprive the United States almost wholly, except for certain specialty goods not so competitive, of the Philippine market which has ranked as the seventh best customer of the United States.

To attempt to crystallize forecasts of the effect of the economic provisions of the Tydings-McDuffie Act, the Council sent questionnaires to various manufacturers and exporters engaged in trade with the Philippine Islands. The replies received show that an average (not weighted) of 7.6% of their total exports go to the Philippines. To the inquiry regarding the quality of the Philippine market, 57% of the answers considered it of high quality, 17% medium quality and 26% low quality. Two-thirds of the replies on the question as to comparison with other oriental markets indicated that other oriental countries did not consume products of the nature exported by the particular manufacturer to the same relative degree as the Philippines did, i.e., they regarded the Philippines as a market of relatively higher volume as well.

Most significant, however, are the answers to the question regarding ability to find substitute markets, which are unanimous that American exporters could not readily find other foreign markets to take the goods now sold in the Philippines. (See Tariff Commission Report, at page 182 stating that "the anticipated decline in American exports to the Philippines will be partially offset by gains in American exports to other areas".) Indeed, this would seem only too obvious, for during the last six years the United States exporter has been contending against increasing restrictions on trade and means of payment imposed by foreign nations, reducing severely the area in which trade could be conducted on a freely competitive basis. Indications of a slight trend towards relaxation of trade restrictions, due largely, it is believed, to the United States reciprocal trade agreements program, are now beginning to appear. However, the dislocation of trade and the scramble for economic control by barter and compensation agreements in the Philippine market which would ensue if the Tydings-McDuffie Act takes effect without amendment would undoubtedly set back the program for extending the open, competitive system of trade.

Any net diminution of American export trade, through curtailment of the Philippine market or otherwise, is immediately

felt by American labor. It is well recognized that the added volume from export trade is one of the factors justifying mass production and in many cases may be the determinant between operating at a profit and at a loss, between open and closed factories.

The effect on transportation and shipping from curtailment of trade with the Philippines will be doubly felt. Diminution in imports from the Philippines will naturally be followed by diminution of exports to the Philippines. Raising the tariff barriers as a result of the Tydings-McDuffie Act will further restrict exports to the Philippines. Even on the theory set forth in the Tariff Commission Report that American industries and exporters might find substitute markets partially to offset this loss, the effect in dislocation of shipping might be even worse on some shipping lines than if there had been no compensating increase in exports to other countries, for the increase in shipping to other countries might be reflected in increase in wages which the lines left serving the Philippines and the Orient could not afford to pay.

C. American investors will likewise be prejudiced as a result of the economic provisions of the Tydings-McDuffie Act.

It is not an unusual approach to consider that "foreign" investments are made subject to the risks normally inherent in the conduct of operations abroad; that the investor deliberately throws in his lot with the internal economy of the foreign country and cannot complain if that lot turns out to be not a happy one. Such, however, is not a justifiable approach to consideration of the American investments in the Philippine Islands. The direct American investments in the Philippine Islands, in industry, agriculture and commerce, were made under the encouragement of the American commercial policy and the political security of American rule. They have been an important factor in developing the internal economy of the Philippine Islands. They have never heretofore been considered "foreign" investments but rather national investments and of a nature which, if made within the continental United States, would certainly have been entitled to receive every encouragement, as in fact they did receive encouragement, in developing the Philippine Islands as an important domestic market.

Of course, it may be said that if the future independence of the Philippine Islands had from the outset been definitely promised, if American investments were made upon notice of that promise, if full economic independence and the termination of free trade status were necessary concomitants of political independence and if such economic independence were advantageous to Philippine interests and to all American interests other than the American investors, the latter might fairly be called upon to sacrifice or prejudice their investments in the common cause to pursue a foreordained program. Such, however, is not the case. Although the possibility of *political* independence for the Philippine Islands has been present for some part of the time since their cession to the United States by Spain, the belief has been seemingly universally held, and certainly justified, that the terms upon which political independence might be granted would not be such as to imperil the internal economy of the Philippine Islands and with it the American investments therein. Certainly the Philippine people held this belief, as evidenced by the fact that their Legislature in 1932 rejected the provisions of the Hare-Hawes-Cutting Act which granted the tendered political independence because its provisions

“would seriously imperil the economic, social and political institutions of this country and might defeat its avowed purpose to secure independence to the Philippine Islands at the end of the transition period”.

If the Filipinos so trustingly believed that their internal economy would not be jeopardized that they rejected the long sought political independence, surely it may fairly be said that the American investor might likewise rely on such a reasonable assumption.

Indeed, it is not even in a good cause for which the interests of the American investor are being sacrificed. Were it so, he might be left to his lot. As the matter stands, other and perhaps weightier considerations are against the justice of the provisions of the Tydings-McDuffie Act so that the prejudice to the American investor is merely an added weight in the scale, marking clearly the inadvisability and misfortune, from the viewpoint of the Philippine Islands and the United States alike, of permitting the Tydings-McDuffie Act to become effective without

adequate amendment to place the economy of the Philippines and American trade and investments upon a basis affording at least some opportunity, if not real prospect, of stability.

D. Philippine sugar and coconut planters and agricultural labor would be plunged into chaotic conditions by deprivation of their American market as the result of the Tydings-McDuffie Act.

Much has been written concerning the economic outlook for the Philippines if political independence necessarily means severance of existing economic ties. In "The Challenge of the East" (Farrar & Rinehart, New York, 1931) at page 170, Mr. Sherwood Eddy states:

"The phenomenal economic progress of the Philippines has been so based upon and bound up with free trade with America that, if immediate independence should substitute for favorable free trade hostile tariff barriers against them, it would cause an economic dislocation if not a catastrophe of the first magnitude."^{*}

Mr. Eddy's statement is of course but a prediction. Unfortunately, he supplies few figures to support his pessimistic outlook, but even more unfortunately statistics do clearly support his prediction.

Report No. 118, 2nd Series 1937, of the United States Tariff Commission estimates that approximately 15% and 25% of the total Philippine population are wholly dependent on the sugar and coconut industries respectively. The dependence of a total of 40% of the population on but two agricultural products shows at once the unbalanced economic structure of the Philippines. This lack of internal balance is aggravated by the dependence upon one external market, the United States, which has been purchasing approximately 99.99% of the total sugar exports (being 79% of total sugar production) and 89% of the total coconut product exports (being 68% of the total coconut production) of the Islands. (Percentages computed from figures in Tariff Commission Report, pages 52 and 118; that for coconut production covers all types of coconut production).

Merely for comparison and to help visualize the economic dependence of the Philippine Islands upon sugar and coconut

^{*} Throughout this Brief, italics have been supplied by authors of the Brief unless otherwise noted.

production and their American market, it appears on a liberal basis of estimation that in the United States only 2½% of the total population is directly dependent upon the iron and steel, automobile and petroleum refining industries*. Recollection of the effect of curtailment in these major industries in this country is only too vivid. Picture the effect if the curtailment of the markets in the several industries ranged from 68% to 79% and if not 2½% but 40% of the population of the country were directly dependent on them!

The question may well be asked whether an assumption can be justified that the American market will be completely closed to Philippine sugar and coconut products and that corresponding markets cannot be found elsewhere. No categorical answer can be given as to the extent of the deprivation of markets, but every consideration leads to the conclusion that the extent will be severe.

In the case of sugar there seems no possible hope for a continued American market such as that which has heretofore gone far in developing the Philippines, or for building up other substantial foreign markets. The provisions of the Tydings-McDuffie Act allow for a yearly export of 850,000 long tons of sugar duty-free to the United States during the first five years of the transitional period. Assuming, *arguendo*, that this is all the sugar the Philippines desire to and can sell in the United States, what is the result when the graduated export taxes of the second five year period are applied?

Tariff Commission findings show that during the years 1931-1933 the costs of Cuban and Philippine sugar f.o.b. New York, ex duty, were, respectively, 1.923 and 2.717 cents a pound. This represents an initial advantage to Cuba of .79 cents a pound in production and transportation costs. Adding the .9 cents a pound duty presently levied on Cuban sugar results in swinging the balance in favor of the Philippines in the amount of .106 cents a pound. Assuming the continuance of the present Jones-Costigan system, the present Cuban duty remaining at .9 cents a

* According to reliable estimates contained in the 1937 World Almanac at page 328 these industries employed 601,606 persons during the year 1933. Assuming five persons, including the employee, to be dependent on the employment, 3,008,030 persons were dependent on these industries during the same year. The Bureau of the Census of the United States estimates that the population of the United States during 1933 was 125,770,000. It would therefore follow that only 2½% of the total population is wholly dependent on these three major industries.

pound, the imposition of the first year's graduated export taxes would cut the favorable Philippine differential to .012 cents a pound, but in the next year the differential becomes .082 cents a pound in favor of Cuba. From this point onward, and assuming the payment of only 10% of the full duty, Philippine sugar seems effectively barred from competition in the United States. Obviously it can have no justified hope of competing upon being subjected to the full duties after July 4, 1946.

Professor Kirk in his book "Philippine Independence" (Farrar & Rinehart, New York 1936) in reaching the same conclusion suggests three possibilities of solving the problem of dependence of Philippine sugar on the American market: new export markets, increased domestic consumption or the permanent diversification of much land devoted to sugar plantations. (p. 142) With regard to new export markets the author states at page 143:

"* * * the Filipinos realize that their ability to sell in the world market will depend upon the extent to which they can cut production costs down to a basis comparable with those in competing areas, such as Java. From what has been said concerning the nature of Philippine sugar production, i.e., the small plantation system, the relatively low productivity per acre, and the appalling dependence of the government upon sugar income, it seems clear that *no substantial downward readjustment of costs could be effected without an economic upheaval so great as to jeopardize the safety of the political as well as the economic system.*"

With respect to increased Philippine domestic consumption, the author points out that although figures presently available would seem to indicate that the domestic *per capita* consumption in the Philippines is considerably less than the consumption of sugar in the United States, there is little likelihood that the consumption in the Philippines can be increased to any great degree. He bases his conclusion on the facts that sugar consumption in the tropics is never great and that actual sugar consumption is today much higher than available figures indicate because there is undoubtedly a large proportion of low grade sugar consumed by the family and neighbors of a native maker which never enters the official figures.

Permanent diversification of land now used for sugar cane would require further experimentation and education in agricultural processes developed and could hardly be expected to forestall the economic depression imminent in the Philippines.

The coconut industry, upon which 25% of the population of the Philippines are directly dependent, has already been dealt a severe blow since the enactment of the Tydings-McDuffie Act, entirely irrespective of that Act and contrary at least in spirit to its provisions.

Section 6 (b) of the Act allows a duty free quota of 200,000 long tons of coconut oil. Notwithstanding this provision, and contrary at least to its spirit, the Revenue Act of 1934 imposed excise taxes upon the oil extracted from copra, specifically including copra of Philippine origin, whether milled in the United States or in the Philippines. While oil extracted from Philippine copra was subjected to a special "preferential rate" of 3c per pound as compared to 5c per pound for oils from other "foreign" origins, the Revenue Act definitely treated Philippine copra as a foreign product, for the purpose of the excise tax on coconut oil, twelve years before Independence was to become effective. The effect of this legislation has been not only to "alter adversely the competitive position in the American market of Philippine-derived coconut oil as compared with oils and fats produced wholly in the United States" but also "the competitive position of Philippine coconut oil in comparison with several foreign oils". (Tariff Commission report, pages 87-88).

The imposition of the excise tax upon coconut oil of Philippine origin cannot be justified by the provision of the Revenue Act requiring the United States to pay over the proceeds of collection to the Treasury of the Philippine Islands. This is in effect usurping the taxing power of the Philippine Commonwealth and restricting the application of the tax, for remittance to the Philippine Treasury is conditional upon the Philippine Government not paying any subsidies to producers of copra, coconut oil or allied products. Thus the effect of this tax imposed by the United States upon the products of Philippine origin, and treating such products as "foreign" long before Independence takes effect, has been to impose upon the Philippine people a tax not determined by the legislature of the Commonwealth and as a result thereof to depress severely conditions in the coconut

industry. In this manner the coconut industry is made to suffer even in advance of and contrary to the spirit of the Tydings-McDuffie Act.

The effect of the Tydings-McDuffie Act itself upon the coconut industry will be considered in relation to the four chief products—copra, coconut oil, copra cake and meal and desiccated coconut.

Copra is presently on the American free list and for present purposes we must assume it will continue to be. The Tydings-McDuffie Act does not restrict imports into the United States of Philippine copra, so this phase of the industry is not presently threatened. The value of copra exports from the Philippines to the United States in 1935 totalled \$9,106,000, 82.3% of total copra exports. United States Tariff Commission Report, Table 25, page 73.

Coconut oil is the product which will be most directly affected by the Independence Act. During the first five years of the transitional period, 200,000 long tons will be the Philippine duty-free quota. During the second five years of the transitional period, the quota not subject to full duties remains the same, but these quota exports become subject to the graduated export taxes, with the result that copra, being on the free list, will be imported in lieu of coconut oil and will be milled in the United States rather than the Philippines*.

Thus, while copra may be shipped in lieu of coconut oil, and labor not so directly affected in the coconut culture, laborers in the Philippine crushing mills will be deprived of employment and the Philippines will lose the export of copra cake and meal, a by-product of the copra crushing process. In 1935 exports of coconut oil totaled 178,781 short tons valued at \$12,005,098 (98.2% of Philippine exports of coconut oil). To give the corresponding amount of coconut oil, on the basis of 63% of oil extraction†, would require 283,771 short tons of copra, which on the 1935 valuation would total \$11,265,133, a loss in export value of \$739,965. In addition, the value of copra cake and meal exported in 1935, the by-product, was \$617,680, and this export, presumably, will be totally lost.

* This of course will be a crushing blow to both American owned and Philippine owned mills in the Islands. American investment in coconut mills and refineries is given at \$5,545,000, far exceeding that of any other nation. See Tariff Commission Report, Table 22, page 70.

† Tariff Commission Report page 75.

The desiccated coconut industry exported in 1935 products of a value of \$3,962,315 of which 99.6% went to the United States (Tariff Commission report page 77). It is considered that imposition of full duties after Independence would affect wage and other conditions in the industry and diminish their exports to the United States.

While the effect of the Tydings-McDuffie Act upon the coconut industry as a whole may be somewhat tempered by the increased export of copra in lieu of coconut oil, the blow to the milling industry will be direct and the dislocation in the entire industry is bound to have some adverse effect. In addition, the coconut industry is already suffering the harmful effects of the United States excise tax, mentioned above. The effect of all of these measures is certainly not to prepare the Philippine people for political Independence, but distinctly the reverse.

To summarize, the effect of the Tydings-McDuffie Act on the sugar industry and of that Act and the United States excise tax on the coconut industry will be felt directly by 40% of the population of the Islands. The severe crises in these industries will necessarily affect banks, transportation and trade generally. The assumption would not seem unwarranted that the combined effect would be to start a downward spiral which could result only in a substantial lowering of the standard of living of the Philippine people at home and of their purchasing power abroad. This would undoubtedly call for Government efforts to support those deprived of employment, subjecting the Government's finances to a severe strain at the very time it is deprived of its greatest source of revenue and subjected to additional expenses theretofore borne by the United States, and ultimately lead to the acceptance of a definitely lowered standard of living for a long period. With these conditions in mind, it is not surprising that the Philippine Legislature rejected their long desired independence when offered under the first Hare-Hawes-Cutting Bill and that the later Tydings-McDuffie Act was reluctantly accepted because it holds out, through a committee to function under Section 13, at least the hope of adequate measures providing for economic adjustment.

E. Philippine merchants, exporters and importers would be directly affected by curtailment of trade with the United States.

Sugar exported to the United States for an average of 10 years, from 1926 to 1935, has equaled 42.4% of total Philippine exports. If the value of its total exports is to be reduced by that percentage, or anywhere near that amount, the proportionate reduction in its purchasing power will be even greater, for in the Islands' debtor status a substantial portion of the value of its exports is required for debt service and other remittances, which will be increased, under a new government, by the expense of maintaining foreign diplomatic representation, and is not available for payment for imports.

The internal economies of the United States and of the Philippine Islands respectively, have become fully adjusted to the free trade status and the future holds opportunity for even greater development of complementary trade. The American market conveniently absorbs the products of Philippine agriculture and the Philippine market has built up a demand for and reliance upon American manufactured products. The Tydings-McDuffie Act, however, would change all this. In addition to the general curtailment of Philippine purchasing power, and consequently of both its export and import trade, the new conditions would force the Philippines to purchase from other, lower cost, nations such of their imports as they might still be able to afford. The lack of dollar exchange from the sale of sugar to the United States and their limited remaining purchasing power would leave the Islands prey to compensation and clearing agreements on substantially a barter basis, which experience has shown ultimately result to the detriment of the nations forced into such agreements. Surely, the Philippine merchant cannot face the prospect of reduced and severely restricted trade other than with apprehension.

F. Farsighted citizens of the Philippine Islands recognize the necessity for amendment of the economic provisions of the Tydings-McDuffie Act to avoid economic and social disorder and to make really effective the grant of political independence.

History holds valuable lessons, though frequently disregarded. We have on record other situations in which the Ameri-

can sugar policy has affected the destinies of other peoples. The case of Hawaii is particularly in point.

The Hawaiian Islands were an independent kingdom until 1893 and became a republic until annexed by the United States in 1898 on Hawaii's petition. During its independence it benefited by the Reciprocal Treaty of 1875, which admitted Hawaiian sugar to the United States duty-free, while other foreign sugar paid a duty of over two cents a pound. This policy was changed and the preferential treatment of the Hawaiian Islands circumvented by the McKinley Tariff Act of 1890 which placed all foreign raw sugar on the free list and provided a bounty of two cents a pound on home-grown sugar. The effect of this internal legislation of the United States was to admit Cuban sugar on the same basis as Hawaiian sugar, which had theretofore enjoyed a preference. See article by Julius W. Pratt in "Pacific Historical Review" for September 1932. Mr. Pratt goes on to state:

"Thus the advantage that the Hawaiian planter enjoyed over the Cuban producer was wiped out and sugar prices in Honolulu dropped suddenly from \$100. to \$60. a ton. The American Minister estimated that Hawaiian property had fallen \$12,000,000. in value. What more natural than that the planters should seek to recover their privileged position through annexation to the United States and enjoyment of the bounty paid on domestic sugar?" (page 274).

The revolution in Hawaii in 1893 is directly attributed by many writers to the change in sugar policy by the United States. The petition for annexation, shortly following, was obviously designed to restore the economic benefits which the Hawaiian Islands had enjoyed under the Reciprocity Treaty of 1875.

Of course no one wants a revolution in the Philippine Islands. Such an occurrence would not only be tragic for the people but the severest condemnation of the United States in the discharge of its stewardship over the Islands; and, if the thought be that economic distress of the politically independent Philippine Islands would force them to petition for annexation, the Tydings-McDuffie Act would be revealed as the hollowest gesture.

Sugar has likewise been the determinant factor in Cuban economy, with political repercussions. Cuban sugar production

was given its greatest impetus by the World War and diversion of acreage in other countries formerly planted to sugar. The war virtually paralyzed European beet sugar production, restricted shipping facilities and stimulated demand for the product, all combining to give Cuba a great advantage in the American market. From 1913/1914 to 1918/1919 production increased over 50%, from 2,597,732 tons to 3,971,776 tons. Due to the conditions referred to, this increase in production was accompanied by a price rise from 1.93 cents a pound at the outbreak of the war to 4 cents in 1916 and 6.75 cents by 1917. The price was somewhat stabilized by artificial measures during the war at about 5 cents a pound, but thereafter rose phenomenally to an all-time peak of 22.5 cents a pound on May 19, 1920. The rise in sugar price and production brought new investments and heavy speculation, but the "dance of the millions" was short-lived and sugar fell to 3.75 cents a pound in December of 1920. The distress of sugar planters and labor and banking institutions dependent on them was heightened by an increase of .95 cents a pound in the duty on sugar imposed by the United States Tariff Act of 1922.

Popular demonstrations followed economic distress and the Cuban Government resorted to numerous artificial measures in an endeavor to restore the economic position of sugar. The lack of success of crop reduction programs and distress from competitive restrictions in markets brought great discontent. To quote John E. Dalton, in his work on "Sugar", supra:

"Europe might have offered a possible avenue of escape from Cuba's disastrous position in the American market but with the rising tide of sugar protectionism on that continent this avenue was closed. As a consequence, Cuba was compelled to accept a policy of restriction of production for her basic crop, and *economic disorder, political unrest and violence were the results.*" (Page 68)

The history of sugar in Hawaii and Cuba cannot but have significance for the Philippine Islands, now facing problems analogous to those which confronted Hawaii and Cuba. If any distinction can be made, it is that action by the Congress of the United States is, if anything, more direct in its effect upon the Philippine sugar problem, and more responsible for the outcome, than in the case of Cuba, or even Hawaii. In the light of the

history of sugar economy in Hawaii and Cuba, Congress has assumed a grave responsibility in casting the Philippines adrift from the American sugar market and it cannot be thought that this was deliberately and finally done, but rather that reliance was placed upon future amendatory legislation in accordance with the recommendations of the conference of representatives of the Governments of the United States and of the Philippines, provided for under Section 13 of the Independence Act.

Certainly from the viewpoint of the Philippine citizens interested in the economic and political development of the Islands, the situation confronted under the Tydings-McDuffie Act cannot but be viewed, and indeed it is viewed, with foreboding. As but one of the many evidences of such feeling, reference is made to the representations by Dr. B. M. Gancy, Philippine lawyer, on the occasion of the recent American Legion Convention, when, according to press despatches, he telegraphed from Washington as follows:

“American peace in the Pacific depends upon a wise and equitable solution of Philippine problems. The Legionnaires are urged to oppose the intent of the Tydings-McDuffie law and to adopt a resolution for Congressional action amending the law.

“The transition period of the Philippine Commonwealth Government should be extended to twenty years instead of ten, or until such time has come when the Filipinos shall have attained a sound economic position to sustain complete freedom.

“Any legislation to the contrary will prove disastrous to the Filipinos and a menace to American peace in the Orient.”

Indeed, the solution there proposed is only a palliative, to gain time, without necessarily solving the problem. Presumably it implies an extension of the date on which political independence shall take effect, whereas it would seem that even though political independence take effect on July 4, 1946, adequate and proper measures may be taken to avoid too great and too sudden economic distress of the Philippine Islands. The expression of dissatisfaction with the economic provisions of the Tydings-McDuffie Act, however, is firm and unequivocal.

POINT II.

THOSE ANTICIPATING SUPPOSED BENEFITS, UNDER THE TYDINGS-McDUFFIE ACT WILL NOT BE SERIOUSLY PREJUDICED BY ADEQUATE PROVISIONS FOR CONTINUED RECIPROCAL TRADE BETWEEN THE UNITED STATES AND THE PHILIPPINES AFTER INDEPENDENCE.

A. The extent to which the domestic beet and cane sugar industry in this country would benefit by excluding Philippine sugar from the American market is greatly exaggerated.

Domestic producers of cane and beet sugar have been prime forces in the move to set the Philippines economically, as well as politically, adrift and to terminate the free trade status. It is their argument that competition from the Philippines stifles progress in the domestic industry and hurts the American business man while benefiting the Filipino. Let us examine the true situation.

The beet sugar industry is centered mainly in that portion of the United States west of the Mississippi. It utilizes from 750,000 to 1,000,000 acres and produces a crop valued at about \$50,000,000 yearly. This crop supplies approximately 25% of the sugar requirements of the United States and far outweighs the domestic cane industry which produces only about 5½% of the United States sugar requirements. There is apparently no difference chemically in the finished product between cane and beet sugar.

Domestic cane sugar is produced chiefly in Louisiana, supplying 4½% of the United States requirements, and Florida, producing something less than 1%.*

Mr. John E. Dalton, former chief (1934-5) of the Sugar Section of the A.A.A., has made a comprehensive study of the domestic industry in his recent book "Sugar. A Case Study of Government Control" published by Macmillan at New York, 1937. The history of the domestic industry traced therein serves to show that sugar, domestically grown, is expensive to the American public since by excluding imports the price is raised

* See "Sugar," by John E. Dalton, *supra*, pp. 166, 183.

and in addition government subsidies are mainly responsible for its success.

Prior to 1890 the areas of Louisiana and Hawaii produced between 10% and 15% of the sugar requirements of the United States. Up to that time the duty on imported sugar was about 2 cents a pound. The chief purpose of the duty was not protection but revenue. The duty was passed on to the consumer by means of higher prices with the result that the public, in general, began to chafe under the high cost of sugar. The duty on sugar was abandoned in 1890 and a bounty equal thereto, about 2 cents a pound, paid to domestic producers. The beet sugar industry was then insignificant and this bounty went in large part to the Louisiana cane growers. During this period Hawaii was unable to compete in the American market and the tariff was reimposed and the direct bounty eliminated in 1894. Following the Spanish-American War, American protection was extended to Puerto Rico, the Philippines and Cuba. Until the outbreak of the World War the price of sugar varied but little, remaining at approximately 4 cents per pound. During this same period domestic cane production fell off by 45,000 short tons, domestic beet sugar gained by 705,000 short tons and Philippine sugar gained by 114,000 short tons. During the years 1914 to 1916 the domestic beet industry supplied about 19% of United States sugar and the percentage of total domestic production of cane and beet sugar was a little less than 24%. Compared to the percentage today, 30½%, the intervening twenty years have shown a gain of but 6½%. The salient fact, however, is that much of this somewhat small increase came during the depression years of 1929 to 1933. In the language of Mr. Dalton, found at page 151 of his book:

“With a drastic decline in the price of sugar from 1929 to 1933, bringing a decline in sugar beet prices of 27%, the sugar beet acreage in the United States was increased from 688,000 to 983,000, or over 40%. As the price per ton of beets dropped to its lowest point on record, the acreage planted to beets shot to unprecedented heights. Farmers extended their acreage to offset a dropping price, an assured industrial demand being present for all they could produce. Many new farmers, as they saw the prices of their other crops (i.e., beans, potatoes, and alfalfa) dropping disastrously,

were attracted to sugar beets. The industry in many farm districts, during the depression, not only bolstered up a rapidly decreasing agricultural income, but helped to offset unemployment."

Following the low point of the depression years the Government undertook the agricultural adjustment program and in 1934 paid a direct bounty to beet sugar farmers, totaling a little over 50% of the value of the crop, or \$38,577,000. In 1935 this direct subsidy was \$18,223,520, or about 15% of the total value of the crop. This subsidy was a bounty given to farmers as an inducement to produce sugar, not as a restrictive measure. As stated by Mr. Dalton at page 156:

"Federal payments under the adjustment contracts, therefore, were bounties for production not benefits for restriction."

This would seem to indicate that beet sugar production is not one of the more profitable agricultural crops of the United States and has been taken up only when the values of other crops have dropped or when those other crops have found markets with difficulty; and that subsidies by the Federal Government have probably been an added (and expensive) inducement for enlargement of the beet sugar crop.

The conclusion readily reached, therefore, is that with cane production in the United States totaling less than 5½% of the demand on the part of the American public and with the increased prices for other crops causing beet farmers to change from sugar beet cultivation, it is hardly likely that sugar production in the United States, unaided by artificial stimulants or subsidies, will increase to any appreciable degree but will either remain at the present level, producing approximately 30½% of the American demand or will decrease to something less than this percentage. It seems clear, therefore, that if the United States must depend for its sugar supply on domestic production, the American public will be drastically affected in two ways: (a) increased price, because of the scarcity of the domestic product plus the cost to the public, through taxes, of governmental support for the industry, plus the cost of duties on imported sugar; (b) the supply of the domestic product will be much less than the

demand as the present percentage of domestic production is wholly inadequate although it is still higher than normal owing to the recent depression.

B. Coconut oil is not, as the advocates of its exclusion claim, directly competitive with American raw materials.

The chief use of coconut oil in this country is in the manufacture of soap, 64.3% having been utilized for that purpose in 1932. The next highest use is in the manufacture of oleomargarine, 22.4% of total coconut oil consumption being used therefor.*

As for its utilization in soap and possible competition with American cotton seed oil, the Tariff Commission Report states at page 98:

“In the inedible field, coconut oil finds its chief use in the production of soap. For this purpose it has long been the most important of the vegetable oils. Prior to the World War cottonseed oil was extensively used in making soap, but more recently it has practically disappeared from this use, although cottonseed-oil foots are still used. During the war imported soybean oil was an important constituent of soap, but because of the duty which was imposed on the oil, little is now imported. The domestically produced soybean oil is used principally in the manufacture of paints, varnishes, compounds, and vegetable shortenings.

“The preference in the United States, particularly in those regions where the water is hard or semihard, is for hard white soaps which lather quickly and rinse easily, and which have good keeping qualities. The lathering properties depend chiefly on the lauric acid content of the oil ingredient. Coconut oil and palm-kernel oil are both high in lauric acid content, but soaps made of palm-kernel oil tend to be darker in color than those made of coconut oil. Soaps made chiefly of cottonseed oil, corn oil, or peanut oil not only possess poor lathering qualities, particularly in hard water, but have a tendency to become rancid. Yellow laundry soaps contain little or no coconut oil, being made chiefly of tallow, greases, fish oils, and cottonseed-oil foots,

* Statistics cited by Prof. Kirk in “Philippine Independence” supra, page 81.

together usually with rosin which gives them their characteristic odor. The demand for such soaps, however, has declined in recent years.

“The practical disappearance of cottonseed oil from use in soap is not to be attributed to the increased use of coconut oil. Cottonseed oil is no longer used even in soaps in which coconut oil was never an appreciable ingredient, yellow laundry soaps for example. Cottonseed oil has disappeared from use in soap principally because the entire supply of the edible grade is now absorbed in food uses at much higher prices than it could command for use in soap.”

For a more detailed discussion see Grayson L. Kirk on “Philippine Independence”, pages 73 to 85. Mr. Kirk refers to the activities of the Farm Bureau Federation and dairy organizations in opposing the free entry of Philippine coconut oil and advocating political and economic independence for the Philippine Islands. (p. 79). He points out that their arguments were based upon the fallacious assumption of complete “interchangeability” of practically all oils and fats and disproves the assumption by an analysis of soap manufacture in this country, stating categorically:

“The soap manufacturers have been practically unanimous in declaring that they cannot make any large scale substitution of domestic oils for coconut oil.” (p. 81).

Competition in the field of edible products is extensively treated by Professor Kirk in his book “Philippine Independence”, *supra*, at pages 85-87. Taking the two chief products, oleomargarine and vegetable shortening, Professor Kirk states that “there is a slight but quite unimportant element of competition.” Substitutes containing any appreciable quantity of coconut oil sputter and smoke when used as a frying fat. Because of this, only a negligible quantity of coconut oil is used in lard compounds. As stated by Professor Kirk at page 85:

“Under no circumstances can more than a 10% coconut oil compound be used, and the usual proportion is only 1 or 2 percent. Consequently, only 1.5 percent of the coconut oil used in the United States in 1932 went into lard preparations.”

As to the manufacture of butter substitutes, coconut oil does enter to some extent into direct competition with domestic fats. Margarine can be made equally well from a variety of different materials.

Professor Kirk doubts that coconut oil has any appreciable adverse effect upon the domestic producer of soft animal fats, because as stated at pages 86 and 87 :

“ * * * it does not by any means follow from this conclusion that a decreased use of coconut oil in the manufacture of margarine would be of any great benefit to American hog and cattle breeders. The animal fats, which are by-products derived from the slaughtering process, are so incidental that an increase in their value, even if that were to occur, would scarcely be followed by any great increase in the market price of livestock.”

Professor Kirk then discusses the possible interest of dairy farmers which he states is based upon the assumption that a large class of borderline consumers would change from margarine to butter with any change in the existing price relationship. To summarize, he states: (pages 87-88).

“But what of the relationship of the dairy interests to all this? Why should they be concerned whether butter substitutes are manufactured from animal or from vegetable fats? Apparently, it is their belief that an increase in the price of coconut oil would produce an increased demand, and rising prices, for animal fats so that, because of these advancing costs, margarine sales would decline and butter sales would increase. This argument assumes that there is a large class of consumers who are on the border line and who will change from margarine to butter just as soon as their existing price relationship varies. Such a class undoubtedly does exist, but it is questionable if its importance is great enough to have any appreciable effect upon butter prices and sales. The normal difference in price between margarine and butter is so great that only a striking increase in the price of the former would be likely to influence any numerically large consumer class to change over to butter. This price spread has averaged 17.8 cents

a pound for the past ten years. If the free entry of Philippine coconut oil were to be entirely abolished and if the full Smoot-Hawley tariff rate of two cents a pound were to be collected on all imports, this would raise the price of nut margarine by less than two cents a pound, for only an average of three-fifths of a pound of coconut oil is used in the manufacture of a pound of nut margarine.

"It would seem, therefore, that no one could seriously believe that an increase of two cents a pound in the price of margarine would cause any great number of consumers to change over to butter. Those who use margarine do so, it is safe to say, not because they genuinely prefer it to butter but because of the economy effected. Even with a rise of two cents, margarine would still be underselling butter by fifteen cents or more and this saving would certainly be great enough to keep most of the consumers in the margarine class. The truth is that *the dairy groups throughout the entire country have become highly emotional about the margarine problem and their animosity has become so great that they are willing to adopt any expedient which offers even a slender possibility of curtailing its sale.*"

The author goes on to state (pages 88-89):

"In general, it seems clear that *American oil and fat producers were not adversely affected by the free importation of copra and coconut oil from the Philippines.* Neither in the matter of soap nor of margarine were the producers really in a position to gain from the erection of a tariff wall against the Philippine oil. The only possible gain to the dairy interests might have come in this way: if the price of coconut oil could be raised enough to cause margarine manufacturers to return to a greater use of animal fats, this would create a demand for cottonseed oil, and the spread of dairying in the South might be checked and the production of dairy products thus restricted enough to bring about a higher price for butter. But this argument, although soberly advanced by dairy leaders, is, in view of the facts of the situation, clearly fantastic, especially since it runs directly counter to the present 'diversification of production' program which the government is actively

encouraging in the Southern states. *As far as vegetable oil competition is concerned, it would seem that the Philippines were little more than an innocent victim of an unsound theory which was eagerly seized upon by a depression-ridden group of domestic producers.'*

This comment seems even more justified when it is considered: (1) that so far as the use of coconut oil in this country is concerned the effect of the present economic provisions of the Tydings-McDuffie Act is merely to transfer the crushing mills from the Philippines to the United States and not necessarily to increase the price of the oil by the amount of the duty; and (2) this slight chance of an increase in butter consumption is far outweighed by the severe curtailment of Philippine purchases of American dairy products which for 1934 totaled \$2,083,209 and for 1935 totaled \$1,625,290.

C. The contention that economic ties must be severed when independence becomes effective is without foundation and the contrary is true, that severance of economic ties will jeopardize political independence.

Hasty recapitulation of the foregoing conflicting viewpoints may leave question in the mind of the reader as to the real reasons why the Independence Act provided for severance of economic ties. From the legislative history it clearly appears that the economic provisions of the Tydings-McDuffie Act were not desired by, nor did they correspond to the desires and rightful expectations of, the Philippine people, but rather they accepted political independence in reliance upon satisfactory amendment of the economic provisions of the Act after recommendations to be made by the conference to be appointed pursuant to Article 13 of the Act.

The answer may be found in part in the activities mentioned by Professor Kirk, on pages 78 to 79 of his work above mentioned:

“Conviction among farm group leaders that Philippine imports constituted the great menace had been slow to develop. As has been indicated, the attack had been led by

the domestic producers of vegetable oils. Early in the post-war decade, the National Dairy Union, the National Grange, the National Co-operative Milk Producers' Federation, the Southern Tariff Association, and various producers of cottonseed oil had formed a joint 'Tariff Defense Committee of American Producers of Oils and Fats'. This rather informal organization made studies of comparative costs of production which were submitted to committees of Congress and to the United States Tariff Commission.

"These organizations, and others such as the Farm Bureau Federation, maintained Washington offices, and their legislative representatives, long skilled in the technique of lobbying, soon succeeded in enlisting the active support of Senators and Congressmen from the dairy and cotton states."

Also, underlying the whole question, there seems to have been a feeling that responsibilities of the United States (and consequent danger of entanglement) might not be effectively terminated without terminating economic as well as political ties. Unfortunately, the converse is true, for termination of economic ties threatens the very continuance and maintenance of political independence by the Philippine Islands and exposes legitimate American interests in the Far East to greater danger, and chances for complicating "incidents", than if the United States were to adopt, in response to demand from the Philippine Islands, a studied economic program designed to assure, rather than destroy, their internal economic stability. In the light of history, to cast the Philippines adrift economically will be viewed as evading, rather than discharging, the responsibility of the United States. In other respects, as well, it may be construed as weakness rather than strength and may invite, rather than avoid, international "incidents".

POINT III

THE OBLIGATION OF THE UNITED STATES TOWARDS THE PHILIPPINE ISLANDS, AS WELL AS THE ECONOMIC INTERESTS OF BOTH COUNTRIES, REQUIRE AMENDMENT OF THE TYDINGS-McDUFFIE ACT.

A. The United States has not faithfully discharged by the Tydings-McDuffie Act its responsibility toward the Philippine People.

Sovereignty involves grave responsibility. By the Treaty of Paris of 1898 the United States assumed such responsibility toward the Philippine people.

As shown in the original brief filed by the Council, the end of the Spanish War found the United States with no settled policy regarding the "possessions" it acquired thereby. So far as the Treaty itself is concerned, the United States could have retained and exercised sovereignty indefinitely or could have laid, as it did lay, the ground work for an eventual grant of independence. The period after the Spanish War was the closest approach of the United States to an imperialistic era. Talk was rampant of nationalism, Americanism and expansion. It was under these circumstances that Congress in 1909 upon expiration of equal Spanish rights under the Treaty, established free trade with the Philippines and took the Islands into the economic boundaries of the United States. That action, taken alone, might be construed as a negation of the possibility of independence; but it is not to be so construed, for official utterances almost concurrently held out the prospect of independence when the people of the Islands should attain capacity for self government.* Indeed the free trade policy has come to be considered, and in the light of subsequent events must be construed, as an important step in improving living conditions, education and security in the Islands, in preparation for self government.

The harmful aspect of the free trade policy was not overlooked. Indeed the Philippine people opposed it, undoubtedly in the belief that it would make the Islands so dependent economically upon the United States as to make complete inde-

* See letter of Francis B. Sayre, Chairman, Interdepartmental Committee on Philippine affairs, addressed to the Hon. Millard E. Tydings, dated May 24, 1937, page 5, released to the press by the Department of State.

pendence impossible without collapse of the Philippine economy. Yet Congress extended free trade to the Philippines over the opposition and protest of the Philippine people.* How will that fact be construed in history?

Under these circumstances, Congress' action in deliberately forcing free trade upon the Philippine Islands can be construed only as increasing the responsibility which the United States had assumed and as circumscribing the manner in which the United States could rightfully grant independence to the Philippine people. In adopting over the protest of the Philippine people measures for the economic development of the Philippines which would increase their economic dependence upon the United States, the United States assumed the obligation that independence when granted would be upon such terms as not to jeopardize this unbalanced economy. Any contrary interpretation of the action of Congress would be to charge it with wanton disregard of the responsibilities which the United States voluntarily assumed towards the Philippine people.

The truth is, the die was cast in 1909. The question then presented was whether the United States policy towards the Philippines should be to build up a balanced internal economy looking towards eventual *political and economic* independence or to hasten the economic development through extension of the free trade policy looking to political independence coupled with maintenance of economic ties. The latter policy was then definitely adopted and cannot now rightfully be changed, to the detriment of the Philippine Islands.

B. Disinterested students of Philippine affairs uniformly agree that the Tydings-McDuffie Act brings the prospect of chaotic economic conditions in the Philippines.

The cry of economic chaos is not to be characterized as the alarmist cry of the American business man, who admittedly also will suffer from the treatment being meted out to the Philippines. In fact, the President of the Philippine Commonwealth himself is authority for the statement that the great majority of American business men have only recently awakened to the full import of the Tydings-McDuffie Act. In an interview granted to the New

* "Philippine Independence" supra, p. 59 citing Philippine Assembly Joint Resolution No. 38, March 27, 1909.

York World Telegram on July 20, 1937, President Manuel L. Quezon is quoted as saying:

"I realize that we Filipinos have done a very poor job of selling ourselves to the people of the United States. Until recently but slight study has been given by American business leaders to the tremendous trade advantages you enjoy in the islands. A few relatively small commercial interests which feel they have been handicapped by the existing free trade, have been much more vociferous and politically active in Congress than the great business enterprises whose trade with us has been sufficient to raise the Philippines to seventh in the list of American export customers.

"It is only within the last few months that the major American industries have given consideration to what curtailment of this great market will mean in the way of reduced American production and employment. Whether realization of the implications of these trends will produce any repercussions in Washington remains to be seen."

Others, however, have not been unaware of the consequences. Indeed, the numerous expressions by disinterested observers and careful students of Philippine affairs portending economic disaster were made in the main before attention was focused upon the gravity of the problem by the appointment of your Committee. These statements emphasize primarily the injury to the Philippine Islands, which undoubtedly will be even greater than that to United States trade. For instance:

The Tariff Commission Report, at page 164, states:

"The loss of the American market for many of the export products of the Philippines will doubtless have widespread repercussions upon the whole Philippine economy, including adverse effects upon governmental revenues."

Professor Kirk, in his work already referred to states:

"To recapitulate briefly, the Philippines now seem to be headed for economic disaster, and the United States is solely to blame for their plight. The adoption of free trade in 1909 was forced by the American government over the protests of those Filipinos who realized what serious consequences such a policy might ultimately bring. Under this free-trade

regime, and activated by the stimulus of the World War, the Islands have developed an economy which is now completely dependent upon a thriving export trade. Over the period of a quarter of a century this export trade has been built up on the basis of free and unlimited access to one of the greatest consumption markets of the world. It has been neither possible nor necessary for the Islanders either to diversify their production or to search actively for non-American market outlets. Under the terms of the Independence act this great export market is now to be closed, and the Philippines will be faced with the dismal prospect of marketing their wares over an unassailable American tariff barrier, or, failing that, of seeking new markets elsewhere. It is extremely unlikely, as matters now stand, that they can find either solution open to them, especially for their major crop, sugar." (Pages 208-209)

From the Philippine viewpoint is the statement made by Don Gonzalo Puyat, President and General Manager of Gonzalo Puyat & Sons, Inc., in an article on "The Economic Outlook of the Philippines" published in the Midpacific Magazine, Honolulu, T. H., for January-March 1936, at page 14:

"Through American preferential tariff policy in the Philippines, otherwise called free trade, the islands have laid their economic dependence upon the United States to a very great extent. It should be admitted that the American market is a most desirable one to keep.

"Under the Tydings-McDuffie Act of the Congress of the United States providing for Philippine Independence, *the American market may be practically closed to most if not all of the leading exports of the Philippines*, by virtue of progressive export duties to be levied from the sixth year of the Commonwealth period. * * * Before the damaging effects of the impending export taxes may come, there is to be held a Philippine-American trade conference during which negotiations the 'objectionable economic provisions' of the Tydings-McDuffie Act may be softened and made more bearable to the Philippines."

The matter is succinctly put by John E. Dalton, former chief of the Sugar Section of the A. A. A. and Professor of Business

and Government at Harvard Graduate School of Business Administration, in his work on "Sugar. A Case Study of Government Control", written in 1936, in which he states at pages 204-205:

" * * * The sudden withdrawal or drastic curtailment of the protection which has been given to these areas for over 35 years would upset their one-crop economies and would culminate in disorder and social strain. Few informed persons with no ax to grind suggest today that these islands be completely exposed to the winds of international competition.

" * * * *our sugar policy, with its power to change the economic and social life of these islands, cannot be drastically shifted without creating chaos and distress.*"

The Honorable Ralston Hayden, Vice-Governor of the Philippines from 1933 to 1936, writing in "Foreign Affairs" for July 1936, said:

" * * * there can be little doubt that *the application of the full American tariff to Philippine products when independence had been achieved would soon be followed by economic ruin and political and social chaos.* Leading Filipinos believe that the only way in which they could avert these disasters would be by becoming a part of the economic and political system of their great industrial and military neighbor to the north. Most of them agree with the President of their Constitutional Convention, who stated publicly that such a course would mean '*economic pauperism and political extinction*' for themselves and their descendants."

So widespread is this belief that it is found independently stated by Paul Mousset, writing in the *Revue Bleue*, Paris, September 5, 1936, at page 589, translated as follows:

"The Philippines received their independence, but *at what price.* At the same time they witness the closing of the American market. * * * It can without hesitation be assumed that the Philippines will not be able to discover any other outlet."*

* "Les Philippines reçoivent leur indépendance, mais à quel prix. D'un seul coup elles assistent à la fermeture du marché américain. * * * On peut hardiment prétendre que les Philippines ne sauraient découvrir aucun autre débouché."

M. Mousset goes on to state, at page 590:

“If the act of the United States renders their position towards their colored subjects even more delicate, the English of Hong Kong, Singapore or London and the Dutch of the Indies or the mother country, will witness another trouble: with loud voice they deplore that a nation as inexperienced as the young Philippine Republic be entirely abandoned to its destiny, offered, so to speak, to the unscrupulous ambition of certain of its neighbors. As far as France is concerned, incompletely informed as usual on the origins, causes and possible repercussions of the affair and ignoring the essentials of the question, she is as uninterested in Manila as in the Filipinos. Obsessed by other problems, our country carefully avoids any opinion without even doubting that the abdication of sovereignty happening with great noise, down there towards the 10th degree of latitude, one day by sea from our Indo-China, is so full of consequences that all could not be spared. Without having to fear to rush to a conclusion, let us not mask our conclusion nor hesitate to say right now: Nobody, however little acquainted with the situation, is ignorant of the fact that outside of events which are at present unforeseeable, *in less than twelve years, anarchy will devastate the Islands, hunger will oppress the country and that the parties will tear each other to pieces for the greatest profit of Japan.*”*

The same author, in an article entitled “L'Autonomie des Philippines” written for “La Revue Mondiale”, published at

* “Si l'acte des Etats-Unis rend à l'égard de leurs sujets de couleur la position encore plus délicate, Anglais de Hongkong, de Singapour ou de Londres et Hollandais des Indes ou de la métropole témoignent d'une autre inquiétude: très haut ils déplorent qu'une nation aussi inexpérimentée que la jeune république philippine soit de but en blanc abandonnée à son destin, offerte pour ainsi dire à l'ambition sans scrupule de certain de ses voisins. Quant à la France, incomplètement renseignée à son habitude sur origines, causes, et repercussions possibles de l'affaire, et de la question ignorant l'essentiel, elle se désintéresse autant de Manille que des Philippines. Hanté par d'autres problèmes, notre pays se garde de toute opinion, sans même se douter que l'abdication de souveraineté opérée à grand fracas, là-bas, vers le 10° degré de latitude, à un jour de mer de notre Indochine, est si grosse de conséquences que toutes ne sauraient vous épargner. Sans craindre de bruler les étapes, démasquons notre conclusion et n'hésitons pas dès maintenant à le dire: personne, tant soit peu au courant de la situation, n'ignore, qu'à moins d'événements actuellement imprévisibles, l'anarchie, avant douze ans ravagera les Iles, que la famine accablera le pays et que les partis s'entre-déchireront pour le plus grand profit du Japon.”

Paris, December 1, 1934, expands on the above quotation by stating at page 9:

"Whether it be sugar, hemp or copra, their prices are too high. What would be the remedy? Reduce the price of production? A lowering, necessarily brutal, of wages would provoke immediate revolution. Under these conditions all foreign markets would remain practically closed. What then? To these common sense objections, the group of graduates of the Universities of Manila or Cebu, lawyers without causes, physicians without patients, living only for politics and through it, confine themselves to shrugging their shoulders—they say: 'We will find out.' Where? Some, patriots when the occasion demands, others sincerely, claim that liberty justifies all deprivations, legitimates all suffering. But can this independence last? Another factor enters here: the trembling fear of the Islands of a Japanese invasion. A thorny subject amongst all. A source of uncertainty which the already old declarations of Mr. Riutaro Nazay are scarcely apt to dissipate. Never have his speeches failed to evoke the day when the 'Japanese Peace' would reign over the whole Far East. In 1933 Japanese peers and business men, passing through Manila, spoke with disconcerting sincerity of the marvelous possibilities of the development of the country . . . under proper management."*

* Qu'il s'agisse du sucre, du chanvre ou du coprah, leurs prix sont trop hauts. Y remédier? Diminuer les prix de revient? Un abaissement, nécessairement brutal, des salaires provoquerait une révolution immédiate. Dans ces conditions tous les marchés extérieurs restent virtuellement fermés. Alors? A ces objections de bon sens la cohorte issue des universités de Manille ou de Cébon, avocats sans causes, médecins sans clientèle, ne vivant que pour la politique et par elle se bornent à hausser les épaules 'Nous trouvons', disent-ils. Où? Certains patriotes d'occasion, d'autres sincères, proclament que la liberté justifie toutes les privations, légitime toutes les souffrances. Mais cette indépendance sera-t-elle durable? Un autre facteur intervient ici: la peur dont frémissent les Iles d'une invasion japonaise. Sujet épineux entre tous. Source d'incertitudes que les déclarations déjà anciennes de M. Riutaro Nazay ne sont point faites pour dissiper. Jamais ses discours ne manquèrent d'évoquer le jour où la 'paix japonaise' régnerait sur tout l'Extrême Orient. En 1933, des pairs, des négociants nippons, de passage à Manille, parlèrent avec une déconcertante franchise des merveilleuses possibilités de développement de la contrée . . . sous une direction adéquate."

(Taken from *L'Autonomie des Philippines—La Revue Mondiale* December 1, 1934—Paris, written by Paul Mousset—p. 9.)

C. Mutual economic advantages, as well as the responsibility of the United States towards the Philippine Islands, require the continuance of reciprocal trade advantages after political independence of the Philippines.

The continuance of reciprocal trade advantages, after political independence of the Philippines, for such period as may be necessary to avoid dislocation of trade and to assure continued independence of the Philippines, would have the following advantages:

The Philippine Islands would retain their market for their principal export products, sugar and coconut products and, consequently, their purchasing power, economic stability and standard of living.

American industry and agriculture would stand to retain, subject to changing competitive conditions, their Philippine market for American industrial and agricultural products (which averaged \$66,340,900 for the period 1926 to 1935 inclusive).

Internal markets of the two countries would remain substantially unaffected by the political independence of the Philippine Islands, avoiding changes in the price of essential commodities in the United States and in the purchasing power of the Philippine people.

Most important of all, the United States will have fulfilled the responsibilities toward the Philippine people which it assumed by the Treaty of Paris of December 10, 1898 and by the extension of free trade to the Philippines in 1909 and will have afforded to the Philippine people the best possible opportunity of extending their economic development and maintaining their political independence.

Failure to amend the Tydings-McDuffie Act to provide for continuance of reciprocal trade advantages will mean:

For the American beet and cane sugar industries, cotton growers and dairy interests, a seeming but entirely illusory advantage, temporary at best, which to the extent it endures will be detrimental to the American consumer.

A blow to American labor engaged in industry, exporting, importing, banking, transportation and shipping.

Prejudice to American investors in the Philippine Islands and in American trade and industry.

Hardship and disaster for Philippine labor and agriculturists, particularly in sugar plantations, with consequent injury to Philippine merchants and banks.

Threat internally of failure of the independence granted and externally of subjection of the Philippine Islands to economic and even political control by other nations with dictatorial or militaristic ambitions, evidencing the failure of the United States to discharge its responsibility to the Philippine people.

A blow to the world campaign of the United States against compensation and barter agreements, governmental subsidies and like measures restrictive of trade.

It would seem, for the reasons stated on pages 33 to 36 of the original brief filed by the Council, that reciprocal trade advantages may be extended to the Philippines consistently with fundamental principles of United States trade policy. It is therefore earnestly submitted that the Congress of the United States, upon the initiative or with the concurrence of the Philippine Legislature, give immediate consideration to the amendment of the Tydings-McDuffie Act upon terms acceptable to the Philippine people which will assure the maintenance of present trade with the Philippine Islands, and thereby the economy and continued political independence of the Philippines, for such period as will unquestionably permit readjustment of the Philippine economy and of the trade relations between the two countries without harm to either and with benefit to both.

Respectfully submitted:

NATIONAL FOREIGN TRADE COUNCIL, INC.

NATIONAL FOREIGN TRADE ASSOCIATION, INC.

By: EUGENE P. THOMAS, *President*.

BRIEF
SUBMITTED BY THE
PHILIPPINE BUTTON CORPORATION
SEPTEMBER 1937
(Photographic Reprint)

August 19, 1937.

THE JOINT PREPARATORY COMMITTEE
ON PHILIPPINE AFFAIRS,
MANILA, P. I.

GENTLEMEN:

TYDINGS-McDUFFIE ACT AND PHILIPPINE
PEARL BUTTONS

In connection with the meetings or sessions of your Committee to be held in Manila at an early date, we are pleased to hand you herewith documents in connection with and pertaining to the above subject as follows:

Statement of Fundamentals of Future Philippine-American Trade Relations as unanimously adopted by Representatives of the Philippine-American Trade Association, American Chamber of Commerce, and other business organizations as stated therein.

Brief or report regarding the results of application of the present conditions and terms of the Tydings-McDuffie Act to the Philippine ocean pearl button industry in general and the investments and operations of the Philippine Button Corporation in particular as stated therein.

In connection with the second item referred to above please be advised that a similar brief or report was prepared by the undersigned for the Waring-Dorfman Committee of the United States Tariff Commission during the latter part of 1935, and all essential and material data contained in said brief or report was embodied in the Waring-Dorfman report to the United States Tariff Com-

mission upon their return to the United States; for this reason, the brief or report referred to above and submitted herewith has been limited to bringing the data and statistics of the former report up-to-date with due consideration being given other essential circumstances which have developed in the meantime.

Very respectfully,

PHILIPPINE BUTTON CORPORATION

J. L. HEADINGTON,
Vice-President.

FUNDAMENTALS

We Subscribe to the Following as the Fundamentals of Philippine-American Trade Relations:

1. *The trade relations between the United States and the Philippine Islands were definitely determined by the provisions of the Tydings-McDuffie Act until July 4, 1946. That Act, after approval by the President and the Congress of the United States, was formally accepted by the Filipino people. Based thereon many citizens and residents of and investors in the Philippine Islands have incurred obligations and made commitments. The trade relations so determined, in good faith and in fairness, cannot, therefore, be altered to their prejudice. Thus, at least until July 4, 1946:*

(a) *Articles the growth, product, or manufacture of the Philippine Islands should, with no greater limitations than those imposed by that Act, and on a basis of equality with articles the growth, product, or manufacture of the United States, be admitted free of duty into the United States; and*

(b) *Articles the growth, product, or manufacture of the United States should, on a basis of equality with articles the growth, product, or manufacture of the Philippine Islands, be admitted free of duty into the Philippines.*

(c) *No excise or other taxes which directly or indirectly result in any discrimination against the products of either country should be imposed.*

2. *The imposition of export taxes on shipments from the Philippine Islands to the United States from November 15, 1940, and the imposition of import duties by the United States and the Philippine Islands, each on articles the growth, product, or manufacture of the other, from July 4, 1946, will be disastrous to the producers and manufacturers of both countries, and, the time being too short to make the necessary readjustments, to the Philippine Islands in particular, therefore,—*

(a) *The export taxes should be repealed; and*

(b) *Free trade between the two countries, with present or other reasonable quantitative limitations, should be continued after July 4, 1946.*

3. *Irrespective of any change in the political status of the Philippine Islands, a continuation of the present free-trade relations between the United States and the Philippine Islands would be advantageous to both countries;— to the Philippine Islands, because the United States is an essential market for many Philippine products; and to the United States, because the Philippine Islands is a large market for the products of agriculture and industry of the United States, and will, if the products thereof continue to be admitted free of duty into the Philippine Islands, be a much larger market in the future. Such free-trade relations between the two countries should, therefore, after July 4, 1946, be continued indefinitely.*

BRIEF
TO THE
JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS
FROM THE
PHILIPPINE BUTTON CORPORATION
ON THE
TRADE SITUATION
BETWEEN THE
UNITED STATES AND THE PHILIPPINE ISLANDS

TYDINGS-McDUFFIE ACT AND PHILIPPINE
PEARL BUTTONS

August 19, 1937.

In connection with the meetings or sessions of the Joint Preparatory Committee on Philippine Affairs to be held in Manila at an early date, the undersigned, as a member of the Committee composed of Representatives of the Philippine-American Trade Association, American Chamber of Commerce and other business organizations, has been designated to prepare a report or brief regarding the results of the application of the present conditions and terms of the Tydings-McDuffie Act to our company's Philippine investments and operations as follows:

1. The Philippine Button Corporation is an American firm, incorporated in the State of New York, with its Executive and Sales Offices located at 225 West 34th Street, New York City, and its Factory located in Manila, and has been operating continuously since 1922.

Our investments in Manila in Fixed Assets or Plant and Equipment as shown by our balance sheet at close of business on June 30, 1937, are as follows:

Land and Buildings	₱ 89,048.10
Machinery, Tools, Implements, Equipment, Etc.	141,241.32
	<u>₱230,289.42</u>

Our button machinery, tools, implements, equipment, etc., were manufactured in the United States and were either imported by us from the United States or purchased in the local market.

Normally we employ an average of approximately 300 filipino men and 100 filipino women whom we pay living wages and provide with medical and dental services and hospitalization when necessary, and (for the information of the Joint Preparatory Committee on Philippine Affairs) our operating expenses for the period January 1, 1931, to June 30, 1937, were as follows:

Year	Cost of Raw Product (Pesos)	Other Expenses (Pesos)	Total (Pesos)
1931	228,311.45	180,636.56	408,948.01
1932	144,297.21	147,985.16	292,282.37
1933	143,204.33	160,653.24	303,857.57
1934	169,584.43	137,040.13	306,574.56
1935	176,276.94	165,458.65	341,735.59
1936	184,569.24	142,331.26	326,900.50
1937	100,513.07	68,875.14	169,388.21
Total	1,146,706.67	1,002,980.14	2,149,686.81

We have submitted figures for the period stated above because the Port of Manila Year Book and Manila Bureau of Customs Reports contain export figures for the period

January 1, 1931, to June 30, 1937, inclusive, and said figures will be referred to hereafter in this communication.

2. Reports of the Manila Bureau of Customs and our own records show that exports of buttons by ourselves to our New York Sales Office, by other exporters, and total exports of buttons from the Philippine Islands during the period January 1, 1931, to June 30, 1937, were as follows:

	Year	Quantity (Gross)	Value (Pesos)
By Ourselves:			
To Our New York Sales Office;			
	1931	602,533	482,045.74
	1932	483,246	297,713.46
	1933	531,462	315,937.08
	1934	433,344	277,619.48
	1935	497,557	334,630.18
	1936	430,028	272,462.58
	1937	254,352	172,322.28
		<u>3,232,522</u>	<u>2,152,730.80</u>
By Other Exporters		1,716,560	1,309,213.20
Total Exports from the P. I.		<u>4,949,082</u>	<u>3,461,944.00</u>

From the foregoing it will be noted that all buttons exported by ourselves were shipped to our New York Sales Office and the quantity and value of said shipments represented 65-1/3% of the quantity of all buttons exported and 62-1/5% of the value of all buttons exported; also, that ₱0.666 was the average value per gross and 16 lines the average diameter size per gross of the buttons shipped by us to our New York Sales Office during the period stated above.

The United States import duty on foreign buttons per paragraph 1509, Customs Tariff Act of 1930, is as follows:

Buttons; pearl or shell, finished or partly finished, \$.0175, per line, per gross, plus 25% ad valorem.

Under the above tariff the full duty on a gross of 16 line buttons valued at ₱0.666 would be as follows:

16 lines @ \$0.0175 or ₱0.035	₱0.5600
25% ad valorem of ₱0.666 . . . . .	.1665
Total—109% of ₱0.666	<u>₱0.7265</u>

From the foregoing it will be noted that if we had been compelled to pay the full United States import duty on the buttons shipped by us to our New York Sales Office between January 1, 1931, and June 30, 1937, we would have been compelled to pay ₱2,346,476.57 on ₱2,152,730.80 worth of buttons which payment would have been absolutely impossible at any time during that period.

3. All buttons manufactured by us are ocean pearl shell buttons made from pearl shells taken from Philippine waters and all buttons exported by us have been shipped to our New York Sales Office; we therefore deem it appropriate to state at this time that United States manufacturers of ocean pearl buttons have never objected to our ocean pearl buttons coming into the United States because (a) our production has been too small to have any material effect on the United States market and (b) the cost of buttons landed in our New York Sales Office has been too high to permit our cutting prices there had we ever been able or inclined to do so; therefore, in our opinion, it should be very apparent that the same reasons which have made it impossible for us to cut prices in the United States (had we ever been able or inclined to do so) will also make it entirely impossible for us to pay the full United States Customs duty (or any part thereof) on buttons shipped by us to our New York Sales Office.

4. Under present provisions of the Tydings-McDuffie Act we shall be required to pay local export taxes of 5%, 10%, 15%, 20% and 25% of the United States import duty during the 6th, 7th, 8th, 9th and 10th years, respectively, of the Commonwealth Government and unless said Act is amended or modified in the meantime we shall be compelled to discontinue our operations at the close of the 5th year of the Commonwealth Government because of our inability to pay such export taxes for reasons previously set forth herein.

In view of the foregoing, we earnestly request the Joint Preparatory Committee on Philippine Affairs, mentioned in first paragraph hereof, to recommend suspension of export taxes on ocean pearl buttons made in the Philippines from Philippine pearl shells during the 6th, 7th, 8th, 9th, and 10th years of the Commonwealth Government for reasons as follows:

(a) Shipment of our buttons to our New York Sales Office has not had and will not have any material effect on the United States market and accordingly imposition of the local export taxes on our buttons under present provisions of the Tydings-McDuffie Act will not materially benefit any one in the United States; and,

(b) Compulsory discontinuance of our operations at the close of the first five years of the Commonwealth Government will not only force us into liquidation with the inevitable losses connected therewith; but,

(c) Our Filipino employees, averaging approximately 300 men and 100 women, will be deprived of employment and because of the lack of other employment at that time will be rendered destitute and necessarily become public charges.

We trust that the data submitted herein will demonstrate the injustice of needlessly destroying the established business of an American firm in the Philippine Islands without material benefit to American business interests in the United States, and that the Joint Preparatory Committee on Philippine affairs will recommend suspension of the present local export tax provisions of the Tydings-McDuffie Act as requested herein.

Respectfully submitted,

PHILIPPINE BUTTON CORPORATION

J. L. HEADINGTON,
Vice-President.

THE PHILIPPINE PROBLEM
A MEMORANDUM
PRESENTED BY THE
PHILIPPINE CIVIC UNION AT THE CITY OF MANILA
SEPTEMBER 10, 1937
(Photographic Reprint)

A MEMORANDUM

TO THE JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS

Room 362, Legislative Building
Manila

Gentlemen:

The PHILIPPINE CIVIC UNION, desirous of cooperating with the Joint Preparatory Committee on Philippine Affairs in the solution of the Philippine problem, especially in ascertaining the genuine attitude of the masses toward the question of immediate independence of the Philippine Commonwealth, has made a conscientious study of the question in its various aspects, and respectfully submits this Memorandum.

Preliminary Remarks

The PHILIPPINE CIVIC UNION is aware of the fact that the Administration at Washington has instructed the American members of this Joint Committee to make a slow and quiet investigation of the opinion or attitude of the Filipino people with regard to early independence or the abbreviation of the transitory period provided for in the Tydings-McDuffie Act, because some high officials of the United States government are not yet fully convinced that the masses ardently desire the shortening of the commonwealth period.

Doubtless, to our mind, the PHILIPPINE CIVIC UNION, the first association of its kind in the country which opposed the defunct Hawes-Cutting Bill, solves this question relative to the attitude of the masses toward the realization of the national cause, which they have defended in two bloody wars for independence, and have not abandoned even for a moment during the well-nigh four decades of peaceful and progressive existence which they have lived under the sovereignty of the United States.

In the ranks of the PHILIPPINE CIVIC UNION, which was formally organized on November 15, 1931, under the banner of immediate, complete and absolute independence for the Philippines, are representatives of all political, economic and social elements of the country, men with the most radical political ideas and those with great responsibilities and prestige and conservative leanings in the financial world, as well as the powerful, rich and property owners and the most humble laborers.

Ever since its organization, our group has never ceased to advocate the abbreviation of the transitory period, nor has it allowed any opportunity to lapse without asking with the greatest fervor the national independence, convinced that the continuation of American sovereignty, far from favoring the interest of this Commonwealth and preparing the same to face with vigor and economic self-sufficiency the responsibilities and risks of an independent nation, would be the cause of its ruin and an obstacle to the execution of the scheme agreed upon between the American administration and the constitutional representatives of the Filipino people as a consequence of the defects and imperfections inherent in said plan and the injustices and inequities against the interests of the Filipinos which are contained in the economic clauses of the Tydings-McDuffie Act.

This is the definite and absolute view of the PHILIPPINE CIVIC UNION from which it has not the least deviated ever since the passage of the Independence Law. Pursuant to this view, our group believes and ardently desires that the people and the Government of the United States solve the Philippine problem in the most simple and logical way, to wit:

Abolishing or abbreviating to the earliest possible period the ten-year transition provided for in the Tydings-McDuffie Act, and amending said act in so far as affected by the first amendment, particularly the economic clauses. By virtue of this reform, some new provisions

would be necessary relative to the future commercial relations between the United States and the Philippines, which should be concretely stipulated in the commercial treaty that should be signed by the two nations, once the Philippine Republic is organized, with all the attributes and prerogatives of a sovereign and independent nation.

Economic Aspect of the Philippine Problem

The PHILIPPINE CIVIC UNION is of the opinion that the economic aspect of the Philippine problem is a secondary matter to the question of independence, which is the main issue. While the Philippines is not yet a free and independent nation she cannot have due respect and consideration—assets that are indispensable to the conclusion of a peace or commercial treaty with any other sovereign nation. The antecedent independence of the Philippines would be the first step to a definite solution of the problem; while the continuation of American sovereignty during the period of economic preparation, under the scheme embodied in the Tydings-McDuffie Act, would only create a temporary and precarious situation, and the country constantly subjected under the uncertainty of the struggle between political parties in the mother-country and to the unsteadiness and inconstancy of politics, where conflicting interests are active.

With respect to this matter, we, the Filipinos, have had a lesson already occasioned by a bitter experience. After the enactment of the Independence Law, several acts have been passed by the Congress of the United States, containing deliberate violations of that fundamental law, according to the statement of President Roosevelt. And agricultural, industrial and commercial trusts, which are adversely affected by our exports, in gross disregard of the provisions of said law, which is a formal covenant between the two countries, incessantly work against our interests in the United States. Consequently, whatever solution may be recommended as a result of the work of this Honorable

Joint Committee is not to be expected to have a beneficial nor equitable effect upon the Philippines. All of them cannot be more than a temporary or transitory expedient, and as soon as the inevitable economic reaction supervenes, the Philippines would be left grappling to its own strength and resources. It seems logical, therefore, that this abandonment should be made right now, in order that the Philippines may be able to assume and bear the responsibilities and risks and adverse circumstances before it is too late, and not within eight or ten years, that is to say, when the country shall have been reduced to impotency and poverty as a consequence of the economic set-up which obtains at present, in which injustices are manifest. For instance, the absolute exemption of American goods from tariff dues and the partial application of the tariff laws of the United States upon articles imported from the Philippines, and later on their total application on the same.

The advantage arising from free trade on sugar, coconut oil and other Philippine produce should not be an impediment to the immediate restoration of the Philippine Republic, nor should it be a cause to delay, — nay, even for a day, — the period necessary for the settlement of the vital question. Big Philippine industries, in general, oppose immediate independence, because they still cherish a remote hope, through the most generous offers of reciprocity and mutual concessions, of succeeding in having their products exempted from American protective tariffs and enjoy trade, even during a brief period. These favorable conjectures, these bright hopes, castles in the air that are erected in its usual fantasy on worldly treasures brought by magic, are based on the prosperity of other happier times now past. But times have changed, and the industries of the mother-country have prospered. The states of the American Union will soon increase their beet and cane sugar production, and Cuba and other countries will send more sugar to America, which is the world's best

market today. The same may be assuredly said with respect to oil and other products whose increased output will inevitably come with the industrial and agricultural progress of other nations. When those countries introduce their new produce into the United States, it is most probable that not even free trade would be sufficiently effective to save the Philippines from the suicidal situation which her present commercial relations with the mother-country shall have then placed her. The unstability of a situation or system of commercial relations such as that contemplated to be established here by the American administration, pursuant to the provisions of the Independence Law, takes away all the importance of the economic aspect of the coming negotiations, in view of the fact that there exist very influential elements in the United States which "employ every kind of pressure upon the Committee, which, according to the observation of many people, have before it a very difficult problem." Certain naval experts and Americans, who have invested much capital in the Philippines, desire that the United States indefinitely stay in the Islands. On the other hand, many farm and industrial interests and other trusts in the United States want the immediate withdrawal of their country.

International Aspect

The Philippine problem, considered from the international viewpoint, leaves the United States no other alternative but to grant immediate independence. The recent statement of the distinguished diplomat, Wellington Koo, Chinese Ambassador to France, on Japan's determined plan for territorial expansion in Asia and Oceania, have once more served to emphasize the warning made by General Bell in one of his reports, to wit: that the Philippines constitutes America's military weakness in the Orient. Other military experts have not shown a lesser pessimism anent this matter. That the so-called Japanese Peril is greater at present than under an independent re-

public, is satisfactorily shown. These authorized observations appear in the official records of the United States and their remembrance and the recent developments of international affairs in this part of the world leaves this detail of the great problem well accentuated in the horizon.

Conclusion

In view of the foregoing terse considerations, which have for their purpose to express the general attitude of the Filipino people on the question of the total abolition or abbreviation of the transitory period and the establishment of immediate independence, it is respectfully suggested by the Supreme Executive Council of the PHILIPPINE CIVIC UNION, in its session held today, that another opportunity be accorded us to request the reform of the existing law as above outlined.

Manila, Philippines, September 5, 1937.

VICENTE SOTTO

President

Attested:

FRANCISCO ASTILLA

Secretary.

(APPENDIX)

PHILIPPINE CIVIC UNION
SUPREME COUNCIL
 Manila, P I.

HONORARY PRESIDENT

Emilio Aguinaldo

President, Veteran's Association; ex-president, First Philippine Republic; ex-generalissimo, Philippine Army.

PRESIDENT

Vicente Sotto

Lawyer, Journalist, Publisher; ex-member, House of Representatives; ex-president, First Philippine Labor Assembly.

MEMBERS

Isauro Gabaldon, Lawyer; ex-resident commissioner.
 Julio Llorente, Lawyer, ex-associate justice, Philippine Supreme Court.
 Raymundo Melliza, Lawyer, ex-associate justice, Philippine Supreme Court.
 Gregorio Aglipay, Bishop; Head, Philippine Independent Church.
 Timoteo Paez, Great Master, Philippine Masonry.
 Isabelo de los Reyes, Publisher, ex-senator.
 Teodoro Sandiko, ex-secretary of the interior, ex-senator.
 José Altavas, Lawyer; ex-senator.
 Alejo Mabanag, Lawyer; Senator for the Second District.
 Angel Corteza, Farmer; ex-general, Philippine Army.
 Troadio Galicano, Lawyer, ex-general, Philippine Army; ex-delegate, Philippine Assembly.
 Alipio Vivas, ex-general, Philippine Army.
 Fernando Gardoqui, Filatelist.
 Felix de Leon, Physician, Farmer.
 Angel Ancajas, Physician, Druggist.
 Isidro Marfori, Publisher.
 Geronimo Santiago, Merchant; ex-mayor, City of Manila.
 Sofronio Cruz, Labor Leader.
 Jose P. de Tagle, Broker.
 Narciso Lopus, Merchant
 Emilio Valdez, Merchant.
 Norberto Nabong, Labor Leader.
 Salvador Barrios, Lawyer; ex-councillor, Municipal Board, Manila.
 Pablo de Jesus, Merchant.
 Jose Elchico, Physician.

Jose Reyes Gonzalez, Publisher.
Heracio Abistado, Lawyer, Pedagogue, Journalist.
Bruno D. Papas, Lawyer.
Angelo Borromeo, Physician.
Francisco P. de Guzman, Lawyer.
Adeudato Agbayani, Editor "Ilokos Times".
Jose Figueroa, Journalist.
Celerino Tiongko, President, Sakualista Party.
Donato Benipayo, Printer.

SECRETARY

Francisco Astilla, Lawyer, Journalist.

DELEGATES

Washington, D. C.; Charles Edwards Russell, Historian, Publisher.
Clyde H. Tavenner, Journalist, ex-member, U. S. Congress.
Severiano Concepcion, Journalist.
Paris, France: Georges Pillement, of "Le Temps".
Madrid, Spain: Jose L. Pando Baura, Lawyer.
Buenos Aires, Argentina: Jose Ranes, Diplomat.
Mexico, Mexico: Pierre Morpheau, Journalist.
Yokohama, Japan: Artemio Ricarte, Teacher; ex-general, Philippine
Army.
Hongkong, China: Ricardo Basa, Merchant.
Lisbon, Portugal: Senhor Firmino Fortes d'Ascensao Correia, Journalist.

BRIEF
SUBMITTED BY THE
PHILIPPINE COCONUT ASSOCIATION
SEPTEMBER 1937
(Photographic Reprint)

FUNDAMENTALS

We Subscribe to the Following as the Fundamentals of Philippine-American Trade Relations:

1. *The trade relations between the United States and the Philippine Islands were definitely determined by the provisions of the Tydings-McDuffie Act until July 4, 1946. That Act, after approval by the President and the Congress of the United States, was formally accepted by the Filipino people. Based thereon many citizens and residents of and investors in the Philippine Islands have incurred obligations and made commitments. The trade relations so determined, in good faith and in fairness, cannot, therefore, be altered to their prejudice. Thus, at least until July 4, 1946:*

(a) Articles the growth, product, or manufacture of the Philippine Islands should, with no greater limitations than those imposed by that Act, and on a basis of equality with articles the growth, product, or manufacture of the United States, be admitted free of duty into the United States; and

(b) Articles the growth, product, or manufacture of the United States should, on a basis of equality with articles the growth, product, or manufacture of the Philippine Islands, be admitted free of duty into the Philippines.

(c) No excise or other taxes which directly or indirectly result in any discrimination against the products of either country should be imposed.

2. *The imposition of export taxes on shipments from the Philippine Islands to the United States from November 15, 1940, and the imposition of import duties by the United States and the Philippine Islands, each on articles the growth, product, or manufacture of the other, from July 4, 1946, will be disastrous to the producers and manufacturers of both countries, and, the time being too short to make the necessary readjustments, to the Philippine Islands in particular, therefore,—*

(a) The export taxes should be repealed; and

(b) Free trade between the two countries, with present or other reasonable quantitative limitations, should be continued after July 4, 1946.

3. *Irrespective of any change in the political status of the Philippine Islands, a continuation of the present free-trade relations between the United States and the Philippine Islands would be advantageous to both countries;— to the Philippine Islands, because the United States is an essential market for many Philippine products; and to the United States, because the Philippine Islands is a large market for the products of agriculture and industry of the United States, and will, if the products thereof continue to be admitted free of duty into the Philippine Islands, be a much larger market in the future. Such free-trade relations between the two countries should, therefore, after July 4, 1946, be continued indefinitely.*

SALIENT POINTS

We submit that under the present circumstances there is no industry so badly treated by legislation as the coconut industry.

The excise taxes have not increased the production of American domestic oil, but have greatly favored competing foreign products.

The preferential tax of three cents, which applies to the oil content of copra sent to the United States, means no advantage to Philippine Copra.

No amount of legislation has induced the people to prefer butter to margarine.

If it is the purpose of the Excise Tax to help the American Government, that is defeated by the reversion of that money to the Philippine Government.

If it is the purpose of the Excise Tax to help the Philippine Government in raising necessary revenues, it presupposes that the Philippine Government does not know how to raise its own revenues, and it has resulted in a most unjust and inequitable distribution of the burden of taxation.

We submit that if the Joint Preparatory Committee is created really for the purpose of preparing the Philippine national economy so that it can stand on its own feet, its first recommendation should be to eliminate partially or totally this unjust discrimination and the permission to re-invest these and future collections to aid the coconut industry.

More concretely, we, therefore, recommend:—

(1) That in case the Tydings-McDuffie Act continues up to the end of the transition period the Excise Tax be eliminated, at least in so far as non-edible oil is concerned;

(2) That the prohibition that excise funds cannot be used as an aid to the industry be eliminated; and

(3) That the export tax on coconut oil and desiccated coconut be abolished.

In case of an earlier independence, every consideration must be given this most important industry. More concretely, we recommend:—

(1) That copra continue on the free list in the United States and that no excise taxes which do not apply equally to domestic and foreign products shall be enacted;

(2) That a duty-free quota of coconut oil and desiccated coconut after independence be recommended to continue as long as America needs to import these commodities from outside countries.

A fairer treatment of the coconut industry should constitute the first step in the stabilization of Philippine economy preparatory to independence.

BRIEF
TO THE
JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS
FROM THE
PHILIPPINE COCONUT ASSOCIATION
ON THE
TRADE SITUATION
BETWEEN THE
UNITED STATES AND THE PHILIPPINE ISLANDS

On behalf of the Philippine Coconut Association, representing an industry on which one-third of the Philippine population depend for livelihood, we beg hereby to present to you the following memorandum in connection with the present and prospective trade relations with the United States.

The problem that faces the coconut industry seems to resolve itself into two major parts:

First, what should be done with the industry if the Tydings-McDuffie Act continues as it is to the end of the transition period, together with the excise taxes now in operation?

Second, in case the suggestion for earlier independence materializes, how should the coconut industry be treated in the proposed reciprocal trade agreement between the United States and the Philippines?

**EXCISE TAXES HAVE NOT BENEFITED
AMERICAN DOMESTIC OIL PRODUCERS**

With all due respects, we submit that under the present circumstances there is no industry so badly treated by legis-

lation as the coconut industry. When the Filipino voters representing the four million Filipino coconut planters accepted the Tydings-McDuffie Act in the first nationwide referendum ever held in the Philippines, they had in mind only the limitation of 200,000 tons of coconut oil in its provisions, together with the assurance of President Roosevelt that any provisions in the law found unfair would be corrected. They accepted the measure convinced that the rest of the coconut products would continue entering America free of any duty or extra taxation. Not long afterwards, the American Congress approved the excise taxes of 1934, 1935, and 1936 which placed a burden of three cents a pound on all coconut oil and on its equivalent in copra without placing any corresponding tax on domestic oils of similar use. We submit that this is a manifest violation of the provisions of the Tydings-McDuffie Act. We do not question the moral and legal power of Congress to pass any excise taxes, provided they are, as in the case of the taxes on sugar, applicable to Philippine and to similar domestic articles equally.

If the object of these taxes is to increase the production of American competing oil and to give sufficient protection to Philippine oil as against foreign oil, that objective has not been reached. The excise taxes have not increased the production of American domestic oil, but have greatly favored competing foreign products.

The place formerly occupied by the coconut oil before the excise tax was not taken by domestic oil but by competing foreign oil, which pays just as much taxes as coconut oil, like palm kernel oil and cotton seed oil, or which enters America duty-free, like babassu oil. According to the monthly review of the coconut production by Leo Schnurmacher, Inc., from January to March of this year, from 50,000 to 60,000 tons of palm kernel oil were sold by Ger-

many to America, and at that time, the Philippine coconut oil could not compete with it. During the first ten days of May of this year, the tonnage of palm kernel oil are at prices considerably lower than those of Philippine coconut oil. The outlook of the coconut oil in the Philippines of consumers for edible purposes was held dark by the use of hydrogenated cottonseed oil.

Before the levying of the excise taxes, coconut oil, as such, and in the form of copra, constituted 38.45% of United States imports of all oils and fats whereas in 1936 it dropped down to 23.7%. Imports of Philippine coconut oil exclusive of copra for the 4-year period 1930-33 constituted 29.5% of all the oils and fats. In 1936 the percentage was 23.7%.

On the other hand there has been no appreciable increase in the production of American domestic oil, which simply means that the difference of two centavos in favor of Philippine oil is not an advantage to us.

This fact has been admitted by the American Tariff Commission which came here last year and which stated in its mimeographed report the following:

"The extent to which the domestic production of oils and fats is likely to increase in response to the imposition of excise taxes on coconut oil and other foreign oils appears to be limited. The application of excise taxes to imported oils and fats does not operate greatly to expand domestic production. Such taxes in a limited degree operate to curtail domestic exports, and thereby to increase the supply of domestically produced oils which can displace coconut oil and other imported taxed oils. To the extent that the existing scale of excise taxes is effective in raising the prices of domestic oils and fats, it operates to make the home market more profitable than foreign markets in

which to dispose of the domestic production. It does not appear likely, therefore, that the restrictive effects of the excise taxes on the exports of domestic oils and fats will be a major factor in bringing about a marked increase in the domestic consumption of domestically produced oils and fats, even when production in the United States again becomes more nearly normal."

The harm to copra.—The preferential tax of three cents, which applies to the oil content of copra sent to the United States, means no advantage to Philippine Copra. It is true that we sell now more copra to America than before, but we are still obliged to sell in the world market; and we sell it in America at no price advantage over sales in the world market. The reason is that copra has competition in the American market from locally produced and other imported vegetable oils, like palm kernel oil which pay the same rate or excise tax or duty, or which, in the case of babassu, comes free of duty. Thus the American Tariff Commission, in its mimeographed report, page 154, says:

"The preferential tax position accorded coconut oil of Philippine derivation has given the Islands a larger share of the American copra market than they previously had, but in view of the fact that they are still obliged to sell in the world market, it is doubtful that this has redounded appreciably to their advantage. The Islands sell their copra in the United States generally at no price advantage over their sales in the world market, and foreign copra which formerly entered the United States now supplants substantially equivalent amounts of Philippine copra in other markets. Since there is no reason to suppose that the world price of copra has been appreciably affected in consequence of the excise tax *preference* accorded Philippine copra in the United States, it would appear that this

preference has served more to alter the channels of world copra trade than to confer any substantial benefits on Philippine coconut producers."

We submit that there is no justification for penalizing Philippine copra when American products come here entirely free of duty; when babassu oil from Brazil, enters America duty free.

Withdrawal of coconut oil from soap factories.—The other result of the excise tax is also to take away a good deal of the coconut oil from the soap factory, for thus while in 1931, 58% of the coconut oil sent to the United States went to soap factories, in 1935 only 39% was thus consigned.

We believe that the excise tax is unfair to the users of soap because America does not produce enough domestic oil for its manufacture. Domestically produced oils and fats constitute almost 95% of all the food oils but only 63.5% of the soap oils. Besides, nothing can excel coconut oil as a soap ingredient for its lathering qualities. Neither we can say that coconut oil in the manufacture of soap will compete with cottonseed oil, for cottonseed oil has almost disappeared from use in soap factories because it is now being absorbed in food uses at much higher prices than it could command for use in soap.

No benefit to dairy industry.—Neither have the excise taxes favored the people producing dairy products, for these taxes have not crippled the margarine industry. They have not induced the people to prefer butter to margarine. However they did take away from margarine a good deal of coconut oil that it used to consume. Cottonseed oil has gone more and more into this channel; but American cotton producers cannot supply all that is needed for this purpose. America is forced to import a good deal of this oil,

which did not happen in the pre-excise days. American imports of cotton-seed in 1935 amounted to 166,000,000 lbs. and 127,000,000 lbs. in 1936.

While in 1933 coconut oil represented 77.6% of all the fats and oils used in oleomargarine, in the first quarter of 1937 it went down to 21.6%, in spite of the fact that during the years 1933-37 due to droughts in the United States there has been a great increase in the production of margarine.

The truth is that no amount of legislation has induced the people to prefer butter to margarine. This fact is also admitted by the American Tariff Commission when it stated in its report:

“Retail price spread between butter and margarine in most parts of the United States was so substantial, even after the federal oil excise taxes went into effect, as to offer little inducement for most consumers to shift from margarine to butter” (p. 176).

Coconut oil mills.—In so far as the coconut oil mills in the Philippines are concerned, the margin of profits, is so slender that after the fifth year of the Commonwealth when the export taxes begin, the coconut oil industry will have to shut up shop—if not immediately, at least within a year. In other words, the Philippine coconut oil mills will go out of business promptly and without waiting for independence. The reason for this is that while coconut oil commands a duty of two cents in the United States markets, copra is on the free list and goes in free of duty. Consequently, while coconut oil will pay export taxes copra will not, and hence it will be impossible to continue crushing copra in the Philippines. On the contrary the copra will be crushed in the United States instead.

We believe that the existence of the mills here is a safeguard to the Philippine producer because the local crushers are buying copra all the year round and when it is impossible to sell copra elsewhere, they buy over half of the copra produced in the Philippines. This could be done only by giving better terms, conditions, and average prices to the producer than he can obtain elsewhere. Besides that the mills contribute to the wealth of the Commonwealth and employ labor, all of which is good for general business and good for the copra producer. For this reason the copra producer is interested in maintaining the mills in the Islands. This can only be achieved by the elimination of the export taxes and some formula such as the quota basis by which the local coconut oil mills can continue to function after independence.

Desiccated Industry.—The desiccated industry has sprung almost entirely on the basis of protection by the United States Tariff. Hence it is very necessary that this protection be continued inasmuch as there is very little desiccated copra manufactured in the United States and it will be very hard for the Philippine desiccated industry to compete with the desiccated industry of Ceylon, in view of the high standard of living in the Philippines which has been brought about chiefly through contact with the United States. At the present time most of the desiccated oil consumed in the American markets come from the Philippines and their prices are not exorbitant.

If the export taxes are permitted to come into force the desiccated coconut business will find itself in a constantly more difficult position and while it may survive the tenth year of Commonwealth it will certainly have to go out of business when full import taxes are imposed. For this reason, it is believed that the export taxes should be

eliminated and Philippine desiccated should be allowed to exist on a duty-free basis, with a quota after independence.

Plight of the coconut planters.—The years of depression have wrought tremendous havoc on the coconut farmers. Copra has been sold as low as P3.00 per 100 kilos when the cost of production must be from P5.00 to P6.00. At the present moment (September, 1937) the price of copra is on the downward trend—resecada being sold at P8.50—or just a little more than the excise tax. There was a time when the amount paid in excise taxes was greater than the cost of the entire coconut product.

Generally, coconut planters are a conservative type, men who look upon the coconut practically as a life insurance, believing that if they remain persistent in their efforts to maintain a coconut plantation, they will ultimately reap the fruit. They are so sure of this thing that they are willing to mortgage their building and belongings in order to put up a small coconut plantation. During the depression many of them actually lost their properties. The Philippine National Bank, a state banking institution, has been forced to extend loans on coconut plantations to 293 farmers over a mortgage amounting to over P520,000.00.

There are thousands of other planters who had to borrow money from individuals because the banking facilities are not yet within their reach and were forced to give up their farms. In 1933, 1934 and 1935 in many provinces over 90% of the coconut planters failed to pay their land taxes simply because they could not raise any money for that purpose.

If it is the purpose of the excise tax to help the American Government, that is defeated by the reversion of that money to the Philippine Government.

If it is the purpose of the excise tax to help the Philippine Government in raising necessary revenues, it presupposes that the Philippine Government does not know how to raise its own revenues, and it has resulted in a most unjust and inequitable distribution of the burden of taxation. In 1935 the revenues of the Philippine Government, including the excise tax, have reached the sum of ₱102,000,000.00. Of this sum the coconut industry has contributed ₱40,000,000.00 in the form of excise and other taxes, or practically 40%, when coconut plantations represent but 15% of the cultivated area of the Philippines.

The evil effects of the excise taxes have been summed up by the American Tariff Commission itself in the following words:

“But if the excise taxes remain in force and the Philippines tax preference is no longer accorded after independence, the effect of the provisions of the Independence Act will be to injure very seriously the coconut industry of the Islands, (p. 207). The United States excise tax legislation comprising the Revenue Acts of 1934, 1935 and 1936, has operated in general to lower the competitive position of Philippine coconut oil in the American market, both in relation to oils and fats produced wholly in the United States none of which is subject to excise taxes, and in relation to a few foreign oils which are exempt from excise taxes, (p. 208).

* * *

“In the production of the varieties of soap in chief demand in the United States, coconut oil can be replaced only to a limited extent with oils and fats produced wholly in continental United States. In this use, which is its most important in the United States, coconut oil complements domestic oils and fats to a much greater degree than it competes with them, (p. 209).

* * *

“While domestic producers of oils and fats have benefited generally from the imposition of the excise taxes, domestic consumers have been obliged to pay higher prices for their requirements than they would have in the absence of the excise taxes.”

The 100,000,000 pesos.—We repeat that there is no more unjust and unfair legislation approved by Congress for the Philippines than the excise tax. Not only is it a violation and an amendment to the Tydings-McDuffie Act approved against the wishes of the Filipino people, not only does it discriminate against Filipino products in favor of other competing foreign products, but its prohibition against the use of any of its funds as a direct or an indirect aid to the industry has placed the industry in a helpless position. Not a cent of the P100,000,000.00 thus collected as excise tax can be touched for the aid of the industry or for the amelioration of the lot of the poor planter or industrialist. Picture the poor coconut planter engaged in a fifteen-year struggle to keep up a plantation, to make his coconut trees grow, burying himself in the wilderness, cutting down huge trees, clearing his lands temporarily so that he can plant a few hundreds or thousands of coconut trees. We can see him for years battling with the abundant tropical weeds, fighting the leaf-miner, the wild boar and other natural enemies of the coconut. After three years he cannot use his land for any other product for no catch crop can profitably grow. Then he waits for another ten or twelve years keeping his plantation clean before he can actually reap the fruits of his labors, only to find that it does not pay to harvest his product and that the excise tax charge on it is ^{at times} ~~often~~ more than its market value!*

Exhausted after the long struggle, his family impoverished and in want, he mortgages his farm for a bagattele, for less than one-twentieth of what it actually cost him.

At this moment he sees there accumulated in the Treasury in America ready to be shipped to the Philippines the sum of ₱100,000,000.00 the accumulation of what he and millions of others like him have contributed to the excise taxes, from the misery and vicissitudes of fifteen years of ceaseless struggles. Outside of them there is rejoicing because of these ₱100,000,000. A scramble is on for shares of this bounty. The labor leader wants a lion's share to buy landed estates, others cry for more roads, other communities want more schools and others present offer fantastic projects for the expenditure of this huge sum—only the coconut man, from whose lean pockets this money is taken, is silent. Not a centavo of this money, by the provisions of the law, is to be spent as a direct or indirect aid to him, to the industry that has made this sum possible. To the coconut planters it is "water, water everywhere but not one drop to drink."

Let us contrast for a moment this pitiful situation of the coconut planter with what the Government has done to another industry, now a buoyant industry, an industry that has created millionaires and made possible the establishment of sumptuous mansions in our rich neighboring islands. Over 20 years ago the Government of the Philippines, though in a precarious state, decided to withdraw ₱40,000,000.00 from its coffers, from funds that were supposed not to be touched, and invested them in sugar centrals. It was a sum which almost bankrupted the Philippine Government but it gave life to the sugar industry and made it the most prosperous industry of the Philippines. Contrast this with the lot of the coconut man from whom the last farthing is squeezed till the ₱100,000,000.00 and

more millions are accumulated—and not one cent for his benefit.

First Step in Economic Reconstruction.—We submit that if the Joint Preparatory Committee is created really for the purpose of preparing the Philippine national economy so that it can stand on its own feet, so that it will depend less on the American market, so that ultimately it can stand a non-preferential agreement with America, we submit, we repeat, that the first recommendation should be to eliminate partially or totally this unjust discrimination and the permission to re-invest these and future collection to aid the coconut industry. This prohibition constitutes the greatest drawback to the formulation of a program of economic reconstruction preparatory to the severance of the present relations between the United States and the Philippines. In fairness to the coconut industry, let a large portion of these excise taxes go back to the coconut planters, if not in the form of benefit payments like what has been done with the sugar people, at least in the form of improvements in the methods of marketing and the establishment of the proper machineries for the utilization of coconut products and by products. The very least that can be done for the coconut industry is to give it the means with which to compete with similar products in the world markets.

One of the greatest needs of the coconut people today is to improve their methods of manufacturing copra. Philippine coconut is just as good as coconut elsewhere in the world. But under the present situation, unless a sweeping nation-wide change is created in the preparation of Philippine copra, it will not be possible for it to compete on equal terms with the copra from the rest of the world for the simple reason that ninety-five per cent of Philippine copra is still being prepared in the primitive way thru

the smoked *tapajan*, the method that blackens the copra, sends it rancid and moisture-laden to the market and envelopes its white meat with ugly dark molds. No wonder that when it reaches the open market of the world it is quoted at a price much below those of its competitors in Ceylon and other Malay states. The following table on copra prices should be of interest:

LONDON PRICES FOR PRINCIPAL GRADES OF COPRA

Order	Grade	Countries	1935		1929	
			Pesos	Cts.	Pesos	Cts.
1	f.m.g.w.s. ¹	Malabar	250	65	(No quota)	
2	f.m.s. ²	Ceylon	239	62	144	08
3	Do	Java	229	10	(No quota)	
4	Do	Straits Settlements ..	230	60	125	08
5	Do	Netherlands Indies ..	230	60	125	24
6	f.m. ³	Straits Settlements ..	(No quota)		119	02
7	f.m.s. ²	Philippine Islands ...	219	07	118	68
8	Do	South Sea Islands ...	222	08	114	38

¹ Fair merchantable good while sun-dried.

² Fair merchantable sun-dried.

³ Fair merchantable.

Source: Average of quotations published in each Saturday's issue of the Times, London.

The loss to the Philippine coconut planter of oil in this kind of copra preparation and in price amounts to millions of pesos every year. According to the estimate of Dr. Manuel Roxas of the National Development Company, this loss amounts to ₱2,000,000.00 every year in addition to other losses consequent on impaired color, smell and flavour. If the Government invested ₱40,000,000 to build sugar centrals, let at least a portion of this ₱100,000,000 be invested in the establishment of such copra dryers and in the long run the money thus invested will be returned to the Government. A start is being made by the National Development Company thru the establishment of one Ceylon drier which has made Ceylon copra the best in the world.

Let that be followed by hundreds of thousands of similar driers so that Philippine copra may claim the place that properly belongs to it in the world market.

If it is the purpose in thus prohibiting this money to go back to the farmer directly or indirectly, to eliminate the industry and even ultimately to wipe it out, we will say that it is the most unfair deal that any portion of Philippine population has ever received from the United States.

We have stated elsewhere that a coconut plantation is a work of decades and represents tremendous sacrifices in money, efforts and struggles against the elements. Moreover, a coconut plantation cannot, unlike a sugar plantation or a tobacco plantation, immediately be changed into another plantation. You can change a tobacco plantation or a sugar plantation in one year and this will mean only a loss of a year's labor; but you cannot change a coconut plantation into another plantation without sacrificing 15 years of work. Moreover, what is more important is that you cannot use the land used by coconuts without an expenditure that in reality will be greater than the cost of the land. A hectare of coconut trees cannot be cleaned and made ready for the planting of other crops in less than two years and the land cannot be clear of the trees for less than ₱100 per hectare. So again we say that if the purpose of the excise prohibition is to wipe out the industry, it will be the most cruel piece of legislation that has ever been enacted by the American Congress.

We sincerely hope that the Joint Preparatory Committee will make the necessary recommendation for the correction of the evils we have enumerated above. Whatever may be the relationship—political and economic—between the United States and the Philippines, our con-

tention is that the coconut industry must be dealt with on a much fairer ground than heretofore.

OUR RECOMMENDATIONS

More concretely, we, therefore, recommend—

- (1) That in case the Tydings-McDuffie Act continues up to the end of the transition period the excise tax be eliminated, at least in so far as non-edible oil is concerned;
- (2) That the prohibition that excise funds cannot be used as an aid to the industry be eliminated; and
- (3) That the export tax on coconut oil and desiccated coconut be abolished.

In case of an earlier transition period, whenever the problems of reciprocal trade agreement is presented for solution in exchange for whatever benefits American goods will derive from the Philippine market, every consideration must be given this most important industry. More concretely, we recommend—

- (1) That copra continue on the free list in the United States and that no excise taxes which do not apply equally to domestic and foreign products shall be enacted;
- (2) That a duty-free quota of coconut oil and desiccated coconut after independence be recommended to continue as long as America needs to import these commodities from outside countries.

In making the above recommendations we do not wish in any way to infringe on the American farmer or the profits derived by them, but in view of the fact that the United States does not and cannot supply its own industrial oils and fats, the Philippines in consideration of our close political and cultural relationship and of benefits given to American goods here should be entitled to even a more

advantageous position than that of any competing oils and fats produced by other countries not under the American flag. This, in our opinion, can work no harm whatsoever on the American farmer, but on the contrary will enable the Philippines to buy more products manufactured in the United States.

What is most unique in the present situation is that there is not a single attempt on the part of the Philippine Government to curtail the free importation of American goods. Everybody knows that the trade agreement now existing is one-sided for while there is no limitation of American goods coming to the Philippines free of duty, there are now quantitative or tax limitations on our sugar, coconut products and rope. On the contrary, in the past few years the Philippines have been passing laws for the protection of American goods by levying greater duty on foreign goods. Thus, to the President of the United States we recently sent a bill approved by the Assembly raising the tariff on beer which, in fact, protects American beer as against foreign beer coming from other countries.

Nothing will redound to a more friendly relations between the American and Filipinos than to deal justly with the 4,000,000 Filipinos that depend upon the coconut industry. Increase the buying power of these 4,000,000 Filipinos and you increase the importation of American goods to the Philippines.

We submit that a fairer treatment of the coconut industry should constitute the first step in the stabilization of Philippine economy preparatory to independence.

THE PHILIPPINE COCONUT ASSOCIATION, INC.

By: (Sgd.) **MAXIMO M. KALAW,**
Acting President.

PHILIPPINE COCONUT OIL MILLS
BRIEF
SUBMITTED BY THE
PHILIPPINE REFINING COMPANY ET AL
SEPTEMBER 1937
(Photographic Reprint)

FUNDAMENTALS

We Subscribe to the Following as the Fundamentals of Philippine-American Trade Relations:

1. *The trade relations between the United States and the Philippine Islands were definitely determined by the provisions of the Tydings-McDuffie Act until July 4, 1946. That Act, after approval by the President and the Congress of the United States, was formally accepted by the Filipino people. Based thereon many citizens and residents of and investors in the Philippine Islands have incurred obligations and made commitments. The trade relations so determined, in good faith and in fairness, cannot, therefore, be altered to their prejudice. Thus, at least until July 4, 1946:*

(a) *Articles the growth, product, or manufacture of the Philippine Islands should, with no greater limitations than those imposed by that Act, and on a basis of equality with articles the growth, product, or manufacture of the United States, be admitted free of duty into the United States; and*

(b) *Articles the growth, product, or manufacture of the United States should, on a basis of equality with articles the growth, product, or manufacture of the Philippine Islands, be admitted free of duty into the Philippines.*

(c) *No excise or other taxes which directly or indirectly result in any discrimination against the products of either country should be imposed.*

2. *The imposition of export taxes on shipments from the Philippine Islands to the United States from November 15, 1940, and the imposition of import duties by the United States and the Philippine Islands, each on articles the growth, product, or manufacture of the other, from July 4, 1946, will be disastrous to the producers and manufacturers of both countries, and, the time being too short to make the necessary readjustments, to the Philippine Islands in particular, therefore,—*

(a) *The export taxes should be repealed; and*

(b) *Free trade between the two countries, with present or other reasonable quantitative limitations, should be continued after July 4, 1946.*

3. *Irrespective of any change in the political status of the Philippine Islands, a continuation of the present free-trade relations between the United States and the Philippine Islands would be advantageous to both countries:— to the Philippine Islands, because the United States is an essential market for many Philippine products; and to the United States, because the Philippine Islands is a large market for products of agriculture and industry of the United States, and will, if the products thereof continue to be admitted free of duty into the Philippine Islands, be a much larger market in the future. Such free-trade relations between the two countries should, therefore, after July 4, 1946, be continued indefinitely.*

BRIEF
OF
PHILIPPINE COCONUT OIL MILLS
SUBMITTED TO THE
JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS

This brief is filed on behalf of the Coconut Oil Mills of the Philippines. It represents their bid to be allowed to continue in what, by their efforts, they have made, barring sugar, the leading manufacturing business of the Philippine Islands. Under the terms of the Tydings-McDuffie Act, this industry faces entire liquidation during the second five years of the Commonwealth period, commencing shortly after the graduated export taxes come into effect. This we believe neither necessary nor to the interests of anybody concerned. We further assert that there will be compensating advantages if the industry is allowed to exist on a reasonable basis.

The terms of the Tydings-McDuffie Act, which, if unchanged, will make it necessary for Philippine coconut oil mills to go out of business, are the following:

1. An export tax of 5% of normal duties (in the case of coconut oil 2 cents United States currency per pound) during the sixth year of the Commonwealth, increasing by 5% each year up to 25% during the last year of the Commonwealth period. This is equivalent to one-tenth cent per pound during the sixth year; two-tenths cent during the seventh year, progressing to one-half cent during the last year of the Commonwealth.

2. With the arrival of Philippine Independence, after the tenth year of the Commonwealth, the full duty of two cents United States currency per pound will be levied against Philippine coconut oil.

3. Neither export taxes nor import duties apply to copra, because it is on the free list.

Both from the standpoint of the Philippines and of the United States, the retention of coconut oil mills in the Philippines is most desirable because the operation of these mills means:

From the standpoint of the Philippines

1. Stability of market and better prices for copra producers and merchants than would be the case if no mills were present;

2. The substantially greater revenue derived by the Philippine Government through additional taxes resultant from local processing as against raw material export;

3. The employment, direct and indirect, of a large number of persons;

4. Protection of the investments involved and the present commercial channels of internal trade.

From the standpoint of the United States

1. The elimination of copra cake and meal as competitors to domestic feedstuffs in the United States except at such times as there is a deficiency in domestic supplies;

2. Facility of distribution of coconut oil to those parts of the United States where it is most needed;

3. The additional revenue to the Government and people of the Philippine Islands derived from the operation

of the oil mills here will assist in sustaining the purchasing power of the Filipino buyer for American goods.

In order to remain in business at approximately their present capacity, the Philippine coconut oil mills require the following:

1. Two hundred thousand long tons of coconut oil to be admitted annually into the United States under conditions and terms equal with oil made from duty-free copra shipped from the Philippine Islands to the United States. This means that such oil shall be free of export taxes and free of import duties;

2. A readjustment of the excise taxes to permit Philippine coconut oil to recover its position as (until independence) an American oil in the American markets, which position has been cut into less by the products of American agriculture than by competing vegetable oils and fats imported from foreign countries. Some of these oils are actually receiving preferential treatment to-day while others will be in a preferred position after the fifth year of the Commonwealth. This means the abolition of the excise tax as at present constituted, or, if domestic fats and oils require special protection, at the very least a modification of the tax by which coconut oil can be admitted free of excise tax if denatured and for industrial consumption only;

3. A continuation of this arrangement not only for the Commonwealth period, but indefinitely thereafter. Even if preferential trade relations between the two countries cease, as long as the United States is an importer of vegetable oils from foreign countries Philippine coconut oil should be given the right to enter the United States free of import duty and on a basis of equality, as to excise taxes, with any other competing oil or fat of foreign origin.

The coconut oil industry is an integral part of the coconut industry. If the coconut planters cannot profit sufficiently to induce them to maintain their groves and continue producing copra, the oil mills are bound to suffer thereby. If prices are sufficient to permit the producer to prosper, then the coconut oil industry will benefit therefrom as long as coconut oil can be shipped on competitive terms into the United States. The Philippine Coconut Association, Inc., is filing a brief on behalf of the coconut planters, and this brief we endorse. The trouble, however, is that while the coconut planter is for the future presumably assured free access for his copra to the American market without export taxes or import duties (though any discriminatory excise tax must inevitably deprive him of a portion of his share in this market), the coconut oil industry of the Philippines must certainly fall by the wayside unless the particular hardships placed in its way are removed.

Under the provisions of the Tydings-McDuffie Act, during the transition period 200,000 long tons of coconut oil were allowed free entry into the United States. This was and is considered a sufficient quantity to permit existing mills to operate on an economical basis. Beginning with the sixth year of the Commonwealth, the export taxes come into effect, and thereafter Philippine coconut oil will be charged an ever increasing portion of the American duty, with a full duty of 2 cents per pound when Independence finally arrives. Copra, however, is on the free list and therefore no export taxes nor duties are contemplated against copra either before or after Independence.

Slightly more than 50% of the coconut oil consumed in the United States is produced by Philippine mills, and the balance by domestic mills. All statistics point to the

fact that, by and large, total production costs in the United States and the Philippines are almost identical, and there is no substantial advantage one way or the other in this respect. Under these conditions, therefore, beginning with the sixth year, the Philippine mills will be unable to compete with the American mills because of the export tax involved, which, by the seventh year at least, will far exceed the average profit of the mills. This will mean that the Philippine copra producers, instead of selling something more than half of their copra to the local mills, will export their copra to the United States, while the mills here, with some \$14,000,000 of capital invested, will have to liquidate on a scrap basis, no other substantial markets being open to them.

Theoretically, the closing of the coconut oil mills in the Philippines should not make a great deal of difference to the copra producers, or to anybody else except the mills, but practically it will.

Philippine coconut oil mills are forced to crush copra, no other oil-bearing seeds of importance being grown in the Philippines at present. American oil mills can and do crush other seeds if they appear more profitable at any particular time. Thus, Philippine oil mills are steady buyers the year around, whereas American oil mills are not; and Philippine oil mills, in order to be steady buyers, must constantly be willing to meet the highest prices for copra offered by any buyers the world over. That this argument is not merely academic is demonstrated by the fact that Philippine oil mills are buying more than half of the Philippine copra crop. This would be impossible were they not on the average prepared to give their customers better service and conditions than their daily competitors. With the mill competition removed, the Philippine copra producer faces the loss of his best customers, which can

only be reflected in lower average market prices for his products. A proof that the copra producer receives a better average price from the mills than for export as such is that very little copra is exported from Manila where most of the mills are located. In fact, the mills, in order to keep supplied with sufficient copra, have to purchase considerable quantities from points in the Southern Islands located much nearer to outports than to Manila, and at times they even purchase copra at ports from which direct exports are made overseas at the same freight rates as apply from Manila. The oil production center next to Manila in importance is Cebu where mills compete with direct exportation, and still secure their fair share of the business.

Under the Philippine tax set-up, the Philippine coconut oil mills are directly and indirectly very large contributors to the income of the Philippine Government. Apart from the specific taxes paid on real estate, manufacturing licenses, import duties, and the hundred and one other taxes that any manufacturing enterprise must meet either here or elsewhere, copra turned into oil and cake involves at least one and sometimes two additional payments of the Internal Revenue Sales Tax of $1\frac{1}{2}\%$, and this on constantly increasing values. This figure fluctuates with export prices, but for the past 12 years can be conservatively fixed at an average of P600,000.00 per annum greater than if the copra were exported as such. The loss of this sum, together with the other specific taxes paid, will be a severe blow to the Philippine Government and can only be made up by taxes applied elsewhere, in which the coconut producers must inevitably share.

In addition to taxes, the oil industry indirectly stimulates many other enterprises in the Philippines, notably interisland shipping, railroad and truck transportation, banking and exchange, and, in lesser degree, almost all

general commercial business. Without this stimulation, the total net income of the Philippines will be appreciably less, and will be reflected in the need of additional taxes and the inability of the Filipino people to purchase American merchandise on today's scale.

Apart from the labor employed direct by the coconut oil mills, there are no statistics available applicable to the other agencies complementary to them in land transportation, shipping, and warehouses. This, however, does amount to considerable and we believe that the stability of Philippine commerce will be encouraged by further rather than less industrialization of Philippine products. Any step toward the elimination of present industrialization in the Philippines is distinctly against the best interests of Philippine economics.

While the investment involved in Philippine coconut oil mills may not seem great in comparison with large industrial enterprises in the United States, it does form one of the major developments to date in the Philippine Islands and the mills have a just claim for the protection of their interests. The elimination of these mills must work a considerable hardship on many other enterprises, particularly on interisland shipping, a large portion of which is dependent on the carrying of copra for the bulk of its trade. Removal of the coconut oil mills would tend to reduce the carriage of copra to the centers of Manila and Cebu, shipments being made to a much greater extent directly overseas from the numerous outports. Any radical changes in the channels of internal trade necessitate new investments and usually result in the loss of existing investments thus rendered obsolete.

The foregoing paragraphs refer to reasons for maintenance of the local coconut oil industry in the interest of the coconut planters, mills, and other enterprises connected

with it. From the standpoint of the United States, there is a distinct benefit in having a considerable portion of Philippine copra milled in the Islands in that Philippine coconut oil can be shipped direct to such ports in the United States as may want it most without burdening them with the cake or meal produced as a by-product of crushing. Most of the copra now exported to the United States goes to the Pacific Coast, where there is a need for feedstuffs such as copra meal and where there is no great amount of feedstuffs of this nature produced from locally grown products. Conversely, the greater portion of the coconut oil shipped from the Philippine mills goes to the East Coast of the United States, and the Gulf, where there is normally an excess production of protein concentrates and an exportable surplus of seed cake. If the coconut oil mills in the Philippines are eliminated, it is obvious that a large amount of copra will have to be imported and milled on the Atlantic Seaboard and the Gulf. This will result in still heavier production of seed cake which will depress the market for seed cake and grain already produced in the United States and render necessary larger exports to Europe from those sections. The Philippines are located in such a position that their copra cake and meal may be exported either to the United States or to Northern Europe wherever the demand for it is greater. Thus, if the United States needs copra meal, as has been the case in the two recent droughts, the Philippines can supply it. If the United States crops are adequate, then the Philippines can look elsewhere for their cake and meal market, thus assisting in keeping American grain prices at a higher level. As a matter of fact, over the past 12 years 80% of Philippine exports of cake and meal have gone to Europe.

It might appear that the American farmer would face less competition with Philippine coconut oil eliminated.

This, however, is definitely refuted by the fact that coconut oil can still be produced in any quantity in the United States from duty-free copra imported from the Philippines. The only difference will be that the oil thus produced will be of a higher acid content than had it been manufactured in the Philippines, thus making it slightly less desirable for the trade.

This situation, however, might be remedied by a quota system placed on copra into the United States were it not for the fact that such efforts would prove fruitless in view of the large annual imports of oils and oil-bearing seeds from other tropical countries operating under lower standards of living. It is from these that Philippine copra and coconut oil today receive their most severe competition. Such oils are notably palm oil, palm kernel oil, and the newly developed babassu oil, all of them strong competitors of coconut oil in one field or another.

The plain facts of the case are that the United States is always an importer of foreign vegetable oils. Domestically produced substitutes, which generally find their market in the higher priced usages, will not for many years make up for the need of large imports of such oils into the United States. Philippine coconut oil producers merely ask for their right to supply a reasonable portion of the import requirements of the United States. Prior to independence this should preclude export taxes, import duties, or prohibitive excise taxes. Thereafter, even in the absence of any reciprocal trade agreement, they should be allowed to continue in business on at least as favorable terms as any of their foreign competitors.

We have already discussed the possibility of producing coconut oil in the United States when we can no longer do so in the Philippines. Palm oil, and palm kernel oil when denatured, enter the United States free of duty.

Babassu oil enters not only free of duty but free of excise tax, and while until now in comparatively small volume, will certainly be stimulated by its present advantage. None of these oils is limited by quota. It is obvious that a curtailment of coconut oil from the Philippines will merely mean that the American farmer will meet the same competition from other directions, and perhaps on lower price levels.

Competition from coconut oil has been held responsible in the United States for a great part of the troubles of the dairy farmer, who, curiously enough, looks to the Philippines for his best market for canned milk. In fact, coconut oil has shared with sugar the distinction of being the betes noirs of the Philippines in their economic relations with the United States. It is interesting to note, therefore, that in the year 1936 coconut oil formed only 23.09% of imports of vegetable oils into the United States, and copra only 21.43% of all oil-bearing seeds imported into the United States. Likewise, it is significant that in the same year the factory consumption of coconut oil in the United States was only 12.59% of total oils used in the manufacture of soap, other inedible, and edible products. The above, of course, does not include the enormous direct consumption of dairy butter and animal lard which would reduce the coconut oil percentage to 7%.

Were coconut oil to be removed entirely from the picture, edible oil competition with dairy products would not be eliminated as long as a satisfactory margarine can be made from cottonseed oil either imported or domestic, imported palm and other oils, or domestic animal products. Even in the inedible field coconut oil is in many cases complementary and stimulating to, rather than purely competitive with, numerous other domestic oils and fats.

From the standpoint of the American mills, there might be certain advantages if Philippine oil competition were eliminated. These advantages would, however, be very largely nullified by the fact that additional mills would have to be erected in the United States to replace the mills going out of business in the Philippines. These new mills would doubtless furnish real competition for existing establishments, and upset the nice balance which now exists between the few mills operating in the United States and the few mills operating in the Philippines.

American labor might be pleased with the establishment of these additional mills because more employment might thereby become available for American workmen. Statistics show that on the average 90% of the production cost of a pound of coconut oil represents raw materials, the balance being manufacturing costs. Of these manufacturing costs not over 30% represents labor. Consequently, labor accounts for only about 3% of the cost of a pound of coconut oil, and the number of laborers involved, particularly in the United States, is very small. We believe that this factor will be more than compensated by the number of workmen who can continue to be employed in American export trade to the Philippines, provided that Philippine economy is allowed to exist on a profitable basis.

In the above statements we have not touched at all on the question of the excise tax. It is our belief that the excise tax as presently constituted has definitely been bad for the Philippine coconut producer, particularly because while the taxes collected have been returned to the Philippine Government, they have been remitted with express orders that they shall not in any way directly or indirectly be returned to the coconut industry.

The producer, therefore, has obviously borne the brunt of these taxes through lower prices for his copra, the total

selling price of which, it is estimated, since the inception of the tax, has netted him less than the excise taxes which are returnable to the Philippine Government.

It is further our belief that the imposition of these taxes has diverted our trade very largely from our normal market, i.e., the soap kettle, to the temporarily more profitable edible market because coconut oil plus the tax has become too expensive for all but the most costly soap. This we feel has worked a hardship on the American soap consumer by giving him a poorer soap at a higher price. We contend that as soon as American crops are normal, which they give promise of being in the near future, then the coconut oil business will be largely affected by the loss of considerable of its edible market without the possibility of regaining its soap market as long as the excise taxes are applied to coconut oil, even though denatured. For this reason, we oppose the maintenance of the excise taxes in their present form, although we would welcome a law allowing Philippine coconut oil to be sold in the United States free of excise tax if denatured for inedible consumption. This we believe would harm no single agricultural interest in the United States and would prove of distinct assistance to the Philippines. In this connection, we strongly endorse the brief presented in Washington by the Bureau of Raw Materials for American Vegetable Oils & Fats Industries which, on a technical basis, goes to the heart of the excise tax question.

The Philippine oil mills are conscious of the primary rights of the American people, and particularly the American farmers. We do not ask for any special preferences. We do, however, feel that we should be allowed to help supply the annual American deficiency for fats and oils on terms certainly no less favorable than those granted to any other competing outside product. We further believe

that on an equal basis our products should have the consumers' preference.

Finally, we contend that the Philippine coconut oil industry, if allowed to exist, will materially assist the Philippine economy in the days to come without working against the interest of any single American group. We should consider it a very unfair act were Philippine coconut oil discriminated against as contrasted with other industries, merely because the amount of capital involved is relatively less than that employed in larger industries.

We see no justice in the situation whereby part of an industry can live and part of an industry must die, and we do not believe the Tydings-McDuffie Act intended this. We oppose the imposition of the graduated export taxes, which, as far as we are concerned, are tantamount to liquidation. We advocate a provision of the law by which 200,000 long tons of Philippine coconut oil can enter the United States annually free of import duty or export tax as long as any other competing oils or fats can enter on a similar basis, and as long as copra can be turned into coconut oil in the United States without import duty or export tax.

We feel that our share in the American importation of fats and oils is sufficiently small that its elimination will mean nothing to the American people, whereas it will mean everything to us. We further assert that the continuance of the coconut oil industry here will pay dividends through contributing to better economic conditions in the Philippines, which naturally will be translated into a sustained import demand for American products.

In the preparation of the above brief, we are assuming that your Committee is familiar with Report No. 118 of the United States Tariff Commission covering the United

States-Philippine trade. This report gives a very fair presentation of the problems we were facing at the end of 1935. 1936 figures are available to bring this report up to date, but merely serve to confirm rather than modify to any marked degree the statistical position.

The Philippine Coconut Oil Mills present this brief for your very careful consideration, requesting that you take into account the fact that to many of us who have been building up our business here for the past 20 years or more, our entire future is at stake.

Respectfully submitted,

FOR THE—

PHILIPPINE COCONUT OIL MILLS

PHILIPPINE REFINING COMPANY, INC.

By: (Sgd.) **KENNETH B. DAY**

SPENCER KELLOGG & SONS (PHILIPPINES), INC.

By: (Sgd.) **H. DEAN HELLIS**

PHILIPPINE MANUFACTURING COMPANY

By: (Sgd.) **F. N. BERRY**

IN REPRESENTATION OF THE FOLLOWING:

**PHILIPPINE REFINING COMPANY, INC.
SPENCER KELLOGG & SONS (PHILIPPINES), INC.
PHILIPPINE MANUFACTURING COMPANY
CRISTOBAL OIL MILLS
LUZON INDUSTRIAL CORPORATION
MADRIGAL & COMPANY
LU DO & COMPANY**

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TABLE A—*Estimated Government Revenue Derived from Coconut Industry*

	1934	1936
From Coconut Lands	₱2,872,559	₱2,872,559
From Cedula of People Engaged in the Coconut Industry	1,600,000	1,600,000
Wharfage Dues	1,172,000	1,195,720
Internal Revenue:		
Copra	258,154	449,674
Copra cake and meal	63,067	109,772
Coconut oil	407,692	827,278
Desiccated Coconut	67,636	130,786
Local Sales	135,000	270,000
	₱6,576,108	₱7,455,789
Licenses, Income Tax and Miscellaneous Imposts Es- timated at	923,892	944,211
	₱7,500,000	₱8,400,000
Equal to	\$3,750,000	\$4,200,000

TABLE B—*Sales Taxes on Coconut Products*

Year	On Copra	On Coconut Oil	On Copra Cake and Meal	On Desiccated Coconut	On Local Con- sumption	Total	Equal To
1925	₱ 476,651	₱ 1,189,211	₱ 101,908	₱ 78,266	₱ 169,755	₱ 2,015,201	\$ 1,007,600
1926	557,602	1,340,713	104,173	82,730	169,691	2,244,909	1,122,405
1927	574,872	1,490,441	149,072	85,502	145,936	2,445,823	1,222,511
1928	676,270	1,409,350	173,188	111,708	145,082	2,515,579	1,257,790
1929	486,975	1,751,097	227,567	106,204	124,446	2,576,289	1,338,144
1930	403,003	1,149,323	118,534	88,835	102,624	1,858,769	928,385
1931	274,512	902,119	91,248	64,664	60,128	1,382,671	691,236
1932	153,997	459,069	63,320	48,501	51,904	776,891	383,345
1933	269,681	550,139	63,453	50,484	63,779	938,536	498,291
1934	333,154	407,892	63,887	67,836	125,000	938,549	465,775
1935	329,620	729,240	93,365	118,869	252,000	1,523,094	764,047
1936	449,874	827,278	109,772	130,786	270,000	1,787,510	893,755
TOTAL ...	₱4,989,221	₱12,205,722	₱1,553,547	₱1,024,235	₱1,679,643	₱21,157,368	\$10,573,684

TABLE C—Exports from the Philippine Islands to the
United States

(As per Report of L. Schnurmacher, Inc.)

In Metric Tons

Year	Total Exports	To Pacific Coast		To Atlantic Coast		To Gulf Coast	
	Tons	Tons	%	Tons	%	Tons	%
COPRA							
1925.....	115,482	82,082	71	(Included in Gulf)		33,400	29
1926.....	132,043	86,895	66	2,473	2	42,675	32
1927.....	155,121	118,025	76	2,060	1	35,036	23
1928.....	181,111	127,541	71	4,189	2	49,381	27
1929.....	130,646	96,440	74	3,142	2	31,064	24
1930.....	138,729	89,686	65	9,098	6	39,945	29
1931.....	120,545	74,400	62	10,668	9	35,477	29
1932.....	83,689	49,600	59	10,759	13	23,330	28
1933.....	208,493	139,139	67	29,944	14	39,410	19
1934.....	157,367	108,909	69	27,087	17	21,971	14
1935.....	211,386	156,477	74	10,297	5	44,612	21
1936.....	175,906	125,727	71	20,487	12	29,692	17
Total.....	1,810,518	1,254,921	69	130,204	7	425,393	24
COCONUT OIL							
1925.....	95,478	52,026	54	43,452	46	(Inc. in Atlantic)	
1926.....	117,908	52,760	45	65,148	55	(Inc. in Atlantic)	
1927.....	189,796	41,786	30	98,010	70	(Inc. in Atlantic)	
1928.....	122,346	29,033	24	93,313	76	(Inc. in Atlantic)	
1929.....	189,618	25,919	14	109,955	58	53,744	28
1930.....	146,960	10,740	7	94,970	65	41,250	28
1931.....	147,972	14,700	10	116,472	79	16,800	11
1932.....	110,120	12,515	11	70,340	64	27,265	25
1933.....	158,554	18,571	12	120,101	76	19,882	12
1934.....	142,078	9,517	7	94,602	66	37,859	27
1935.....	162,444	22,886	14	112,171	69	27,387	17
1936.....	154,442	21,055	14	90,578	58	42,809	28
Total.....	1,697,716	311,608	18	1,109,112	66	266,996	16
COPRA CAKE AND MEAL							
1925.....	15,510	15,408	99	102	1	—	
1926.....	13,462	13,462	100	—	—	—	
1927.....	19,078	19,078	100	—	—	—	
1928.....	9,771	9,771	100	—	—	—	
1929.....	10,647	10,647	100	—	—	—	
1930.....	13,940	13,940	100	—	—	—	
1931.....	5,839	5,839	100	—	—	—	
1932.....	8,563	8,563	100	—	—	—	
1933.....	10,870	10,410	96	460	4	—	
1934.....	34,075	28,942	89	2,238	7	454	1
1935.....	32,689	31,388	92	3,441	10	306	1
1936.....	53,163	47,607	89	1,395	3	4,161	8
Total.....	222,607	210,055	94	7,631	4	4,921	2

TABLE D—*Exports of Copra Cake and Meal from the Philippine Islands for the Years 1925 to 1936*

(As per Reports of the Collector of Customs)

In Metric Tons

Year	Total Tons	To U. S. A.		To Europe		Miscellaneous	
		Tons	%	Tons	%	Tons	%
1925	55,787	13,354	24	41,930	75	503	1
1926	71,265	13,662	19	57,250	80	353	1
1927	90,762	18,794	21	71,618	79	350	—
1928	81,652	9,733	12	71,546	88	873	—
1929	119,792	10,592	10	102,655	90	545	—
1930	89,904	13,591	15	75,918	85	395	—
1931	98,626	5,741	6	92,506	94	879	—
1932	75,848	3,483	5	71,955	95	410	—
1933	99,917	10,794	11	88,824	89	299	—
1934	99,652	33,436	34	65,916	66	300	—
1935	101,864	32,609	32	68,688	68	567	—
1936	108,268	51,752	48	54,914	51	1,602	1
TOTAL	1,087,337	217,541	20	863,720	80	6,076	—

TABLE E—Imports of Vegetable Oils and Fats into the United States of America
(Reports of Bureau of Foreign and Domestic Commerce)

	Thousands of Pounds												
	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	Total
Coconut Oil—Philipp.	222,499	246,129	293,870	250,827	411,928	317,919	325,175	349,117	319,078	314,802	353,296	322,060	3,472,108
Coconut Oil—Others	676	—	—	—	—	—	—	—	—	—	—	15	691
Cottonseed Oil	—	—	—	—	—	—	—	—	—	—	166,837	127,787	294,474
Palm Oil	139,179	180,747	159,911	169,222	261,810	297,493	253,145	317,137	237,433	155,531	396,503	338,739	2,701,991
Palm Kernel Oil	52,324	74,980	42,115	55,812	69,399	29,104	12,328	3,111	14,057	12,753	38,579	20,131	442,993
Olive Oil—Edible	90,423	75,508	75,025	82,944	96,739	92,954	70,334	74,374	71,563	55,999	76,739	60,972	921,064
Olive Oil—Eulp. or Foots	40,823	40,300	42,307	39,547	45,874	32,783	33,924	45,909	40,464	34,165	33,797	17,401	432,294
Olive Oil—Other Inedible	10,884	9,925	6,819	8,724	10,332	7,113	12,045	11,759	12,310	9,670	19,743	12,005	131,929
Peanut Oil	3,027	3,231	2,847	4,749	3,231	15,966	14,838	1,439	1,313	2,722	30,723	49,004	137,344
Sesams Seed Oil	—	3,823	1,704	6,230	21,538	10,976	1	—	2	1	11	49	49,333
Perilla Oil	—	—	—	2,011	5,574	8,333	19,235	16,525	22,773	25,164	72,323	117,303	234,404
Sunflower Seed Oil	—	—	—	—	—	—	—	16,457	23,849	9,324	27,052	25,254	112,436
Corn Oil	—	—	—	—	—	—	—	—	9,193	10,631	25,746	28,372	74,239
Soya Bean Oil	19,493	30,712	14,915	13,116	19,439	3,346	4,916	403	3,669	2,229	14,340	7,137	139,323
Cocoa Butter	64	86	187	21	45	239	10	13	8	8	19	24	720
Rapeseed Oil	12,735	20,739	19,104	16,373	13,801	15,333	10,309	7,369	3,423	16,323	60,233	63,301	234,550
Chinese Wood Oil	101,354	33,004	39,650	109,223	119,673	139,323	79,311	75,322	113,730	109,737	120,059	134,330	1,233,100
Linseed Oil	13,607	15,041	846	172	9,931	2,125	225	25	11,237	2,758	2,233	760	69,123
Carnauba Wax	—	—	—	8,471	6,349	7,413	7,447	6,166	7,720	7,342	10,421	12,500	71,332
Vegetable Tallow	5,424	2,779	5,633	6,341	11,530	7,122	—	—	—	132	31	2,377	43,330
Vegetable Wax	6,507	5,334	10,150	4,913	4,613	2,433	2,648	3,197	3,323	3,633	4,650	6,033	59,591
Other Edible Oils	—	—	—	—	—	11,262	49,632	4,537	63	11,543	3,543	19,330	106,313
Other Oils—Duty Free	10,336	7,432	5,423	87	73	275	1,255	6,315	7,346	12,173	15,331	—	—
Other Oils—Dutiable	793	13,337	2,252	7,762	36,327	3,253	1,413	2,473	1,073	1,313	19,324	27,372	139,730
TOTALS	741,704	779,714	773,413	819,372	1,156,944	1,017,459	901,351	741,133	953,327	802,341	1,471,607	1,394,323	11,556,341

TABLE F—Imports of Oil Bearing Seeds into the United States of America
(Reports of Bureau of Foreign and Domestic Commerce)

	Thousands of Pounds												
	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	Total
Copra	334,973	437,599	450,995	501,990	570,331	595,330	437,947	433,447	630,373	399,234	434,134	334,493	5,731,037
Cottonseed	63,323	33,951	10,332	1,044	163	333	—	—	—	—	—	—	133,336
Palm Nuts and Kernels	—	—	—	—	—	—	—	23,700	14,913	3,509	50,073	27,443	123,643
Peanuts—Shelled	73,134	42,590	33,305	55,632	20,331	4,333	5,363	33	114	20	31	30	243,339
Peanuts—Unshelled	—	—	—	—	—	—	233	921	33	1	240	—	2,031
Perilla and Sesame	10,437	3,330	4,430	12,739	4,609	3,313	4,377	473	130	331	233	312	46,323
Soy Beans	—	2,333	2,649	9,333	13,340	55,303	139,363	19,132	43,331	23,327	147,471	117,793	373,343
Rapeseed	—	—	—	—	—	1,033	—	—	—	—	—	—	1,033
Castor Beans	107,232	100,303	122,337	140,439	173,342	103,031	105,313	83,133	113,100	92,340	77,049	134,077	1,333,433
Poppy Seed	3,333	5,131	5,330	6,240	6,432	6,034	7,193	6,334	3,337	6,413	5,333	6,301	77,303
Flaxseed	924,542	1,232,739	1,221,333	934,399	1,237,003	703,033	310,307	443,434	774,209	793,520	333,341	330,441	11,123,333
Others—Free Entry	4,501	13,334	11,004	17,033	23,073	32,303	43,444	6,745	5,333	30,222	147,437	—	—
Others—Dutiable	101,554	4,033	5,213	6,433	6,032	3,027	3,333	3,170	3,329	637	—	—	—
TOTALS	1,632,333	1,932,911	1,873,133	1,737,330	2,122,224	1,514,323	1,373,322	1,033,733	1,633,301	1,333,333	1,333,371	1,700,713	30,133,300

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TABLE G—Imports of Coconut Oil and Copra into the
United States of America

(Percentages of Total Imports of Vegetable Oils and Oil-Bearing Seeds)

Year	Coconut Oil Compared to All Vegetable Oils	Copra Compared to All Oil Bearing Seeds	Year	Coconut Oil Compared to All Vegetable Oils	Copra Compared to All Oil Bearing Seeds
	%	%		%	%
1925	31.44	22.03	1931	36.08	28.99
1926	31.44	23.43	1932	33.61	42.95
1927	37.93	24.04	1933	33.08	40.45
1928	35.44	28.89	1934	39.21	29.28
1929	35.61	26.04	1935	24.01	23.92
1930	31.25	39.32	1936	23.09	21.43

From Tables "E" and "F"

TABLE H—Factory Consumption of Coconut Oil in the
United States of America

(Percentage of Coconut Oil to All Oils Consumed)

Year	Total	Compounds and Vegetable Shortenings	Oleo margarine	Other Edible Products	Total Edible Products	Soap	Miscellaneous	Total Inedible Products
1929	15.55	5.16	61.72	—	15.18	24.33	.12	17.52
1931	15.71	2.83	69.89	27.76	13.86	24.49	.12	16.18
1932	16.38	.86	73.92	21.49	13.01	25.70	.22	19.09
1933	16.61	.73	75.50	27.98	15.97	24.58	.43	16.83
1934	14.64	.74	57.76	26.89	12.28	23.14	.32	15.99
1935	12.95	2.85	56.91	26.95	14.06	17.50	.49	11.10
1936	12.59	2.39	46.62	16.52	10.84	22.04	.53	13.69

From Reports—Bureau of the Census

TABLE I—Consumption of Coconut Oil in the United States
as per Reports of Bureau of the Census

Thousands of Pounds									
	1929		1931		1932		1933		
	Pounds	%	Pounds	%	Pounds	%	Pounds	%	
EDIBLE:									
Compounds and Vegetable Shortenings	72,145	11.05	34,132	5.75	8,332	1.52	7,117	1.22	
Oleomargarine	185,507	28.48	133,117	22.46	123,219	22.42	159,096	25.71	
Other Uses	—	—	52,934	8.94	46,853	7.43	89,333	11.87	
TOTAL EDIBLES	257,652	39.48	220,238	37.16	178,404	31.37	226,546	38.80	
NON-EDIBLE:									
Soap	393,914	60.35	240,503	57.45	353,527	64.34	322,364	55.20	
Paint	—	—	4	—	13	—	39	.01	
Printing Inks	—	—	2	—	2	—	2	—	
Miscellaneous	1,051	.16	749	.13	1,640	.19	2,642	.45	
TOTAL NON-EDIBLE	394,965	60.52	241,258	57.58	354,562	64.53	324,947	55.65	
Loss—									
INCLUDING FOOTS	—	—	31,193	5.25	22,529	4.10	32,333	5.54	
TOTAL	652,617	100.00	592,684	100.00	549,515	100.00	583,826	100.00	
	1934		1935		1936		Total		
	Pounds	%	Pounds	%	Pounds	%	Pounds	%	
EDIBLE:									
Compounds and Vegetable Shortenings	9,045	1.53	44,034	7.56	38,427	6.38	213,282	5.13	
Oleomargarine	123,678	20.98	174,314	29.95	150,465	24.93	1,049,396	25.05	
Other Uses	78,836	13.34	87,060	14.95	60,020	9.97	388,886	9.37	
TOTAL EDIBLES	211,559	35.85	305,408	52.47	248,912	41.33	1,642,514	39.55	
NON-EDIBLE:									
Soap	341,124	57.85	229,711	39.46	307,876	51.04	2,288,419	55.11	
Paint	37	.01	379	.07	771	.13	1,243	.03	
Printing Inks	2	—	2	—	1	—	11	—	
Miscellaneous	2123	.36	3,525	.60	3,939	.65	15,074	.36	
TOTAL NON-EDIBLE	344,291	58.22	233,617	40.13	312,687	51.82	2,304,747	55.50	
Loss—									
INCLUDING FOOTS	84,852	5.93	43,072	7.40	41,274	6.85	205,353	4.95	
TOTAL	589,602	100.00	532,097	100.00	562,273	100.00	4,152,614	100.00	

TABLE J—*Comparison of Copra Values and Excise Tax Collections*

During the months from July 1st, 1934, when the first collection of the excise tax was made, to April 30, 1937, collections of excise tax on Philippine coconut oil, according to the official reports of the United States Treasury, amounted to \$48,153,614.65.

During the same period the value of imports of copra and coconut oil into the United States from the Philippine Islands, according to the reports of the Bureau of Foreign and Domestic Commerce of the United States Government were:—

Copra	\$23,077,150.00	
Coconut Oil	34,050,132.00	
Total		\$57,127,282.00
This latter figure represents the CIF value of imports to United States ports. There is no data available to show how much of this was received in Pacific Ports, Atlantic Ports or Gulf Ports, nor do the statistics show the ports of origin in the Philippine Islands. We have, therefore, taken this information from the reports of Leo Schnurmacher, Inc., Manila, estimating that shipment from the Philippines was one month prior to landing on Pacific Ports and two months prior to landing on Atlantic Ports. The amount of copra and coconut oil thus shipped amounts to within $\frac{3}{4}$ of 1% of the total tonnage of coconut oil represented by the collections mentioned. On the basis of Leo Schnurmacher, Inc., reports, ocean freight on copra and coconut oil amounts to	\$ 7,685,712.00	
and marine insurance amounted to .	204,552.00	
Making a total of freight and insurance		7,890,264.00
Leaving a net value of copra and coconut oil shipped FOB Philippine Ports		\$49,237,018.00

For the loading of this cargo,
the following expenses are involved:

Wharfage Tax	\$ 918,539.00	
Loading expenses on copra estimated at 35¢ per metric ton	171,569.00	
Lighterage on coconut oil shipped from Manila at \$1.10 per metric ton	346,491.00	
Survey fees on coconut oil shipped at \$.125 per metric ton	58,543.00	
Internal Revenue Tax at 1½% of the FOB value less Wharfage Tax	723,277.00	
Total Loading Expenses		<u>2,213,419.00</u>
Leaving a net value of copra and coconut oil ex-warehouse Philippine Ports		\$47,023,599.00

To this must be added the value of the copra cake and meal produced as a by-product of the oil shipped to the United States. During the same period the exports of copra cake from the Philippines, as per reports of the Collector of Customs in Manila amounted to 291,832 metric tons with a FOB value of ₱9,198,251.00. The milling of coconut oil produces 55% of its weight in cake. Therefore, the coconut oil imported into the United States would produce 235,588 metric tons, and only 80% of the copra cake and meal exported pertain to the oil shipped to the United States, the balance of 20% representing oil exported to other points, local consumption and variance of stocks. 80% of the value exported would amount to ... \$ 3,679,300.00

From which we have to deduct cost of sacking at \$1 per metric ton, loading at 35¢ per metric ton and internal revenue at 1½% amounting to	373,234.00
Leaving a net value of copra cake of	<u>3,306,066.00</u>
And making a gross value of copra, coconut oil and copra cake exports ex-warehouse	\$50,329,665.00
428,341 metric tons of coconut oil at 60% extraction would require 713,902 metric tons of copra. At \$5 per metric ton, the cost of milling amounts to	\$ 3,569,510.00
Cost of transportation of copra to shipping ports and to the oil mills estimated at \$1.50 per metric ton amounts to	1,806,150.00
Internal revenue on sales of copra to the oil mills amounts to ...	<u>393,175.00</u>
Making a total of production and inland cost	<u>5,768,835.00</u>
Leaving a net value of the copra to the producer	<u><u>\$44,560,830.00</u></u>

In comparison with this net value of the copra to the producer, we have a collection of excise tax amounting to \$48,153,-614.65, showing that the collection of the excise tax amounts to 108% of the value of the copra to the producer.

Or that the producer of the copra actually received only 48% of the value of his copra, while the collection of the excise tax amounted to 52%.

TABLE K—*Apparent Consumption of Fats and Oils in the United States
By Major Types of Use, 1936*

	Millions of Pounds					Percentages				
	By Type of Use				Total Disap- pear- ance	By Type of Use				Of all Fats and Oils
	Edible Soap	Drying Ind.	Misc.			Edible Soap	Drying Ind.	Misc.		
Foreign products:										
Cocount oil	249	349	—	41	639	4.1	21.8	—	6.4	7.0
Palm oil	170	107	—	88	315	2.8	6.7	—	6.9	3.4
Linseed oil	—	—	311	—	311	—	—	40.2	—	3.4
Tung oil	—	—	104	21	125	—	—	13.5	3.8	1.4
Olive oil, edible	64	—	—	—	64	1.0	—	—	—	.7
Castor oil	—	2	5	53	60	—	.1	.6	8.3	.7
Olive oil, sulphur or foots..	—	24	—	4	28	—	1.5	—	.6	.3
Sunflower oil	26	—	—	—	26	.4	—	—	—	.3
Perilla oil	—	—	105	7	112	—	—	13.6	3.1	1.2
Palm kernel oil	15	29	—	3	47	.2	1.8	—	.5	.5
Sesame oil	59	5	—	—	55	.8	.8	—	—	.5
Olive oil, inedible	—	2	—	18	15	—	.1	—	2.0	.2
Rapeseed oil	31	9	—	26	66	.5	.6	—	4.0	.7
Babassu	24	11	—	1	36	.4	.7	—	.2	.4
Cottonseed oil	128	—	—	—	128	2.1	—	—	—	1.4
Tenseed oil	8	—	—	—	8	.1	—	—	—	.1
Other ¹	—	—	—	16	16	—	—	—	2.5	.2
Hempseed	—	—	18	—	18	—	—	1.7	—	.1
Total foreign	765	538	538	223	2,064	12.4	33.6	59.6	34.3	22.6
Domestic products:										
Butter	2,108	—	—	—	2,108	34.4	—	—	—	25.0
Lard	1,471	—	—	—	1,471	24.0	—	—	—	16.1
Cottonseed oil	1,077	95	—	40	1,212	17.6	5.9	—	6.2	13.3
Tallow, inedible	—	661	—	65	726	—	41.4	—	10.1	7.9
Grease	—	99	—	300	299	—	6.2	—	31.1	3.3
Linseed oil	—	2	166	5	173	—	.1	21.5	.8	1.9
Corn oil	126	15	—	4	145	2.1	.9	—	.6	1.6
Fish and marine animal oils	37	164	52	80	333	.6	10.3	6.7	12.5	3.5
Oleo oil & edible animal stearine	247	1	—	2	250	4.0	.1	—	.3	2.7
Tallow, edible	—	—	—	—	—	—	—	—	—	—
Soybean oil	192	14	17	—	223	3.1	.9	2.2	.5	2.5
Peanut oil	111	9	—	—	120	1.8	.6	—	—	1.3
Grease, wool	—	—	—	20	20	—	—	—	3.1	.2
Neats foot oil	—	—	—	—	—	—	—	—	—	—
Total domestic	5,369	1,060	205	419	7,063	87.6	66.4	30.4	65.2	77.4
Total, all oils and fats ..	6,134	1,598	773	642	9,147	100.0	100.0	100.0	100.0	100.0
Percentage of Disappearance—										
Foreign products	37.0	26.1	26.1	10.8	100.0					
Domestic products	76.8	15.0	3.3	5.9	100.0					
Total foreign & dom. prod.	67.1	17.5	3.4	7.0	100.0					

¹ Includes vegetable tallow, kapok, mustard and citicilia oils.

BASES: Report of March, 1937, Bureau of Agriculture Economics, U. S. Dept. of Agriculture.

PHILIPPINE DESICCATED COCONUT INDUSTRY
BRIEF OF THE
COOPERATIVE COCONUT PRODUCTS, INC.

(Photographic Reprint)

(See also Brief of the Franklin Baker Company et al)

**THE JOINT PREPARATORY COMMITTEE ON
PHILIPPINE AFFAIRS, MANILA, PHILIPPINES**

S I R S :

Being one of the manufacturers and exporters of desiccated coconut to the United States, we beg hereby to present our views in connection with the hearings now being conducted by the Joint Preparatory Committee on Philippine Affairs. We believe that our views are also shared by the other producers of Philippine desiccated coconut.

The existence and growth of the Philippine Desiccated Coconut Industry was made possible by the protection of the United States Fordney-McCumber Tariff Act of 1922, levying a duty of \$0.03½ per pound on desiccated coconut produced by other countries and exported to the United States. Prior to 1922 when the duty on desiccated coconut in the United States was only \$0.02 per pound, this industry was non-existent in the Philippines. The protection given was not enough to offset the low cost of manufacture and the lower monetary exchange value of the currency of Ceylon, a competitor of real importance. Consequently, the manufacture of desiccated coconut at that time was not worthwhile.

Our company is the only Filipino capitalized and managed concern actively engaged in the manufacture and export of desiccated coconut to the United States at present. It was organized in August, 1934, but we did not start actual operation until November 25, 1935. For over a year that it has been in operation, our company has exported an appreciable quantity of desiccated coconut. From November 25, 1935 to June 30, 1937 our export was as follows:

	<i>Pounds</i>	<i>Value</i>	<i>Percentage</i>
1. United States	5,601,450	₱755,550.66	99.00
2. China	14,300	1,625.28	.90
3. Japan	980	165.70	.10
Totals	5,616,730	₱757,341.64	100.00

It will be noted from the foregoing that ninety-nine per cent of our export went to the United States and that the export to other countries was negligible.

The existence of this company or of any other company engaged in similar pursuit in the Philippines is absolutely dependent upon the American market. An abrupt change in the present trade concessions to the Philippine desiccated by the United States Government will stragulate this industry, and the imposition of the full tariff duty will wipe off same. Export of this product to China, Japan, Hongkong, Denmark or any other European country at this time is not profitable. This statement is supported by the extracts from letters received from our correspondents in said countries attached hereto as Exhibits "A," "B," "C-1," "C-2" and "D." Export of Philippine desiccated coconut to England is impossible as desiccated coconut from Ceylon is admitted there free of duty while Philippine desiccated coconut has to pay a duty of 10% *ad valorem*. Philippine desiccated cannot compete with Ceylon on a world price on an even basis, even if it did not have to pay duty. France at present levies a duty of 567 francs or about ₱43.94 per 100 kilos of sugared, edible desiccated and 288 francs or about ₱22.32 on other edible desiccated. This duty is more than 102% of the market value when the same quantity of desiccated is marketed in the United States. If we add to this duty the freight, insurance, manufacturing cost and manufacturers' profit, the price of desiccated coconut when sold in France will be beyond the consumer's purchasing power. This is also the case in Germany where a duty of 4 marks for every 100 kilos is at present levied. There is at-

tached hereto a copy of the letter of the Bureau of Commerce, dated July 14, 1937, on tariff duties and monetary values as Exhibit "E" for further reference. That the United States is the only market for this product is shown in the annual report of the Insular Collector of Customs to the Secretary of Finance for the fiscal year ended December 31, 1934. The following table is taken from said report (p. 28):

	1934		1933	
Exported to	Value	Per Cent	Value	Per Cent
United States	P4,506,471	99.94	P3,359,994	99.83
Hawaii	2,608	.06	3,172	.09
Other Countries	—	—	2,448	.08
Total	P4,509,079	100.00	P3,365,609	100.00

Philippine desiccated coconut cannot compete in the other markets of the world with desiccated from Ceylon and other producing countries outside of the United States and its territories and Insular Possessions. This is because of three factors; namely, higher cost of labor, higher Ocean freight and overland transportation cost, and the high standard of the Philippine peso in comparison with the Ceylon currency.

HIGHER COST OF LABOR—The manufacture of desiccated coconut entails a large percentage of hand operations on shelling, paring, washing, etc. of coconuts, and Ceylon has a decided advantage over the Philippines on this principal element of cost. The prevailing wage rates in desiccated coconut factories in Ceylon are about one-third of those in the Philippines. The wages rates of workers and coconut meat yield in Ceylon are shown in the letter of the Director of the Bureau of Commerce addressed to this company, dated May 20, 1937 and attached hereto as Exhibit "F." A reduction of the wages of workers in desiccated coconut factories to the level of Ceylon standard to enable

Philippine desiccated to compete in the world market would radically change the standard of living of Philippine labor to a deplorable condition. The Ceylon wage rates of from P0.20 to P0.40 a day would not be sufficient to pay for the food and lodging of our laborers, let alone clothing and maintenance of dependents or members of the family. Usually, a wage earner supports four or five members of the family.

Ceylon coconuts grow larger in size and consequently have a higher yield per thousand than the Philippine coconuts. Under normal conditions, Philippine coconuts yield from 310 to 330 pounds of desiccated per thousand coconuts as against 330 to 370 pounds of Ceylon coconuts.

HIGHER OCEAN FREIGHT RATE AND OVERLAND TRANSPORTATION COST—Ceylon is nearer the Atlantic Coast or Eastern part of the United States where 90% of the desiccated coconut imported are distributed or marketed. Obviously, the cost of transporting desiccated coconut from Ceylon to New York or to any other port bordering the Atlantic Coast is much lower than from Manila to the same ports via either the Panama Canal or the Cape of Good Hope. Furthermore, the rate fixed by the Associated Steamship Lines in Manila on desiccated coconut is much higher than what is charged by English bottoms for carrying desiccated coconut from Ceylon to the Atlantic Coast of the United States due to the longer distance between Manila and New York. Beginning November 1, 1937, the freight rate on desiccated coconut to the Pacific Coast of the United States will be increased by \$1.00 per 40 cu. ft. due to the higher wages paid workers on American merchant marine as a result of the settlement of the Pacific Coast strike of longshoremen.

The cost of transporting finished products from factories in the provinces of Laguna and Tayabas to the tide-water in Manila is much higher than the cost of transport-

ing the finished product to the tidewater in Colombo. It is a known fact that coconuts are grown in the interiors of the Island of Luzon and not around Manila. It would, of course, be unwise to establish factories in Manila as the cost of operation would be prohibitive as the bulky nature of fresh coconuts makes transportation expensive; besides, when picked in the provinces and transported to Manila from 20% to 30% will be rotten, sour or broken. Franklin Baker Company of the Philippines, the biggest desiccator in the Philippines, formerly operated a desiccating plant in Manila. It has been forced to transfer its plant to San Pablo, Laguna, near the source of raw material. Red V. Coconut Products Ltd. two years ago constructed a second desiccating factory in Lucena, Tayabas, instead of increasing the capacity of its plant in Magdalena, Laguna so as to minimize cost of transporting raw material.

THE HIGH STANDARD OF THE PHILIPPINE PESO—Ceylon monetary unit (Rupee) is equivalent to ₱0.75, Philippine currency, or lower by twenty-five per cent. In order to compete with Ceylon in the Foreign Market outside of the United States, we would have to reduce our cost of manufacture by 25% which is not possible for reasons already explained in the preceding paragraphs. The comparatively high standard of our currency in comparison with the Ceylon currency is something over which we have no control.

The existence of the desiccated coconut industry has an economic value to the people of the Philippines, especially those of the coconut region, where there is very little form of livelihood. This industry employs approximately 5,000 workers in the various mills with around 20,000 to 25,000 persons who depend on them for livelihood. Probably around 20,000 to 25,000 persons are also employed in various plantations for harvesting and preparing the coconuts, and transporting the raw material

to the desiccating mills as well as the finished products of said mills to the steamers on the Manila Bay. It purchases all its raw materials, 80% of its packing materials, and 50% of all other materials in the local market. The termination of the industry will throw many thousands of workers out of job, which would add to the existing unemployment problem of the country. It would also affect the planters and their tenants who now look upon the desiccated coconut factories as a permanent outlet and as a better market for their crops. The government would also suffer in revenues derived from this industry in the form of income and sales taxes, and wharfage dues.

Our plant daily capacity is 350 cases of 140 pounds per case. At present, however, we are only making 200 cases daily.

The closing of our factory would affect 342 planters who are stockholders of this company and who are actually residing in the different towns of the provinces of Laguna, Tayabas and Batangas as can be seen in the attached Exhibit "G." It would also render jobless 233 male, 107 female workers and 24 monthly employees. Our company would lose the greater portion if not all of its permanent investments, as follows:

<i>Properties</i>	<i>Original Book Value</i>	<i>Reserve for Depreciation</i>	<i>Net Book Value</i>
Land	₱ 13,411.25	.....	₱ 13,411.25
Buildings	39,293.76	7,980.45	31,313.31
Machinery & Equipments	85,224.53	14,658.29	70,566.24
Land Transportation & Equipments	9,032.63	1,845.54	7,187.09
Other Assets	5,252.62	879.28	4,373.34
Totals	₱152,214.79	₱25,363.56	₱126,851.23

Incidentally, it would represent the loss of the investment of hundreds of coconut planters who have invested in our company their accumulated savings of several years. This

petition, therefore, represents the views of several hundreds of coconut planters composing our organization.

The Philippine desiccated coconut industry is not competing with the domestic industry in the United States; in fact, manufacturers there have openly expressed their preference for duty-free Philippine product.

The continued existence of the Philippine desiccated coconut industry is also of economic importance to the United States as its elimination would have an adverse effect on the sources of supply for her bakery and confectionery trade. Prior to the existence of Philippine desiccated coconut industry in 1922, when the tariff on desiccated coconut coming from Ceylon was only \$0.02 per pound, Ceylon manufacturers sold their product in the United States at from \$0.12 to \$0.13 per pound; with the entrance of Philippine desiccated in the United States market since 1922, the price of desiccated coconut in the United States has gone down as low as \$0.06½ per pound. This is attributed to two factors; namely, the duty levied on desiccated coconut coming from Ceylon added to the sales value and the exporters' practice of dictating price in the absence of effective competition. Should a duty be levied upon desiccated coconut coming from the Philippines, resulting in the destruction of the industry, American bakers and confectioners would again be forced to pay high prices for desiccated coconut.

The United States would lose a dependable source of supply for snow-white or better quality desiccated coconut products. It has been the experience of desiccators in the Philippines as well as of American importers that desiccated coconut shipped across the Indian Ocean or the Red and Mediterranean Seas arrived in the United States either off-color or rancid, because of the terrific heat generated in these bodies of water—within the Tropic belt—which produces a very bad effect on semi-perishable goods such as desiccated coconut. Practically all Philippine desiccated

coconut are shipped directly across the Pacific Ocean to any port of the United States.

American investors would lose the greater portion, if not all, of their investments in the six plants owned by them supplying around 80% of the Philippine output of desiccated coconut. In this connection, it is noteworthy to take into consideration the United States Tariff Commission Report No. 118, second series, on desiccated coconut attached hereto in part as Exhibit "H."

American merchant marine would lose income derived from this industry. A very large portion of desiccated coconut shipped to the United States from the Philippines goes on American vessels. When this is taken into account with the fact that unlike shipment of other Philippine products which are seasonal, shipment of desiccated coconut to the United States is quite regular throughout the year, the loss of this cargo would be felt by the American steamship companies.

With the application of the export tax during the second half of the transition period as embodied in the Philippine Independence Act (U. S. Code, tit. 48, No. 1236), the protection given the Philippine desiccated coconut will be gradually diminished. During the last year before independence, the export tax will be .875 cents per pound and the duty shall be offsetted by that amount, resulting in the last analysis in a preference of only 2.625 cents per pound. It must, however, be taken into account that Philippine desiccated was non-existent until the tariff protection was fixed at 3½ cents per pound. It would, therefore, be necessary for the existence of the industry either to abolish the export tax or raise the tariff duty to \$0.04-2/3 per pound so that the preference will always remain at \$0.03½ per pound. If this latter proposition be not possible, we beg to ask that the export tax, the proceeds of which go to the Philippine Treasury, be abolished or that its proceeds be returned to the processors in the same

manner as the Sugar Processing Tax, or in the form of bounty. Export tax levied upon merchandise exported to the United States (in most cases considered sold) with the Philippine Government as the sole beneficiary may be construed as a tax on the sales of the exporters who in the case of desiccated coconut industry are at the same time the manufacturers. Since these same manufacturers are required to pay sales tax on products sold, the exported goods included, there is no justification for said manufacturers to pay another tax similar in nature. The point is who pays the tax. In this case it is the manufacturers and exporters since desiccated coconut was non-existent when the preference was less than 3½ cents per pound, and if the tax is included in the selling price, it would make the selling price of Philippine desiccated higher than that coming from Ceylon. Naturally, the American consumers would prefer the Ceylon product, and the Philippine desiccators would have to shoulder the tax if they are to hold their only market. The export tax will not, in the long run, benefit the Philippine Government as it tends to discourage manufacturing ventures thru progressive increase of fixed charges to operation.

In view of the foregoing, we respectfully pray that your Committee recommend the abolition of the export tax during the second half of the transition period and the continuance of the preference of 3½ cents per pound after independence in consideration of whatever reciprocal privileges granted American products in the Philippine market.

DATED: San Pablo, Laguna, Philippines, August 20, 1937.

COOPERATIVE COCONUT PRODUCTS, INC.

By ARSENIO ESCUDERO
President & Manager

EXHIBIT "A"

<p>Codes Used: A. B. C. 6th Edition Private codes ACME</p>	<p>NAM CHOW COMPANY IMPORTERS AND EXPORTERS St. Anne Building 41 Rue du Consulat SHANGHAI</p>	<p>Telegrams: "NAMCHOW" Telephones: General Office—8-47-39 Manager's Office—8-47-37</p>
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1st September, 1936.

Messrs. Cooperative Coconut Products, Inc.
San Pablo, Laguna

Dear Sirs:

We have for acknowledgment your letter of August 10th, contents of which have had our special attention.

Desiccated Coconut—We have noted your quotations which, according to our investigation, were in level with the retail prices of the cargo imported from French Indo-China and sold in this market, leaving practically no margin of profit to us. This Indo-China product, however, is imported to Shanghai in rather small quantity owing to the fact that most local bakers and confectioners are using fresh coconuts which come from Malaya and are comparatively low in prices. We are of the opinion that *unless you reduce your prices to such extent enabling to compete with those of fresh coconuts, it would be impossible for us to introduce your product into this market.* We wish to know your opinion in this point by next mail when, it is hoped, we may be able to place with you a trial order.

Awaiting your early reply, we remain

Yours faithfully,

(Sgd.) NAM CHOW COMPANY

EXHIBIT "B"

Cable Address:
"KYOSINYOKO, KOBE"

Codes:

Acme
A. B. C. 5th Imp.
A. B. C. 6th Edition
Schofield's
Schofield's 3-Letter
Oriental 3-Letter
Private

KYOSHIN YOKO,
Goshikadaha.
EXPORTERS &
IMPORTERS
SHIPPING &
COMMISSION
—
HEAD OFFICE
MOTOMACHIN 4 CHOME
KOBE, JAPAN

K. Daiko,
Representing Partner
Phones: Sannomiya
452
5890
Branches
VLADIVOSTOCK
HARBIN

KOBE, 19th December, 1936.

Dep't
Messrs. Cooperative Coconut Products, Inc.
Tiaon, Tayabas
Philippines

Dear Sirs:

Your firm being introduced to us by our business friend, Mr. M. Yato, in regard to the import of Desiccated Coconut, we have investigated the matter and found that *it is quite impossible to work on the basis of your list prices on account of import duty which is levied at the rate of 40% advalorem.*

If it is possible for you to make prices cheaper, please arrange to send us afresh your latest P/L.

We are, Dear Sirs,

Yours faithfully,

KYOSHIN—YOKO

(Sgd.) K. DAIKO
Representing Partner

EXHIBIT "C-1"

Radio & Cable
Address
"SPICE"
Hongkong
P. O. Box 1208

YUENG CHEONG HONG
Importers, Exporters,
Manufacturers
Representative, &
Commission Agents
HONGKONG, CHINA

Codes Used
Acme Bentley's
and Private Codes
Phone 2-29-47

July 30th, 1937

Messrs. Cooperative Coconut Products, Inc.
P. O. Box No. 37.
Tiaon, Tayabas

Dear Sirs:

We are in receipt of your samples and letter dated May 21st, for which we thank you. *The samples you have sent to us, are suitable in this market, but your C.I.F. price cannot compete with this market, as your competitors here have been importing very heavy stocks from Colombo exactly the same quality, which is much cheaper price than yours, so we cannot touch them in the meantime.*

We shall be very glad, if you will all the time keep us well informed about your market price always by mail, or air mail, particularly when there is a sudden change in your market, we shall be very much appreciated. Waiting your esteemed reply at your earliest attention regarding this matter.

Yours very faithfully,

YUEN CHEONG HONG
(Sgd.) Y. CHAPWOU

WE/YC.

EXHIBIT "C-2"

THE MOON COMPANY
IMPORT—EXPORTCable Address
"MOONY"(Grandloom)
No. 60, Des Voeux Road,
Central,
HONGKONG

Telephone No. 2-16-19

Messrs. Cooperative Coconut Products, Inc.
San Pablo, Laguna, P. I.
P. O. Box No. 37

Dear Sirs:

Re Desiccated Coconut "Fine"

Your samples as advised in your letter of 16th April, have reached us and in reply, we wish to advise that we are only interested in the "Fine" grade. *Owing to price from Colombo being very much below your quotation, our friends cannot see their way clear to place a trial order.* For your information, we may mention that our neighbor has just contracted for 250 cases each 130 lbs. net. Colombo Desiccated Coconut "Fine" at the price of Rupees 17.25 per case c.i.f. Hongkong. This price includes their profit, bank interest, brokerage and delivering charges. We hope, however, to hear from you when there is a change in your market.

Thanking you for this matter.

We are, Dear Sirs,

Yours faithfully,

THE MOON COMPANY

(Sgd.)

EXHIBIT "D"

Telegram-Adresse
JASMUSSEN

J. ASMUSSEN

JAAJ

Kobenhavn K.
(Copenhagen)
13 May 1936

Telefon Central
3751-9204-9205

STATSTELEFON NR. 7

CABLE-CODES:

ACME
PEERLESS
BENTLEY
PRIVATE

Cooperative Coconut Products, Inc.
P. O. Box No. 37
San Pablo, Laguna
Philippine Islands

Dear Sirs:

I am much obliged for your letter of the 8th April and the samples of your assorted cuts of desiccated Coconut. However, to my regret I have to inform you that *these articles are not of any interest in Denmark.*

Yours truly,

(Sgd.) J. ASMUSSEN

EXHIBIT "E"

COMMONWEALTH OF THE PHILIPPINES
 DEPARTMENT OF AGRICULTURE AND COMMERCE
Bureau of Commerce
 Manila

Address reply to:
 THE DIRECTOR OF COMMERCE
 Manila

July 14, 1937

The Cooperative Coconut Products, Inc.
 P. O. Box No. 37
 San Pablo, Laguna

Attention of the Deputy Manager

Sir:

In reply to your letter of May 5, 1937, we beg to give you hereunder the following information:

1. Data on the wages of laborers working in the desiccated coconut factories in Ceylon, New Guinea, Dutch East Indies and Straits Settlements are not available. It is presumed however that the wages and other expenses of production are quite low in Ceylon inasmuch as it can export its desiccated coconut to the United States notwithstanding the 3½ cents duty, per pound, levied on the article in that country.

2. *Tariff duties on desiccated coconut:*

Japan		
Sugared		60% ad valorem
other		40% ad valorem
Germany	(per 100 kilos)	4 marks or about P32.72
Great Britain		10% ad valorem
China		15% ad valorem
Hongkong		(not available)
France (per 100 kilos)		
sugared, edible		567 francs or about P43.93
other, edible		288 francs or about P22.32

(furnished by the French Consulate)

3. The following are the values of the monetary units of Ceylon, Dutch East Indies including New Guinea, and Straits Settlements in terms of Philippine peso at the current exchange rate:

Ceylon, (rupee)	P0.7520
Dutch East Indies (guilder)	1.1225
Straits Settlements (dollar)	1.1710

Hoping that the foregoing information will serve your purpose, we remain

Very respectfully,

(Sgd.) CORNELIO BALMACEDA
Director of Commerce

EXHIBIT "F"

COMMONWEALTH OF THE PHILIPPINES
DEPARTMENT OF AGRICULTURE AND COMMERCE
Bureau of Commerce
Manila

In reply address:
The Director of Commerce
Manila

May 20, 1937

The Cooperative Coconut Products, Inc.
San Pablo, Laguna
P. O. Box No. 37

Attention of the Deputy Manager

Sir:

With further reference to our letter of the 14th instant, we take pleasure in giving you additional information on the desiccated coconut industry of Ceylon.

According to the Tariff Information Surveys, Series of 1920, of the United States Tariff Commission, the wages for common labor in the Ceylon desiccated industry ranged from P0.20 to P0.40 per day.

According to Mr. Pratt in his article "Coconut and its Products" published in the Philippine Journal of Science Vol. IX A2, the shellers and shavers of the coconuts for making desiccated coconut were paid in 1913 from P0.26 to P0.32 per 1,000 nuts, good workers of either sex handling from 1,500 to 2,000 nuts per day. Children carrying nuts, etc. receive about P0.20 a day. The men working at the machines which cut the nuts into quarters by means of the saw received from P0.32 to P0.40 per 1,000 nuts.

The total acreage planted to coconuts is around 303, 644 hectares with an estimated production of 1,250,000 nuts. The average palm yields from 40 to 60 nuts per year. One thousand nuts produce an average of 150 kilograms of desiccated coconut although in the northern district of Ceylon sometimes 173 kilograms is produced.

The total exports of Ceylon of desiccated coconut more or less represent the total production. The annual exports of Ceylon as

gathered from the Annual Reports of the Director of Agriculture of Ceylon from 1931-1935 are as follows:

1931	33,466 tons
1932	29,950 "
1933	39,492 "
1934	32,300 "
1935	33,400 "

It may interest you to know also that the annual shipments of Ceylon to the United States had been decreasing. The bulk of Ceylon exports are shipped to United Kingdom, Germany, Spain, France, Belgium, Sweden and Holland. It is encouraging to note on the other hand, that the Philippine product is maintaining its hold in the American market. The following comparative figures show the annual exports of the Philippines and Ceylon of desiccated coconut to the United States:

	<i>From the Philippines</i>		<i>From Ceylon</i>	
	<i>Pounds</i>	<i>Dollars</i>	<i>Pounds</i>	<i>Dollars</i>
1922	798,630	89,018	33,619,910	2,422,132
1923	8,610,153	869,474	35,999,627	2,783,643
1928	46,695,592	4,004,620	13,637,860	1,105,989
1930	45,343,328	3,277,404	5,191,140	302,224
1931	37,133,372	1,936,424	4,064,051	174,491
1932	36,303,401	1,595,350	1,159,400	38,367
1933	39,694,497	1,655,278	1,490,915	65,386
1934	51,883,889	2,212,294	1,523,480	53,385
1935	74,679,455	3,781,274	956,650	39,312

Hoping to be of further service, we remain

Very respectfully,

(Sgd.) CORNELIO BALMACEDA
Director of Commerce

EXHIBIT "G"

LIST OF STOCKHOLDERS OF THE COOPERATIVE COCONUT
 PRODUCTS, INC., WHO ARE AT THE SAME
 TIME COCONUT PLANTERS

<i>Names</i>	<i>Towns</i>	<i>Provinces</i>
Arsenio Escudero	San Pablo	Laguna
Rosario A. de Escudero	San Pablo	Laguna
Angel de Rama	San Pablo	Laguna
Valentin Dalañgin	Labasin, Tiaon	Tayabas
Fausto Aguila	Labasin, Tiaon	Tayabas
Conrado Escudero	San Pablo	Laguna
Primo Enriquez	Labasin, Tiaon	Tayabas
Caridad Escudero	San Pablo	Laguna
Simeon Capunitan	Labasin, Tiaon	Tayabas
Rosita Escudero	San Pablo	Laguna
Agustin Carmona	Labasin, Tiaon	Tayabas
Corazon M. de Azcarrate	San Pablo	Laguna
Angel Hernandez	Labasin, Tiaon	Tayabas
Feliza M. de Estiva	San Pablo	Laguna
Eulogio Mortil	Labasin, Tiaon	Tayabas
Gonrado Mariño	San Pablo	Laguna
Melecio Romero	Labasin, Tiaon	Tayabas
Jose de Gorostiza	San Pablo	Laguna
Aurelio Artillaga	Labasin, Tiaon	Tayabas
Paz G. de Reyes	San Pablo	Laguna
Ramon Araniago	Labasin, Tiaon	Tayabas
Marino de Gorostiza	San Pablo	Laguna
Isidro Cosico	Labasin, Tiaon	Tayabas
Isidro Cortez	Labasin, Tiaon	Tayabas
Rosario B. de Gorostiza	San Pablo	Laguna
Doroteo Capistrano	Labasin, Tiaon	Tayabas
Damian Adap	Bay	Laguna
Cipriana Vda. de Angeles	San Pablo	Laguna
Jose Tiosejo	Los Baños	Laguna
Eustaquio Fule	San Pablo	Laguna
Ciriaco Guadalupe	San Pablo	Laguna
Asuncion D. Alcantara	San Pablo	Laguna
Eugenio Ambray	San Pablo	Laguna
Rosario R. de Pajarillo	Tiaon,	Tayabas
Justo Liwag	Tiaon,	Tayabas
Remedios Dimaculañgan	Pila	Laguna
Isidro C. Castillo	Tiaon,	Tayabas

<i>Names</i>	<i>Towns</i>	<i>Provinces</i>
Epifanio Morales	Tiaon,	Tayabas
Maxima Vda. d eMayo	Tiaon,	Tayabas
Artemio Recto	Tison,	Tayabas
Emilia J. Santos	San Pablo	Laguna
Paciencia M. de Taña	Santa Cruz	Laguna
Meliton Brion	San Pablo	Laguna
Florencio Cuello	Magampon, San Pablo	Laguna
Victorino Aquino	San Pablo	Laguna
Florentino Evangelista	San Pablo	Laguna
Rosario C. de Ocampo	San Pablo	Laguna
Ricardo Reyes	San Pablo	Laguna
Carmen Ticzon de Fule	San Pablo	Laguna
Adelo Belen	San Pablo	Laguna
Norberto Calampiano	San Pablo	Laguna
Abdon Esguerra	San Pablo	Laguna
Juan Faraon	San Pablo	Laguna
Guadalupe Cordero de Brion	San Pablo	Laguna
Feliza B. de Malison	Candelaria	Tayabas
Honorio Montecillo	Candelaria	Tayabas
Aurelia Aro	Candelaria	Tayabas
Mesiton Rivera	Pila	Laguna
Petra Brion	San Pablo	Laguna
Claudia M. de Escudero	San Pablo	Laguna
Clarita E. de Rama	San Pablo	Laguna
Adelaida E. de Ambray	San Pablo	Laguna
Elena Escudero	San Pablo	Laguna
Manuel Escudero	San Pablo	Laguna
Arsenio Escudero, Jr.	San Pablo	Laguna
Consuelo Escudero	San Pablo	Laguna
Placido Escudero	San Pablo	Laguna
Antonio Sandig	Labasin, Tiaon	Tayabas
Anastacio Artillaga	Labasin, Tiaon	Tayabas
Emeterio Saguido	Labasin, Tiaon	Tayabas
Jose Hernandez	Labasin, Tiaon	Tayabas
Alfonso Mañevo	Labasin, Tiaon	Tayabas
Higino Mortil	Labasin, Tiaon	Tayabas
Marcelino Tolentino	Labasin, Tiaon	Tayabas
Raymundo Mañevo	Labasin, Tiaon	Tayabas
Cayetano Alidio	Labasin, Tiaon	Tayabas
Florentino Mariño	San Pablo	Laguna
Restituto Mariño	San Pablo	Laguna
Fortunata Mariño	San Pablo	Laguna
Vicente de Gorostiza	San Pablo	Laguna

<i>Names</i>	<i>Towns-</i>	<i>Provinces</i>
Cruz de Gorostiza	San Pablo	Laguna
Domingo Almeda	San Pablo	Laguna
Marciano Arandia (Heirs)	San Pablo	Laguna
Manuel Quisumbing	San Pablo	Laguna
Leocadio Glorioso	San Pablo	Laguna
Serapio Banaad	San Pablo	Laguna
Gregorio Almeda	Tanauan	Batangas
Potenciano Malvar	San Pablo	Laguna
Mario Belen	San Pablo	Laguna
Justo Recto	Tiaon,	Tayabas
Emilio Ynciong c/o R. de Pajarillo	Tiaon,	Tayabas
Emmanuel Conty	Tiaon,	Tayabas
Vicente Templo	Lipa	Batangas
Cristeta de Liwang	Tiaon,	Tayabas
Roberto Alijandrino	Tiaon,	Tayabas
Eliseo Silva	Lipa	Batangas
Pastor Mayo	Tiaon.	Batangas
Sixto Alcantara	Manila	Philippines
Juan Brion	San Pablo	Laguna
Eustaquia Tolentino	San Pablo	Laguna
Marcial Azada	San Pablo	Laguna
Agatona Vda. de Fule	San Pablo	Laguna
Fortunato Manzanero	San Pablo	Laguna
Ramona A. de Tolentino	San Pablo	Laguna
Paz Fule de Abrera	San Pablo	Laguna
Bernardo Adriano	San Pablo	Laguna
Fernando Bautista	San Pablo	Laguna
Maximo Briñas	San Pablo	Laguna
Cesario Belen	Alaminos	Laguna
Crispina de Marquez	Candelaria	Tayabas
Macario Aro	Candelaria	Tayabas
Maria Mendoza	Candelaria	Tayabas
Melchor Acro	Candelaria	Tayabas
Lolita Aro	Candelaria	Tayabas
Cirila Buensuceso	San Pablo	Laguna
Enrique Bautista	San Pablo	Laguna
Jose Fule	Alaminos	Laguna
Lazaro del Valle	Candelaria	Tayabas
Crisanto de los Reyes	Arayat	Pampanga
Simplicio Banayo	San Pablo	Laguna
Roman Luistro	San Pablo	Laguna
Emilio Sahagun	Alaminos	Laguna

<i>Names</i>	<i>Towns</i>	<i>Provinces</i>
Gregorio Librojo	San Pablo	Laguna
Nicomedes Belen	Alaminos	Laguna
Concordia Amat	Tiaon	Tayabas
Manuel Tiaoque c/o La Perla	Manila, P. I.	
Corazon Rivera	Pila	Tayabas
Silvestre & Jaime Bautista	Manila, Philippines	
Josefina Amat	Tiaon	Tayabas
Sotero de Luna	San Pablo	Laguna
Barbara de Calatraba	San Pablo	Laguna
Sancho Lazaro	Rizal	Laguna
Antonio Malveda	San Pablo	Laguna
Jesus de Luna	San Pablo	Laguna
Sabas Cabrera	San Pablo	Laguna
Catalina B. de Calampiano	San Pablo	Laguna
Macario Gatchalian	Sta. Cruz	Laguna
Piacida Mangubat	San Pablo	Laguna
Eufrosino Roxas	Alaminos	Laguna
Amparo B. de Mole	San Pablo	Laguna
Hermanos Quisumbing	San Pablo	Laguna
Dominador Caiyod	San Pablo	Laguna
Consuelo F. de Cornista	San Pablo	Laguna
Diego Cabrera	San Pablo	Laguna
Roman Manalad	San Pablo	Laguna
Lorenzo Latorre	Paiisa, Tiaon	Tayabas
Ramon Salgado	Pila	Laguna
Salustia Vda. de Olaguibel	Lipa	Batangas
Maria Vda. de Castillo	Tiaon	Tayabas
Antonio S. Silva	Lipa	Batangas
Manuel Rivera	Pila	Laguna
Anselmo Brion	San Pablo	Laguna
Raymundo Bautista	San Pablo	Tayabas
Juan Seña	1006 Azcarraga, Manila, Philippines	
Simplicia Hernandez	Boundary—Laguna-Tayabas	
Ignacio Yerro	San Pablo	Laguna
Valeria de Mesa	Alaminos	Laguna
Potenciano Bargados	San Pablo	Laguna
Ramon Dimaculañgan (Heirs)	Pila	Laguna
Basilio Escueta	Alaminos	Laguna
Benito Depasupil	Alaminos	Laguna
Marcelo D. Abrigo	Alaminos	Laguna
Eusebio M. Lopez	San Juan	Batangas
Ediat, Zenayda Alcantara	San Pablo	Laguna
Aurea A. de Averion	Alaminos	Laguna

<i>Names</i>	<i>Towns</i>	<i>Provinces</i>
Vicente Amante	San Pablo	Laguna
Basilisa Tan	San Pablo	Laguna
Roman Serrano	San Pablo	Laguna
Sabas Atienza	Tiaon	Tayabas
Inocencio Delgado	270 G. Tuason, Manila,	Philippines
Rufino Cariquitan	San Pablo	Laguna
Geronimo Amatorio	Tiaon	Tayabas
Primo Sanchez	San Pablo	Laguna
Manue del Valle	Candelaria	Tayabas
Leodegario Calabia	San Pablo	Laguna
Julio Escueta	San Pablo	Laguna
Panfilo Estrellado	San Pablo	Laguna
Pacifico B. de Mesa	Alaminos	Laguna
Alonso Fule	San Pablo	Laguna
Isabelo Eubinag	San Pablo	Laguna
Generoso Nadres	Candelaria	Tayabas
Arsenio Salcedo	Candelaria	Tayabas
Ricardo Nadres	Candelaria	Tayabas
Apolonia Vda. de Gonzalez	Candelaria	Tayabas
Juan de Ramos	Candelaria	Tayabas
Rufino Villadiego	Candelaria	Tayabas
Juan Javier	San Pablo	Laguna
Jesus de Mesa	San Pablo	Laguna
Crispin Cordero	San Pablo	Laguna
Florencio Hernandez	San Pablo	Laguna
Emilio Pugeda	San Pablo	Laguna
Domingo B. Ticzon	San Pablo	Laguna
Esmenia Lindog	San Pablo	Laguna
Ambrosio Gonzalez	San Pablo	Laguna
Leoncio Lumanglas	Los Baños Elem. School	Laguna
Juanito de Castro	San Pablo	Laguna
Lucas de Rojas	Tiaon	Tayabas
Emeterio Banzuela	Alaminos	Laguna
Alfonso Farcon	San Pablo	Laguna
Gregorio Laurel	San Pablo	Laguna
Jose T. Averion	Alaminos	Laguna
Antonio Luancing	Rosario	Batangas
Jacinta Bautista	San Pablo	Laguna
Elias Esguerra	San Pablo	Laguna
Francisco Avecilla	Alaminos	Laguna
Herminigildo Deveza	San Pablo	Laguna
Felipe Cierte	San Pablo	Laguna
Eligio Flores	Alaminos	Laguna

<i>Names</i>	<i>Towns</i>	<i>Provinces</i>
Eleuterio Belen	Alaminos	Laguna
Severino Becomong	San Pablo	Laguna
Rosita B. de Belen	San Pablo	Laguna
Generosa D. Garcia	San Pablo	Laguna
Gaudencio Funtanilla	San Pablo	Laguna
Artemio A. Averion	Alaminos	Laguna
Fernando Barberan	Alaminos	Laguna
Aniceto Perez	Tiaon	Tayabas
Jacinto Valenzuela	Sta. Cruz	Laguna
Clemente B. de Mesa	Alaminos	Laguna
Aurelio F. Boiser	Alaminos	Laguna
Maximino Empamano	San Pablo	Laguna
Emilio Algenio	San Cristobal, San Pablo	Laguna
M. Felismino	San Cristobal, San Pablo	Laguna
Julita de Exconde	San Pablo	Laguna
Vicente Luistro	San Pablo	Laguna
Tomas Carunuan	San Pablo	Laguna
Leon Alvarez, Sr.	San Pablo	Laguna
Jose M. Delgado	2305 E. Mendiola, Manila,	Philippines
Eustaquia Vda de Delgado	c/o Jose M. Delgado	
Concepcion de Averion	Alaminos	Laguna
Mamerta Amat	Tiaon	Tayabas
Mariano de Santos	San Pablo	Laguna
Leoncio S. Cruz	Sta. Cruz	Laguna
Pedro Daya	San Pablo	Laguna
Agripino Santiago	Dolores	Tayabas
Margarita de Lisan	San Pablo	Laguna
Vicente Castillo	Tiaon	Tayabas
Aristeo Mayo	Tiaon	Tayabas
Antonio Robles	Tiaon	Tayabas
Emilio Avanzado	San Cristobal, San Pablo	Laguna
Angel Cabrera	San Pablo	Laguna
Francisco Hernandez	Tiaon	Tayabas
Jose Leveriza	San Pablo	Laguna
Eulogio Dalisay	San Pablo	Laguna
Teofila Magsino	San Pablo	Laguna
Leonor Maralit	San Pablo	Laguna
Felix Guevarra	San Pablo	Laguna
Gavino Leysa	San Luis, Santo Tomas	Batangas
Florencio Malabanan	San Pablo	Laguna
Petronio M. Pasumbal	Tiaon	Tayabas
Potenciano Bustamante	Tiaon	Tayabas
Alejandro Torres	San Pablo	Laguna

<i>Names</i>	<i>Towns</i>	<i>Provinces</i>
Victorino B. Bautista	San Pablo	Laguna
Calixto Imperial	San Pablo	Laguna
Felipa Vda. de Atienza	Tiaon	Tayabas
Apolonio Magsino	Tanauan	Batangas
Faustino Gutierrez	San Pablo	Laguna
Sinforoso Evangelista	San Pablo	Laguna
Sulpicio Ilagan	Batangas	Batangas
Ruperta de Dimayuga	Lipa	Batangas
Damaso Alcantara	San Pablo	Laguna
Geronimo Mabilañgan	San Joaquin, Sto. Tomas	Batangas
Pedro D. Reyes	San Pablo	Laguna
Dalmacio Aquino	San Pablo	Laguna
Tranquilino Karaos	Bulaquin, Tiaon	Tayabas
Manuel de Gala	Candelaria	Tayabas
Eutiquiano Boiser	San Pablo	Laguna
Tomas Umale	Tiaon	Tayabas
Juanito Calo	Pila	Laguna
Francisca U. de Calo	Pila	Laguna
Eulogio Magtibay	San Juan de Bolbok	Batangas
Deogracias Alcantara	San Pablo	Laguna
Eugenio Cruz c/o Bureau of Plant Industry,	Manila, Philippines	
Antipaz L. Pineda	Alaminos	Laguna
Manuel Tiosejo	Los Baños	Laguna
Francisca Tiosejo	Los Baños	Laguna
Dionicio Capinpin	Los Baños	Laguna
Cayetano Alcantara	Manila, Philippines	
Hospicio Gesmundo	San Pablo	Laguna
Maximo Roman c/o Felipe Roman,	Manila, Philippines	
Ruperto Roman	1318 Pennsylvania, Manila, Philippines	
Tomas Carunuñgan, Jr.	San Pablo	Laguna
Celestina Carunuñgan (2o)	San Pablo	Laguna
Leon Alvarez, Jr.	San Pablo	Laguna
Simeon Villadiego	Candelaria	Tayabas
Severino de Gala	Candelaria	Tayabas
Pablo Samson	1201 Antonio Rivera, Tondo, Manila	
Fernando Laureta	San Pablo	Laguna
Aurelia Belarmino	San Pablo	Laguna
Eulalio Tolentino	San Pablo	Laguna
Lauro Cabrera	San Pablo	Laguna
Rufino Lozada	San Pablo	Laguna
Margarito Recto	Tiaon	Tayabas
Ramon Mayo	Tiaon	Tayabas
Bernardino Mauban	San Cristobal, San Pablo	Laguna

<i>Names</i>	<i>Towns</i>	<i>Provinces</i>
Armando D. Palma	Tiaon	Tayabas
Marcosa Vda. de Recto	Tiaon	Tayabas
Roman Umale	Tiaon	Tayabas
Leoncio Opuencia	San Pablo	Laguna
Ignacio Reyes	San Pablo	Laguna
Oscar Reyes	San Pablo	Laguna
Flora Diaz	San Pablo	Laguna
Pax Banaad	San Pablo	Laguna
Arsenio Exconde	San Pablo	Laguna
Juan Capalad	San Pablo	Laguna
Sergio Vasquez	Bay	Laguna
Florentino Guerra	San Pablo	Laguna
Higino E. Pasumbal	Tiaon	Tayabas
Juan Esco	San Pablo	Laguna
Lucas Visey	Rizal	Laguna
Delfin Capistrano	San Pablo	Laguna
Paula de Imperial	San Pablo	Laguna
Alijandro Alvarez y Sra.	San Pablo	Laguna
Juan Carandang	Tanauan	Batangas
Ignacio Montecillo	Alaminos	Laguna
Victoria B. Vda de Fule	San Pablo	Laguna
Agaton Oyson	San Pablo	Laguna
Pedro Consignado	Nagcarlan	Laguna
Maria & Pablo Dilag	San Pablo	Laguna
Jose Plantilla	Nagcarlan	Laguna
Esteban Aquino	San Pablo	Laguna
Marcos Paulino	San Pablo	Laguna
Regino T. Cruz	San Pablo	Laguna
Vidal Supeña	San Pablo	Laguna
Casimiro H. Belen	San Pablo	Laguna
Felix Guadalupe	San Pablo	Laguna
Ricardo Torres	San Pablo	Laguna
Anselmo Brion	San Pablo	Laguna
Jose Catipon (Heirs)	San Pablo	Laguna
Felipe Roman	1318 Pennsylvania, Manila,	Philippines
Zacarias B. Ticzon	San Pablo	Laguna
Gloria Tiosejo	Los Baños	Laguna
Jose M. Capinpin	Los Baños	Laguna
Idefonsa G. Alcantara	Manila, Philippines	
Manuel Roman	1318 Pennsylvania, Manila,	Philippines

<i>Names</i>	<i>Towns</i>	<i>Provinces</i>
Romulo Roman	1318 Pennsylvania, Manila,	Philippines
Vicente Roman	1318 Pennsylvania, Manila,	Philippines
Celestina Carunufgan	San Pablo	Laguna
Isidro Algenio	San Cristobal, San Pablo	Laguna
Bonifacio Aranza	San Pablo	Laguna
Elias Banawa	Lutucan, Sariaya	Tayabas
Ambrosio Banawa	Lutucan, Sariaya	Tayabas
Tomas Lhmuco	1201 Antonio Rivera, Tondo,	Manila, Philippines

EXHIBIT "H"

UNITED STATES—PHILIPPINE TRADE SURVEY

By

UNITED STATES TARIFF COMMISSION

—oOo—

Desiccated Coconut

Page 76

Desiccated coconut first appeared among the Philippine exports in 1922, when the United States placed a duty of 3½ cents per pound on this product and a duty of ½ cent each on raw coconuts. Since then the Philippine export of desiccated coconut products has been almost exclusively to the United States, all of the other market combined never having taken as much as 0.3 per cent of the exports.

There were 11 desiccated coconut factories in the Philippines on January 1, 1936, nine of which were in operation and two of which were temporarily closed. With the exception of two plants in Zamboanga and Davao, on the island of Mindanao, all of the factories are in the provinces of Laguna and Tayabas, on the island of Luzon. Six of them are owned by American investors, two by British, one by Japanese, and one by Chinese. Approximately 80 per cent of the output of the Islands is produced in the American-owned plants.

The unit price of desiccated coconut has tended to follow the general price trend of other coconut products, such as copra and coconut oil, but the fluctuations have been much more moderate. As shown in table 29, the exportation of desiccated coconut to the United States has increased appreciably during the past few years, the volume in 1935 having amounted to over 40 per cent more than in any preceding year during the decade.

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The export of desiccated cocnout is not likely to be vrey seriously affected by the export taxes, since even in the last year of the Commonwealth period (on a basis of present United States duties) Philippine producers will still enjoy a tariff preference in the United States of almost 2.4 cents per pound over other foreign suppliers. Philippine producers, themselves, do not believe that the export taxes will prove a very serious impediment to exports, although they ex-

pect increased competition from Ceylon producers and from producers within the United States during the second 5 years of the Commonwealth period.

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Their ability to continue (after the Philippines attain complete independence on July 4, 1946) exporting desiccated coconut will depend on whether they will be able to reduce their production costs so as to compete in the United States or in other world markets with Ceylon producers. Labor costs are a large element in the production of desiccated coconut and, at present, according to Philippine producers, these are much lower in Ceylon than in the Philippines. Some, but not all, of the manufacturers of desiccated coconut in the Philippine maintain that they will be obliged to abandon their business once their product becomes subject to the full United States duty. Whether this will be the case is problematical, but in any event the complete or partial liquidation of this business would not greatly affect the coconut industry as a whole in the Islands. It would result in a somewhat lessened demand for coconuts, in a slight curtailment in employment and government revenue, and in a loss of some private capital—almost entirely American—to those engaged in the business.

PHILIPPINE DESICCATED COCONUT INDUSTRY
BRIEF
OF THE
FRANKLIN BAKER COMPANY OF THE
PHILIPPINES ET AL

SEPTEMBER 1937

(Photographic Reprint)

FUNDAMENTALS

We Subscribe to the Following as the Fundamentals of Philippine-American Trade Relations:

1. *The trade relations between the United States and the Philippine Islands were definitely determined by the provisions of the Tydings-McDuffie Act until July 4, 1946. That Act, after approval by the President and the Congress of the United States, was formally accepted by the Filipino people. Based thereon many citizens and residents of and investors in the Philippine Islands have incurred obligations and made commitments. The trade relations so determined, in good faith and in fairness, cannot, therefore, be altered to their prejudice. Thus, at least until July 4, 1946:*

(a) *Articles the growth, product, or manufacture of the Philippine Islands should, with no greater limitations than those imposed by that Act, and on a basis of equality with articles the growth, product, or manufacture of the United States, be admitted free of duty into the United States; and*

(b) *Articles the growth, product, or manufacture of the United States should, on a basis of equality with articles the growth, product, or manufacture of the Philippine Islands, be admitted free of duty into the Philippines.*

(c) *No excise or other taxes which directly or indirectly result in any discrimination against the products of either country should be imposed.*

2. *The imposition of export taxes on shipments from the Philippine Islands to the United States from November 15, 1940, and the imposition of import duties by the United States and the Philippine Islands, each on articles the growth, product, or manufacture of the other, from July 4, 1946, will be disastrous to the producers and manufacturers of both countries, and, the time being too short to make the necessary readjustments, to the Philippine Islands in particular, therefore,—*

(a) *The export taxes should be repealed; and*

(b) *Free trade between the two countries, with present or other reasonable quantitative limitations, should be continued after July 4, 1946.*

3. *Irrespective of any change in the political status of the Philippine Islands, a continuation of the present free-trade relations between the United States and the Philippine Islands would be advantageous to both countries;— to the Philippine Islands, because the United States is an essential market for many Philippine products; and to the United States, because the Philippine Islands is a large market for products of agriculture and industry of the United States, and will, if the products thereof continue to be admitted free of duty into the Philippine Islands, be a much larger market in the future. Such free-trade relations between the two countries should, therefore, after July 4, 1946, be continued indefinitely.*

BRIEF
TO THE
JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS
FROM THE
PHILIPPINE DESICCATED COCONUT INDUSTRY
ON THE
TRADE SITUATION
BETWEEN THE
UNITED STATES AND THE PHILIPPINE ISLANDS

PHILIPPINE DESICCATED COCONUT INDUSTRY

First of all, we wish to endorse and approve the Statement of the General Foods Corporation dated New York, June 14, 1937, and the testimony of Mr. E. C. Brown at the Hearings held by your Committee in Washington, D. C., on June 18, 1937.

The desiccated coconut industry was first established in the Philippine Islands after the passage of the Fordney-McCumber Tariff Act in 1922 increasing the duty on desiccated coconut from foreign countries from two cents to three and a half cents a pound. Prior to 1922 no desiccated coconut was manufactured in the Philippine Islands for export, and Ceylon was the principal supplier of the U. S. market. Thereafter, the Philippine industry, brought into being by the tariff of three and a half cents per pound on the Ceylon product entering the U. S. market, rapidly expanded and by 1936, as will be seen from the following table, was supplying practically all the desiccated coconut imported into the United States.

Year	U. S. Imports from P. I. (Duty free)		U. S. Imports from other countries (3½¢ per lb. duty)	
	Thousands of Pounds	Percentage of Total Imports	Thousands of Pounds	Percentage of Total Imports
1923	8,610	18.89	36,976	81.11
1924	16,068	33.96	31,253	66.04
1925	24,509	50.89	23,653	49.11
1926	28,864	59.31	19,801	40.69
1927	33,994	56.89	25,757	43.11
1928	26,696	75.72	14,972	24.28
1929	43,123	85.87	7,096	14.13
1930	45,343	89.75	5,179	10.25
1931	37,133	89.80	4,219	10.20
1932	36,303	96.68	1,246	3.32
1933	39,694	96.20	1,565	3.80
1934	51,884	97.12	1,541	2.88
1935	74,679	98.69	995	1.31
1936	65,098	99.25	491	.75

(Figures for 1923-1935 from U. S. Tariff Commission Report
No. 118, page 116)

There are twelve desiccated coconut factories in the Philippine Islands, ten of which are in operation, and two of which are temporarily closed. Those in operation are as follows:

Erected	Owners and Location	Daily capacity—Cases of 140 lbs.	Capital Invested
1925	Franklin Baker Co. of the Philippines—San Pablo, Laguna	1,000	₱ 500,000
1922	Blue Bar Coconut Co.—Pagsanjan, Laguna	290	250,500
1937	Blue Bar Coconut Co.—Lusacan, Tayabas.	240	
1922	Phil. Desiccated Coconut Corp.—Recodo, Zamboanga	215	177,000
1928	Red V Coconut Products, Ltd.—Magdalena, Laguna	190	500,000
1935	Red V Coconut Products, Ltd.—Lucena, Tayabas	190	
1934	Calamba Sugar Estate—Canlubang, Laguna	255	150,000
1935	Co-operative Coconut Products, Inc.—Tiaong, Tayabas	350	350,000
1935	Sun-Ripe Coconut Products Co.—Magdalena, Laguna	150	250,000
1935	Furukawa Plantation Co., Inc.—Dalaon, Davao	100	100,000
		2,980	₱2,277,500

The total number of skilled and unskilled labor employed in the industry is about 5,000; and the amount of wages paid annually is estimated at ₱1,750,000. Most of the factories are located in the coconut growing districts where the opportunity for industrial employment usually is limited, and they have therefore a stabilizing influence on the economic life of the neighborhood, the wages earned by the factory hands being a welcome addition to the earnings of the families engaged in the production of coconuts on a small scale.

Statistics readily show that with the protection of three and a half cents a pound, Philippine manufacturers have been able gradually to wrest the U. S. market from the Ceylon manufacturers until at the present time almost 100% of the U. S. imports of desiccated coconut come from the Philippine Islands. On the other hand, the Philippine product has never been able to compete with the Ceylon product in the European market which is about twice as large as the U. S. market; this, notwithstanding that the capacity of Philippine desiccated coconut factories is sufficient to produce about 75% more desiccated coconut than is shipped to the U. S. market, provided that a profitable market for the surplus could be found elsewhere. How dependent the Philippine industry is on the U. S. market is readily apparent from the following table showing the ratio of the quantity of desiccated coconut exported to the U. S. to the total quantity of desiccated coconut exported to all countries.

Year	Ratio %	Year	Ratio %	Year	Ratio %
1926 ..	99.8	1930 ..	99.9	1934 ..	100.0
1927 ..	99.7	1931 ..	99.9	1935 ..	99.6
1928 ..	99.9	1932 ..	99.9	1936 ..	98.9*
1929 ..	99.9	1933 ..	99.9		

* In 1936 desiccated coconut to the value of ₱60,911 was exported to Canada.

(Figures for 1926-35 taken from Statement of General Foods Corp., filed with Joint Preparatory Committee on Philippine Affairs at Washington, D. C.)

The reason is, that the Philippine production cost is fully 30% more than the Ceylon cost, largely because of the higher wages paid in Philippine factories. According to manufacturers who have an interest in factories both in the Philippine Islands and Ceylon, the standard scale of wages in Ceylon for unskilled labor—most of the labor employed in the industry is unskilled—is less than 1/3 of the rate paid in Philippine factories, and the relatively highly-paid Philippine laborer is little, if at all, more productive than the Ceylon laborer. The same manufacturers have furnished the following figures on the excess cost of producing Philippine desiccated coconut f. o. b. Manila over the cost of producing Ceylon desiccated coconut f. o. b. Colombo:

1929	Philippine costs were	31%	over	Ceylon costs		
1930	"	"	"	37%	"	"
1931	"	"	"	59%	"	"
1932	"	"	"	26%	"	"
1933	"	"	"	38%	"	"
1934	"	"	"	35%	"	"
1935	"	"	"	33%	"	"
1936	"	"	"	30%	"	"

(From letter of July 8, 1937, from Wood & Selick, Inc., 36 Hudson St., N. Y., to Joint Preparatory Committee, Washington, D. C.)

With an average cost of production during the past eight years 36% higher than the Ceylon cost and with the higher freight, shipping and insurance charges that would be incurred in the shipment of the Philippine product to the European market compared with similar charges from Ceylon, it is obvious that so far as Philippine manufacturers are concerned Ceylon has an actual monopoly of the European market.

Although the imports of Philippine desiccated coconut into the U. S. have largely increased in recent years, the increase has been at the expense of the Ceylon product,

and has not in any way curtailed the business of the U. S. manufacturers who make their products from coconuts imported from Puerto Rico, West Indies and Central America. The production of coconuts in the entire West Indies is only enough for about 25% of the total desiccated coconut requirements of the U. S. market. The production of raw nuts in continental U. S. is negligible and likely to remain so.

The Philippine desiccated coconut industry is not, and the U. S. manufacturers do not regard it as being, competitive with their industry which is confined largely to the production of sweetened desiccated coconut, whereas our production consists entirely of unsweetened desiccated coconut. In fact, some of those engaged in the domestic industry also handle the sale and distribution of Philippine desiccated coconut, and their representatives, at the Proceedings before the Joint Preparatory Committee on Philippine Affairs held at Washington, D. C. on June 18, 1937, expressed themselves as preferring the duty-free Philippine product to the Ceylon product and as being in favor of the Philippine product continuing to enter the U. S. market duty-free.^b For this, there is a number of reasons. Since Philippine desiccated coconut first began entering the U. S. market, there has been a steady improvement in the quality of the product. Moreover, in former years imports from Ceylon were sold outright at fixed prices as they arrived, and no effort was made by the Ceylon manufacturers to distribute the product throughout the country or to protect the buyers against price fluctuations. Philippine manufacturers on the other hand maintain at a considerable expense and outlay of capital adequate stocks at distributing centers throughout the United States, and in their sales contracts, a sample of which is appended,

^b See Proceedings before the Joint Preparatory Committee, Washington, D. C., June 18, 1937.

protect their customers against a fall in prices, thus enabling them to engage in the distribution of the Philippine product with confidence and with very little risk of loss. To such factors are mostly attributed the large increase in the consumption of desiccated coconut in the U. S. in recent years, and the assertion that, granted there is no change in the existing preferential tariff treatment, consumption can be doubled within the next five years.*

Since the Philippine product first entered the U. S. market in 1922, the general trend of prices has been downward. In 1925 the range of selling prices of a large distributor was from 11-1/2 to 13 cents per pound, as compared with 7-1/4 to 7-3/4 cents in 1936.⁴ As any reduction in the tariff on the Ceylon product would undoubtedly eliminate Philippine desiccated coconut from the U. S. market, it is reasonable to assume that this would be followed by higher prices to the U. S. consumer. Even with the protective tariff of three and a half cents per pound, the Philippine industry has not always been profitable. When the recent acute shortage of nuts in the Philippine Islands forced prices up to an unremunerative level for desiccated coconut manufacturers, they nevertheless continued to run their factories at a loss in order to maintain sufficient stocks in the U. S. to meet the requirements of their customers. It has been estimated that in the beginning of this year the high price of coconuts made the Philippine cost of production of desiccated coconut 5 cents a pound more than the Ceylon cost.*

The total value of the exports for the calendar year 1936 was P8,799,690 and for the first six months ending June 30, 1937, P6,837,466. We append a statement of the

* See Proceedings before the Joint Preparatory Committee, Washington, D. C., June 18, 1937.

⁴ See Statement of General Foods Corporation.

* See Statement of Mr. E. C. Brown before the Joint Preparatory Committee on Philippine Affairs, June 18, 1937.

exports of Philippine desiccated coconut for the years 1922 to 1936 inclusive and for the first six months of 1937.¹

The Philippine desiccated coconut industry has grown from small beginnings to be a major Philippine industry and an important factor of the economic life of the nation, as well as a source of considerable revenue to the Philippine government. It is, however, our belief that it can continue to exist only so long as its products enter the U. S. market on an adequate preferential basis, and that the imposition of export taxes would eventually destroy it, unless the present desirable standard of living of Philippine labor is very much lowered. We therefore respectfully submit for your favorable consideration the following:

The Philippine desiccated coconut industry came into being as a result of the Fordney-McCumber Act imposing a tariff of 3-1/2 cents a pound on desiccated coconut from foreign countries.

It has expanded under this protective tariff, but the only profitable market for its product is the U. S. market. It cannot compete in the world's markets with Ceylon where the cost of production is much lower.

The greatly increased use of desiccated coconut in the U. S. is largely owing to the high quality of the Philippine product and to the protective policy of Philippine manufacturers in the matter of prices and distribution.

The effect of the Fordney-McCumber Act has been not to increase but on the contrary to reduce the price of desiccated coconut to the U. S. consumer.

The unsweetened desiccated coconut produced by the Philippine desiccated coconut industry does not enter into competition in the U. S. market with the sweetened product of the U. S. manufacturers.

¹ All figures from Bureau of Customs.

The Philippine desiccated coconut industry meets a need for industrial employment in our coconut-growing districts and is of growing importance in the economic life of the nation.

The imposition of export taxes on Philippine desiccated coconut would very likely be a deathblow to the industry, which respectfully requests an indefinite continuation of the present preferential tariff treatment.

Respectfully,

FRANKLIN BAKER COMPANY OF THE PHILIPPINES
RED, V COCONUT PRODUCTS, LTD.
CALAMBA SUGAR ESTATE
PHILIPPINE DESICCATED COCONUT CORPORATION
FURUKAWA PLANTATION CO., INC.
COOPERATIVE COCONUT PRODUCTS, INC.
SUN RIPE COCONUT PRODUCTS CO.
BLUE BAR COCONUT CO.

**DESICCATED AND SHREDDED COCONUT EXPORTS
FROM THE PHILIPPINES**

	1922		1923	
	Kilos	Value	Kilos	Value
United States	959,674	P 419,042	4,346,939	P1,805,152
Hawaii	—	—	—	—
Japan	—	—	—	—
China	715	306	2,213	1,095
Hongkong	—	—	—	—
Great Britain	—	—	—	—
Germany	—	—	—	—
Spain	—	—	—	—
Canada	—	—	—	—
France	—	—	—	—
	960,389	P 419,348	4,349,152	P1,806,247
	1924		1925	
	Kilos	Value	Kilos	Value
United States	8,126,834	P3,194,826	12,507,700	P5,211,222
Hawaii	—	—	3,700	1,375
Japan	—	—	7,346	3,094
China	1,280	648	3,709	1,729
Hongkong	5,032	1,360	756	326
Great Britain	—	—	—	—
Germany	216	90	—	—
Spain	589	195	—	—
Canada	—	—	—	—
France	—	—	—	—
	8,133,951	P3,197,119	12,523,211	P3,217,746
	1926		1927	
	Kilos	Value	Kilos	Value
United States	14,300,547	P5,503,929	15,136,830	P5,680,572
Hawaii	11,981	4,580	13,460	4,985
Japan	10,284	4,442	6,632	2,821
China	3,519	1,734	26,729	11,742
Hongkong	—	—	—	—
Great Britain	—	—	—	—
Germany	—	—	—	—
Spain	1,460	630	—	—
Canada	—	—	—	—
France	—	—	—	—
	14,327,791	P5,515,315	15,183,651	P5,700,120

**DESICCATED AND SHREDDED COCONUT EXPORTS
FROM THE PHILIPPINES—Continued**

	1928		1929	
	Kilos	Value	Kilos	Value
United States	20,338,711	₱7,436,537	22,269,245	₱7,074,007
Hawaii	20,974	8,354	13,160	5,139
Japan	4,876	2,280	2,238	874
China	—	—	880	227
Hongkong	—	—	—	—
Great Britain	—	—	—	—
Germany	—	—	—	—
Spain	—	—	—	—
Canada	—	—	—	—
France	—	—	—	—
	20,364,561	₱7,447,171	22,285,523	₱7,080,247

	1930		1931	
	Kilos	Value	Kilos	Value
United States	19,906,968	₱5,917,419	16,803,469	₱3,639,382
Hawaii	22,484	7,239	17,981	4,810
Japan	2,007	656	—	—
China	1,008	266	—	—
Hongkong	10	5	—	—
Great Britain	279	94	173	55
Germany	30	10	10	10
Spain	—	—	—	—
Canada	—	—	—	—
France	—	—	—	—
	19,932,786	₱5,925,689	16,821,633	₱3,644,257

	1932		1933	
	Kilos	Value	Kilos	Value
United States	16,061,333	₱3,230,891	17,901,865	₱3,359,994
Hawaii	10,909	2,875	14,562	3,172
Japan	—	—	7,794	1,650
China	—	—	64	12
Hongkong	—	—	—	—
Great Britain	403	136	—	—
Germany	—	—	—	—
Spain	—	—	2,990	781
Canada	—	—	—	—
France	—	—	—	—
	16,072,645	₱3,233,402	17,927,275	₱3,365,609

**DESICCATED AND SHREDDED COCONUT EXPORTS
FROM THE PHILIPPINES—Continued**

	1934		1935	
	Kilos	Value	Kilos	Value
United States	23,524,464	P4,506,471	33,816,068	P7,883,876
Hawaii	11,273	2,608	118,404	33,567
Japan	—	—	3,278	626
China	—	—	551	147
Hongkong	—	—	—	—
Great Britain	—	—	140	44
Germany	—	—	29,600	6,370
Spain	—	—	—	—
Canada	—	—	—	—
France	—	—	—	—
	23,535,737	P4,509,079	33,968,041	P7,924,630

	1936		6 months to June 30, 1937	
	Kilos	Value	Kilos	Value
United States	33,288,955	P8,706,276	19,507,525	P6,762,429
Hawaii	20,386	5,590	19,728	6,420
Japan	43,275	6,728	11,390	2,515
China	2,634	497	5,463	1,363
Hongkong	43,686	8,566	3,895	1,284
Great Britain	20,386	5,590	—	—
Germany	25,530	5,522	—	—
Spain <i>Canada.</i>	287,952	60,911	228,510	63,555
Canada <i>France.</i>	18	10	—	—
France <i>Spain.</i>	—	—	—	—
	33,792,822	P8,799,690	19,776,511	P6,837,566

U. S. A. SALES CONTRACT FORM

SELLER: *(Name of Seller), Agents for the (Name of Coconut Co.)*

BUYER:

SOLD THRU:

COMMODITY:

QUALITY:

QUANTITY:

SHIPMENT:

PRICE:

PAYMENT:

**PACKING and
WEIGHT:**

CONDITIONS

- (1) Seller guarantees the price against his decline to date of delivery of each parcel.
- (2) Delivery complete upon, and goods at Buyer's risk after, receipt of goods by carrier. Buyer is obligated to furnish specifications for shipment in ample time to enable Seller to execute delivery within the period or periods named. If shipments are to be made over a period, Seller shall not be obligated to deliver more than 40% of the total quantity covered hereby during any one month unless otherwise specifically agreed. If shipping instructions are not furnished, as above provided for, any portion of this contract not withdrawn within the prescribed period will be considered cancelled.
- (3) If during the life of this contract, the financial responsibility of the Buyer becomes impaired or unsatisfactory to the Seller, cash payments or satisfactory security may be required by the Seller.
- (4) Seller shall not be liable for delay in delivery hereunder caused by Act of God; war conditions, governmental, state or municipal regulations or action, embargo, fire, flood, accident, strike or other labor trouble, transportation difficulty; or without construing the foregoing as words of limitation, any other cause beyond Seller's control.
- (5) Seller reserves the right, with respect to all goods undelivered hereunder, to add to the price herein provided any tax and/or customs or import duties or other governmental charge upon the production and/or sale and/or shipment of the material herein specified, or upon the material from which it is produced, imposed by Federal, State, Municipal, or other Governmental authorities, and hereafter becoming effective within the life of this contract.
- (6) Seller guarantees the goods free from rancidity for sixty days following each delivery.

ACCEPTED

(Name of Seller)

..... BUYER BY SELLER

For and on behalf of the
(Name of Coconut Co.)

BROKER'S COPY

PHILIPPINE DESICCATED COCONUT INDUSTRY
BRIEF OF THE
GENERAL FOODS CORPORATION
(Photographic Reprint)

(535)

THE JOINT PREPARATORY COMMITTEE ON PHILIPPINE
AFFAIRS,
WASHINGTON, D. C.

Sirs:

This statement is filed with your Committee pursuant to public notice dated May 28, 1937, issued by Hon. Francis B. Sayre, Assistant Secretary of State and Acting Chairman of your Committee. The purpose of the statement is to present the views of General Foods Corporation with respect to the measures necessary to insure the survival of the desiccated coconut industry in the Philippine Islands from and after July 4, 1946, or such earlier date as may mark the complete political independence of the islands. It is believed that the views presented in this statement are shared by other Philippine producers of desiccated coconut.

General Foods Corporation, through its Philippine subsidiary, Franklin Baker Company of the Philippines, has a substantial investment in the Philippine desiccated coconut industry. Upon the occasion of the investigation in the Philippine Islands in 1935 by the United States Trade Survey Committee, our subsidiary supplied to that Committee the information requested by it with respect to our subsidiary's investment in the industry, number of employees, wages and salaries paid, etc. Attached hereto and marked "Exhibit A" is a copy of the questionnaire addressed to our subsidiary by the Committee, dated October 7, 1935; also attached hereto, and marked "Exhibit B," is a copy of our subsidiary's reply, dated October 28, 1935.

Our net investment in the industry in the Philippine Islands continues to be in the neighborhood of ₱500,000.00

The number of employees is approximately 1,200. The total wages and salaries paid for the calendar years 1934, 1935, and 1936, and for the first quarter of 1937, are indicated below:

1934	₱388,499.79
1935	₱480,145.00
1936	₱489,141.00
First Quarter of 1937	₱125,703.00 .

In the statement heretofore filed with the United States Trade Survey Committee (Exhibit B), the following opinion was given with respect to the effect of complete Philippine independence upon our investment in the desiccated coconut industry in the Philippine Islands:

We believe that we shall be able to continue in business during the first few years of the second half of the transition period under the Commonwealth Government or possibly even during the whole period, but there can be no doubt that we shall have to go out of business as soon as the full U. S. tariff is made to apply to imports of Desiccated Coconut from the Philippines.

Imposition of any import duties much higher than the rate which we have to pay during the transition period will bring the collapse of the Desiccated Industry in the Philippines and the total loss of all investments and turn the business back to Ceylon.

What we said in that statement is still true and we can here do little more than amplify the demonstration of its truth contained in Exhibit B.

We are aware that a contrary opinion has been expressed. The following statement is made in UNITED STATES TARIFF COMMISSION, Report No. 118, Second Series,

entitled "United States-Philippine Trade", published by the Government Printing Office in 1937:

The Philippine exports to the United States which appear most likely to be curtailed sharply as a result of the provisions in the Independence Act are sugar, coconut oil, tobacco and tobacco products, embroideries, and pearl buttons. *It is probable that cordage, straw hats, desiccated coconut, canned pineapples, and catch will be less severely affected.* Sales of these products are likely to continue even after independence, although volume and profits will probably be reduced (p. 164). (Italics ours.)

There are no facts cited in support of this extraordinary opinion with respect to the survival of the desiccated coconut industry after independence. On the contrary, *the facts set out in the publication itself* point irresistibly to precisely the contrary result. The desiccated coconut industry in the Philippine Islands is wholly the result of preferential tariff treatment of Philippine desiccated coconut by the United States. More specifically, it is the result of an *increase in preference* from two cents a pound to three and one-half cents a pound. Prior to 1922 the rate of duty on desiccated coconut imported into the United States was two cents a pound; the amount of the Philippine preference was, therefore, at that time a *theoretical* two cents per pound. The preference was theoretical only, however, *because there was no desiccated coconut industry in the Philippine Islands.* In 1922 the Fordney-McCumber Tariff Act increased the duty to three and one-half cents per pound and, as the United States Tariff Commission study says (p. 76): "Desiccated coconut first appeared among the Philippine exports in 1922,

when the United States placed a duty of 3½ cents per pound on this product * * * ”

Desiccated coconut is also produced (outside of the United States) in Ceylon, Dutch East Indies, and the Straits Settlements. Ceylon and the Philippine Islands are the only outside producers of any real importance.

There is only one possible fact upon which the above opinion (that the Philippine desiccated coconut industry can survive independence) might soundly be based, and that fact is absent. If today Philippine desiccated coconut could compete successfully in the markets of the world with desiccated coconut from Ceylon and the other producing points outside of the United States, some such opinion might be warranted. If, in other words, it were true that Philippine desiccated coconut were presently being sold in Europe, or anywhere else outside of the United States, the opinion might be ventured that Philippine desiccated coconut could survive on a world-price basis. The fact, however, is otherwise, as is shown by the following figures taken from the United States Tariff Commission study above referred to (p. 77):

YEAR	RATIO OF QUANTITY OF DESICCATED AND SHREDDED COCONUT EXPORTED TO THE UNITED STATES TO TOTAL QUANTITY OF DESICCATED AND SHREDDED COCONUT EXPORTED TO ALL COUNTRIES (In per cent.)
1926	99.8
1927	99.7
1928	99.9
1929	99.9
1930	99.9
1931	99.9
1932	99.9
1933	99.9
1934	100.0
1935	99.6

The above figures show that Philippine desiccated coconut is not competing on a world-price basis, but that virtually every pound of it comes to the United States, where it enjoys a three and one-half cents per pound preference. If any Philippine desiccated coconut, in the ten years from 1926 to 1935, competed on a world-price basis, it was *less than four-tenths of one per cent. of the total amount exported from the Philippine Islands*. But, as a footnote to the table in the United States Tariff Commission study (p. 77) shows, "*the major portion of the small annual shipments not credited to the United States in this table are shipped to the Hawaiian Islands*" (italics ours).

The following table shows the imports of desiccated coconut into the United States in pounds for the 12 years from 1925 to 1936, both inclusive, from the Philippine Islands and from Ceylon. It also shows the dollar value of the Philippine imports. In the fifth column are shown the United States imports of desiccated coconut produced in the Philippine Islands by our subsidiary, Franklin Baker Company of the Philippines. In the last column are shown our United States selling prices for such coconut, in cents per pound:

YEAR	U. S. IMPORTS FROM PHILIPPINE ISLANDS		U. S. IMPORTS FROM CEYLON (Pounds)	GENERAL FOODS' IMPORTS OF DESICCATED COCONUT PRODUCED BY ITS PHILIPPINE SUBSIDIARY (Pounds)	RANGE OF GENERAL FOODS' SELLING PRICES ON ITS PHILIPPINE DESICCATED COCONUT (Cents per pound)
	(Pounds)	(Dollars)			
1925	24,508,754	\$2,382,812	22,598,920	15,632,000	11.50-13.00
1926	28,864,265	2,751,964	21,095,157	16,033,000	12.00
1927	33,994,448	2,840,286	26,271,028	15,560,000	12.25
1928	46,695,592	3,718,268	13,765,676	26,478,000	10.50-11.75
1929	43,123,234	3,537,004	6,487,300	22,932,000	9.75-10.75
1930	45,343,328	2,958,710	5,234,310	23,481,000	8.75-10.00
1931	37,133,372	1,819,691	4,163,301	16,926,000	6.25- 6.75
1932	36,303,401	1,615,446	1,166,900	15,177,000	6.50- 7.25
1933	39,694,497	1,679,997	1,498,523	18,697,000	7.25- 7.50
1934	51,883,889	2,253,236	1,541,498	22,966,000	7.50- 7.75
1935	74,679,455	3,941,938	994,781	29,551,000	7.75
1936	65,097,872	3,536,845	490,687	28,253,000	7.25- 7.75

As the table shows (columns 1, 2, and 4), what has happened is that the Philippine Islands, with the benefit of a three and one-half cents per pound preferential, have been able to capture from Ceylon practically the entire volume of imports of desiccated coconut into the United States. Any opinion to the effect that the Philippine desiccated coconut industry can continue to dominate the United States market after independence must be based on the view that that industry can compete on an even, or substantially even, basis with the Ceylon industry. The facts supply a complete refutation of any such opinion. A principal element in the cost of desiccated coconut is wages of labor. The manufacture of the product entails a high percentage of hand operations, and a careful comparison between prevailing wage rates in the Philippine Islands and in Ceylon will, we believe, show how idle it is to suppose that there can be effective competition on a world-price basis between desiccated coconut produced in the two countries, unless and until there is a drastic and painful reduction of the wages and standard of living of Philippine labor. We believe a careful investigation of prevailing wage rates and living standards in the two countries will show that the living standard in Ceylon is deplorably lower than in the Philippine Islands and that wage rates in Ceylon are about one-third of the Philippine rates. Ceylon also has lower raw material and transportation costs.

The desiccated coconut industry is valuable to the Philippine Islands in many ways, and its destruction would mean a severe economic loss for them. The dollar values of desiccated coconut exports is shown above, by years, from 1925 to 1936, both inclusive (excluding the minute quantity not exported to the United States). The industry furnishes employment to several thousand work-

ers; it purchases in the islands not only all of its raw material, but also packing materials in large quantities and other supplies and services.

The continued existence of the Philippine desiccated coconut industry is also of economic importance to the United States, and its destruction will have adverse effects other than and in addition to the loss to American investors of their investments in the six plants in the islands owned by them. Those six plants produce approximately 80 per cent., of the island output of desiccated coconut. (The total number of desiccating plants is 11, of which nine are in operation, two being temporarily closed. UNITED STATES TARIFF COMMISSION study, *supra*, p. 76.) We direct attention particularly to our domestic selling prices, shown on page 5. The prices being competitive they may be taken as market prices, and their downward trend shows that the price of imported desiccated coconut to American users has been drastically reduced with the rise of the Philippine desiccated coconut industry and the great increase in the consumption of the product in the United States.

In the statement of our subsidiary to the United States Trade Survey Committee (Exhibit B), we indicated, speaking for ourselves, our opinion that our Philippine operation could survive the export taxes imposed by the Philippine Independence Act (U. S. Code, tit. 48, § 1236) during the sixth to tenth years, inclusive, after the inauguration of the Commonwealth Government. Under present tariff rates the export tax in the last year before independence will be .875 cents per pound. Of course, whether the Philippine desiccated coconut industry as a whole or, indeed, any individual producer can, in fact, survive, is mainly a matter of conjecture. On the above

basis, Philippine desiccated coconut, during the last year before independence, will enjoy a preference, in this market, of 2.625 cents per pound. However, it is to be borne in mind that the industry was non-existent until called into being by a preference of *three and one-half cents* per pound. So long as the preference was only *two cents* per pound no desiccated coconut was produced in the Philippine Islands.

It is of particular importance for your Committee to note that, whereas, in the usual case, tariff preferences are opposed by American producers of the commodity involved, the desiccated coconut situation is unique in that American producers have not and, so far as we are advised, will not oppose the continuance of even the full three and one-half cents per pound Philippine preference. Our Franklin Baker Division plant at Hoboken, N. J., is the largest producer of desiccated coconut in the United States; notwithstanding that fact we seriously urge your Committee to recommend a tariff preference for Philippine desiccated coconut of not less than 2.625 cents a pound, from and after the date upon which the islands become independent of the United States.

We understand we have until noon of July 10, 1937, to file a further statement, and we understand also that we may supplement orally the views here presented. In the event your Committee desires us to furnish any further information, either orally or in writing, we shall be pleased to do so.

Dated: New York, N. Y., June 14, 1937.

GENERAL FOODS CORPORATION,
By CLARENCE FRANCIS,
President.

Exhibit A.**UNITED STATES TRADE SURVEY COMMITTEE**

FRANK A. WARING
BEN D. DORFMAN
J. BARTLETT RICHARDS

410 Heacock Building
Manila, P. I.
Telephone 2-35-95

OCTOBER 7, 1935

FRANKLIN BAKER COMPANY
P. O. Box 600
Manila

GENTLEMEN :

With the idea of compiling all the relevant data possible about American interests in the Philippine Islands, for use in the forthcoming Trade Conference, we are endeavoring to obtain information regarding the amount of investment here by citizens of the United States. It would be particularly interesting to have this information in the following form :

- Land and buildings.
- Machinery and equipment (cost less depreciation).
- Total net investment.
- Bonded indebtedness (less sinking fund).
- Amount held by American citizens.
- Capital stock outstanding.
- Amount held by American citizens.

We would also be interested in having your comments on the effect on the value of this investment, of the economic provisions of the Independence Act, if carried out in their present form. As you doubtless know, the act provides for an export tax of 5 percent of the American duty in the sixth year of the Commonwealth, increasing 5 percent each year until the tenth year. After the end of the tenth year, the Philippines will be independent and

Exhibit A.

Philippine goods will pay the full American duties. In considering the effect on investment, please keep in mind the possibility of continuing operations as at present, of liquidation, or of re-establishment in the United States or some other country.

It would also be appreciated if you could give us the following information regarding employment:

Total wages and salaries paid.

Total number of employees.

Total wages and salaries paid to American citizens.

Number of American citizens employed.

You may be assured that this information will be regarded as strictly confidential and will not even be made available to any other government department. It will not be used in such form as to permit anyone to obtain information about any particular firm.

We shall greatly appreciate your cooperation in this matter.

Sincerely,

J. BARTLETT RICHARDS

Exhibit B.**FRANKLIN BAKER COMPANY**

OF THE PHILIPPINES

JOHN W. CRAIG

PRESIDENT AND GENERAL MANAGER

CABLE ADDRESS
CRAGLO MANILA
 CODE USED
 BENTLEY'S COMPLETE PHRASE CODE
 A. B. C. CODE 5TH EDITION
 A. B. C. CODE 6TH EDITION

MAIN OFFICE
 CALLE PUREZA
 SANTA MESA
 P. O. BOX No. 600, MANILA, P. I.
 TELEPHONES
 6-75-20
 6-75-21

FACTORIES
 SAN PABLO, LAGUNA, P. I.
 P. O. BOX No. 124

SAN PABLO, LAGUNA, P. I.

OCTOBER 28, 1935

UNITED STATES TRADE SURVEY COMMITTEE
 410 Heacock Building
 Manila

Sirs:

In reply to your communication of the 7th inst., we beg to submit the following data and information:

Investment in land	₱ 189,944.75	
Depreciation	—	
Net investment in land		₱189,944.75
Investment in buildings ..	₱ 260,633.32	
Investment in machinery and equipment	₱1,241,319.29	
TOTAL	₱1,501,952.61	
Depreciation	₱1,183,199.04	
Net investment in buildings, machinery and equipment		₱318,753.57
TOTAL NET INVESTMENT		₱508,698.32

Bonded indebtedness	NONE
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Capital stock outstanding	₱50,000.00
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All held by American citizens or corporations.

Total wages and salaries paid—

During 1934	₱388,499.79
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First nine (9) months 1935	₱375,152.97
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Exhibit B.

The active management of our Company through the General Manager and the Board of Directors is in the hands of American Citizens and total remuneration paid to them for the year 1934 was ₱38,349.96.

We believe that we shall be able to continue in business during the first few years of the second half of the transition period under the Commonwealth Government or possibly even during the whole period, but there can be no doubt that we shall have to go out of business as soon as the full U. S. tariff is made to apply to imports of Desiccated Coconut from the Philippines.

Imposition of any import duties much higher than the rate which we have to pay during the transition period will bring the collapse of the Desiccated Industry in the Philippines and the total loss of all investments and turn the business back to Ceylon.

Because of the preference of two (2) cents given to the Philippines in the excise taxes on coconut oil, Copra prices and thereby our raw material (coconuts) costs have been sustained at a higher level in the Philippines than in other coconut producing countries.

Labor costs constitute a considerable part of the total manufacturing cost of Desiccated Coconut on account of the large amount of labor used for shelling, paring, and washing the nuts during the manufacturing process and it is a well known fact that wage rates in the Philippines are very much higher than in other Desiccated Coconut producing countries (Ceylon, New Guinea).

These two factors, lower raw material and labor costs, plus certain other advantages enjoyed by Ceylon manufacturers (lower shipping rates, etc.) make it impossible for Philippine manufacturers to compete with Ceylon desiccators without a tariff protection.

Not until the passage of the Fordney-McCumber Tariff Act of 1922, which among other things increased the import duty on Desiccated Coconut from two cents gold per lb. to 3½ cents, did the Desiccated Coconut Industry in the Philippines receive its impetus. Previous to the

Exhibit B.

passage of this Act the United States obtained the bulk of her supplies of Desiccated Coconut from Ceylon and even at the present time a certain quantity is still being imported from Ceylon. It is therefore obvious that we cannot compete with the product from Ceylon if the United States should exact the same duty on the Philippine product as she now collects from Ceylon. Only tariff rates giving the Philippines a substantial preference over imports from other cheap labor countries would allow us to continue in business.

The possibility of re-establishing our mills in some other country has been informally discussed but all such plans are held in abeyance pending the outcome of the coming tariff negotiations.

Removal of the mills to any other country would mean the practically complete loss of all investments in land and buildings and a considerable loss in equipment as well, since the dismantling, shipping and re-erecting in other countries would be too costly.

Re-establishing the mills in the United States is not considered feasible. It is doubtful that there is sufficient raw material available in the West Indies and Central America to supply the needs. Moreover, the cost of raw material, after paying import duties combined with the high labor cost, would not let us compete with imports from Ceylon. The cost of domestically produced bulk Desiccated Coconut would be so high that even if the tariff was raised to completely shut off imports from Ceylon, present users of bulk coconut would find the price beyond their reach and they would in all probability turn to other cheaper ingredients.

Yours very truly,

FRANKLIN BAKER COMPANY
OF THE PHILIPPINES
By **T. H. DIEHL**
Asst. Gen. Manager

THD :irs

SUPPLEMENTAL PETITION
SUBMITTED BY THE
PHILIPPINE MAHOGANY MANUFACTURERS' IMPORT
ASSOCIATION
SEPTEMBER 1937

(Photographic Reprint; for the original petition, see volume II, page 20)

SUPPLEMENTAL PETITION
OF THE
PHILIPPINE MAHOGANY MANUFACTURERS' IMPORT
ASSOCIATION
TO THE
JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS

GENTLEMEN OF THE COMMITTEE:

At the Washington hearings of the Committee permission was granted these petitioners to file supplemental material at the Manila hearings. The members of the Committee are respectfully asked to receive the following and consider it as additive to the petition filed in Washington.

Article XII, Section 1, of the Constitution of the Philippines reads as follows:

"All agricultural, timber, and mineral lands of the public domain, waters, minerals, coal, petroleum, and other mineral oils, all forces of potential energy, and other natural resources of the Philippines belong to the State, and their disposition, exploitation, development, or utilization shall be limited to citizens of the Philippines, or to corporations or associations at least sixty per centum of the capital of which is owned by such citizens, subject to any existing right, grant, lease, or concession at the time of the inauguration of the Government established under this Constitution. Natural resources, with the exception of public agricultural land, shall not be alienated, and no license, concession, or lease for the exploitation, development,

or utilization of any of the natural resources shall be granted for a period exceeding twenty-five years, renewable for another twenty-five years, except as to water rights for irrigation, water supply, fisheries, or industrial uses other than the development of water power, in which cases beneficial use may be the measure and the limit of the grant."

As stated in the petition these petitioners filed with the Committee at the Washington hearing June 16, 1937, corporations owned by American stockholders, as well as by stockholders of other nationalities, have invested large sums of money in lumber mills operating in Philippine Government owned timberlands, under concessions issued by the Philippine Government. Under the provision of the Constitution above cited, upon the expiration of these concessions these corporations would not seem to have the opportunity to renew their concessions without putting into the hands of Philippine citizens at least sixty per centum of their capital. It must be obvious to all of the members of the Committee that the present holders of the capital stock of these corporations could not hope to realize the true value of stock required to be sold under such circumstances. The practical effect of the constitutional provision cited would be that American owned mills would be forced to discontinue operations and would have only a junk salvage value in their railroads, machinery and equipment.

An alternative which would likely be taken advantage of by many would be the transfer of lumber operations to other Oriental countries having supplies of hardwoods suitable to the United States and the other foreign markets previously developed for PHILIPPINE Mahogany and PHILIPPINE hardwoods.

In the event of complete discontinuance of operations, or transfer to areas outside of the Philippine Islands, large

investments in docks, surveys, in the world wide advertising of PHILIPPINE Mahogany, of good will and the building up of systems of distribution for PHILIPPINE Mahogany and PHILIPPINE hardwoods would be entirely lost.

Also, in either event, the loss to the Philippines in reduced employment of her citizens, reduction in taxes and forestry charges for stumpage, etc., would immediately constitute a serious item and ultimately be much greater than the loss which would be suffered by the American stockholders who initially invested in the development of the Philippine lumber trade.

The attention of the Committee is also called to the fact that under these circumstances, and as the expiration of present concessions approaches, these corporations would be required to constantly reduce their capital investments in their operations, with resultant inefficiency of operation and increased cost of production.

If the utilization of the magnificent forest resources of the Philippines is to be directed to the best interests of the people of the Islands a continuation of present management of operating mills is essential.

These petitioners therefore urge that appropriate provision be made in the trade treaty now under discussion whereby the concessions of present lumber operators will be extended for substantial periods, with opportunity to transfer such concessions from one timber tract to another, to the end that present holders of concessions be given the greatest possible period of operation.

**COMPETITION BETWEEN PHILIPPINE MAHOGANY
AND
OTHER HARDWOODS**

Philippine Mahogany competes directly with African and Central and South American Mahoganies; only in-

directly with domestic American woods except under special circumstances.

There is attached a tabulation of hardwood utilization for 1933 obtained from the United States Department of Commerce, the last available to these petitioners, in which it appears that of 8,107,000 feet of Philippine Mahogany imported that year 5,087,000 feet, or 63%, were used by the furniture industry.

It is a generally accepted fact in the furniture industry that the use of the several varieties of hardwoods is dictated primarily by style trends. For illustration, we had a period of about five years in the twenties when the public taste was for walnut. This was preceded by a mahogany preference period, and succeeded by a maple style trend that has not yet expired. The public at one time demanded oak, which now appears almost exclusively in office furniture. When the demand was for walnut, all of the mahoganies, including Philippine, were neglected. So when maple is in style.

Therefore, Philippine Mahogany enjoys its share of the furniture business in competition with Mexican, Peruvian and African mahoganies when mahogany is in style. It is only in the fringe of competition with American hardwoods at other times.

In the boat business Philippine Mahogany has established itself for two reasons: Its peculiar physical characteristics which make it more desirable for boat use than many other woods both foreign and domestic; and again because certain large boat builders have established a style preference for varnished natural mahogany finish for hulls and sides of stock runabouts and cruisers. In the first instance marine architects and designers have specified Philippine Mahogany because of certain engineering advantages. In the second instance the competition is

between Philippine and African and other foreign mahoganies, and domestic woods are not involved.

It therefore seems fair to say that in the majority of cases where Philippine Mahogany is used, it is used in place of other commercial mahoganies, such as African, Mexican or South American, and does not displace American domestic hardwoods.

The average yearly importation of Philippine Mahogany into the United States for the ten-year period 1927 to 1936, inclusive, is twenty-eight million feet. The imports in 1936 were twenty-nine million feet.

According to Report No. 118 of the United States Tariff Commission, the imports of Philippine Mahogany do not exceed three per cent of American production of oak, red gum, maple, birch and walnut. American producers of hardwoods have little reason to fear the competition of Philippine Mahogany.

On the contrary, American woodworking industries must in the future look to Philippine and other tropical hardwoods for adequate supplies to replace the depletion of American hardwood forests.

Record and Mell, in their book, *Timbers of Tropical America*, observe:

"The people of the United States are just awakening to the realization that their virgin forests, supposedly inexhaustible, are nearly cut over. Heretofore, as region after region was logged of its choice timber, the lumbermen have moved on to new fields, and as transportation facilities kept pace with their advance they have been able to supply the demand from any portion of the country, however remote. As a result there has been no actual scarcity of lumber on the market, but there has been an inevitable increase in price as well as the introduction of new kinds of woods and a lowering in grades.

"There will always be an adequate supply of certain qualities of timber in the United States, but there is a definite limit to the class of material which only the virgin forest produces. The American timber of the future will be of the quality now known as second-growth. These changing conditions will greatly stimulate forestry practice, but such measures have been too long delayed to meet the situation that is developing. Already a shortage of special classes of hardwoods is being felt, and, inasmuch as some of the most useful of these are poorly adapted to forestry methods because of their new slow growth, the industries dependent upon them are beginning to look for substitutes. Attention is naturally being directed to the forests of the tropics."

The above was written fourteen years ago, and forestry practice in American hardwood regions has not improved materially.

The woodworking industries of the Pacific Coast states are especially dependent upon Philippine lumber. Approximately 60% of the Philippine lumber brought to the States is consumed in these three states. Philippine Mahogany has become of major importance to the large furniture industry that has been built up in Los Angeles, which is the second largest furniture center in the United States. African mahogany, Philippine Mahogany's nearest competitor, practically never reaches Pacific Coast ports. The production of West Coast Mexican Mahogany has almost disappeared, with the result that Philippine Mahogany has become the mahogany of the Pacific Coast. No American hardwood can take its place in that region. This is recognized by West Coast lumbermen (See page 10 of the brief filed with the Committee by the West Coast Lumbermen's Association).

American hardwood lumber interests do not require a protective tariff to hold their position in competition with

Philippine Mahogany. Nor did American hardwood producers ask for such protection at the hearings that have been held by the Committee. Philippine Mahogany seems to be one Philippine product that can be brought freely to the United States without disturbance of American producers.

These petitioners do not contend that they would be seriously handicapped by the imposition *at this time* of duties such as would apply under the existing Tariff Act, modified by the terms of the Tydings-McDuffie Act. They enjoy other advantages over the African and South American mahoganies that at present would compensate for the addition of such import duty. But there is called to the attention of the Committee the very real danger of competition between these American importers of Philippine Mahogany and Japanese lumber interests who have already entered Pacific Coast ports with our own wood.

The story of Japanese interest in the Philippine lumber industry is astounding and significant. In 1927 Japan took thirteen million feet of boards and six million feet of logs from the Philippines. In 1935, the last year figures are available to us, Japan took eighty-nine million feet of round logs from the Islands, and practically no boards. It is understood that the traffic has increased since then. This great increase in Japanese activity in Philippine lumber is encouraged by a preferential tariff, subsidized shipping and low wage scales in Japanese mills which convert Philippine logs into boards and veneers.

Japanese plywood is already in the United States and Japanese costs are such as to permit competition in American markets between lumber sawn in the Philippines and Philippine lumber sawn in Japan. During the first five months of 1937 approximately a million feet of veneers and a million feet of plywood, largely faced with Philip-

pine Mahogany, were imported into the United States from Japan. Since the Washington hearings of this Committee, there was entered in an Atlantic Coast port plywood faced with Philippine Mahogany, of excellent quality, at an invoiced price of \$14.00 per thousand square feet C. I. F. Such a price is below cost of production in either Philippine or American mills.

It is not the province of this Committee to write tariffs for Japanese imports, but it is respectfully urged that in any consideration of tariff duties on Philippine lumber and timber products entering the United States from the Philippines, it is essential to the mutual interests of the Philippines and the United States that the influence of Japanese participation in the Philippine lumber business be appraised and provided for.

A present ability to pay some duty on Philippine Mahogany and still be able to compete with African mahogany does not mean that a duty can be paid in the face of Japanese competition with our own wood.

Respectfully,

PHILIPPINE MAHOGANY MANUFACTURERS'
IMPORT ASSOCIATION

By: (Sgd.) DANIEL R. FORBES,
Counsel.

DANIEL R. FORBES,
Attorney-at-Law,
839—17th Street, N. W.,
Washington, D. C.

**U. S. DEPARTMENT OF COMMERCE REPORTS
UTILIZATION OF HARDWOODS**

[1933]

	NATIVE HARDWOODS						FOREIGN WOODS			
	Birch	Black Gum	Red & Sap Gum	Maple	Oak	Walnut	Khaya African Mahogany	Mahogany	Philippine Mahogany	
Airplanes	91	—	—	37	10	8	—	3	—	
Boxes, baskets and crates	39,948	41,868	181,535	45,187	38,954	15	—	20	60	
Boxes, cigar and tobacco.	—	103	2,525	322	2,493	—	—	3	—	
Car construction and re- pair	491	423	132	1,677	21,857	35	—	477	141	
Caskets and coffins.....	1,216	50	728	120	6,435	1,309	291	1,195	33	
Electrical equipment	276	—	—	706	150	57	—	2	—	
Fixtures	4,232	—	5,593	1,309	2,946	2,396	64	1,334	645	
Flooring	3,446	50	148	89,375	155,347	329	—	4	591	
Furniture	74,510	9,948	131,104	70,963	79,877	17,813	274	13,631	5,037	
Instruments, musical ...	656	8	1,135	1,545	200	195	91	333	25	
Instruments, professional	816	10	13	705	46	14	—	19	—	
Patterns and flasks.....	36	—	—	41	716	100	—	798	3	
Printing material	100	—	—	951	19	—	—	37	—	
Radio and phonograph cabinets	1,342	10	15,034	100	23	900	—	234	9	
Refrigerators	1,752	37	207	1,241	1,091	10	—	14	5	
Sash, frames, doors	8,392	50	—	3,258	—	—	—	—	—	
Blinds and general mill- work	—	—	5,435	—	16,198	736	—	354	573	
Sewing machines	95	—	1,575	90	1,724	332	—	5	—	
Ship and boat building..	32	—	35	171	6,204	54	109	616	340	
Sporting and athlet. goods	125	—	7	1,310	164	47	—	19	—	
Toys	4,020	2	530	5,588	262	60	10	10	—	
Vehicles, motor	1,330	1,126	34,999	14,201	36,355	57	—	9	31	
Woodenware and novelties	19,932	2,373	3,743	10,104	502	113	—	24	3	
TOTALS T..	205,965	59,890	444,720	239,235	449,324	27,324	672	19,133	8,107	
LUMBER L..	164,170	31,747	321,823	236,080	441,509	23,746	788	17,434	7,956	
VENEER V..	8,574	7,138	55,599	4,860	1,444	4,174	34	1,709	136	
LOGS AND BOLTS ... B..	33,221	21,007	67,898	48,295	6,571	4	—	—	15	

BRIEF
SUBMITTED BY THE
PHILIPPINE SUGAR ASSOCIATION
SEPTEMBER 1937
(Photographic Reprint)

FUNDAMENTALS

We Subscribe to the Following as the Fundamentals of Philippine-American Trade Relations:

1. *The trade relations between the United States and the Philippine Islands were definitely determined by the provisions of the Tydings-McDuffie Act until July 4, 1946. That Act, after approval by the President and the Congress of the United States, was formally accepted by the Filipino people. Based thereon many citizens and residents of and investors in the Philippine Islands have incurred obligations and made commitments. The trade relations so determined, in good faith and in fairness, cannot, therefore, be altered to their prejudice. Thus, at least until July 4, 1946:*

(a) *Articles the growth, product, or manufacture of the Philippine Islands should, with no greater limitations than those imposed by that Act, and on a basis of equality with articles the growth, product, or manufacture of the United States, be admitted free of duty into the United States; and*

(b) *Articles the growth, product, or manufacture of the United States should, on a basis of equality with articles the growth, product, or manufacture of the Philippine Islands, be admitted free of duty into the Philippines.*

(c) *No excise or other taxes which directly or indirectly result in any discrimination against the products of either country should be imposed.*

2. *The imposition of export taxes on shipments from the Philippine Islands to the United States from November 15, 1940, and the imposition of import duties by the United States and the Philippine Islands, each on articles the growth, product, or manufacture of the other, from July 4, 1946, will be disastrous to the producers and manufacturers of both countries, and, the time being too short to make the necessary readjustments, to the Philippine Islands in particular, therefore,—*

(a) *The export taxes should be repealed; and*

(b) *Free trade between the two countries, with present or other reasonable quantitative limitations, should be continued after July 4, 1946.*

3. *Irrespective of any change in the political status of the Philippine Islands, a continuation of the present free-trade relations between the United States and the Philippines Islands would be advantageous to both countries;— to the Philippine Islands, because the United States is an essential market for many Philippine products; and to the United States, because the Philippine Islands is a large market for products of agriculture and industry of the United States, and will, if the products thereof continue to be admitted free of duty into the Philippine Islands, be a much larger market in the future. Such free-trade relations between the two countries should, therefore, after July 4, 1946, be continued indefinitely.*

BRIEF

SUBMITTED BY THE

PHILIPPINE SUGAR ASSOCIATION

BEFORE THE

JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS

This brief will be addressed to three propositions, as follows:

1. Free trade between the United States and the Philippines in the volume permitted by the Tydings-McDuffie law is of such advantage to both parties, and its termination would work such disaster upon the people of the Philippines, that it should be continued, in at least that volume, indefinitely.

2. As a corollary of the foregoing, raw and refined sugar produced in the Philippines should have free access to the American market in at least the amount permitted by the Tydings-McDuffie law, because the United States unquestionably fostered the development of the Philippine sugar industry, and because of the importance of that industry in the export trade of the Philippines.

3. The graduated export taxes upon Philippine sugar, as well as upon other Philippine exports to the United States, imposed under the terms of the Tydings-McDuffie law during the last five years of the Commonwealth period for the purpose of providing a sinking fund for the payment of principal and interest on the bonded indebtedness

of the Philippines, its provinces, municipalities and instrumentalities, should be abolished.

Of these in their order:

I

FREE TRADE BETWEEN THE UNITED STATES AND THE PHILIPPINES IN THE VOLUME PERMITTED BY THE TYDINGS-McDUFFIE LAW IS OF SUCH ADVANTAGE TO BOTH PARTIES, AND ITS TERMINATION WOULD WORK SUCH DISASTER UPON THE PEOPLE OF THE PHILIPPINES, THAT IT SHOULD BE CONTINUED, IN AT LEAST THAT VOLUME, INDEFINITELY.

Under the Tydings-McDuffie law the products of the United States enter the Philippines duty free without any quantitative limitation whatsoever during the Commonwealth period. Philippine products enter the United States duty free during the same period subject to the following quantitative limitations:

1. Unrefined sugar—800,000 long tons,
2. Refined sugar—50,000 long tons,
3. Coconut oil—200,000 long tons,
4. Yarn, twine, cord, cordage, rope and cable, tarred or untarred, wholly or in chief value of Manila (abaca) or other hard fibers—3,000,000 pounds. (since amended)

Furthermore, the Commonwealth government is required, after the fifth year subsequent to the inauguration thereof, to impose an export tax on all articles that may be exported to the United States free of duty at the rate of 5% of the existing American duty on like articles from foreign countries during the sixth year, 10% during the

seventh year, 15% during the eighth year, 20% during the ninth year, and 25% during the tenth year, the proceeds of such export taxes to be applied solely to the payment of the bonded indebtedness of the Philippines, its provinces, municipalities and instrumentalities, until such indebtedness, with interest, is fully discharged.

With the withdrawal of American sovereignty, all articles coming into the United States from the Philippines will be subject to the same duty as that imposed upon like articles imported from other foreign countries; and the government of the Philippines, of course, remains free to impose such duties as it may see fit upon articles coming from the United States into the Philippines.

There is a seeming lack of complete reciprocity in the provisions of the Tydings-McDuffie Law in that the United States has complete and free access to the Philippine market during the Commonwealth period, while the free access of the Philippines to the American market is not complete in that it is subject to the quantitative limitations. It is recognized in the Philippines, however, that this lack of reciprocity is more apparent than real in that, generally speaking, American importations into the Philippines do not displace Philippine goods in the Philippine market and are limited in the very nature of things by the volume of Philippine export trade.

However, under the Tydings-McDuffie law it is obvious that, whatever the effect of the application of the graduated export taxes during the last five years of the Commonwealth period may be, the penalty imposed thereby after the withdrawal of American sovereignty is the absolute exclusion of Philippine products from the free American market.

There is entire unanimity of opinion upon the proposition that this is a death penalty for the Philippine sugar industry, as well as for most of the other leading industries of the Philippines.

The Committee is familiar with the history of trade relations between the United States and the Philippines. Free trade relations between the two countries became effective in 1909. *It is of record that this status was imposed by the United States over the protest of the Philippine Assembly.* The members of the Assembly feared that the effect of that status would be the building up of an economic structure in the Philippines so dependent upon the American market for its very existence as to make a severance of the political ties between the two countries disastrous in the last degree to the people of the Philippines. The Filipino people, however, admit that the free trade relations between the two countries have been responsible for the tremendous improvement in the economic and social conditions of the Philippines. The fears of the representatives of the Filipino people in 1909 may be justified should the Tydings-McDuffie law not be amended as recommended herein, since the law has condemned to destruction the Philippine economic structure built up as a result of the free trade relations imposed by the United States.

The Committee is familiar with the figures showing the trend of Philippine-American exports and the decline of Philippine-foreign exports as a result of the imposition of the free trade relationship. However, it will do no harm to repeat the figures here. They are as follows: (Page 23, Report 118 of the United States Tariff Commission on United States-Philippine Trade):

Year or Average	To All Countries	To Continental United States	Percentage of U. S.
1899-1901 (3 yrs.) ..	\$ 20,780,000.00	\$ 3,814,000.00	18%
1902-to June 30, 1909 (7½ yrs.)	31,598,000.00	11,883,000.00	38%
1909-14 (5½ yrs.) ..	46,653,000.00	20,300,000.00	43%
1915-18 (4 yrs.)	88,637,000.00	52,921,000.00	60%
1919-22 (4 yrs.)	111,985,000.00	69,084,000.00	62%
1923	120,753,000.00	85,047,000.00	70%
1924	135,345,000.00	97,314,000.00	72%
1925	148,877,000.00	109,045,000.00	73%
1926	136,884,000.00	100,003,000.00	73%
1927	155,574,000.00	116,035,000.00	75%
1928	155,055,000.00	115,586,000.00	75%
1929	164,447,000.00	124,465,000.00	76%
1930	133,167,000.00	105,342,000.00	79%
1931	103,972,000.00	83,422,000.00	80%
1932	95,338,000.00	82,648,000.00	87%
1933	105,771,000.00	91,313,000.00	86%
1934	110,404,000.00	91,844,000.00	83%
1935	94,246,000.00	74,936,000.00	80%

It is thus seen that the proportion of total Philippine products marketed in the United States increased from 18% during the first years of American occupation to 80% in 1935, and that the increase was greatly accelerated by the imposition of free trade relations between the two countries.

It is thus not too much to say that after 1940, the principal effect of the Tydings-McDuffie law will be to destroy approximately 60% of the present export trade of the Philippines because that trade is dependent on free trade with the United States.

In considering this situation, the relative importance of the export trade of the Philippines to its total trade must not be lost sight of. It is estimated that the value of Philippine exports is fifty (50) per centum of the value of the total production of the Philippines. The destruction of an equal proportion of the export trade of the United

States would not have nearly as disastrous an effect on the total trade of the United States simply because its domestic trade forms such a very large proportion of that total trade.

The Philippine Sugar Association wishes to impress upon the Committee the fact that, as the law now stands, about 60% of the export trade of the Philippines will be destroyed, with disastrous economic, social and political consequences to the people of the Philippines.

It is submitted, therefore, that Philippine products should be accorded free access to the American market indefinitely in at least the volume allowed such free access under the provisions of the Tydings-McDuffie law. As a quid pro quo the Philippines should accord free entry to American products, and should engage to enact such tariff legislation as would be required to protect such products in the Philippine market.

In connection with this proposed concession for American goods in the Philippine market, the Committee is no doubt familiar with the importance of that market for American goods at the present time. On this point the United States Tariff Commission, in its Report No. 118 on the United States-Philippine Trade, referred to above, has the following to say:

“The Philippines ranked twelfth among the principal export markets for United States goods in 1935, exports to the Islands in that year being valued at \$52,560,041, or 2.3 percent of the total exported to all countries. On a basis of the United States Foreign Commerce and Navigation’s group classifications of commodities, the Philippines ranked in 1935 as follows among the world customers of the United States: They occupied fifth place as buyers of animal and vegetable products, except fibers and wood (groups 00, 0, 1, and 2 combined), of which they purchased

\$13,820,955 for the year. These goods are composed largely of manufactured or processed farm products. As buyers of textiles (group 3), of which they purchased \$7,948,179, the Islands ranked eleventh. They were the fifteenth most important buyer of wood and paper products (group 4), of which they purchased \$1,709,842; the twelfth, of nonmetallic metals (group 5), \$6,014,637; the eighth, of metals and manufactures, except machinery and vehicles (group 6), \$6,258,671; the sixteenth, of machinery and vehicles (group 7), \$9,360,707; the fourth, of chemicals and related products (group 8), \$4,787,984; and seventh, of miscellaneous products (group 9), \$2,659,066.

In 1935, the Philippines ranked first among the export markets of the United States for galvanized iron and steel sheets, cigarettes, canned milk and cream, ready mixed paints, soap, and a number of other products of minor importance; and they ranked second for cotton cloth (colored, bleached, and unbleached), wheat flour, and canned fish.

The following trends are discernible from an analysis of Philippine import and United States export statistics:

"(1) The Philippines annually increased the value of their purchases from the United States from the beginning of American occupation until the end of 1929. Their purchases then declined until 1933, rose again 1934, and receded slightly in 1935. In terms of their total purchases from all countries, the Philippines steadily increased the share obtained from the United States from the beginning of American occupation through 1934, the share declining slightly for 1935." (Note: Explanation for the decline thus noted lies in the fact that there was a decline in sugar exported to the United States due to quota limitations from 1,275,250 short tons valued at \$65,453,621 in 1934, to 572,724 short tons valued at \$32,961,593 in 1935).

"(2) During recent years, the Philippines have become an increasingly important outlet for American machinery, automobiles, and other selected manufactures; but they have become a decreasingly important outlet for American textiles, wheat flour, and a number of minor specialties. The Philippines no longer rank as the largest buyer of United States cotton textiles."

It is obvious that with the loss of the American market for their products, the purchasing power of the Filipino people will be correspondingly weakened and the Philippine market for American goods will tend to disappear not alone as a result thereof but also by the imposition of duties on American goods. The Filipino people will necessarily turn to the cheaper products of Europe and nearby Oriental countries to the extent they are able to purchase at all.

Therefore, the arrangement proposed under this proposition will be of great mutual advantage to the two countries. It will be limited on the part of the Philippines by the quantitative limitations of the Tydings-McDuffie law and limited on the part of the United States only by the purchasing power of the Filipino people. Under such an arrangement, the economic structure of the Philippines will be such that the Filipino people could live and the Philippine government discharge its obligations.

It is submitted that the adjustment of Philippine-American trade relations under the terms of the Tydings-McDuffie law in such a way that the destruction of the Philippine economic structure will be avoided, will remedy one of the outstanding imperfections of that law, i. e., the destruction of 60% of the export trade of the Philippines, and that such adjustment was what the President of the United States had in mind when he said, in recommending the passage of that law:

“* * * Where imperfections or inequalities exist, I am confident that they can be corrected after proper hearing and in fairness to both peoples.”

II

AS A COROLLARY OF THE FOREGOING, RAW AND REFINED SUGAR PRODUCED IN THE PHILIPPINES SHOULD HAVE FREE ACCESS TO THE AMERICAN MARKET IN AT LEAST THE AMOUNT PERMITTED BY THE TYDINGS-McDUFFIE LAW, BECAUSE THE UNITED STATES UNQUESTIONABLY FOSTERED THE DEVELOPMENT OF THE PHILIPPINE SUGAR INDUSTRY, AND BECAUSE OF THE IMPORTANCE OF THAT INDUSTRY IN THE EXPORT TRADE OF THE PHILIPPINES.

The Committee has been fully advised as to the history of the development of the sugar industry in the Philippines. It is outlined in part on pages 45 to 63 of Report No. 118 of the United States Tariff Commission on the United States-Philippine Trade, referred to above.

The Payne-Aldrich Tariff Act of 1909 provided for the free entry of sugar from the Philippines into the United States up to 300,000 tons. After 1913 there was no quantitative limit upon the amount of sugar entitled to free entry into the United States from the Philippines.

Moreover, the development of the industry was greatly encouraged by various American Governors-General during the period. The organization of the Philippine National Bank, and loans therefrom on liberal terms to construct sugar centrals, as well as the financing of crops by that bank, demonstrate the encouragement given the industry by the Philippine government under American administrators.

The following is a table showing the number of tons of sugar exported, the value thereof, the percentage that value bore to the value of total exports, as well as the percentage of total sugar exports which went to the United States from 1931 to 1934, the last year before the imposition of the quota system:

Year	Total Exports		Percentage of Total Philippine Exports	Percentage Exported to United States
	Quantity Short Tons	Value		
1931 ...	833,080	\$49,963,105	48.1%	99.92%
1932 ...	1,124,971	59,801,884	62.7%	99.98%
1933 ...	1,193,260	64,333,426	60.8%	99.99%
1934 ...	1,275,313	65,454,580	59.3%	99.99%

This total shows, therefore, that of the total export trade of the Philippines in 1934, approximately 60% was in sugar, and that practically all of that sugar went to the United States. In 1936 sugar exports to the United States amounted to \$61,927,184 out of a total of sugar exports of \$61,937,322, and this amounted to 45% of the value of all exports from the Philippines. The decline in percentage of total exports was due in part to the imposition of the quota system.

Of the importance of sugar in Philippine economy, the United States Tariff Commission has the following to say, (Page 49, Report No. 118 of the United States Tariff Commission on United States-Philippine Trade):

“According to recent estimates made by the Philippine Sugar Association, approximately 15 percent of the total Philippine population is directly dependent on the sugar industry. The degree of dependence, however, varies markedly from province to province. It is estimated that in the Provinces of Occidental Negros and Pampanga 90 percent of the population is dependent on the growing and milling of sugar; in the

Province of Tarlac, 60 percent; in the Provinces of Batangas and Iloilo, 50 percent; and in Cebu, 10 percent.

In addition to those directly engaged in producing sugar, a portion of the population in each province is indirectly dependent on the industry; for example, those engaged in merchandising, transportation, and the professions. The government-owned Manila Railroad, which traverses the sugar regions in Luzon, receives approximately 40 percent of its freight revenue from this source, and the Provincial governments in 5 of the leading provinces are supported primarily by taxes received from the sugar industry.

It has been estimated that the taxes paid directly or indirectly by the sugar industry of the Philippines to the Insular government exceed 40% of the revenue of that government.

As has been said, opinion is unanimous that the imposition of the full duty upon all Philippine sugar exports to the United States as provided in Section 13 of the Tydings-McDuffie law is the death warrant of that industry, thus cutting off the entire source of livelihood of about two millions of the inhabitants of the Islands, and more than 40% of the revenue of the Philippine government.

It may be argued that the industry must reduce its costs to such an extent as to enable it to participate in the unprotected sugar markets of the world. There are several complete answers to this argument. One is that the unprotected sugar markets of the world are and probably will be fully occupied. Another is that such a radical reduction in costs of production would involve reducing wage scales to an impossible extent.

The United States fostered the development of the sugar industry in the Philippines and thereby made pos-

sible a higher level of living among the Filipino people (1) because of having established free access of Philippine sugar to the protected American market, thus enabling the payment of higher and non-competitive costs of production and (2) by thus making possible a higher level of living among those dependent upon the Philippine sugar industry.

The establishment of this higher level of living has been one of the aims of the American administration of the Philippines. Is that aim to be abandoned? Is it proposed and intended that the level of living of the Filipino people shall sink to that prevailing prior to the American occupation? Must schools be abandoned, roads go into disrepair, and all the public services deteriorate and perhaps disappear? Must all that has been done by America in the Philippines be undone?

The Philippine sugar industry therefore believes that it has sacrificed enough in having the annual production reduced from 1,428,000 long tons of raw and refined sugar to 800,000 long tons of raw and 50,000 long tons of refined sugar and asks that an adjustment of the Tydings-McDuffie law be made in line with the first paragraph of this brief, so as to permit free access to the American market indefinitely of 800,000 long tons of Philippine raw and 50,000 long tons of Philippine refined sugar.

III

THE PHILIPPINE GRADUATED EXPORT TAXES UPON SUGAR, AS WELL AS UPON OTHER PHILIPPINE EXPORTS TO THE UNITED STATES, IMPOSED UNDER THE TERMS OF THE TYDINGS-McDUFFIE LAW DURING THE LAST FIVE YEARS OF THE COMMONWEALTH PERIOD FOR THE PURPOSE OF PROVIDING A SINKING FUND FOR THE PAYMENT OF PRINCIPAL AND INTEREST

ON THE BONDED INDEBTEDNESS OF THE PHILIPPINES, ITS PROVINCES, MUNICIPALITIES AND INSTRUMENTALITIES, SHOULD BE ABOLISHED.

This proposition follows as a corollary under our first proposition for the reason therein outlined. Furthermore, as to sugar the imposition of the first 5% export tax will eliminate many small producers and with each increase in the rate of the tax more producers will be eliminated. Unless protected by a quota system, practically all producers will be eliminated by 1946. As a result of these developments, the centrals, a great percentage of whose crops depends upon small producers or growers, may be eliminated.

It has been estimated that the total cost of Philippine sugar delivered at United States Atlantic ports exceeds the cost of Cuban sugar by 0.80 cent per pound. This excess cost is offset by the present Cuban duty of 0.90 cent per pound, thus giving Philippine sugar an advantage in the American market of 0.10 cent per pound. This advantage would be practically neutralized by the imposition of the export tax of 5% of the full American duty during the sixth year of the Commonwealth period, as required by the Tydings-McDuffie law and thereafter Philippine sugar would be at a steadily increasing disadvantage over Cuban sugar in that market by reason of the stepping up of the tax required, by that law, and consequently would be driven out of that market unless quota restrictions on Cuban importations are maintained.

The announced purpose of the graduated export taxes imposed by the Tydings-McDuffie law is to pay off the bonded indebtedness of the Philippines during the Commonwealth period. If adequate sinking funds are maintained through ordinary appropriations, or otherwise, such

purpose would be accomplished without endangering any Philippine industry.

It is submitted that the graduated export taxes imposed by the Tydings-McDuffie Act should be repealed.

The statement to the Joint Preparatory Committee on Philippine Affairs, consisting of 21 pages, prepared by ex-Senator Harry B. Hawes, U. S. Representative of this Association, is attached to and made a part of this brief.

Respectfully submitted,

PHILIPPINE SUGAR ASSOCIATION

By: (Sgd.) RAFAEL R. ALUNAN,
President.

MANILA, PHILIPPINES
September, 1937

SUPPLEMENTARY BRIEF
SUBMITTED BY THE
PHILIPPINE SUGAR ASSOCIATION
SEPTEMBER 1937
(Photographic Reprint)

Supplementary Brief

SUBMITTED BY THE

PHILIPPINE SUGAR ASSOCIATION

BEFORE THE

JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS

THE PHILIPPINE SUGAR INDUSTRY

Production: It is now seventeen years since the modernization of the Philippine sugar industry became effective on a large scale through the cooperative efforts of centrals and planters, resulting in the transition from the production of low-grade muscovado sugar to the manufacture of centrifugal sugar by modern mills.

According to the statement of the Governor-General in his cable to the Secretary of War on September 8, 1934, sugar production in the Philippines was definitely stimulated by the action of the U. S. Congress in 1913 when it removed the limitation of 300,000 tons per annum contained in the free-trade tariff law of 1909. At first this legislation had little effect due to the provisions in the U. S. Tariff Act of 1913 placing sugar on the free list three years subsequently, Philippine interests early realizing their inability to compete with Cuba should the United States decide to establish a free sugar market.

By Congressional action in 1916, the duty-free provision of the 1913 tariff act was repealed, thereby offering producers in these Islands an unrestricted and tariff-protected market in the United States. This was the essential stimulation necessary for the development of sugar pro-

duction in the Philippines, and resulted in plans for the enlargement of the existing centrals and the construction of new ones to replace thousands of muscovado mills. The first sugar centrals were established by private capital between 1910 and 1913. In 1915 the Philippine Government, on the recommendation of the Governor General, established the Philippine Sugar Board for the purpose of promoting and encouraging modern sugar production in the Philippines. The Government, through the Philippine National Bank, then proceeded to loan government funds for the establishment of several large centrals, and to grant extensive crop loans to planters.

Despite these stimulations and inducements, however, Philippine financial interests did not engage extensively in the sugar business, as they might have done, and the production of centrifugal sugar did not make any noticeable progress until four or five years later. The government-financed bank centrals did not harvest their first crops until the early 1920's. Eventually, as a result of the friendly attitude of the United States government and the governmental action encouraging sugar production in the Philippines, private capital entered the field on a more extensive scale, resulting in the establishment of some of the largest centrals on Negros and Luzon. However, there was only a gradual increase in sugar production, despite the tariff-protected market in the United States, as shown by statistics of annual crops from 1921 to 1931 given in Exhibit A.

The large increase in production in the years 1932 to 1934 was due to the exceptionally favorable weather conditions which prevailed during the growth of the cane, improved varieties of cane, better cultivation, greater knowledge of the proper use of fertilizer and a reduction in the area of the land fallowed annually. 1932 marked the year

in which the transformation of the industry was virtually completed. Another factor of primary importance was the introduction of the Timberlake resolution early in 1928 and its reintroduction in subsequent years. The approval of the Hare-Hawes-Cutting Law, with its quota provision on the basis of production in preceding years quite naturally stimulated Philippine sugar planters, who had already staked their fortunes in the industry, to increase their production to the limit in an attempt to increase their percentage of the total production. As a corollary the Centrals, through their contractual obligations, were forced, at heavy additional expense and in some cases reluctantly, to increase materially their mill and transportation facilities in order to handle expeditiously the larger quantities of cane delivered by their respective share planters.

Normal Milling Capacity. The aggregate capacity of the forty-six sugar centrals in the Philippines is approximately 88,160 short tons of cane per day. During a normal milling season of 150 days, these centrals are capable of grinding 13,244,000 tons of cane. With an average recovery of 8.83 tons cane to ton sugar, these Centrals can produce a normal crop of 1,500,000 short tons of sugar. (See Exhibit B.)

Personnel: During the 1934 milling season, the centrals' employees, laborers, and their families numbered approximately 150,000, while sugar planters and their dependents numbered 90,000; tenants and sub-tenants, known locally as "inquilinos" or "kasamas", 1,050,000; planters laborers and their families about 610,000, miscellaneous employees of agents, dealers and merchants and their families 100,000, making a total of 2,000,000 people directly or indirectly dependent on the sugar industry.

On the 48 Philippine provinces with a total population of 12,664,850, (excluding Manila), the sugar dis-

tricts of 17 provinces, with a population of 6,915,000 are being served by 46 sugar centrals. It is conservatively estimated that about 29% of the population of all the sugar provinces, or 1,995,700 people, are directly or indirectly dependent on the industry for their livelihood, which corroborates the estimate made in the preceding paragraph. These calculations are detailed in Exhibits D and E.

Salaries and Wages: From actual statistics compiled by representative sugar centrals, it has been estimated that the total sum of approximately \$6,000,000.00 was paid by the centrals for salaries and wages of their employees and laborers during the 1933-34 crop, at the rate of .186 cent per lb. of sugar produced during that crop. It is conservatively estimated that the planters' expenditures for the wages of their laborers in the production of cane will approximate this rate, so that another \$6,000,000.00 must have been paid by planters in wages to their laborers, which means a wage total of \$12,000,000.00.

Materials Used: Also from statistics compiled by these representative centrals, the total expenditures for materials used was placed at 0.24 cent per lb. of sugar manufactured during the 1933-34 crop, or more than \$7,500,000.00 for the 1,578,000 short tons made.

The foregoing figures indicate that, on the basis of the 1933-34 crop production, the outgoings for wages and materials alone would approximate \$19,500,000.00 per annum.

Molasses and Alcohol: According to the statistics gathered by the Philippine Sugar Association, the molasses production in the Philippines for the last eight crop years was as follows:

<i>Gallons</i>		<i>Gallons</i>	
1928-29	33,300,000	1932-33	54,794,000
1929-30	32,400,000	1933-34	63,693,000
1930-31	39,500,000	1934-35	26,554,500
1931-32	47,830,000	1935-36	34,500,000

On the assumption that 60% of the molasses production is either exported for conversion abroad into alcohol, or used for fuel and cattle feed locally, the value of molasses utilized in these ways during the 1933-34 crop at the estimated average price of 2.9 cents a gallon represented an annual income of \$1,108,250.20.

In a number of the sugar centrals distilleries for the conversion of molasses into alcohol have also been constructed. These distilleries are shown on Exhibit F with their corresponding capacity in proof liters per 24 hours, indicating a total daily capacity of approximately 300,000 proof liters. It cannot be denied that the establishment of these distilleries has provided employment for a large number of people.

According to the Collector of Internal Revenue, the quantity of alcohol distilled in the Philippines for the same period amounted to about 403,000,000 proof liters. The value of this distilled alcohol at the rate of 2.5 cents per proof liter represented \$10,000,000, equivalent to an average annual income to alcohol producers of about \$1,250,000.00. In passing, it may be stated that the taxes collected on distilled alcohol for the same period under review amounted to more than \$11,500,000, equivalent to an average annual income to the Government of more than \$1,500,000.00.

Cost of Production: In the report of the United States Tariff Commission on sugar to the President in 1934, the

average cost at factory, including imputed interest, for the crop years 1930, 1931, and 1932 was 2.326 cents a pound, while the average total cost at the United States Atlantic ports, including imputed interest, for the same period was 2.717 cents a pound. Taking the results by crop year, this report shows that in 1931-32, the total cost of sugar delivered in the United States was 2.410 cents per pound, of which 0.598 cent a pound represented overhead expense and 1.812 cents per pound was operating costs. While the operating expenditures of 1.812 cents a pound may be taken as a fairly constant expense, so long as the volume of the annual crops does not vary, the most important item of the total production cost is the overhead, the unit cost of which varies inversely with the volume of production. In estimating the overhead expense for subsequent crops, which will approximate in volume that of the 1931-32 crop, we can employ the rate of 0.598 cent per pound. As a result of the drastic limitation, sugar production in the Philippines during the 1934-35 season was very much less than the average production for the three crops of 1929-30, 1930-31 and 1931-32, and the unit costs for the 1934-35 production are estimated to be materially higher than those of the above three crop years. The unit costs for the 1934-35 crop are estimated to have been 54 per cent in excess of those for the 1931-32 crop, which would increase the estimated unit costs to 3.709 cents per lb. This would mean an increase of 1.299 cents per lb. over the unit costs for the 1931-32 crops. On the basis of 694,606 short tons, which was the production for the 1934-35 crop, this increase of 1.299 cents per lb. in unit costs represented a direct loss of \$18,000,000.00.

Investments in the Industry: One of the unique features of the Philippine sugar industry is the relationship between the planters who grow the sugar cane and

the sugar centrals which manufacture the sugar on a share or toll basis. Unlike the situation in other countries where the centrals control the sugar production, in the Philippines the planters control the growing of sugar cane. The basis of this cooperative system of growing sugar cane in the Philippines is the milling contract which generally runs for thirty years. Under the contract signed by the individual land owners and the centrals, the planters obligate themselves to grow cane to be milled by the central, while the central furnishes transportation for the cane and converts it into sugar. As a general rule, the planters give the Central, free of charge, a right of way across their lands for railway construction; they also guarantee to use for cane cultivation a specified minimum proportion of their land—usually 50%—during the term of the contract. As the result of this cooperative system of sugar production in the Philippines, relieving the planter of the worry and expense of grinding his crop, the increased opportunities provided by the U. S. Congress and the American administration in the Islands for the expansion of their industry resulted in great strides being made by the planters. They increased their unit yields per hectare through improved methods of cultivation and fertilization and the introduction of high-yielding and disease-resistant cane varieties, etc. To cope with the increased tonnage of cane, the centrals were compelled to increase the capacity of their mills until in 1933-34 season the total milling capacity of the sugar centrals exceeded 88,160 short tons of cane per day.

It should be pointed out that the stimulus to the Philippine sugar industry of a large protected market in the United States has benefited the Filipino planter and his agricultural labourers to at least as great an extent as the shareholders in milling companies.

Taking an average yield in pre-central days of 1.13 short tons of muscovado sugar per acre at, say, \$32.27 per short ton, the gross annual income was \$36.46 per acre, out of which the planter had to provide for the actual manufacture of his sugar—a considerable item in his total expenses. Nowadays, the same man should produce 2.82 short tons per acre, of which 1.41 or 1.69 short tons pertain to him, valued today at \$75.88 to \$91.05, *without* the cost of milling his cane. If Philippine sugar were placed on the U. S. full-duty list, the probabilities are that it would be sold mainly in countries other than the U. S. and would decline in value to about \$21.54 per short ton. Apart from the fact that many centrals would be unable to continue to operate on this basis, thereby removing the milling facilities now enjoyed by the farmers in their districts, the hypothetical planter mentioned above, with a production of 2.82 short tons per acre, would have his gross revenue reduced from \$75.88/\$91.05 to \$30.35 per acre.

With regard to the Filipino agricultural laborer, the benefit of improved prices for P. I. sugar has resulted in considerably higher wages being paid. Twenty-five years ago these laborers were paid about 12½ to 15 cents, whereas they now get 30 to 50 cents per day.

The investments in the sugar centrals alone up to the year 1934, including plants, equipment and improvements exceeded \$93,000,000.00. Since the depreciation on these investments varies according to the degree of efficiency and the financial basis of each Central, the requisite data concerning which are not available, it is impossible to make a reliable estimate regarding this detail.

The 1932-33 crop data on cane areas compiled by the Philippine Sugar Association showed that approximately 551,000 acres were harvested during that crop year, yield-

ing a production of about 1,264,000 short tons, equivalent to a unit yield of 2.29 short tons of sugar per acre. Of the 865,000 acres of "cane land" about two-thirds are planted to cane each year, the other third being fallowed. The estimated average value of the investment per acre is \$122.00 with improvements, houses, work animals, implements, etc., on which basis the total value of the 865,000 acres is approximately \$105,000,000.00.

Investments in crop loans have been conservatively estimated at \$22,500,000.00 annually, while miscellaneous investments by sugar dealers and agents amount to \$5,000,000.00 annually.

These various investments are tabulated below:

Investments in Centrals	\$ 93,250,000.00
Investments in lands and improvements at \$122.00 per acre	105,000,000.00
Annual advances for crop loans, a part of which is liquidated each year	22,500,000.00
Miscellaneous investments	5,000,000.00
	<hr/>
	\$225,750,000.00

Of these investments approximately 30% is American. This is indicated by the compilations in Exhibit G.

Sugar Exports to the United States: In view of the duty-free privilege enjoyed by Philippine sugar producers since the inception of free-trade relationship between the Islands and the United States, Philippine sugar has found its only profitable market in the United States. Before the establishment of U. S. protection, Great Britain, China, Japan, Hongkong, and the British East Indies shared a considerable portion of Philippine exports, that of the United States ranging from 4% in 1900 to 35% in 1908. The free trade supplemented by tariff legislation in the United States, with increased protection to Philippine sugar, has diverted Philippine exports to the United States

with the result that since 1928 virtually all Philippine sugar has been exported to that country. Since the markets which took Philippine sugar prior to the extension of the U. S. protection have been lost to other low-cost sources of supply, such as Formosa and Java, they are no longer available to the Philippines, except on terms impossible of acceptance by the Philippines, whose cost of living has been so raised by American influence that production costs have inevitably increased to levels far above those of the nearby countries mentioned. Another factor in closing the markets to Philippine sugar is the greatly increased duties which these countries have imposed. This is discussed in more detail under "Other Markets" on page 25.

Exhibit H and J is a compilation of sugar exports from the Philippines segregated to all countries, including the United States, classified into average periods, first, under the ten-year period 1880 to 1889 under the Spanish regime, and thereafter according to the varying tariff legislation in the United States affecting the sugar industry in the Philippines up to 1934, when the President of the United States issued on May 9 a proclamation reducing the duty from 2.50¢ to 1.875¢ per pound.

Exhibit K is a statement of the annual sources of the U. S. sugar consumption from 1927 to 1933, compiled from Willett and Gray's Statistical Sugar Journal. It will be seen from this Exhibit that in 1933, which was the last year of normal production without restriction, the Philippines contributed 1,241,000 short tons to the United States consumption, representing 19% of the total consumption in the United States for that year.

Marketing Methods: No report on the conditions pertaining to the Philippine sugar industry would be complete without a reference to the circumstances which neces-

sitate the shipment of the bulk of each crop during the seven-months' period from December 1st to June 30th.

As has been explained heretofore, the production of centrifugal sugar in the Philippines is a joint undertaking by the planters (who grow the cane) and the milling companies (who turn it into sugar). The result is that the disposal of more than half the Philippine sugar crop is in the hands of planters (a large proportion of whom are small producers) who wish to sell their sugar whenever they consider it convenient so to do, thereby preserving for themselves the inalienable right of an individual to dispose of his own property as he deems convenient. In actual practice, this state of affairs results in large quantities of P. I. sugar being offered for sale in the Philippine market whenever there is a rise in U. S. prices and, as most of the financing firms' crop-loan agreements give planters the right of disposal of their sugar up till June each year and at the same time compel the financing firms to take the sugar over at the market price whenever the planter wishes to sell, it is quite impossible to regulate the sale and shipment of Philippine sugar. Exhibit L indicates that the shipping and marketing of P. I. sugar has not been disorderly as compared with other offshore areas.

Another difficulty which presents itself in this connection is the exposed location of many centrals' shipment wharves, from which it is impossible to load steamers except during the northeast monsoon period—mostly between December 1st and April 30th. These wharves, although protected from north-east winds, are completely exposed during the south-west monsoon, which is accompanied by heavy rains and includes the most dangerous part of the so-called typhoon season. As a result, it has been the practice for many years for the shipment of P. I. sugar to be made during the (mainly dry) north-

east monsoon period, which coincides with the milling season. Milling companies' storage accommodation has been based on this practice and is inadequate and unsafe for the warehousing of large quantities of sugar during the rainy months. Even if it were possible to persuade planters to dispose of their crops gradually heavy charges would be incurred in moving a large proportion of the sugar from the exposed shipping points to ports where it could be handled at all times of the year and in storing it there for shipment.

Yet another serious disadvantage in the gradual, or so-called "orderly," marketing of P. I. sugar, as compared with the produce of Hawaii, Puerto Rico and Cuba, is the distance between the Philippines and the principal U. S. (East-Coast) markets. Philippine producers are compelled either (1) to sell their sugar for shipment, i. e., 2 to 4 months before the due delivery date in the U. S., or (2) to ship it unsold and risk a decline in prices during the voyage. It is far easier to adopt an "orderly" marketing scheme when the voyage-distance between the shipment and arrival ports is a matter of seven days instead of seven weeks.

Criticisms have been levelled at Philippine producers in this connection but a careful study of the conditions under which the Islands' sugar crops are produced, financed and handled must leave an impartial observer with the understanding that the marketing of Philippine sugar crops cannot be judged by the yardsticks of the other areas which provide the United States with sugar.

As an illustration of the above facts the percentage of sugar shipment each month by P. I., Cuba, Hawaii and Porto Rico are given in Exhibit M and graphically illustrated in the chart in Exhibit N. It may be noted from this chart that the marketing of Philippine sugar has

been quite consistent for the five years under discussion. Shipments are fairly well spread throughout the dry season and are reduced only when a large number of outports are closed due to weather conditions. It may be noted that some sugar is shipped in virtually every month of the year, indicating that in those ports that are not closed due to weather they continue to operate to level out the shipments of Philippine sugar. Comparing the chart for the Philippines with the other sugar producing areas, it may be noted that in nearly all of them, they have their peaks of high shipments and periods of low shipments. On the whole it would seem that the marketing in the Philippines is at least as orderly as the marketing in other areas.

Taxes paid by Sugar Industry: According to published records based on an exhaustive study made by the Philippine Sugar Association, it was found that the taxes paid directly and indirectly by the sugar industry in the Philippines to the Insular Government based on the 1931-32 sugar production amounted to over \$10,000,000.00, equivalent to a tax of 0.46 cent per lb. on the total production, and to about 43% of the Insular Government revenues for that year.

If the Tydings-McDuffie Act quota, the equivalent of which in raw value has been calculated at 973,000 short tons, prevails during the Commonwealth period, the Philippine production quota after allowing 70,000 short tons for domestic consumption, will be about 1,043,000 short tons, approximating the production level of the 1931-32 crop. It can be calculated reasonably that similar tax benefits would be derived from the sugar industry during the so-called transition period, as was the case during the crop year of 1931-32. However, the ability of the sugar industry to continue to contribute the same amount of taxes to the Commonwealth Government during the full ten-year

transition period will largely depend on the maintenance of the present status quo, excluding the burden of export taxes during the last five years of the Commonwealth period as provided in Section 6 (e) of the Tydings-McDuffie Act.

Effect of the U. S. Duty on Philippine Sugar: From the foregoing, it is obvious that the sugar industry is the largest contributor to the national income of the Philippines. For the year 1934 the value of sugar exported, as detailed by the Insular Collector of Customs, represented approximately 60% of the value of all exports to all countries. Of the total exports of the Philippines to the United States valued at \$91,843,593.50 sugar (including value of molasses) contributed \$65,570,686.50, or more than 71%. As the sugar exports to the United States from the Philippines during this year amounted to approximately 1,270,000 short tons, the U. S. duty of 1.875 cents per pound, which would have been imposed on this sugar were it "full-duty" instead of "duty-free" would have amounted to approximately \$47,600,000.00, constituting more than 72% of the total-export value of sugar during that year.

According to the statement of the American Trade Commissioner in Manila in this connection, "the industry could weather the imposition of an export tax amounting to five percent of the American tariff, in the sixth year of the Commonwealth, or 10 percent the seventh year, but it is extremely doubtful if it would be able to stand even a duty equal to the Cuban rate after the tenth year, and with such an outlook, there would be no chance of new capital coming to the rescue. It must be assumed, therefore, that imposition of any duty on Philippine sugar not giving it some preference over Cuba, at least for a considerable period of years, would mean the almost total collapse of the industry, involving loss of investment valued at

\$82,500,000 in centrals (of which about \$21,500,000 is held by American citizens and nearly as much by the Philippine Government, through the Philippine National Bank) and loss of 60 percent of the total export trade of the country.”

The American Trade Commissioner as quoted above treats of the industry as a whole. However, there are actually wide differences between the costs of the different mills and even wider differences between the production costs of various planters. It is probable that all but the highest cost mills and planters will be able to survive the first export tax of 5%. As, however, there are high cost planters in all districts it is obvious that even the most fortunate districts will be somewhat affected by the first 5%. Possibly the medium and low cost planters and mills will be able to survive the 10% duty. A few of the very lowest might even be able to survive the 15% tax were it not that even in the best districts many planters will already be eliminated and in the other districts the planters surviving will be deprived of their milling facilities. Beyond doubt none would survive a further increase to 20%.

Since a very large percentage of the annual crops are financed by crop loans to planters, many of which cannot be liquidated until after 18 to 24 months, there may be a substantial reduction in sugar production in the Philippines two years prior to the marketing of the crops which will be subjected to the U. S. duties on their arrival in the United States market, owing to the fear on the part of the financiers that the planters may not be able to repay the advances in full.

It will also be necessary to reduce the Central's cost of production in order to accelerate the liquidation of

capital investments and this reduction would mean a drastic cutting down of wages.

Unless there should be a substantial increase in sugar prices or reduction in operating and other expenses, there may be only a relatively small quantity of sugar manufactured thereby defeating the purpose of the export taxes and incidentally destroying, within the ten-year transition period, a large part of the industry upon which the Philippine Government depends for a substantial portion of its revenues.

The Cuban Competitive Advantage: With the inauguration of the Philippine Commonwealth on November 15, 1935, it has been intimated that the free entry of Philippine sugar into the United States, despite the operation of the Jones-Costigan Act in the Philippines, will apply only to 973,000 short tons raw value, the calculated equivalent of the quota fixed under the Tydings-McDuffie Act, and that any excess over that amount, up to the quota allocated under the Jones-Costigan Act, would be allowed entry, but only on payment of the full U. S. duty. The practical effect of this development results in a Philippine quota of 973,000 short tons raw value annually during the life of the Philippine Commonwealth. Any quantity in excess of the Tydings-McDuffie quota could only be shipped to the United States at a heavy loss since it would be subject to duty at the rate of 1.875 cents per pound.

The Philippine quota of 973,000 short tons raw value under the Tydings-McDuffie Act may even be displaced in the American market by Cuban sugar after the fifth year of the Commonwealth, when 5% of the U. S. duty will be levied on Philippine sugar as export tax, as may be seen from the following comparative production cost data of Philippine and Cuban sugars, as disclosed by the U. S. Tariff Commission in its Report (No. 73, Second

Series) to the President, covering the crop years of 1929-30, 1930-31 and 1931-32:

	<i>Cents per Pound</i>	
Production of Cane:		
Philippines	1.34	
Cuba .....	.77	
Philippine excess over Cuba	-----	0.57
Transportation of Cane and Milling:		
Philippines .....	.99	
Cuba .....	.91	
Philippine excess over Cuba	-----	0.08
Total Cost F. O. B. Factory:		
Philippines	2.33	
Cuba	1.68	
Philippine excess over Cuba	-----	0.65
Transportation to U. S. Atlantic Ports:		
Philippines .....	.39	
Cuba .....	.24	
Philippine excess over Cuba	-----	0.15
Total Delivered Cost:		
Philippines	2.72	
Cuba	1.92	
Philippine excess over Cuba	-----	0.80

This excess cost of Philippine over Cuban sugar is offset by the present duty on Cuban sugars at the rate of 0.9¢ per lb., thus creating an advantage for Philippine sugar to the extent of 0.10 cent per lb.

Under Section 6 (e) of the Tydings-McDuffie Act, export taxes on all Philippine articles at present favoured with tariff protection in the United States are to be im-

posed from the sixth to the tenth year commencing at 5% of the full duty fixed by law in the United States in the sixth year to 25% in the tenth year.

These export taxes on sugar at the present rate of 1.875¢ per lb. for full duty sugars would be as follows:

<i>Year of Commonwealth</i>	<i>U. S. Duty of 1.875¢ per lb.</i>
6th — 5%	0.09375¢
7th — 10%	0.1875¢
8th — 15%	0.28125¢
9th — 20%	0.375¢
10th — 25%	0.46875¢

It is obvious that the advantage now held by the Philippines over Cuba would be equalized as soon as it becomes necessary to impose an export tax of 5% of the U. S. full duty and thereafter Philippine sugars would show a progressive higher cost over Cuba.

The present rate of duty on Cuban sugar is 0.9¢ per lb. by virtue of the Reciprocal Trade Agreement between the United States and Cuba effective September 3, 1934, and the duty so established will revert to 1.5¢ per lb. on the date of the expiration of the Jones-Costigan Act which has recently been extended to the 31st of December, 1937. The duty of 1.5¢ per lb. would give the Philippines an advantage of 0.70 per lb., but as the entry of Philippine sugar into the United States would be limited by the provisions of Section 6 (a) of the Tydings-McDuffie Act, and there would be no limitation on the entry of Cuban sugar, Cuba would presumably seek a reduction of her production costs by expanding her crops. Cuba's maximum annual production prior to her adherence to the Chadbourne Plan was 5,600,000 short tons. Under the Chadbourne Agreement this quantity was reduced to as low as 2,234,500 short tons.

By the Jones-Costigan Act, Cuba's quota for export to the United States approximates 2,000,000 short tons annually. Her surplus stocks, however, were stabilized until recently at about 2,000,000 short tons at the end of each crop year. Cuba's policy to keep in stock this huge quantity of sugar at all times coupled with the ability to expand production on short notice would facilitate the filling of any deficiency in the U. S. sugar requirements. This situation, however, has since been modified by the provisions of the International Agreement on the production and marketing of sugar concluded in 1937, under which Cuba's reserve stocks are regulated.

In 1928 the Philippine Sugar Association submitted a restriction plan whereby the U. S. allotment quota of the Philippines should not be a static figure but should be based on a certain percentage say 19 per cent, of the total consumption of sugar in the United States. According to Willett and Gray, during the calendar year 1933, the last year of unrestricted production of sugar in the Philippines, the United States derived 19 percent of its total sugar consumption from the Philippines.

Should the Jones-Costigan Act be extended, or some other similar bill establishing quotas for the supply of the U. S. sugar market be enacted, the Philippines will not be faced with the possibility of Cuban expansion of production as long as such quota system is in effect. Whether the burden of the export taxes will then be the cause of the gradual disappearance of the Philippine sugar industry depends upon the trend of sugar prices in the United States market.

The purpose of restriction was to benefit producers by inducing a rise of prices. The average price of duty paid sugar in New York from the 1st of January, 1934, up to the signing of the Jones-Costigan bill by President

Roosevelt in May was about 3.05 cents, representing 1.05 cents c. & f. for Cuba. The present value is around 3.40 cents duty paid but, owing to the successive reductions in the Cuban tariff, Cuba now secures 2.50 cents, an increase of 138% as against 8% for continental and insular sugars. In addition, it might be pointed out that, whereas the Philippines has had a severe cut in production, the Cuban quota for the United States represents an increase over the amount which was allowed to enter the United States under the Chadbourne Plan.

Sugar Industry of Vital Importance to the Philippines: It is obvious that the Philippine sugar industry, without a change in current sugar prices and quota arrangements, cannot combat the loss of the privilege of free entry in the American market, without drastic reduction in salaries. The disastrous effect of this eventuality has only lately been recognized in the Philippines, and the following data released by the Governor General in September, 1934, emphasize the contribution of the industry to the material well-being of the country.

It is interesting to record here that the five-year average production of sugar in the Philippines (1930 to 1934 inclusive) approximates 1,130,000 short tons, which corresponds to the 1932 production. In connection with the drastic curtailment of sugar production in the Philippines, as contemplated in the allocation of quotas under the Jones-Costigan Act, Governor General Frank Murphy, in a cablegram to the Secretary of War at Washington, dated September 8, 1934, presented a most able summary of the case for the industry, succinctly supported by the following statistical data * for the year 1932, which, as stated, was representative of the sugar situation in the Philippines for the previous five years.

* Conversion from original figures in pesos into dollars, U. S. Currency, ours.

"(1) Sugar accounted for 63% of all income derived from export trade in 1932. Remove it from the list and a favorable visible balance of trade of \$15,500,000.00 would have been converted into a negative balance of \$44,500,000.00.

"(2) The total annual income from all sources is estimated at \$200,000,000.00, sugar comprising nearly 30% of the total.

"(3) There are 10 banks in the Philippines and in addition 3 private companies engaged in agricultural financing. The total loans, overdrafts and advances of these 13 establishments amounted to \$72,500,000.00. Of this about \$34,000,000.00 or 47% is advanced on sugar.

"(4) Considering the Government-owned Philippine National Bank alone its loans, overdrafts and advances amounted to \$22,500,000.00, of which \$17,500,000.00 or 77% is advanced on sugar.

"(5) The Government-owned Manila Railroad collected \$2,300,000.00 as freight revenue in 1932. Of this amount, nearly \$1,000,000.00 or over 40% was derived from handling sugar.

"(6) The Philippine Railways in Cebu, Iloilo and Panay, in large part guaranteed by the Government, also derives the bulk of its freight revenue from sugar.

"(7) Five of our leading provinces, Occidental Negros, Oriental Negros, Pampanga, Laguna, and Tarlac, are largely supported by taxation from sugar. Extreme withdrawal of this support in these provinces would seriously affect the public finances and be reflected in cessation of public works and closing of schools."

Since it took the Philippines from fifteen to twenty years to develop the Philippine sugar industry, it seems improbable that any other major industry can be developed within the ten-year transition period under the Philippine Commonwealth without an assured market. Should

another such important product be found or should unforeseen improvements in existing industries be discovered, there is no assurance that they would be able to surmount the tariff walls which would probably be erected against them.

That we cannot successfully compete with Cuba in the open sugar markets of the world, because of exceptional advantages, climatic and soil conditions, is admitted by all authorities on sugar.

Potentialities of Domestic Consumption: Consumption of centrifugal sugar in the Philippines during the last few years has been nominally estimated at 84,000 short tons. Aside from this, Government statistics tend to show that various low-grade sugars increase the total consumption to approximately 145,000 short tons, equivalent to a per capita consumption of 21 pounds.

During the year 1934, the U. S. sugar authority in the Philippines placed the domestic quota of centrifugal sugar at 70,000 short tons, which amount was found to be just sufficient for local requirements. This is less than the quantity of sugar consumed locally for the last few years, and is explained by the fact that since the operation of the Jones-Costigan Act in the Philippines, centrifugal sugar production only has been regulated, the production of low-grade sugars, such as muscovado and "panocha" remaining unrestricted. However, even if it is taken for granted that sugar consumption in the Philippines may be so stimulated that as much as 145,000 short tons of centrifugal sugar (with the suppression of all lower grades) may be consumed within the Philippines, there could still be available for export abroad 1,355,000 short tons of sugar, placing Philippine production on the maximum milling capacity of the existing centrals at 1,500,000 short tons. In the absence of free or preferential entry into

a market abroad, the Philippines cannot hope to continue to raise sugar cane as an industry. It will be impossible for the islands to compete with Cuba in the American market, since, aside from a lower cost of production, Cuba enjoys a very substantial tariff preferential in that market by virtue of its reciprocal trade agreement with the United States and exceptional advantageous climatic and soil conditions. As before stated, Philippine sugar has a very poor chance of competing successfully with Javanese, Japanese and Formosan and Chinese sugars, since it is produced by far more expensive labor, which accounts for its relatively high cost.

Since Philippine sugar consumption potentialities are comparatively nil, unless the Philippines can continue to hold the American market or develop another as profitable, for which hope there is no justification, sugar production in the Philippines will probably cease as an export industry, and the present level of consumption, namely, 70,000 short tons would be sufficient merely to operate Philippine centrals at 5% capacity.

Other Markets for Philippine Sugar: The so-called other potential markets for Philippine sugar, namely, China, Japan, British India, and England, cannot, for the present, be considered prospective markets. Statistics for previous years show that Java dominates the sugar markets in the Far East. It was only recently that, due to expanding sugar production in British India, Japan and China as a result of their increasing nationalism and desire for self-sufficiency, Java's hold on these markets declined. It must also be stated that Java encounters intermittently severe competition from Cuba in the Far East. Data are not readily available showing the sources of sugar importations in Japan and China during recent years, but as these markets have previously been dominated by Java,

whatever importations these countries may eventually require from abroad can readily be supplied by Java and Cuba, at (excluding tariffs) prices considerably lower than the Philippine cost of production.

In this connection, mention should be made of the tariff duties imposed on foreign sugar in countries considered as potential markets for Philippine sugar. These duties are as follows:

<i>Country</i>	<i>Cents per lb. on 96° sugar *</i>
China	1.15-1.60
Japan	0.94-1.484
British India	2.95
United Kingdom	1.765

* Source: The Annual Report of the American Sugar Refining Co. for the year ending Dec. 31, 1934.

It may be stated that at this writing the Philippine equivalent (exclusive of all charges) of the sales prices in China and the United Kingdom are 0.986 and 0.52 cents per lb., ex-warehouse, respectively

Limitation under the Jones-Costigan Act: The sugar output of the Philippines during the 1933-34 season amounted to 1,578,000 short tons. As the quota allotted to the Philippines under the Jones-Costigan Act during 1934 was only 1,015,185 short tons, after deducting a nominal amount for domestic consumption, there still remained a large surplus for disposal during the year 1935. It was estimated that the cane planted for milling during the 1934-35 crop would have produced 1,500,000 tons of sugar if the restrictions under limitation had not forced the destruction of a large part of the cane. Due to the retroactive features of the Jones-Costigan Act, the 1934-35 crop was reduced by the quantity produced in 1934 in

excess of the quota, resulting in the reduction of the 1934-35 crop by approximately two-thirds.

While the cane producers were compensated for crop reduction, the centrals received no such recoupment of enforced losses. Since the unit costs due to the drastic curtailment of the 1934-35 crop were naturally higher than the unit costs during a normal milling season, it is estimated that the loss of revenues on the basis of the average participation of the crop between the Central and planters approximates an amount equal to the benefit payments to planters for destruction of their cane at the rate of 0.86 cents per lb. of crop reduction. Since benefit payments available to planters are estimated at about \$14,000,000.00, the non-participation of the centrals in these benefit payments represent to them also a loss of about \$14,000,000.00.

It has been previously pointed out that the Philippine centrals are co-producers of sugar cane with the planters, and that this relationship arises out of a contract between the centrals and planters, by which the mutuality of operation is so strong that the operation of the one is regulated and dependent upon the operation of the other. When one fully appreciates the nature of this relationship between the Central and the Planters, the injustice of allowing benefit payments to planters alone is very evident. Just as a central will profit by an increase in production owing to favorable weather conditions, higher-yielding cane varieties, etc., so does it suffer for cane losses sustained due to typhoons, pests, diseases and other calamities. Although there was a forced destruction of cane with corresponding benefit payments to planters, the centrals, who are direct co-producers of cane, were not granted similar compensation.

It should be borne in mind that in other sugar producing countries there is no similar relationship between the grower and the miller of the cane; either the cane belongs to the mill companies or the mill companies buy the cane from the producers. In the first case, the mill companies share directly in the benefit payments, and in the second case the mill companies may be compensated for the reduced volume of their production through the adjustment of prices of cane to a degree that will be mutually profitable for the mills and planters. In the Philippines, neither of these methods is open to the central, which is obligated to receive the quantity of cane a planter is allowed to deliver and to mill it without any change in the participation of sugar produced. Under this plan, the central is to receive, notwithstanding the increased cost of milling due to retroactive restrictive legislation, a reduced quantity of sugar. (See Exhibit P.)

CONCLUSION

After carefully considering the economic provisions set out in Section 6 of the Tydings-McDuffie Act, the Philippine Sugar Association recommended to the U. S. Congressional Mission, which visited the Philippines in December, 1934, headed by Senator Millard E. Tydings, that the following changes should be made therein:

1. Increase the quantity of sugar which under Sec. 6 (a) may be imported into the United States free of duty, during the transition period, from 800,000 long tons of unrefined, and 50,000 long tons of refined sugars to 1,200,000 short tons of 96° sugar, of which 80,000 tons raw value may be refined. (It is recognized that this increase does not affect limitation under the Jones-Costigan Act while AAA is in force.) * * *

2. Abolish the export taxes provided for in Sec. 6 (e), and we further wish to recommend that the conference, provided for in Section 13, for the purpose of promulgating recommendations as to future trade relations between the United States and the Philippines be held at the earliest possible date.

The arguments in support of the above recommendations are set forth in Exhibit Q.

As the Philippine Sugar Association represents about 95% of the sugar milling and refining industry in the Philippines, we believe that its stand on this question should receive the utmost consideration.

MODIFICATIONS OF OUR OBJECTIVES

It should be appreciated that this report and the recommendations contained therein were prepared in December, 1934, and presented to the Congressional mission headed by Senator Millard E. Tydings.

As this report fully covered all pertinent information regarding the Philippine Sugar Industry it has been brought up to date as to the facts and statistics. However, the recommendations made on page 26 have since been modified and the Philippine Sugar Association now presents as the principal objectives for the consideration of the Trade Conference, the following:—

1. The elimination of the export tax provisions in the Tydings-McDuffie Act as stipulated in section 6 (e).
2. The working out of a mutually acceptable plan for the indefinite and preferably permanent continuance of the present trade relations between the two countries.

"In connection with the second objective and similar agreements by the other industries directly affected by the quantitative limitations of the Tydings-McDuffie Act, the Association has given publicity to the intention of the Philippine sugar industry not to ask for an additional pound of sugar for importation into the United States. Similarly during the quota years 1936 and 1937, when the Philippine-United States quota under the Jones-Costigan Act was substantially in excess of the Tydings-McDuffie Act quota, the Philippine sugar industry elected not to claim the excess quota for importation into the United States duty-free nor to ship it as dutiable sugar, satisfying itself with the duty-free quota stipulated in the Tydings-McDuffie Act, namely 800,000 long tons of unrefined and 50,000 long tons of refined sugar, commercial weight, equivalent to approximately 973,000 short tons, net weight, raw value.

This particular commitment has been made public on behalf of the Philippine sugar industry before the sugar hearings in Washington in connection with the proposed sugar legislation as well as in the agreement signed on May 6, 1937, by the International Sugar Conference held in London."

The International Sugar Agreement if finally ratified and put into effect does not in any manner modify the present position of the Philippine sugar industry assuming that the existing trade relations with the United States are maintained for not less than ten years after the inauguration of the Philippine Commonwealth. The International Sugar Agreement comes into force on September 1st, 1937 and remains effective for five years from that date unless the contracting governments agree that it shall be continued for a further period and on what terms.

Under the conditions of the Tydings-McDuffie Act there would be no Philippine sugar admissible for a quota in the free market until 1946 or four years after the expiration of the International Agreement.

Respectfully submitted,

PHILIPPINE SUGAR ASSOCIATION

By: (Sgd.) RAFAEL R. ALUNAN,
President.

MANILA, PHILIPPINES
September, 1937

EXHIBIT A

[Cited on page 2]

PHILIPPINE SUGAR PRODUCTION

(Brought up-to-date—July, 1937)

Crop year	Short Tons	Crop year	Short Tons
1920-21*	389,530	1928-29	771,360
1921-22*	469,112	1929-30	867,096
1922-23*	369,807	1930-31	875,876
1923-24	342,730	1931-32	1,100,721
1924-25 ^a	548,508	1932-33	1,263,973
1925-26 ^b	406,209	1933-34	1,578,406
1926-27	590,597	1934-35	695,145
1927-28	633,857	1935-36	982,221

* Based on export figures reported by the Bureau of Customs which consisted of muscovado and centrifugal sugar, plus an allowance of 70,000 short tons for domestic consumption, while from 1924 onwards production figures cover only centrifugal sugar, of which reliable records, compiled by the Philippine Sugar Association are available.

^a Bumper-crop year.

^b Crop-failure year.

EXHIBIT B

[Cited on page 3]

PHILIPPINE SUGAR CENTRALS

	First Crop Harvested	1933-34 Daily Capacity Metric Tons
Centrals on Negros		
1. Bacolod-Murcia Milling Co.	1920-21	3,500
2. Binalbagan Estate, Inc.	1920-21	3,023
3. Central Asucarera de Bals	1919-20	3,500
4. Central Asucarera del Danao	1927-28	700
5. Central Leonor	1920-21	400
6. Central Palma	1915-16	600
7. Central San Isidro	1917-18	680
8. Hawaiian-Philippine Company	1920-21	1,300
9. Isabela Sugar Company, Inc.	1919-20	2,480
10. Kabankalan Sugar Company	1912-13	850
11. La Carlota Sugar Central	1919-20	4,203
12. Lopes Sugar Central Company	1927-28	1,000
13. Ma-no Sugar Central Company	1920-21	3,000
14. North Negros Sugar Company	1917-16	3,600
15. San Carlos Milling Company	1913-14	2,000
16. San Isidro (De la Rama)	1913-13	100
17. Santa Aniceta (De la Rama)	1913-12	400
18. Talisay-Silay Milling Company	1921-22	4,000
19. Victorias Milling Company	1920-21	2,300
		40,733
Centrals on Luzon		
20. Bataan Sugar Company	1926-27	300
21. Calamba Sugar Estate	1914-15	5,000
22. Central Asucarera de Calatagan	1912-13	700
23. Central Asucarera de Tarlac	1928-29	6,000
24. Central Asucarera del Norte	1929-30	350
25. Central Asucarera Don Pedro	1927-28	2,600
26. Central Luzon Milling Company	1928-27	2,300
27. Hind Sugar Company	1925-26	400
28. Luzon Sugar Company	1925-25	500
29. Mabalacat Sugar Company	1921-22	250
30. Mount Arayat Sugar Company	1928-29	1,000
31. Nueva Ecija Sugar Mills	1927-28	300
32. Pampanga Sugar Development Company	1921-22	4,300
33. Pampanga Sugar Mills	1919-20	4,200
34. Paniqui Sugar Mills	1929-30	750
35. Philippine Sugar Estates Dev. Company	1913-14	750
		30,114
Centrals on Panay		
36. Asturias Sugar Central	1921-22	1,350
37. Central Lourdes	1920-21	200
38. Central Santos-Lopez	1929-30	1,000
39. Central Sara-Ajuy	1928-29	750
40. Philippine Starch & Sugar Company	1930-31	850
41. Pilar Sugar Central	1924-25	750
		4,900
Central on Mindoro		
42. Philippine Milling Company	1911-12	1,550
		1,550
Centrals on Cebu		
43. Bogo-Medellin Milling Co.	1929-30	1,000
44. Cebu Sugar Company	1927-28	1,000
		2,000
Centrals on Leyte		
45. Ormoc Sugar Company	1929-30	300
46. Rosario Sugar Mills	1933-34	200
		500
TOTAL		80,102

* Compiled by Philippine Sugar Association, February 23, 1934. Data obtained directly from Centrals.

EXHIBIT D

[Cited on page 4]

**NUMBER OF PLANTERS, EMPLOYEES, AND LABORERS
AND THEIR FAMILIES DIRECTLY AND INDIRECTLY
DEPENDENT ON THE SUGAR INDUSTRY**

1—SUGAR PLANTERS AND THEIR DEPENDENTS:		
(a) Number of sugar planters	15,000	
(b) Dependent families, basis 5 each	75,000	90,000
2—TENANTS, INQUILINOS OR CASAMAS AND THEIR DEPENDENTS:		
(a) Number of tenants on basis of 2 hectares for tenant (350,000 hectares)	175,000	
(b) Dependent families, basis 5 each	875,000	1,050,000
3—CENTRALS EMPLOYEES AND LABORERS WITH FAMILIES:		
		150,000
4—PLANTATION LABORERS AND THEIR FA- MILIES:		
(a) Permanent	240,000	
(b) During harvesting and planting season	370,000	610,000
5—MISCELLANEOUS EMPLOYEES AND LABORERS OF AGENTS MERCHANTS AND THEIR FA- MILIES		
		100,000
TOTAL		<u>2,000,000</u>

EXHIBIT E

[Cited on page 4]

**NUMBER OF PEOPLE DEPENDENT UPON THE
SUGAR INDUSTRY**

Province	Number of Centrals	1924 Estimated Population *	Estimated Per cent Directly Dependent ^b	Estimated Population Directly and Indirectly Dependent
1. Bataan	1	69,000	5	3,450
2. Batangas *	2	442,000	50	221,000
3. Bulacan	1	300,000	5	15,000
4. Capiz	2	360,000	20	72,000
5. Cavite *	0	186,000	10	18,600
6. Cebu	2	1,152,000	10	115,200
7. Ilocos Sur	1	268,000	10	26,800
8. Iloilo	4	637,000	50	318,500
9. Laguna *	2	237,000	25	59,250
10. Leyte	2	772,000	5	38,600
11. Mindoro	1	87,000	20	21,750
12. Nueva Ecija	1	277,000	5	13,850
13. Occ. Negros	18	486,000	100	486,000
14. Or. Negros	1	339,000	20	67,800
15. Pampanga	4	337,000	90	303,300
16. Pangasinan	1	747,000	10	74,700
17. Tarlac	3	234,000	60	140,400
TOTAL	46	6,915,000	29	1,995,700

* Calamba Sugar Estate, situated at Canlubang, Laguna, serves these three provinces.

^a From information supplied by the Division of Statistics, Department of Agriculture and Commerce.^b Percentage calculated by the Philippine Sugar Association.

REVISED

EXHIBIT F

[Cited on page 5]

DISTILLERIES LOCATED AT THE CENTRALS *

Distillery	Alcohol Production Capacity in Proof Liters per 24 hours
1. Binalbagan Estate, Inc.	38,000
2. Bogó-Medellin Milling Company	18,000
3. Calamba Sugar Estate	16,368
4. Central Azucarera de Bais	25,000
5. Central Azucarera de Calatagan	5,000 ^a
6. Central Azucarera de Tarlac	15,000
7. Central Santos-Lopez	6,000 ^a
8. Hind Sugar Company .....	..... ^b
9. Isabela Sugar Company	10,000
10. Kabankalan Sugar Company	5,000
11. Lopez Sugar Central Mill Company	5,000 ^a
12. Ma-ao Sugar Central Company	25,000
13. North Negros Sugar Company	28,200
14. Pampanga Sugar Mills	28,466
15. Philippine Milling Company	11,000
16. Philippine Starch and Sugar Company .....	..... ^b
17. Talisay-Silay Milling Company	40,000
TOTAL	276,034

* Compiled by the Philippine Sugar Association, October 8, 1935.

^a Estimates.^b Information re daily capacity not as yet available.

EXHIBIT G

[Cited on page 9]

**Percentage of American Investment in Sugar Centrals in the
Philippine Islands Based on the Quotas for 1936.***American Centrals in the Philippines*

Mill	U. S.	Domestic	Reserve	Totals
Bogo-Medellin	16,462,947	1,528,977	655,276	18,647,200
Calamba	87,288,353	6,469,981	2,772,849	96,531,183
Cebu	14,356,701	1,138,060	487,740	15,982,501
Del Carmen	120,580,102	7,609,199	3,361,085	131,450,386
Hawaiian-Phil.	110,893,356	6,062,260	2,598,111	119,553,727
Manapla	112,686,786	8,106,187	3,474,080	124,267,053
Manoag	3,380,602	3,233,579	1,385,819	8,000,000
Mindoro	17,681,480	1,121,787	480,766	19,283,983
San Carlos	70,660,926	4,380,195	1,877,226	76,918,347
Victorias	81,755,141	5,665,091	2,427,896	89,848,128
Grand Totals	635,746,344	45,315,316	19,420,848	700,482,508
Total All Centrals	1,930,000,000	140,000,002	59,999,998	2,130,000,000

EXHIBIT H

[Cited on page 10]

EXPORTATION OF SUGAR FROM THE PHILIPPINE ISLANDS—1855 to 1934

(Compiled from Official Records of the Philippine Customs)

(Brought up-to-date—July, 1937)

Year	To All Countries		To United States	
	Short Tons	Percentage of Total Value of Exports	Short Tons	Percentage of Total Quantity of Sugar Exported
1855	53,172	34.31	15,171	28.53
1856	53,676	37.35	10,700	19.93
1857	40,844	36.19	9,894	24.23
1858	30,415	22.78	4,162	13.69
1859	50,303	38.52	10,811	21.49
Annual Aver.	<u>45,682</u>		<u>10,147</u>	<u>22.21</u>
1860	64,326	40.93	18,944	29.45
1861	51,320	37.41	8,230	16.03
1862	68,265	37.00	12,526	18.35
1864	49,640	31.20	12,762	25.71
1865	51,623	29.01	10,559	20.45
1866	45,512	25.88	10,670	23.44
1867	61,818	28.42	9,895	16.01
Annual Aver.	<u>56,072</u>		<u>11,940</u>	<u>21.29</u>
1873	93,927	58.24	32,674	34.79
1874	111,741	35.11	51,044	45.63
1875	141,218	48.88	59,274	41.97
1876	143,902	49.91	77,648	53.96
1877	135,576	53.82	64,914	47.88
1878	134,506	47.49	67,905	50.48
1879	145,348	49.29	57,145	39.32
Annual Aver.	<u>129,459</u>		<u>58,657</u>	<u>45.31</u>
1880	199,726	48.65	112,751	56.45
1881	230,167	50.47	87,149	37.86
1882	165,811	43.22	87,063	52.51
1883	216,970	45.83	140,484	64.75
1884	134,622	30.33	93,886	69.74
1885	225,114	42.18	148,869	66.13
1886	203,859	34.90	129,134	63.35
1887	189,324	31.66	122,841	64.88
1888	177,457	32.32	92,283	52.00
1889	251,841	35.45	138,629	55.05
Annual Aver.	<u>199,489</u>		<u>115,310</u>	<u>57.80</u>

(1)

EXHIBIT H—Continued

Year	To All Countries		To United States	
	Short Tons	Percentage of Total Value of Exports	Short Tons	Percentage of Total Quantity of Sugar Exported
1890	159,658	33.72	37,616	23.56
1891	152,358	27.29	51,730	33.95
1892	278,659	40.54	50,685	18.19
1893	288,276	46.74	11,124	3.86
1894	232,195	33.11	12,633	5.44
1895	376,402	31.34	No Data	
Annual Aver.	<u>247,924</u>		<u>32,757</u>	<u>13.21</u>
(2) { 1899	94,608	23.30	24,126	25.50
1900	71,860	10.43	2,373	3.30
1901	62,250	10.43	5,761	9.18
1902	108,682	11.67	5,644	5.19
Annual Aver.	<u>84,350</u>		<u>9,476</u>	<u>11.23</u>
(3) { 1903	94,035	10.26	32,314	34.36
1904	95,959	10.61	28,547	29.75
1905	119,598	15.16	48,051	40.18
1906	142,697	13.95	13,071	9.16
1907	141,002	12.68	12,113	8.59
1908	159,541	17.50	51,485	32.27
1909	142,558	16.06	58,502	41.04
Annual Aver.	<u>127,812</u>		<u>34,869</u>	<u>27.26</u>
(4) { 1910	133,899	17.78	111,002	82.90
1911	230,429	24.70	206,856	89.77
1912	217,237	17.84	147,575	67.93
1913	173,429	14.72	33,859	19.52
Annual Aver.	<u>188,748</u>		<u>124,823</u>	<u>66.13</u>
(5) { 1914	260,692	22.71	186,873	71.68
1915	232,600	21.02	91,315	39.26
1916	372,015	26.58	145,377	39.08
1917	226,972	12.84	68,759	30.29
1918	301,212	11.69	116,933	38.82
1919	149,979	13.44	35,449	23.64
1920	198,790	32.83	136,627	68.73
1921	319,530	28.96	165,873	51.91
1922	399,112	26.77	269,900	67.63
Annual Aver.	<u>273,433</u>		<u>135,234</u>	<u>49.45</u>

EXHIBIT H—Continued

Year	To All Countries		To United States	
	Short Tons	Percentage of Total Value of Exports	Short Tons	Percentage of Total Quantity of Sugar Exported
(6) { 1923	299,807	28.59	254,141	84.77
1924	394,436	30.93	331,646	84.08
1925	602,773	30.57	511,455	84.86
1926	453,301	23.55	376,222	77.35
1927	609,929	32.33	560,318	81.87
1928	623,243	30.66	588,881	93.73
1929	767,055	30.55	739,591	96.42
1930	820,089	39.23	812,610	99.09
Annual Aver.	571,954		521,858	91.26
(7) { 1931	829,957	48.05	829,242	99.91
1932	1,120,563	62.72	1,120,230	99.97
1933	1,189,011	60.82	1,188,949	100.00
Annual Aver.	1,046,510		1,046,140	99.96
(8) { 1934	1,270,789	59.28	1,270,610	99.98
1935	569,049	35.00	568,106	99.83
1936	991,902	45.39	991,656	99.97

(1) Ten-year period 1880 to 1889 under Spanish Régime.

(2) Philippine sugar entering the United States subjected to full duty of 1.68½ cents per pound, under the Dingley Tariff Act of July 24, 1897.

(3) Philippine Tariff Act of March 3, 1902, reducing the duty of Philippine sugar by 25 per cent.

(4) Payne-Aldrich Tariff Law of August 5, 1909, establishing free trade. Philippine sugar imports limited to 300,000 tons per annum. Cuban reciprocity treaty went into effect December 17, 1903, allowing Cuban sugar a preferential of 20 per cent. Duty on Cuban sugar 1.348c.

(5) Underwood-Simmons Tariff Act of October 3, 1913, removing the restrictions in the 1909 Tariff Act. Duty on Cuban sugar, reduced to 1.0048 cents. On April 27, 1918, free sugar clause of Tariff Act of 1913 repealed. On May 27, 1929, Emergency Tariff Act, raising duty to 1.60 cents.

(6) Fordney-McCumber Act of September 22, 1922, raising duty to 1.7648 cents.

(7) Hawley-Smoot Tariff Act of June 17, 1930, raising duty to 2.00 cents.

(8) Presidential Proclamation of May 9, 1934, reduce duty to 1.875 cents.

EXHIBIT J

[Cited on page 10]

VALUE OF SUGAR EXPORTS FROM THE PHILIPPINE
ISLANDS FROM 1899 TO 1934 AND THE FIRST HALF
OF 1935

(Brought up-to-date—July, 1937)

Year	To ALL COUNTRIES		To THE UNITED STATES *	
	Dollars	Percentage of Total Value of Exports	Dollars	Percentage of Total Value of Sugar
1899	3,459,710	23	889,455	25.7
1900	2,397,144	10	93,472	3.9
1901	2,556,313	10	293,354	11.4
1902	3,346,150	12	200,000	5.9
1903	3,325,234	10	1,135,826	34.1
1904	3,092,754	11	870,624	28.1
1905	5,073,233	15	2,102,023	41.4
1906	4,054,092	14	422,111	9.3
1907	4,195,671	13	403,851	9.6
1908	5,703,641	18	1,966,166	34.5
1909	5,608,287	16	2,649,604	47.2
1910	7,224,385	18	6,214,266	86.0
1911	11,075,673	25	10,102,103	91.2
1912	9,800,340	18	7,005,114	71.4
1913	7,032,889	15	1,584,036	22.2
1914	11,059,593	23	8,241,853	74.5
1915	11,310,215	21	5,141,580	45.4
1916	18,587,593	27	8,633,701	46.4
1917	12,277,679	13	5,405,759	44.0
1918	15,804,390	12	8,279,890	52.4
1919	15,207,851	13	3,858,967	25.3
1920	49,619,260	33	39,438,935	79.3
1921	25,518,727	29	16,876,179	66.1
1922	25,582,555	27	20,010,245	78.2
1923	34,519,123	29	30,377,151	88.0
1924	41,868,087	31	37,490,751	89.5
1925	45,514,003	30	41,416,841	90.9
1926	32,229,634	24	29,162,469	90.5
1927	50,295,960	32	47,886,987	95.2
1928	47,542,940	31	45,691,233	96.1
1929	53,244,149	32	52,153,930	98.0
1930	52,240,226	39	52,038,657	99.6
1931	49,963,105	48	49,944,465	99.9
1932	59,801,885	63	59,792,293	99.9
1933	64,333,426	61	64,323,989	99.9
1934	65,454,581	59	65,444,996	99.9
1935	32,990,680	35	32,949,171	99.9
1936	61,937,222	45	61,927,184	99.9

* Include Hawaii and Puerto Rico.

EXHIBIT K

[Cited on page 10]

SOURCES OF U. S. SUGAR CONSUMPTION BETWEEN YEARS 1927 AND 1933

(In Short Tons of 2,000 lbs. raw value)

Sources	1933		1932		1931		1930		1929		1928		1927	
	Short Tons	% of Total	Short Tons	% of Total	Short Tons	% of Total	Short Tons	% of Total	Short Tons	% of Total	Short Tons	% of Total	Short Tons	% of Total
Domestic:—														
Louisiana	314,737	4.99	180,248	2.58	205,879	3.14	197,850	2.94	188,885	2.71	188,719	2.09	46,255	0.78
U. S. Beet	1,365,978	21.68	1,818,407	21.10	1,848,188	20.47	1,140,878	17.00	1,028,598	14.74	1,248,080	18.71	985,185	14.73
Hawaii	989,580	15.67	1,028,848	16.39	967,008	14.74	805,856	12.01	928,687	13.34	818,091	12.38	761,900	13.00
Virgin Islands	4,548	0.07	4,832	0.07	1,958	0.03	6,058	0.09	4,007	0.06	10,968	0.16	6,551	0.10
Puerto Rico	700,892	12.52	910,879	14.58	748,318	11.40	779,914	11.62	460,114	6.61	692,892	10.62	578,191	9.11
Philippines	1,241,229	19.65	1,041,851	16.67	814,878	12.42	804,481	11.99	724,484	10.40	570,524	8.59	520,755	8.20
Various U. S.											11,278	0.02	1,660	0.03
TOTAL DOMESTIC	4,707,064	74.58	4,459,868	71.37	4,081,199	62.20	3,734,882	55.65	3,832,875	47.36	3,482,196	52.42	2,850,497	44.90
Foreign:—														
Cuba	1,600,711	25.34	1,762,550	28.21	2,440,202	37.19	2,045,486	33.89	2,618,609	51.89	3,124,839	47.04	2,490,817	34.99
Others	8,282	0.13	26,495	0.42	40,080	0.61	30,524	0.46	17,801	0.26	35,262	0.54	6,671	0.11
TOTAL FOREIGN	1,608,993	25.47	1,789,045	28.68	2,480,282	37.80	2,975,950	44.35	2,636,410	52.14	3,160,101	47.58	2,497,488	35.10
GRAND TOTAL	6,316,057	100.00	6,248,913	100.00	6,561,481	100.00	6,710,832	100.00	6,469,285	100.00	6,642,297	100.00	5,347,985	100.00

* From Willett and Gray's Statistical Sugar Journal in long tons refined value converted into raw value in short tons of 2,000 lbs.

BRIEFS SUBMITTED IN PRINTED FORM

615

EXHIBIT L

[Cited on page 11]

MARKETING OF P. I. SUGAR, 1930 TO 1936.

(Tons of 2,240 lbs.)

P. I. Centrifugal Sugar Exports

	1930/31	1931/32	1932/33	1933/34	1934/35	1935/36
November	44,993	30,079	72,520	88,518	Nil	8,708
December	58,571	90,205	122,005	99,697	Nil	40,227
January	122,730	88,510	100,400	129,851	12,964	71,898
February	94,087	128,262	125,500	189,291	37,495	117,636
March	106,262	114,450	130,500	197,861	30,418	114,684
April	119,397	87,975	163,411	195,851	68,600	143,190
May	68,582	49,720	180,859	124,634	77,268	151,605
June	59,882	79,714	34,517	22,538	28,100	96,583
July	37,524	68,995	32,137	5,000	55,176	34,996
August	8,360	53,098	31,136	50,737 *	48,824	22,516
September	6,677	43,731	8,949	90,994 *	41,666	23,050
October	7,985	34,390	24,022	83,081 *	3,200	21,909
	735,050	869,129	1,025,956	1,277,553	403,711	846,999

* Mostly to Pacific Coast.

Note.—Between July and September is Typhoon Season.

EXHIBIT M

[Cited on page 12]

Percentage of total shipments for 1930 received in Atlantic ports each month.

Month	Date of Report	Cuba	Hawaii	Puerto Rico	P. I.
January	Feb. 1	7.14	7.58	7.58	5.01
February	Mar. 1	4.85	10.83	9.38	6.78
March	Mar. 29	2.25	4.49	15.64	10.63
April	May 2	10.95	4.41	16.39	13.47
May	May 31	15.50	5.41	5.12	12.09
June	June 28	1.29	4.38	4.55	18.08
July	Aug. 2	5.47	20.77	11.91	10.90
August	Aug. 30	5.94	22.17	10.20	8.65
September	Sept. 27	8.41	—	9.97	3.50
October	Nov. 1	11.98	19.96	3.08	5.81
November	Nov. 29	17.45	—	4.93	2.46
December	Dec. 27	8.77	—	1.25	2.62

Percentage of total shipments for 1931 received in all U. S. ports each month.

Month	Date of Report	Cuba	Hawaii	Puerto Rico	P. I.
January	Jan. 31	5.08	6.26	3.38	6.86
February	Feb. 28	9.81	8.49	11.99	7.96
March	Mar. 28	11.02	9.68	10.80	13.67
April	May 2	8.48	13.88	15.16	18.29
May	May 30	2.76	7.78	17.15	13.89
June	June 27	5.34	9.81	7.41	13.98
July	Aug. 1	13.67	11.93	11.35	10.35
August	Aug. 29	15.85	7.99	3.33	8.41
September	Oct. 3	10.10	11.72	7.57	3.81
October	Oct. 31	6.77	6.40	6.53	1.17
November	Nov. 28	3.19	3.24	3.94	1.61
December	Dec. 26	7.93	2.82	1.39	—

EXHIBIT M—Continued

Percentage of total shipments for 1932 received in all ports each month.

Month	Date of Report	Cuba	Hawaii	Puerto Rico	P. I.
January	Jan. 30	9.15	5.35	7.07	6.17
February	Feb. 27	12.26	7.57	7.43	6.33
March	April 2	17.29	10.08	16.18	11.67
April	April 30	7.59	10.95	12.75	14.77
May	May 28	3.27	9.28	14.88	11.65
June	July 2	2.08	13.58	14.67	13.01
July	July 30	8.08	8.15	9.97	6.30
August	Sept. 3	16.28	13.85	6.43	9.47
September	Oct. 1	6.84	9.09	3.00	6.71
October	Oct. 29	6.13	6.45	2.85	6.10
November	Dec. 3	6.43	3.15	4.19	5.77
December	Dec. 24	4.60	2.50	.58	2.05 *

* Three weeks only.

Percentage of total shipments for 1933 received in All Ports each month.

Month	Date of Report	Cuba	Hawaii	Puerto Rico	P. I.
January	Jan. 28	4.86	4.37	3.21	7.42
February	Feb. 25	2.11	8.70	6.73	10.63
March	April 1	9.24	10.96	17.87	11.15
April	April 29	12.31	8.84	14.31	12.54
May	June 3	10.27	12.97	20.70	15.32
June	July 1	7.81	11.75	12.91	11.47
July	July 29	7.92	9.49	10.25	16.40
August	Sept. 2	9.26	8.99	9.37	5.71
September	Sept. 30	10.76	5.58	2.52	3.41
October	Oct. 28	11.39	8.27	2.13	2.18
November	Dec. 2	11.35	6.86	—	1.57
December	Dec. 30	2.72	3.22	—	2.20

EXHIBIT M—Continued

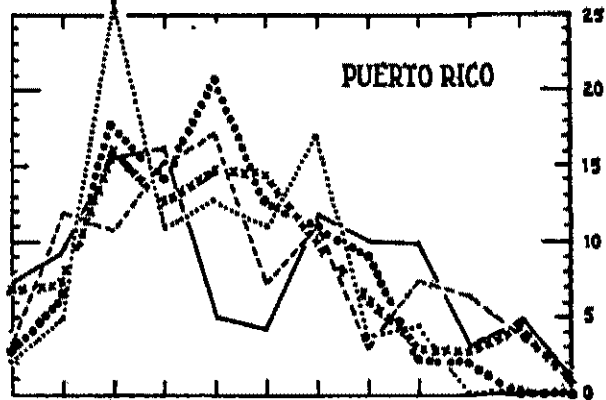
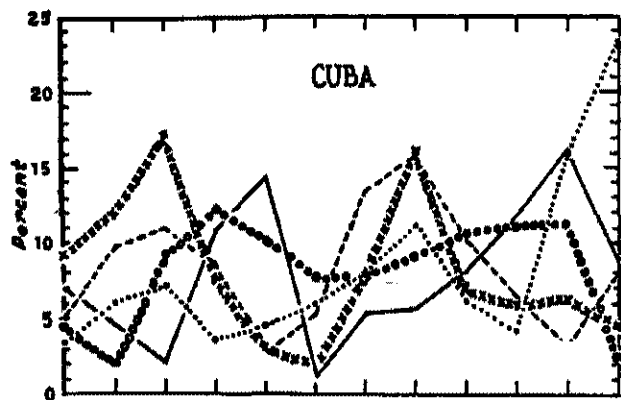
Percentage of total shipments for 1934 received in all U. S. ports each month.

Month	Date of Report	Cuba	Hawaii	Puerto Rico	P. I.
January	Jan. 27	3.59	5.40	2.34	6.34
February	Feb. 24	6.09	8.38	10.20	6.33
March	Mar. 31	7.11	10.53	26.03	10.83
April	April 28	3.64	10.12	11.93	15.14
May	June 2	4.50	7.06	12.89	17.40
June	June 30	6.01	6.45	11.03	11.54
July	July 28	7.89	8.92	17.18	7.33
August	Sept. 1	11.33	11.94	3.76	5.67
September	Sept. 29	6.36	7.44	4.57	2.35
October	Oct. 27	4.22	8.90	—	4.55
November	Dec. 1	15.90	7.13	.07	7.49
December	Dec. 29	23.36	7.74	—	5.03

EXHIBIT B
Cited on page

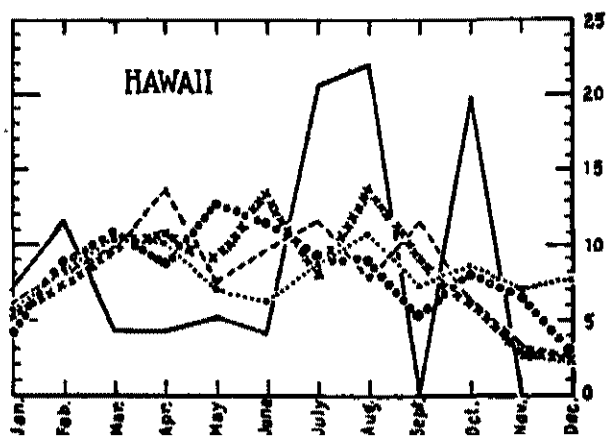
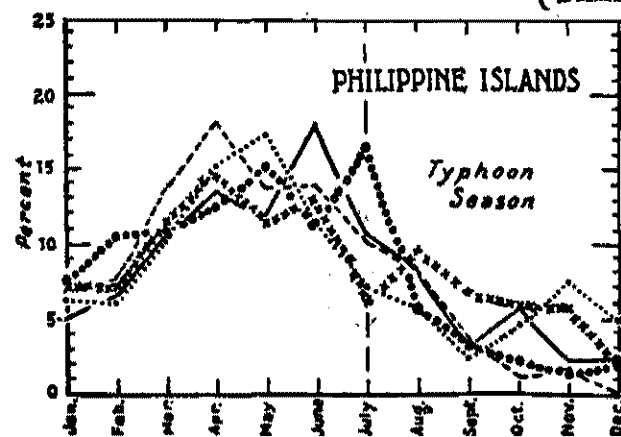
[Cited on page 12]

**PERCENTAGE OF TOTAL ARRIVALS OF SUGAR IN THE UNITED STATES FROM
PUERTO RICO, HAWAII, CUBA, AND THE PHILIPPINE ISLANDS**



LEGEND

- 1930
- - - - - 1931
- 1932



620 BRIEFS SUBMITTED TO THE COMMITTEE

EXHIBIT P

[Cited on page 26]

BENEFIT PAYMENTS TO CENTRALS *

It is our belief that the Department of Agriculture would be willing, if not inclined, to make benefit payments to the Centrals if they felt they could do so under existing law and the facts with respect to the operation of the Centrals.

The point to be stressed is that the Central is a co-producer of sugar cane with the planter, this relationship arising out of a contract entered into between the Central and the planters, by which the mutuality of operation is so strong that the operation of the one is regulated and dependent upon the operation of the other. While ownership in fee simple does not pass to the Central with respect to the planters' lands, the planter does relinquish to the Central practically the supervision and direction of the affairs of the growing of sugar cane, and the Central in turn grants to the planter the right of inspection of the entire operations of the Central. Moreover, under the milling contract the planter waives all rights to any use of the property included within the contract except for the growing of sugar cane, for a period of 30 years, and if he fails to grow sugar cane, or to place in sugar cane cultivation one-half, and in some instances three fourths, of his actual land described in the contract, the Central may, under the contract, enter upon his lands and either grow the sugar cane or contract with another to do so.

The preamble of the contract states that it is the purpose of the Central to erect a mill and that it is the duty of the planter to furnish the sugarcane for the operation of the mill.

The planter receives from 50 to 60 per cent of the sugar produced by the mill from the product grown on the planter's lands, and the mill receives from 40 to 50 per cent of the sugar so produced. The accounting with respect to the shares is accomplished by certificates, or warehouse receipts, known in the Philippines as

* Memorandum submitted in April, 1935 to the Philippine Government authorities who were in Washington, D. C. at the time by the American Representative of the Philippine Sugar Association.

"Quedans," in the issuance of which both parties to the contract are participants.

The Central, under the contract, enjoys the right to enter upon the lands within the contract, to construct and operate railroads or other transportation methods, and to construct telephone and other communicating systems, having a general easement over all the property within the contract. The planter relinquishes without reserve to the Central such portions of the land as may be necessary to construct buildings and other appurtenances necessary to the proper operation of the mill under the contract.

In the event of delinquent taxes, the Central may pay the taxes and charge the same to the account of the planter.

A complete mutuality of operation is definitely found in the authority of all planters operating under the contract to select a committee to deal with the Central on all matters with respect to all planters operating under the contract. The operation and conduct of affairs by this committee establishes a daily and continual mutuality of operation between the planter and the Central.

In other words, virtually all the property rights incident to title to the land held by the planter are enjoyed jointly under the contract by both Central and the planter.

An effectual demonstration of the mutuality of operation under this contract is found in the fact that practically throughout the Islands the value of land owned by planters prior to the establishment of the Central was negligible compared with the value of those lands subsequent to the establishment of the central mill under the contract. In some cases the value per hectare rose from 250 pesos to approximately 500, 600, 700, and even 1,000 pesos. Here again is a mutuality of interest established, in that while the Central was profiting through the production of sugar cane under a guarantee sufficient to warrant the construction of the mill, the planter, guaranteeing such production, enjoyed the increment in land values.

When the regulations under the Agricultural Adjustment Act became effective and acreage and production greatly curtailed, the losses were mutually sustained, to wit, by the planter and by the Central. But up to this time, regardless of the mutuality of operation and the mutuality of interest guaranteed by the contract,

the Central—joint producer with the planter—has not received any compensation from benefit payments.

Collaterally, a substantial portion of the financing of the raising of sugar cane by the planter is done by the Central.

Additional evidences of a mutuality of interest in the production of sugar cane as between the planter and the Central will be found in a detailed study of the milling contract, portions of which are not here related.

All of these facts are of material bearing in connection with the language of the law.

THE LAW

The authority for the benefit payments which Philippine producers receive under the Jones-Costigan Act is found under section 15-F of the Agricultural Adjustment Act as Amended, which reads as follows:

“(f) The President, in his discretion, is authorized by proclamation to decree that all or part of the taxes collected from the processing of sugar beets or sugarcane in Puerto Rico, the Territory of Hawaii, the Philippine Islands, the Virgin Islands, American Samoa, the Canal Zone, and/or the Island of Guam, (if the provisions of this title are made applicable thereto), and/or upon the processing in continental United States of sugar produced in, or coming from, said areas, shall not be covered into the general fund of the Treasury of the United States but shall be held as a separate fund, in the name of the respective area to which related, to be used and expended for the benefit of agriculture and/or paid as rental or benefit payments in connection with the reduction in the acreage, or *reduction in the production for market*, or both, or sugar beets and/or sugarcane, and/or used and expended for expansion of markets and for removal of surplus agricultural products in such areas, respectively, as the Secretary of Agriculture, with the approval of the President, shall direct.”

The reason the Centrals have not been included in the benefit payments is the view that the Centrals in the Philippine Islands are not producers of sugar, but only processors, and, therefore, are not entitled to benefit payments.

The language of the above law should be carefully noted. Payments are not confined to the owner of the land, but may be made as benefit payments not only "in connection with the reduction in the acreage," but may be made as well as benefit payments in the "*reduction in the production for market.*"

Obviously, from the facts outlined above as to the relationship of the Central and the planter in the Philippine Islands, the Central is just as important a factor in the "reduction in the production for market" as is the planter.

Obviously, also, under the terms of the contract, under the very reason for the existence of the contract, wherever acreage is reduced the Central loses, as does the planter. The Central is powerless to assert its rights under the contract with respect to the decreased acreage, so that in the absence of benefit payments it is relinquishing its rights without compensation.

Under the contract as outlined above, the mill guaranteed the milling of all sugar cane produced by the planter party to the contract. In every case the Central's capacity was fixed at the productive capacity of the lands involved in the contract. As the production on these lands increased year by year, as the result of increased unit yield per hectare, the Central was forced to increase its milling capacity to take care of the increased production.

So long as the mutuality existed, no complaint as to this development was heard. But, when the Government stepped in and reduced the acreage, for the production of which the mill had expanded, it is obvious that the mill or Central, in the absence of benefit payments, is actually being penalized and denied all redress under the contract which forced its present expansion.

It is needless to point out the economic loss entailed in overhead and operation of a mill capacity far greater than the available raw material, which formerly was the basis of mill production. The Central is not responsible for the curtailment of the acreage, but suffers from its curtailment without compensation, if benefit payments are not made to the Central. As a matter of fact, even though reasonable compensation were made to the Central under the Act, the Central would not in fact receive back all of the losses entailed through the operation of the Act.

The fact that the Central is not the owner in fee simple of the property on which sugar cane is raised does not militate against the fact that as to the production of that sugar cane product the Central and the planter are one under the contract, mutually entitled to compensation for the reduction in the production for the market of that sugar cane product.

EXHIBIT Q**[Cited on page 27]****MANILA, December 5, 1934.**

HON. MILLARD E. TYDINGS
Chairman, U. S. Congressional Mission
Manila

SIR:

The Philippine Sugar Association representing about 95% of the sugar milling and refining industry, extends to you and your colleagues a cordial welcome to the Philippines. We trust your travelling will be comfortable and your stay here very pleasant.

The avowed purpose of your visit is to obtain first hand information with a view to determining what changes should be made in the economic provisions of the Tydings-McDuffie Act, in order not to impair the stability of the Government and produce social unhappiness and distress.

We are grateful for this opportunity to present for your careful consideration one phase of the Philippine economic problem. Others will support the case for other Philippine products and industries, which are also seriously threatened. On us falls the responsibility of defending sugar, today the major agricultural product of the Philippines.

It is not necessary for us to repeat in detail to what extent sugar is today a part of the Philippine economic structure. We will simply re-state that 2,000,000 people make a livelihood from sugar; \$250,000,000 of private capital are invested in the industry and the Philippine Government derives directly and indirectly about 60% of its revenues therefrom.

We have carefully considered the economic provisions set out in Section 6 of the Tydings-McDuffie Act, not with a view to asking for what would evidently be most convenient for the Philippines as a whole, but only to determine what is fair and equitable, and have reached the conclusion that the following changes should be made:

1. Increase the quantity of sugar that under Sec. 6 (a) may be imported into the United States free of duty, during the transition period, from 800,000 long tons of unrefined, and 50,000 long tons of refined sugars (equivalent to 955,920 short tons raw value), to 1,200,000 short tons of 96° sugar, of which 80,000 tons raw value may be refined. (It is recognized that this increase does not affect limitation under Jones-Costigan Act while A. A. A. is in force.)

2. Change the basis of allocation provided for in Sec. 6 (d) to conform with the basis adopted here by the Governor General as the Sugar Administrator for allocation of quotas under the limitation provided for in the Jones-Costigan Act.

3. Abolish the export taxes provided for in Sec. 6 (e) and we further wish to recommend that—

The conference, provided for in Sec. 13, for the purpose of formulating recommendations as to future trade relations between the United States and the Philippines, be held at the earliest possible date.

The limits on duty free imports of refined and unrefined sugars provided for in the Tydings-McDuffie Act are the same that were provided for in the Hare-Hawes-Cutting Act. We understand, from a copy of a letter from Congressman Butler B. Hare to Senator H. B. Hawes, dated 6th, December, 1932, (published in the Congressional Record—Senate—December 8, 1932, pp. 170 and 171) that these limitations were fixed at what had been termed the "status quo" as represented by estimated importations from existing investments.

It was very unfortunate that the error underlying the application of this method of evaluating the interest of existing investments was not apparent at the time this provision was written into the Hares-Hawes-Cutting Act. The estimated importations of sugar into the United States from the Philippines during 1931 and/or 1932 could not possibly reflect the vital interest of investments in those Centrals which were still in their period of development, notwithstanding the fact that they had been organized and construction started before February 23, 1928, the date on which the Timberlake resolution for the restriction of the free importation of Philippine sugar was introduced into Congress. The Timberlake resolution was the first notice that the Philippines received that the development of the sugar industry here (which until then had been fostered and encouraged by successive Governors General) was arousing the antagonism of other interests.

Commenting on the Timberlake Resolution Governor General Stimson made the following statement on September 21, 1928, before the annual Convention of the Philippine Sugar Association in Manila: "* * * I have already stated my position as to that resolution. I have opposed it and shall oppose it as strenuously as I can. I believe that the resolution violates the American principle of free trade under the Flag; that it is unfair and unjust to the Filipino people in their efforts to develop the industry of these Islands and that it would be destructive to the efforts which we are now making to cultivate the spirit of goodwill and cooperation in the conduct of the Government of the Islands. It was not until September, 1929 that Governor General Davis counselled against undue increase in the production of sugar and the promotion of new centrals.

The sugar imported into the United States during 1931 was the product of the 1930/31 crop and planting for this crop had actually begun as far back as August, 1929. The 'status quo' in 1932 is best represented by sugar deliveries for consumption in the United States during 1933 since these sugars were produced from cane planted as far back as August, 1931 and composed of plantings prior to March/April, 1932 and ratoons from the 1931/32 crop.

As the U. S. consumption of Philippine sugars during 1933 according to Willett and Gray, was 1,241,229 short tons raw value, would not this be a fairer basic quota for any limitation;

In this letter above quota Congressman Hare recognized that the "Status quo" had not been equitably evaluated. He states ". . . in fairness to the Philippines I wish to express the opinion that the amount of sugars at which the limitation is to be fixed should be a little higher than that now provided for in the proposed legislation" and suggests "at least 1,050,000 long tons raw and 50,000 tons refined," which is equivalent to 1,235,920 short tons raw value.

The negotiations for the conclusion of a marketing agreement which on the initiative of the Agricultural Adjustment Administration were carried on in Washington between June and September, 1933 came to a head when President Roosevelt intervened to arbitrate certain differences of opinion between the interests that were to be parties to the agreement. The final out-

come was an agreement which was signed by the representatives of all sugar producing areas under the American Flag, fixing the quota for the Philippines, for the first three years of the agreement, at 1,100,000 short tons, provided measures were taken to restrict Philippine production to an annual amount not exceeding 1,200,000 short tons, plus the quantity necessary for local consumption. This agreement never became effective because it was not signed by the Secretary of Agriculture.

In February, 1934, President Roosevelt again intervened in the sugar situation and announced a plan based on including sugar amongst the commodities mentioned in the AAA and establishing quotas for all areas supplying the American market. Under this plan a tentative quota for the Philippines of 1,037,000 short tons was fixed, to arrive at which, cognizance was taken of the Philippines having supplied for consumption in U. S. approximately 1,241,000 short tons raw value during 1933.

Senator Carl M. Hayden, in his report to you dated Manila, August 8th, 1934, suggests a limitation on the basis of percentage. According to Report No. 73 of the U. S. Tariff Commission the average total deliveries of sugar in the U. S. during 1932 and 1933 were 5,871,223 short tons refined basis, equivalent to 6,382,208 short tons raw value. Philippine deliveries averaged 1,066,860 short tons refined basis of 18%, and this percentage of the total raw value is 1,148,797 short tons.

We therefore respectfully submit that 1,200,000 short tons raw value is a fairer evaluation of the protection that should be accorded to interests extant at the time of the passage of the Hare-Hawes-Cutting Act, since this has been recognized by the sponsors of the Act, the President of the United States, the Agricultural Adjustment Administration and by representatives of all other sugar producing areas under the American Flag.

The basis of allocation provided for in the Tydings-McDuffie Act recognizes the established sugar mills as the entities holding prior right to a proportion of the quota with a right to free entry under the Act.

The basis of allocation adopted for distribution of the quotas under the Jones-Costigan Act recognizes the owners of the land on which sugar cane was grown during the base period as the

entities with right to participate in the quota and the sugar mills have a right to quota only because of their milling contracts with the planters.

It is obvious that if the basis for allocation in the Tydings-McDuffie Act is not changed, it may be necessary to make a new sugar audit, with all its complication and expense on the inauguration of the Philippine Commonwealth, and any changes that might be necessary would affect rights that have been recognized by the Government of the Philippine Islands as an improvement attaching to the land entitled thereto.

The imposition of export taxes on Philippine sugar will be a death blow to the industry as soon as it becomes necessary to pay, as such, 10% of the import duty on foreign sugars in the United States.

According to Report No. 73 of the U. S. Tariff commission, the cost of Cuban sugar at seaboard refineries was 1'923 cents per lb. as against 2'717 cents per pound for Philippine sugars, or a difference of '794 cent excess of Philippine cost over Cuba.

The present duty of '9 cent per lb. on Cuban sugar has compensated this excess and results in an excess cost of Cuban over Philippine of '106 cent per lb.

The present full duty is 1'875 cents per lb., so when it becomes necessary for the Philippines to charge their cost with an extra '1875 cent the advantage of Cuban sugar over Philippines will be '0815 cent per lb. equivalent to P0.23 per picul. The following year the excess of Philippine cost over Cuban will be '17525 cent per lb. or say P0.49 per picul and any section that may have been able to resist the burden of taxation during the first two years, must succumb, as the burden grows until it reaches a differential of '36275 cent per lb. which is equivalent to P1.02 per picul.

It is not a question of putting to test the capacity of Philippine sugar to meet competition without any protection. It is a foregone conclusion that we cannot pay an export tax and compete against Cuban sugar paying import duties of only '9 cent per lb.

When the Hare-Hawes-Cutting Act was drafted, the full duty on sugar was 2'5 cents per lb. and Cuba paid 2 cents, so the

excess of Cuban cost over Philippine, was 1'206 cents per lb. the maximum export tax, 25% of 2'5 cents per lb. would have been '825. so the Philippines would still have enjoyed a lower cost of '581 cent per lb.

Even with the new duty of 1'875 cents on foreign sugars and 1'50 on Cuban, the Philippines could still compete because while the excess cost of Cuban sugar over Philippine was reduced to '706 cent, the maximum export tax would be '46875, leaving a margin in favour of the Philippines of '23725.

The recent commercial treaty with Cuba has changed all this, and the export taxes which, according to the provisions of the Tydings-McDuffie Act, must be imposed on Philippine sugar from the commencement of the sixth year of the Commonwealth must, of necessity, bring about the complete paralization of the sugar industry a year or two later, and it is a foregone conclusion that a collapse of the economic structure and of the financial stability of the Government must follow.

We do not believe that it would be possible to make any adjustments that would enable the industry to bear the burden of this export tax. It must be remembered that for years the planters have been receiving lower and lower prices of their product; that the recent change in duty on Cuban sugar is a heavy financial loss that has been passed on to them; as are also all the consequences of the quota, retroactively effective, that was placed on Philippine sugar under the provisions of the Jones-Costigan Act. What they will receive as benefit payment under the Act barely compensates them for actual cost of the plantings they have to destroy.

The sugar mills are in a situation not very much better. The reduced crops under limitation will increase their cost owing to lesser distribution of overhead, which is one of the major items of expense, and the mills receive no benefit payments.

The industry will therefore be facing the future, not on the basis of the condition in 1931, but impoverished by limitations and low returns with no hope for much of an improvement in prices and the spectre of a gradually increasing export tax which will within a few years cause the annihilation of an industry which has been the prosperity and hope of 2,000,000 people in the Philippines, and the loss of \$250,000,000 of private capital, more

than 50¢ of which we venture to assert represents the lifetime savings of small planters and investors.

In reporting his Bill H. R. 7233, on March 15, 1933, Congressman Hare said, "When cannot justify the termination of this relationship without allowing the interests concerned an opportunity to prepare themselves to meet the new condition which will obtain after independence—" following the same idea as was enunciated by Senator Hawes in the Senate Committee Report of February 24, 1932 by stating "Investments made on the basis of free trade must be given time for adjustment of liquidation without loss." The intention of the sponsors of this Legislation and of those who voted it was undoubtedly to give the Filipinos independence and, pending their final separation from the United States, to impose certain limitations which would curb further expansion and force a certain amount of retrenchment but would always provide the time and means necessary for adjustment or *liquidation without loss* of investments made on the basis of free trade.

It is likewise obvious that there was a misunderstanding of what, in fairness and justice to sugar planters and investors in the Philippines, was a proper appreciation of the "status quo" of existing investments. It is even more obvious that when this legislation was enacted neither its sponsors, nor its supporters foresaw that the Agricultural Adjustment Act would come into being and that, after reducing the Cuban duty half a cent per lb. it would be decided to further reduce it by six tenths of a cent. These are all circumstances, impossible of human fore-thought, which very gravely affect the Philippines and seriously distort the intention of the sponsors of the Hare-Hawes-Cutting Act.

When the Hare-Hawes-Cutting Act was enacted, it was recognized that the Philippines would have had at least two years of unrestricted free entry of sugar into the United States. This would have been a great advantage to all persons interested in the industry because it would have permitted an orderly preparation for limitation and meeting it in a much better financial situation. A reduction in the Cuban duty was expected, but not more than half a cent a lb.

The enactment of the Jones-Costigan Act with its retroactive effect more than nullified the expected advantage of two years unrestricted free entry and the Treaty between the United States and Cuban in effect further restricts the duration of limited free entry and defeats the expressed intentions of the Tydings-McDuffie Act.

While probably the damage to the Philippine Sugar Industry caused by the Jones-Costigan Act is now irreparable, we do confidently hope that where by amendment of the Tydings-McDuffie Act, it is possible to protect this industry from the drastic effects of subsequent legislation, this will be done.

In this connection, it is of the utmost importance to all interests in the Philippines, that at the earliest possible date an authoritative announcement be made regarding trade relations between the United States and the Philippine Islands and with this in view we beg to urge that the conference of the representatives of the two Governments provided for in Sec. 13 of the Tydings-McDuffie Act be held as soon as possible.

As matters now stand, investors in the Philippine Sugar industry must endeavor to recover what they can between now and the seventh year of the Philippine Commonwealth. With the amendments we have proposed, they can hope for a respite for a few more years in which to recover a somewhat larger proportion of their investment. There can be no hope of a continuation of this important industry unless some trade agreement can be concluded with the United States.

We rely on the statement contained in President Roosevelt's message to Congress dated March 2, 1934 and in the Report of the House Committee on Insular Affairs; on the evidence of the sincerity of these statements reflected by the visit to the Philippines of Senator Hayden and of your Mission, and in the confidence that you will be satisfied of the justice and equity of the amendments we have asked for, we entrust to you a matter of the most vital concern to the well being of the Filipino people.

In conclusion we wish to record here our deep gratitude to the President of the United States, Franklin D. Roosevelt, for his great interest in the welfare of the Philippines and his initiative

in the creation of your mission to investigate economic conditions here. We are also to be congratulated on your appointment as Chairman of a committee composed of such distinguished men, since you are one of the sponsors of the Tydings-McDuffie Act.

We hold ourselves in readiness to supply you with any additional information regarding the Philippine Sugar industry and, in the meantime, remain.

Very respectfully,

PHILIPPINE SUGAR ASSOCIATION

(Sgd.) RAFAEL R. ALUNAN,
President.

BRIEF
SUBMITTED BY THE
PHILIPPINE-AMERICAN TRADE ASSOCIATION
SEPTEMBER 1937
(Photographic Reprint)

FUNDAMENTALS

We Subscribe to the Following as the Fundamentals of Philippine-American Trade Relations:

1. *The trade relations between the United States and the Philippine Islands were definitely determined by the provisions of the Tydings-McDuffie Act until July 4, 1946. That Act, after approval by the President and the Congress of the United States, was formally accepted by the Filipino people. Based thereon many citizens and residents of and investors in the Philippine Islands have incurred obligations and made commitments. The trade relations so determined, in good faith and in fairness, cannot, therefore, be altered to their prejudices. Thus, at least until July 4, 1946:*

(a) *Articles the growth, product, or manufacture of the Philippine Islands should, with no greater limitations than those imposed by that Act, and on a basis of equality with articles the growth, product, or manufacture of the United States, be admitted free of duty into the United States; and*

(b) *Articles the growth, product, or manufacture of the United States should, on a basis of equality with articles the growth, product, or manufacture of the Philippine Islands, be admitted free of duty into the Philippines.*

(c) *No excise or other taxes which directly or indirectly result in any discrimination against the products of either country should be imposed.*

2. *The imposition of export taxes on shipments from the Philippine Islands to the United States from November 15, 1940, and the imposition of import duties by the United States and the Philippine Islands, each on articles the growth, product, or manufacture of the other, from July 4, 1946, will be disastrous to the producers and manufacturers of both countries, and, the time being too short to make the necessary readjustments, to the Philippine Islands in particular, therefore,—*

(a) *The export taxes should be repealed; and*

(b) *Free trade between the two countries, with present or other reasonable quantitative limitations, should be continued after July 4, 1946.*

3. *Irrespective of any change in the political status of the Philippine Islands, a continuation of the present free-trade relations between the United States and the Philippine Islands would be advantageous to both countries;— to the Philippine Islands, because the United States is an essential market for many Philippine products; and to the United States, because the Philippine Islands is a large market for the products of agriculture and industry of the United States, and will, if the products thereof continue to be admitted free of duty into the Philippine Islands, be a much larger market in the future. Such free-trade relations between the two countries should, therefore, after July 4, 1946, be continued indefinitely.*

BRIEF
TO THE
JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS
FROM THE
PHILIPPINE-AMERICAN TRADE ASSOCIATION
ON THE
TRADE SITUATION
BETWEEN THE
UNITED STATES AND THE PHILIPPINE ISLANDS

FOREWORD

The Philippine-American Trade Association was organized shortly after the acceptance by the Philippine Legislature of the Tydings-McDuffie Act. The purpose of the Association is to develop and maintain trade relations between the Philippines and the United States. Its members are individuals, corporations, and associations, both Filipino and American, who believe that such trade relations are necessary for the welfare of the people of the Philippine Islands and advantageous to the people of the United States. They also believe that the economic provisions of the Tydings-McDuffie Act will be disastrous to the Philippines and disadvantageous to the United States.

The record, at least as to the Philippines, is clear. The Philippine Legislature gave the following reason, among others, for declining to accept the Hare-Hawes-Cutting Act, the economic provisions of which are identical with those of the Tydings-McDuffie Act:

“The provisions of the law affecting trade relations between the United States and the Philippine

Islands would seriously imperil the economic, social and political institutions of the country and might defeat its avowed purpose to secure independence to the Philippine Islands at the end of the transition period." (Concurrent Resolution, Philippine Legislature, Oct. 17, 1933.)

The President of the United States, with full knowledge of the reasons given by the Philippine Legislature for declining to accept the Hare-Hawes-Cutting Act, in urging the approval of the Tydings-McDuffie Act, stated:

"Where imperfections or inequalities exist, I am confident that they can be corrected after proper hearing and in fairness to both people.

"May I emphasize that while we desire to grant complete independence at the earliest proper moment, to effect this result without allowing sufficient time for necessary political and economic adjustments would be a definite injustice to the people of the Philippine Islands themselves little short of a denial of independence itself." (Message to Congress, March 2, 1934.)

The Philippine Legislature, in its resolution accepting the Tydings-McDuffie Act, stated:

"* * * although the Philippine Legislature believes that certain provisions of said Act need further consideration, the said Legislature deems it its duty to accept the proffer of independence thus made by the Government of the United States;

* * * * *

"Because the President of the United States in his message to Congress on March two, nineteen hundred and thirty-four, recommending the enactment of said law, stated: 'I do not believe that other provisions of the original law need be changed at this time. Where imperfections or inequalities exist, I am con-

fidant that they can be corrected after proper hearing, and in fairness to both peoples', a statement which gives to the Filipino people reasonable assurance of further hearing and due consideration of their views." (Concurrent Resolution, Philippine Legislature, May 1, 1934.)

II.

EXPORT TAXES

The United States Tariff Commission in a report on "United States-Philippine Trade" (Report No. 118, second series) states:

"Even before the Islands become independent, it is reasonably certain that, because of the export taxes, they will cease exporting to the United States any substantial quantities of coconut oil, cigars, embroideries, and pearl buttons." (Introduction, Page VIII.)

Practically all Philippine coconut oil is shipped to the United States. The export taxes will, therefore, "operate to bring about a more or less complete liquidation of the coconut oil industry" (Report, page 119). Exports of coconut oil in 1936 amounted to \$13,871,759, and of copra meal and cake, the by-product, to \$1,829,039, or a total of \$15,700,798. The copra used would, on the basis of the average value of copra exports in 1936, have had a value of about \$13,000,000. This assumes, however, that with the removal of the competition of Philippine coconut oil mills in the purchase of copra, prices paid to producers would be maintained, and that it would be possible to market in the United States or elsewhere a larger quantity of copra than at present without breaking the market. Neither assumption may be valid. In any case, the liquidation of Philippine coconut oil mills would result in a reduction of Philippine exports (based on 1936) in the amount

of about \$2,700,798. Investments in coconut oil mills, refineries, etc., amounting to about \$11,895,000 will be largely destroyed, and 45 Americans and several thousand Filipinos will be deprived of employment.

Cigars shipped to the United States in 1936 were valued at \$2,372,181. 86% of all cigars exported went to the United States. About 67% of the total quantity of cigars produced in the Philippines is shipped to the United States (Report, page 137). "Approximately 20,000 factory laborers are employed in the manufacture of tobacco products; these, together with their families, produce a group of over 100,000 people who are dependent on this phase of the tobacco industry" (Report, page 136). The export taxes on cigars will be so high, even when the rate is but 5% of the United States duties, that practically no Philippine cigars can be sold in the United States. When, therefore, the export taxes are applied, not alone will exports be reduced by about \$2,372,181 (based on 1936) but some 60,000 people in and near Manila will be deprived of their livelihood. In addition, the tobacco growers on 75,000 small farms and 15 large plantations will be seriously affected.

Incidentally, the Philippines now buys from the United States more tobacco products than it sells to the United States. In 1936 the value of tobacco products shipped from the Philippines to the United States (including Hawaii and Guam) was \$2,675,243, while the value of shipments from the United States to the Philippines was \$3,515,598.

Exports of embroideries in 1936 (cotton and silk) amounted to \$4,274,555, practically all of which were to the United States. About one-half of this amount represents wages and profits. "Between 30,000 and 50,000 people are employed in the industry, primarily on a part-

time basis" (Report, page 146). As the export taxes will be assessed on the full value, about 50% of which is for materials, and as the prices of Philippine embroideries cannot be raised because of competition, the entire tax must come out of the wages paid to the workers and the profits of the producers. "The laborers now engaged in the production of Philippine embroidery will not readily find alternate employment when the export taxes begin to apply, consequently it is likely that the effect of the taxes will be to force progressively lower wages" (Report, page 147). With the application of the export taxes, therefore, the wages of from 30,000 to 50,000 workers will be progressively reduced and the industry thus destroyed.

Exports of pearl buttons in 1936 amounted to \$218,510, all to the United States. The pearl button industry, which will be destroyed by the application of the export taxes, employs several hundred people.

The above industries, i.e., coconut oil, cigar, embroidery and pearl button, will probably be destroyed and many thousands of people will be deprived of their livelihood within the short space of from three to five years. The collateral effects of the destruction will be considerable. The period of economic adjustment for these industries is far too short.

In addition to the above industries, others, and notably sugar, will be seriously affected by the application of the export taxes. The taxes must come out of the incomes of the producers. If the price of sugar is sufficiently high, it is possible that some producers can survive until July 4, 1946. Many producers, and particularly those having small quotas or high costs, will be forced out of production before that date. Furthermore, there is no assurance that sugar prices will long remain even at present levels, for

the present sugar quota system may not long remain in force.

The system of export taxes thus will force the liquidation of several industries within a very few years, reduce the income of other industries, and destroy the livelihood of many thousands of people. It will reduce exports and, therefore, will reduce the ability of the Philippines to purchase American products. The period of the export taxes will be a period of liquidation, which will accelerate as the rates of the export taxes increase, as also will serious social problems as a result of many thousands of people being deprived of employment.

III.

EFFECT OF FULL UNITED STATES DUTIES

The United States Tariff Commission in its report states—

“It is also likely that with the loss of preferential treatment in the United States market after independence, the Philippines will be obliged either to curtail sharply, or to discontinue altogether, their exports of such commodities as coconut oil, cigars, embroideries, and pearl buttons. It appears improbable that by 1946 they will be able to produce such goods at sufficiently low prices to enable them to compete in world markets.” (Introduction, Page VIII.)

These products have already been considered. They will be eliminated by the application of the export taxes. As they cannot survive the export taxes, they cannot, of course, survive the application of the full United States duties.

Shipments to the United States in 1936 of sugar and its by-products, such as molasses and alcohol, were valued

at \$62,290,805. This is 46% of all exports in 1936; practically all was shipped to the United States.

"When the full United States duties become applicable in 1946 * * * the position of the Philippine sugar industry will depend primarily on whether the United States is then operating under a quota system which will permit the profitable marketing of Philippine sugar in the United States. If such a quota system is not in operation, then it is doubtful that any large proportion of the industry will be able to survive." (Report, Introduction, Page VIII.)

This statement is unduly optimistic, for even with a quota system similar to that now in effect, Philippine sugar could not be profitably sold in the United States if it were subjected to the full United States duties. The price of raw sugar under the quota system now in effect has been maintained at about \$3.50 per 100 lbs. c.i.f. New York. The return to producers thus would be as follows:

Price c.i.f. New York		\$3.500
Full duty	\$1.875	
Freight and other marketing costs, about .....	.500	2.375
	<hr/>	<hr/>
Return to producer		\$1.125

\$1.125 per 100 lbs. is about the present world price of sugar. Philippine producers cannot produce sugar at that price. The application of the full duties will, therefore, destroy the sugar industry.

"Investments in the industry are estimated at \$265,000,000, of which \$84,000,000 is invested in centrals. * * * As a result of the Philippine land law, the culture of cane is carried on by thousands of independent planters and tenants; 15 per cent of the Philippine population are directly dependent on the industry and 5 important provinces rely almost entirely on it for their revenue." (Report, page 62.)

The number of people wholly or partially dependent on the sugar industry directly is estimated at 1,980,000. The number indirectly dependent through services to the sugar industry and those employed in it is also very large. All of these people will be deprived of their livelihood when by the application of the export taxes and/or the full United States duties the industry is destroyed.

On the basis of exports in 1936, the application of the export taxes and/or the full United States duties to the Philippines products heretofore discussed will reduce exports as follows:

Sugar and by-products	\$ 62,290,805
Coconut oil and by-products	2,700,798
Cigars and tobacco	2,675,243
Embroideries	4,274,555
Pearl buttons	218,510
	<hr/>
	\$72,159,911

Some other industries, each of minor importance although representing in the aggregate considerable value and employing thousands of people will also be destroyed. The application of the full United States duties to those products not on the free list which might still be marketed in the United States would reduce the income of the producers of those products, probably by the amount of the duties.

On the basis of exports in 1936, therefore, the value of Philippine exports which would thus be destroyed would probably amount to \$80,000,000 a year. Total Philippine exports in 1936 (exclusive of gold) amounted to \$136,447,452. Exports thus would be reduced to but about \$56,447,452, or to but about 40% of the value in 1936, and to the level of exports about 25 years ago.

Philippine economy is founded primarily on free trade with the United States. Although from March 8, 1902.

to August 5, 1909, Philippine products were granted a duty reduction of 25%, shipments to the United States did not increase; in 1902 such shipments amounted to \$11,475,948 and in 1908 to \$10,450,755. In 1936 such shipments (exclusive of gold) amounted to \$107,524,726. About \$80,000,000, or 75%, of this trade is, as the law now stands, to be destroyed.

The Philippines is primarily an agricultural country. It has been estimated that about 50% of the production of farms, factories, forests and mines is exported. Philippine products are exchanged for products from abroad which are not, or can not be, produced in the Philippines. The level of living of the Filipino people has been raised and is now sustained by reason of free trade with the United States. A reduction in exports of 60% as a result of the termination of such free trade will wipe out about 30% of all Philippine production. Per capita exports would actually be less than they were a generation ago immediately before free trade was established. Millions of people will be deprived of their livelihood. Social problems will be acute. It will be difficult, if not impossible, to maintain roads and schools and the health and other social services of government on their present scale, for these services are also based on an economy of free trade with the United States. The level of living which is made possible by imports received in exchange for exports must of necessity decline to the level of a generation ago.

The United States by opening its markets to the people of the Philippines has raised the level of living of the Filipino people and encouraged and made possible in a single generation a magnificent expansion of the social services of government. It cannot now, in fairness to the Filipino people and in justice to itself, by prematurely

closing those markets, undo much of that which has been done under its guidance and direction.

The Philippines cannot readjust its economy so as to avoid disaster within the short space of nine years by producing those essentials of the present level of living which are now imported, by finding new markets for those industries which are now dependent on the free entry of their products into the United States, or by developing new export industries. This is indicated by the report of the United States Tariff Commission. The effects of the closing of the markets of the United States to Philippine products may, of course, be mitigated by any or all of these methods; but whatever may be accomplished is likely to a large degree to be offset by an increase in population by 1946 of about 30%, while present export industries, and particularly sugar and coconut oil, are generally static as a result of the quotas and quantitative limitations of the Tydings-McDuffie Act.

IV.

EXCISE TAX ON COCONUT OIL

The imposition of an excise tax on coconut oil was contrary to the spirit, if not the letter, of the Tydings-McDuffie Act. That Act, after its enactment, was, in accordance with its provisions, submitted to and formally accepted by the representatives of the Filipino people. In good faith it should not have been altered, either directly or indirectly, by unilateral action.

The effects of this excise tax have been somewhat beclouded by a world shortage of oils and fats as a result of crop controls and of drought, which developed almost simultaneously with the imposition of the tax. The consumption of coconut oil for making soap, formerly its prin-

cipal use, has been greatly reduced by the imposition of the tax. This was temporarily offset by a world shortage of oils and fats which increased consumption for edible purposes. A larger production of oils and fats throughout the world, together with the large reduction in the use of coconut oil in the manufacture of soap, will most likely considerably restrict the market in the United States for Philippine coconut oil; in fact, it is now restricted, for with a bountiful production of oils for edible purposes in prospect and with the tax greatly reducing the use of coconut oil for soap, the prices of copra and of coconut oil have in recent months declined more than 50%.

"The coconut-growing industry in the Philippines consists for the most part of small enterprises." (Report, page 68.) About 4,000,000 people, or nearly 30% of the total population, are dependent in whole or in part on the coconut industry. They are now adversely affected by the imposition of the tax, and they are likely to be increasingly affected in the future. The fact that the excise taxes collected are returned to the Philippine government does not compensate those dependent upon the industry, for none of the proceeds may be used for the benefit of the industry.

V.

PRESENT TRADE RELATIONS ADVANTAGEOUS TO THE UNITED STATES

The present trade relations between the United States and the Philippines are beneficial not alone to the people of the Philippines but also to the people of the United States. The United States enjoys a large and preferred market for its products in the Philippines and it is a market which, as a result of a steadily rising level of living and a steadily increasing population, may well be a much

larger market in the future. The present free trade relations are not one-sided,—they are advantageous to both countries. The destruction of Philippine industries by a termination of those relations will destroy an important market for the products of the United States.

It is not necessary for this Association to present data on this point. That was done in the United States by many groups who have in the Philippines a valuable market for their products. Their arguments for the maintenance of the Philippines as an outlet for their products through a continuation of present free trade relations this Association heartily endorses.

VI.

CONCLUSION AND RECOMMENDATIONS

That millions of Filipinos may not be deprived of their livelihood;

That the level of living and the services of government may not revert to the standards of a generation ago;

And that the Philippines may be retained as a valuable market for the products of the United States:

This Association, for the reasons herein given, respectfully recommends,—

1st: That the export taxes which are to be imposed on shipments to the United States after the fifth year of the Government of the Commonwealth be repealed;

2nd: That free trade between the United States and the Philippine Islands, with present or other reasonable quantitative limitations, be continued indefinitely after July 4, 1946;

3rd: And that the excise tax on coconut oil produced from Philippine copra either be repealed or made applicable only to coconut oil which has not been so denatured as to make it inedible.

Respectfully submitted,

PILIPPINE-AMERICAN TRADE ASSOCIATION

By: (Sgd.) RAFAEL R. ALUNAN,
President.

PAGKAKAISA NG BAYAN
(POPULAR FRONT)
BRIEFS ON ECONOMIC PROBLEMS OF THE PHILIPPINES
BY
HON. JUAN SUMULONG ET AL
SEPTEMBER 10, 1937
(Photographic Reprint)

**TO THE JOINT PREPARATORY COMMITTEE
ON PHILIPPINE AFFAIRS
MANILA, PHILIPPINES**

GENTLEMEN:

The political groups confederated under the name **PAGKAKAISA NG BAYAN** (popular union or alliance), organized primarily for the purpose of working for the immediate granting of an absolute and complete independence to our country, have the honor to submit for your consideration this brief exposition of our points of view on some of the important provisions of the Tydings-McDuffie law in which we find inequalities and defects and even injustices which, in accordance with the promises made by President Roosevelt, would be remedied after due investigation.

We are not commenting on all provisions of said Tydings-McDuffie law which, from the Filipino point of view, are controversial. We are limiting ourselves only to: (a) those provisions which couch the uncertainty as to whether the independence to be granted to us will be real or merely nominal; (b) those which may cause the ruin of our economic life during and after the transition period; and lastly (c) those which have produced and may continue to produce unfavorable effects upon the masses of our country.

**INEQUALITIES AND IMPERFECTIONS OF THE
TYDINGS-MCDUFFIE LAW**

The portions of the Tydings-McDuffie law which refer to the objectives of the American elements who supported its enactment on the one hand, and those relating to the objectives which the Filipinos followed in lending their aid to said American elements on the other, proved in an unmistakable manner the different ways in which said objectives were dealt with in the law.

It could be said that the American objectives were (a) the exclusion of the Filipino laborers from the American continent, and (b) the limitation of exportation to

the United States of the most important Philippine export products considered by influential American interests as their serious competitors. Those American objectives, infused into the Tydings-McDuffie law, are now accomplished facts. After the plebescite by virtue of which the Filipinos ratified their new constitution, the practical exclusion of Filipino laborers from the American continent immediately took place. Upon the inauguration of the Commonwealth Government, the quota restricting the amount of sugar, coconut oil and manufactured abaca (cordage) which might be exported to the United States, were laid down without delay.

The Filipino objectives, it may be said, were: first, to obtain an absolute and complete independence; second, the liquidation of the so-called "commercial regime" of free trade, in such a way as not to cause serious and far-reaching economic disaster (to the Philippines), and third, the preparation and rehabilitation of the country during the ten-year transition period by establishing its own stable economic system. All these objectives belong to the category of unfulfilled events up to the present time. It is not known whether or not we shall have complete independence till after the two years following the expiration of the transition period during which the American Government shall have the option of retaining naval reservations and fueling stations (of the United States in the Philippines). The law prescribes a method of gradual but effective elimination of Philippine products from the American market through the application of graduated American tariff in the form of export duties during the last five years of the transition period. The law also provides that at least one year before the expiration of said transition period a conference between American and Filipino representatives shall be held for the purpose of taking up future commercial relations between the two countries. It now appears that the task entrusted to the present Joint Committee is a step preparatory to the holding of said conference upon which are pinned great hopes of men of goodwill from both countries. We also entertain the same hope

which, however, remains yet to be realized. We would have preferred that this study include not only our future commercial relations with the United States but also with other countries. The Tydings-McDuffie law provides, as we have already stated, an effective method of terminating our existing economic structure, but it does not furnish guarantees against the overthrow and disintegration of our economic life, much less the means for (our economic) rehabilitation and reconstruction.

It is a matter of common knowledge that since the establishment of the economic system improperly called "free trade", under the provisions of the Tariff Act of 1909, Philippine products which contain foreign materials to the value of more than 20 per centum of their total value, were not and are not exportable free of duty to the United States. On the other hand, American goods, irrespective of the amount of foreign material used in their manufacture, were and are admitted into our market free of duty.

In the Tydings-McDuffie law a new inequality has been added to what we have already mentioned in the form of imposition of restrictions on our export of centrifugal sugar, refined sugar, coconut oil, and manufactured abaca (cordage), without imposing simultaneously equivalent or reciprocal restrictions, as they should be imposed, on our import of American products into our market. This proportional restriction on American imports should not have for its principal object the increase in our customs revenues but the giving way to the admission of new foreign products coming from those countries with which we hope to establish profitable commercial relations in the future. Bearing in mind the fact that the program of the Tydings-McDuffie law, with respect to the liquidation of free trade, is not only to restrict but to end eventually our exports to the United States, it is difficult to understand why upon starting the execution of this program with the limitations of our exports, the Filipinos were not authorized to establish contacts with new markets so

that they may find in them the facilities which were being withdrawn from them in the American market.

It is clear that the Filipinos will not gain access to other markets without their opening in turn the doors of their own market to the products of those countries with which they propose to establish new (commercial) relations. The diversification of products, so justly and frequently recommended to us, would be realized only if considered in relation to our products for domestic consumption, and this in a limited degree unless we make efforts to secure open markets for our products not only in America but also in other countries; that is to say, the diversification of our products would be almost impracticable unless we enjoy the necessary tariff autonomy and the freedom to maintain commercial relations not only with the United States but also with the rest of the world.

Even more clear is the necessity of our enjoying tariff autonomy during the second half of the transition period, because by then the ill-named export duties will be applied which in reality is the true progressive application of the American tariff on our products. We cannot help recalling in this connection the just remark of a prominent American who, in referring to this imposition of export duties on Philippine products when the Filipino people cannot in turn exercise the right to levy customs duties on American exports to the Philippines, said: "First we tie up the hands and feet of the Filipino and then despoil him of his raiments."

And if we are to consider these questions more carefully, we shall understand why the Philippine government should have been vested with the power of concluding commercial treaties not only during the last years (of the transition) but also from the moment the government of the United States decided to take the first steps (of changing) its commercial relations with our country. If such power were given to us since the beginning, now we would not have been contending with the very arduous problem of liquidating the assets and liabilities of the so-called free trade arrangement, and with the even more difficult task of establishing on the ruins of free trade a new system of

commercial relations. Even if the tariff autonomy were to be granted to us now, before the application of export duties on our products takes effect, it cannot be expected that in the twinkling of an eye we would find, as if by enchantment, a new system already established to replace the old one. The members of your Committee know better than we do that the diversification of our products, the search and preparation of the markets in which those products will be afterwards consigned are tasks the accomplishment of which can not be assured at a moment's notice.

There are other reasons to justify the proposed suppression of the so-called import duties. The provisions of the Tydings-McDuffie law concerning the imposition of this export duty are probably not enacted at the instigation of the holders of bonds of Philippine public indebtedness. These creditors are interested in maintaining without loss the amount of Philippine exports, because these export products are the best guaranty that our public debt will be paid wholly and in time. The creation of these duties can be more reasonably attributed to the American sugar and agricultural interests, because these interests calculated with reason that the Filipino producers and industrialists of insufficient means would succumb under the increasing burden of said duty even before the expiration of the transition period. From another point of view, the export duty will have to create injustices and inequalities. It will have to be applied equally to all Philippine products without having to take into account the fact that its effect, harmful to all said products, is more damaging on some products than on others. For instance, Philippine tobacco will be excluded from the American market beginning with the first year when the duty is applied, while other products, according to experts, will be able to present prolonged resistance which naturally has to vary in duration according to their individual strength. If it is to be said that the Philippine products which have benefited most from the so-called free trade with the United States contribute more to the amortization of our public debt, as it seems just, that

this should be the case, the tax that is levied for such purpose or which should be levied by the Philippine government, or the quota that each product or industry has to meet should be fixed more equitably.

Another additional inequality of extraordinary range has been committed against our coconut oil. The imposition of an excise tax of three cents gold on every pound of coconut oil, by virtue of a law enacted later than the Tydings-McDuffie Act is, in its effect, the imposition of a customs duty which is unquestionably a violation of certain stipulations embodied in said Tydings-McDuffie Act. It is true that in order to mitigate in some way this flagrant violation, the (U. S.) Congress provided that the payment of the new tax be made to the Philippine government under the condition that this income should not be expended for the improvement in any manner whatsoever of the coconut industry.

The harm was done to the most important industry of the Philippines. It is the most important industry considering the number of persons benefited by it and considering the fact that coconut lands are well distributed all over the archipelago. Thus, whatever harm or whatever benefit is done to the industry is felt in all parts and affects the greatest number of persons. It is not necessary to repeat here an enumeration of unfavorable effects produced by this tax on the coconut industry, but it is not superfluous to note the condition required for the transfer of this income to the Philippine government, which is that it should not be expended for promoting the coconut industry in any manner whatsoever. One of the objects of the economic policy prescribed in the Tydings-McDuffie law is to facilitate the exportation of Philippine products to the United States, consisting of raw materials, such as centrifugal sugar, copra and abaca which can furnish work to American factories, placing in turn difficult barriers and restrictions to prevent or minimize as much as possible the entry of manufactured Philippine products, such as refined sugar, coconut oil, and cordage. If we rightly believe that our country would continue to be predominantly agricultural

for a long time, it is not reasonable to block almost completely our efforts toward a gradual progressive industrialization or whatever movement which aims to develop new industries based on native products. If the Committee bear in mind that, according to well informed persons, the coconut is the Philippine product out of which other new and subsidiary industries may be developed, the anxiety that assails us and the worry that is brought to our minds by any change in our commercial condition tending to be a detriment to this important product, will be easily understood.

We have already stated several times that while we desire the future final liquidation of free trade, it is equally certain that we are also vitally anxious that such liquidation be not sudden or abrupt so that an unnecessary economic disaster may be avoided.

We have also expressed our support for immediate political independence, and it is necessary to state here that we do not believe it is necessary that the date for the granting of independence, which to our mind should be as soon as possible, coincide with the date of the complete abolition of the system of mutual preferential trade which should last longer.

To us, it always seems strange and anomalous that while the United States gave us liberal concessions of purely political nature, her policy of free trade has tightened more and more on the economic bondage which day by day makes our political separation more difficult. We have accepted the Tydings-McDuffie law because, among other reasons, we believed that as soon as it was put into effect, it would offer both to the American people and to the Filipino people an opportunity of candidly collaborating for independence, free from the doubts, inconsistencies and absurdities which the incongruence of these two directions of the Philippine policy of the United States necessarily had to produce.

The free trade arrangement had encouraged the establishment of certain new industries which have attained a certain degree of prosperity. This prosperity has raised

the standard of living among the wealthy classes and in many respects among the middle classes of this country, but this prosperity and these improvements of living conditions have not reached the masses who constitute the majority of the people. We state nothing herein with the slightest feeling of recrimination; we limit ourselves to the statement of this sad fact which can not be denied.

For the common Filipino laborers, in the city or in the country, especially in the latter, the free trade means the high cost of living without a single adequate improvement in wages. For not a few of them, the cost of living has increased inversely in proportion to the reduced increment of their wages.

Far be it from us to affirm that the actual penury among our masses is caused exclusively by the operation of free trade, the truth is that there are other joint causes the study and remedy of which do not come under the jurisdiction of your Joint Committee. But it is no less certain that free trade is one of the most efficient factors which contribute to the impoverishment of our masses.

The American goods, which have almost completely monopolized our market and are, as far as price regulations are concerned, not subject to the moderating influence of a healthy competition, are sold in Manila usually at double or triple their cost of production. Thus, the common Filipino laborer, whether he likes it or not, has to pay high prices for his articles of clothing, food products, building materials, etc. Let it be said in passing that if we take into account, in the determination of balance of trade between the United States and the Philippines, the surcharged prices which, in the absence of competition we have to pay for American products, justly with other invisible items which are unduly omitted in the computation, it cannot be stated that the results of said balance are unfavorable to American interests.

Permit us to make the observation that the Philippine products exported to the United States are more contributive to the regulation of prices for the benefit of American

consumers, because those products enter the United States in competition with other similar products.

This economic prostration of the common Filipino laborers, aside from its economic aspect, is a very serious political question because it is one of the principal reasons for the chronic misery of our masses, and which affects in the final analysis the very stability of our government and our political institutions.

PROPOSITIONS AND PETITIONS

We take the liberty of requesting this Joint Committee to transmit to the American government the following propositions:

1. If the American government would willingly give up its option to retain naval reservations and coaling stations in these Islands, we would support with sympathy and enthusiasm the project recommended by certain commercial organizations of California of establishing in these Islands an American commercial basis which shall continue under Philippine sovereignty, and into which there will be free entry of all American products intended to be re-exported to other countries of the Far East. In this way, we hope to prove to the American people that even if we do not desire to be involved in future conflicts in the Pacific, we are more than ready to be useful in all possible ways to American interests in this part of the world.

2. Although we propose the granting of tariff autonomy to the Philippine government as soon as possible, we would favor concluding an agreement of mutual trade preference between the American government and the Philippine government which should last until the Filipino people can enter into an agreement of trade reciprocity without endangering their economic life.

3. We petition that in whatever agreement of mutual trade preference which may be made, competition in our own market should not be suppressed, with respect to such products as are of general consumption among the masses of our country.

4. In the event that the present length of the transition period be maintained, we petition for the abolition of export duties and of the excise tax of three cents gold for every pound of coconut oil.

With assurances of our highest consideration and esteem, we are

Very respectfully,

JUAN SUMULONG
Chairman, Advisory Board
Popular Front

CELERINO TIONGCO
Chairman, National Executive Council
Popular Front

A true copy.

LUIS AGUDO
Secretary

ECONOMIC ASPECTS OF NATIONAL DEFENSE

We represent a party composed of various political elements whose main aspiration is independence. One of the principal reasons advanced by enemies within and without, foreigners and nationals, of our independence is that we are incapable of maintaining our territorial integrity because our revenues do not permit us to organize an adequate plan of defense.

This assertion is illogical for being impossible of fulfillment. We shall refer to the lessons of history to sustain our contention. No country whatever may be its military preparation, its degree of culture, its economic resources and industrial progress, can absolutely maintain its territorial integrity against another more powerful nation or against an alliance of nations. This same principle may be expressed in an affirmative form: all nations can maintain their integrity for a shorter or longer term according to their means.

The world war has shown that the duchy of Luxembourg with its few gendarmes was able to delay the German invasion for a few minutes, during which time its government protested energetically but to no avail against the violation of its territory. Belgium with its hundred thousand men well organized and equipped with the best arms then known, protected by fortifications considered as impregnable and aided by France, England and Russia, was able to resist the invasion of almost all its territory only for a few days. Brussels, the capital was taken by the Germans on August 20, 1914, eighteen days after the German army commenced the invasion of Belgium. France one of the military powers of Europe, with the help of England, Belgium and Russia, lost a great part of its territory, and the invading army after a month of war ar-

rived at the gates of Paris. Germany on its part with the most powerful machine of its time, effectively supported by its industrial attainments and marvellous scientific discoveries, aided by Austria-Hungary, Bulgaria and Turkey, had, after four years, to surrender and resign itself to the loss of a great part of its territory, and to the occupation by the allied forces of some of its remaining provinces. History has also shown that small nations, even if all their inhabitants were armed and all their possibilities utilized for defense, like Montenegro and the republic of the Boers of South Africa, have disappeared from the map as independent nations.

Resources Indispensable for Defense

History also teaches us that farsighted nations base their national defense upon the solid foundation of industrialization, the exploitation and the utilisation of all their natural resources. Even the most powerful and progressive nations like England, Japan, Germany and Italy continue spending fabulous sums for perfecting the development of their industries to enable themselves to supply their fighting forces with all the elements which modern armies require. Russia, recognizing its industrial and economic weakness, has at present the ten-year plan for industrial and economic development, utilising all its resources and all the living forces of the country to supply and maintain the twenty million men who, according to the latest calculations of the military authorities of Washington, may be mobilized for war. Japan, in spite of its industrial development, which permits it to compete advantageously in all the world markets, plans to spend under its five-year program for the betterment of its industries and for enabling them to provide the necessities of its national defense, the fabulous sum of 11,000,000,000 yens. China, on its part, with its unlimited though undeveloped resources, with its 400,000,000 inhabitants, who, because of their sobriety, physical disposition to undergo all kinds of sufferings and privations, constitutes according

to many writers, the material most appropriate for an ideal soldier, is impotent although it can raise an army of 50,000,000, because it does not count with the most elementary means for the needs of its fighting forces.

Sufficiency of our Resources for Defense

Notwithstanding the enormous sums which the nations appropriate for their national defense, we believe that with our own resources, we can organize a force relatively efficient for the defense of our territorial integrity, like any other free nation which finds itself under the same conditions, even if the topography of our country makes it more difficult to defend. It is to be assumed of course that the last centavo destined for this purpose is to be spent under a well-matured and well-studied plan, avoiding misuse of funds. We had to effect economies in all the branches of the government, but not to the extent of paralysing the essential activities or functions, in order to be able to dispose of the maximum funds for defense.

The categorical affirmation of our government that with P16,000,000 annually or P160,000,000 at the end of ten years, we shall have a system of defense which will make our country unconquerable, is not based on reality. This optimism does not accord with the facts. We have Japan which began to organize its national defense in 1860, the total cost of which since that date we do not know; but during the last ten years, from 1927 to 1936, a period equivalent to the ten years of the transition, it has spent 6,783,838,000 yens solely for the maintenance of its fighting forces in a state of efficiency in accordance with the progress of military science. It is to be considered that Japan spends these sums keeping the Oriental standard with respect to salaries and other government expenditures. Here it is claimed that we should maintain other standard, but this fiction of a supposed Occidental standard of living is only applicable to the rich and above all to the high functionaries of the government. The rest

of the inhabitants, 95% if not more, with their resources and the salaries or wages which they received, cannot maintain a standard of living superior to that of the Oriental people surrounding us. If we persist in maintaining the rates of salaries of our functionaries so that they may keep that trumped-up fiction of an Occidental standard of living, we shall be in a very disadvantageous position in comparison to Japan. It has not been possible for us to obtain data concerning what the Japanese soldier receives, but in 1910 his salary was 1.56 yens or, at current exchange rates, 75 centavos monthly. Our soldiers of the regular army receive as minimum pay ₱14 a month, so that for every soldier of ours, Japan can maintain for the same amount of expense nineteen soldiers well instructed, trained and armed, without talking into account the salaries of the officers.

Under this conviction, in the Constitutional Convention, the representatives of the people upon inserting precepts, which would enable our government to organize a relatively efficient plan, believed it convenient to formulate a system of national defense more economic than military in character. More than that, they wanted to impress upon the minds of our people that the primordial obligations of defending our land is a powerful incentive, which should impel them to all kinds of sacrifices however heavy, to the end that our country may, in truth and in fact, be politically and economically independent.

The recommendations of the committee on national defense were, that we should not maintain an armed force greater than that strictly necessary for the conservation of internal peace and order, as a preventive force against claims justified by and founded upon the insecurity of life and property of foreigners; at the same time this force might serve as the nucleus of the reserves formed by citizens trained according to the methods adopted by countries which cannot maintain a permanent army. The committee on national defense was of the opinion that the

maintainance of a permanent army however small it may be, was beyond our resources. To have an army of ten or twenty thousand men idle during peace times and of doubtful usefulness against powerful nations in case of emergency, of whom we may only expect conflicts, may prove equivalent to having no army at all. This theory is not new; Switzerland has an army in time of peace of 309 men only, according to the statistics, who serve as the nucleus of 600,000 citizens available to take up arms for the defense of their country.

In introducing into the Constitution the precepts of obligatory military and civil service, we were inspired by the Stambulisky system adopted in Bulgaria, in which all the citizens of both sexes who attain the age of majority yearly, leaving out those who are needed for the army, have to render service for a determinate period of time in all those activities conducive to the prosperity of the nation, which the government cannot undertake for lack of funds. The Bulgarian system has been adopted in Soviet Russia, Germany, Italy and even in the United States, although in a form modified according to the conditions existing there, upon the organization of the C.C.C. (Civil Conservation Corps).

We repeat that our object was a system of national defense based on the solid foundation of industrialization and utilization of all our natural resources with the principal end in view of creating industries which might make us less dependent upon the outside world for our prime necessities, and which, in case of emergency, might furnish us part of what is most essential to our national defense. The readjustment of our future economic relations with America, when we shall be independent, would be facilitated in part by the adoption of the ideas expressed and approved by the representatives of the people assembled in the constitutional convention.

If there were organized a body of militarized national police of say 20,000 men as prescribed by our Constitu-

tion, in which the best of our youth might be obliged to serve for a year and later passed to the reserves, at the end of ten years of the transition period, we would have some 200,000 intelligent and well-trained men. If in addition those who have studied military science in the centers of learning public and private are to be taken into account, we would have another 200,000 men at least as well instructed and trained as the reserves now being trained, and at less expense than what the government is actually incurring.

If on the other hand the administration, making use of the compulsory service, utilized the services of the rest of the 250,000 youth of both sexes for the production of the articles of prime necessity for the army as is practised in Bulgaria, Russia and Germany, we would have millions of youth who, aside from contributing to the industrial and economic development of the country, would be individually more prepared for the fight for existence, which we have to sustain against the Oriental peoples surrounding us in the very near future, with or without independence.

Neutralization

The neutralization of our country by means of a treaty, if it were possible, would be a solution very favourable to our independence, but practically it has been seen, that the treaties of neutrality are so many scraps of paper which the signatories themselves tear to pieces when their convenience so demands. Fortunately, even if the topography of our country makes its defense difficult, its geographical location favours a natural and tacit neutrality. We believe that with our country constituting, as it does a wedge placed in between the possessions of England, France and Holland, none of these nations will consent, while it can, to the possession of the Philippines by Japan. This in turn will oppose the exercise by any other Occidental country of any sovereignty or protectorate over the Philippines, because this would constitute an obstacle to its primordial policy of dominance.

Naval Bases

The question of naval bases is a question of exclusive competence on the part of America and whatever might be its decision we have to accept. However, from the point of view of those we represent, we believe that these naval bases, far from being a guarantee for our independence, is more of a menace because it could be a ground for the violation of our territory in the event of war between United States and any other power.

The naval bases can not stand by themselves alone; they have to be supported by a system of fortifications. Their investment by a frontal attack is difficult and costly. The enemy will have to take possession of a part of our territory as a base of operations to pound and destroy separately the auxiliary fortification, before starting the attack on the main defense. These strategy was used by the Japanese in the capture of Port Arthur.

Military authorities like General Rivers and others technically maintain that these naval bases as well as the country at large are indefensible, unless the United States is disposed to make great sacrifices and is resolved to use all its resources of men and money to save its national honor in a conflict with Japan.

The theory of General Rivers, moreover, is based on and confirmed by the experience of the wars of modern times. Russia, one of the most powerful nations of its time, prepared for centuries for its dream of domination of the Farst East. It demanded of China the cession of Port Arthur which it converted, in the opinion of the military critics of the day, into an impregnable fortress, to serve as a naval base not only to shelter its navy, but to provide it with all the supplies necessary to enable it to function effectively. It built permanent and semi-permanent fortifications at strategic points in Siberia and Manchuria. It had improved the tran-Siberian railway as a

sure means of communications in the event that its communications by sea were severed, which happened actually. Port Arthur was garrisoned by some 50,000 men. It was surrounded by auxiliary fortifications constructed according to the latest developments of military science at the same time. A powerful navy at least equal, if not superior to that of the Japanese was stationed at Port Arthur. In the course of the war, Russia put 1,000,000 men in the struggle, but Port Arthur nevertheless was taken, although at a tremendous sacrifice, by Japan. The unfavourable situation in which China finds herself in its conflict with Japan, is in part due to the possession by the latter of the territory ceded to Russia, which constituted the foundation of a continental empire in Chinese territory.

Another of the weighty reasons advanced by General Rivers is the difficulty, not to say the impossibility, on the part of America to transport across the Pacific at a distance of no less than 7000 miles, dotted with Japanese bases, men and the supplies necessary to sustain the American forces stationed in the Philippines. This theory is also no less confirmed by the events of the Russo-Japanese war. After the Russian squadron was bottled up in Port Arthur, the Japanese considered free the strait separating Japan from the continent, which their transports could cross in no time, and began the mobilization of their troops and the dispatch of armaments under the protection of the main squadron of Admiral Togo and the cruisers of Admiral Kamimura. However, three unique cruisers, the Rurik, the Gromoboi, and the Rossia, stationed in Vladivostock succeeded in sinking some transports among which, we believe was the Sado Maru, which carried mortars of heavy calibre destined for the siege of Port Arthur. This incident, seemingly insignificant, was the cause of the protraction of the war. The Japanese could not immediately replace the lost mortars and Russia took the opportunity to complete the fortifications already begun, to construct more and to defend itself for a longer time, causing the

Japanese tremendous loss in life and money; for without the fall of Port Arthur the troops of General Nogi could not have joined the other bodies of the army and carried the decisive battle that ended the war.

In the World War the transport across the Atlantic of American troops was possible because the German squadron was practically bottled up in Kiel and the transport ships counted with the protection of the most powerful navies of the Americans, the English, the Japanese, the French and the Italians. Even then the German sunk some ships near the English Channel.

The mistakes which we have committed and continue committing, during the period in which we carry on with our autonomous government, may create difficulties for us in the future, but they do not constitute grounds for a recommendation adverse to our independence because we expect to be able to correct them. We believe that the present moment is the most propitious for the granting of our independence.

Japan has to resolve serious problems in China which will require all its attention for many years. In addition, its old conflict with Russia remains hanging fire calling likewise for solution. We believe these circumstances will give us time to solidify our political status and to establish an honest, stable and economical government acceptable to the power and fit to entitle us to live independently, like many nations perhaps weaker than the Philippines.

We are convinced that any defense plan however modest, will be greatly affected by the change in our commercial relations with America, which independence may bring; but we neither can, nor should expect from others the solution of our problems. If there is to be any salvation for us, we have to work for it with our own efforts. The economic difficulties which will come, may have the beneficial effect of making us more wise to the reali-

ties of our day and enabling us to face them like men. We should be convinced that no other people could want to sacrifice itself for us when, to avoid conflicts the powers limit themselves today to academic protests against treaty violations and acts hostile to their interests, which under other circumstances, would provoke more drastic action. This is the eloquent lesson we derive from the sad and bitter history of China.

In our own name and in behalf of those we represent, who believe their lot couldn't be any worse under any other situation, we submit that we are *willing to accept* independence at any time, along with its possible consequences, previous to the period fixed by the Tydings-McDuffie Act.

EMILIO AGUINALDO

JOSE ALEJANDRINO

BRIEF
SUBMITTED BY THE
RATTAN PRODUCTS MANUFACTURING CO., INC.
SEPTEMBER 1937
(Photographic Reprint)

FUNDAMENTALS

We Subscribe to the Following as the Fundamentals of Philippine-American Trade Relations:

1. *The trade relations between the United States and the Philippine Islands were definitely determined by the provisions of the Tydings-McDuffie Act until July 4, 1946. That Act, after approval by the President and the Congress of the United States, was formally accepted by the Filipino people. Based thereon many citizens and residents of and investors in the Philippine Islands have incurred obligations and made commitments. The trade relations so determined, in good faith and in fairness, cannot, therefore, be altered to their prejudice. Thus, at least until July 4, 1946:*

(a) *Articles the growth, product, or manufacture of the Philippine Islands should, with no greater limitations than those imposed by that Act, and on a basis of equality with articles the growth, product, or manufacture of the United States, be admitted free of duty into the United States; and*

(b) *Articles the growth, product, or manufacture of the United States should, on a basis of equality with articles the growth, product, or manufacture of the Philippines Islands, be admitted free of duty into the Philippines.*

(c) *No excise or other taxes which directly or indirectly result in any discrimination against the products of either country should be imposed.*

2. *The imposition of export taxes on shipments from the Philippine Islands to the United States from November 15, 1940, and the imposition of import duties by the United States and the Philippine Islands, each on articles the growth, product, or manufacture of the other, from July 4, 1946, will be disastrous to the producers and manufacturers of both countries, and, the time being too short to make the necessary readjustments, to the Philippine Islands in particular, therefore,—*

(a) *The export taxes should be repealed; and*

(b) *Free trade between the two countries, with present or other reasonable quantitative limitations, should be continued after July 4, 1946.*

3. *Irrespective of any change in the political status of the Philippine Islands, a continuation of the present free-trade relations between the United States and the Philippine Islands would be advantageous to both countries;— to the Philippine Islands, because the United States is an essential market for many Philippine products; and to the United States, because the Philippine Islands is a large market for the products of agriculture and industry of the United States, and will, if the products thereof continue to be admitted free of duty into the Philippine Islands, be a much larger market in the future. Such free-trade relations between the two countries should, therefore, after July 4, 1946, be continued indefinitely.*

BRIEF

TO THE
JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS
FROM THE
RATTAN PRODUCTS MANUFACTURING CO., INC.
ON THE
TRADE SITUATION
BETWEEN THE
UNITED STATES AND THE PHILIPPINE ISLANDS

TO THE MEMBERS OF THE COMMITTEE :

The Rattan Products Manufacturing Company, Inc., begs leave to submit the following brief on the Rattan Industry of the Philippines for consideration by the Committee:

Though the Philippines produce the rattan, manufacture of rattan furniture began tardily in Manila because a commerce in it was early established on the China coast and for a long time the public tolerated the furniture it could pick up there, a product greatly inferior in every way to the standard rattan furniture now made in the Philippines. With the advent of this durable rattan furniture, it has been found that a world-wide demand for it exists among buyers for whom mere price is not a primary consideration. Quality of design, material, and workmanship is what is wanted. The result, during a very short period of effort, demonstrates that Manila is the logical center for such an industry.

From rattans of every type that seek a market in Manila, the manufacturer can select the choicest for his stock of material. The Filipino, too, as a skilled craftsman with rattan, can not be surpassed. The result, in the factory with the necessary facilities, is a type of rattan furniture altogether new; its very appearance is assurance of its durability. There is no doubt that changing vogues can readily be followed in Manila factories, and that the lead already obtained can be kept indefinitely unless artificial barriers destroy it.

Philippine exports of rattan furniture may run to the value of ₱200,000 this year. Next year they should reach ₱500,000 or more. The basic drawback to volume of sales is the want of volume production; while a factory must of course maintain sales outlets in such a market as that in the United States, there has been, up to now, no keeping up with the orders pouring in from these agencies. A large San Francisco emporium handling Manila rattan furniture finds it impossible to keep samples on the floor: shipments are sold ahead of their arrival, and delivery to purchasers is immediate.

One well known mail-order house issuing fourteen million catalogues, features rattan furniture in its current catalogue. Whether it can fill the orders this announcement will evoke, the mere publication of the announcement will greatly augment demand throughout the United States. One result is a visit to Manila of a representative of a rival mail-order house, hoping to effect manufacturing arrangements that will meet requirements of their customers for this furniture.

At the Chicago Furniture Mart last September, one manufacturer exhibited, from Singapore. It is said that in a single day he booked orders to keep him running throughout this year. It was also expertly reported from

the Mart that the American demand for rattan furniture is not below \$25,000,000 a year. It should be noted that this is potential demand, and that the problem is to get the furniture made in quantities large enough to meet jobbers' and merchants' daily requirements.

The problem of placing factories on the quantity production basis that public demand requires is yet to be solved, although production steadily increases; and when it finally is solved, since labor is more than 50% of the manufacturing cost, this new industry will be a very vital factor in the Manila labor market. Also, it will give rise to more constant employment in the provinces yielding the rattan, and will add no little to the regular demand for selected Philippine hardwood lumber.

It may here be stated that 80% of shipments are to the United States; orders from other points, well distributed throughout the world, sum but 20% of the total. As the industry is just well started, nothing is more important than to maintain a satisfactory basis for it in the permanent commercial arrangements between the Philippines and the United States. It is here, in Manila, that volume of production is practical of achievement—a factor that it is not believed extends to the United States, where higher wages and shorter supplies of materials limit the possibilities.

Rattan furniture, in a word, fits admirably into plans for reciprocal Philippine-American commerce, just as does flour into Manila from Seattle and Portland. It is not something that competes with an established American industry, if it be said that its competition with wood furniture is but slight and indirect. Eventually, adaptations of wood and rattan as the common materials in certain styles of furniture may even benefit the wood-furniture manufacturer.

Many refinement of use of rattan in furniture are in the offing, dependent on the resources of thoroughly modern factories and the skill of craftsmen. These and many other advantages should come to the Manila industry, founded as it has been on genuine workmanship and a durable and presentable product of true beauty and utility.

Attention may be invited to an industry in America to which importation of Manila rattan furniture gives rise, the making of cushions utilizing steel springs, burlap, felt, cotton padding, etc., and stout coverings. Already these cushions are made at our largest distributing point to date, Los Angeles, more satisfactorily than in Manila, partly on account of the soaring price of kapok in the Philippines. Every chair, every chaise longue and sofa requires cushions, and fabricating them in the United States offsets any curtailment of employment that might arise from making the furniture itself in Manila.

In short, the future of the industry is most promising in any scheme of trade based upon the Cordell Hull plan of true economic reciprocity. There are so many indications on every hand not merely that the existing demand is well-nigh insatiable, but that it will tend constantly to expand and take divers forms. Among these indications is the use of trailers. There are predictions in the automotive industry that very shortly, as many as twenty million Americans will be using trailers either through a part, or throughout all, of the year. Rattan is quite certain, when Manila factories become resourceful enough, to find its way into standard trailer accessories and comforts. And more than that, into special equipment of many trailers built to order for the professional needs of the owners: dentists, and perhaps many specialists in surgery.

For the present, no manufacturer need look beyond today's pressing demand upon his factory for its utmost production. But the situation will not be stabilized until production approaches actual demands. The future should be kept open to this end. This memorandum is submitted from an industry merely in its infancy, whose prodigal opportunities for growth are obvious at a glance.

Respectfully submitted,

RATTAN PRODUCTS MFG. CO., INC.

95 Panaderos, Manila

By: (Sgd.) FRANK H. HALE.

MEMORANDUM
FROM THE
SAKDALISTA PARTY OF THE PHILIPPINES
(Photographic Reprint)



**TO THE HONORABLE CHAIRMAN AND MEMBERS OF
THE JOINT PREPARATORY COMMITTEE ON
PHILIPPINE AFFAIRS, THIS MEMORANDUM
IS RESPECTFULLY SUBMITTED.**

MEMORANDUM

The undersigned, in representation of the SAKDALISTA PARTY OF THE PHILIPPINES whose main aspiration is independence, submit for the consideration of the honorable committee the following:

1.—The Philippines must first be endowed with full capacity to enter into a binding agreement with any foreign country.

We will sincerely appreciate the cooperation of the people of the United States in the laying or creation of such a basis of trade relationship that will insure to the peoples of both the United States and the Philippines the greatest possible benefit that may be derived from trade and commerce. But we maintain that that cooperation is possible only when we Filipinos, like the North-American people, are clothed with all the indispensable rights and

prerogatives to conclude a binding trade treaty or agreement with a foreign country whereby we are at absolute liberty to propose that which, in our honest judgment, is conducive to our happiness and well-being and reject, in like manner, that which is prejudicial to our interests and to ourselves.

After years of observation and matured deliberation we have realized that we will always be at a loss by leaving in the hands of the master alone the absolute control and supervision over our affairs, especially those of our trade and commerce. The enemies of our welfare have succeeded for many years in making the Filipinos believe that we can improve our lot without a free will better than when all the inherent rights of man are at our disposal. The time is ripe enough for the correction of this monstrous anomaly.

We admit that a country like the Philippines, however rich it may be in economic resources, needs outside trade for the attainment of that degree of economic efficiency that could meet its various needs with the varying circumstances. One of the reasons we do not have that economic efficiency now is because we did not have a foreign trade of ours for more than four centuries, from the beginning of Spanish domination up to the present regime. What we have to-day is not within the category of a true Philippine trade and commerce. What we have now is Philippine trade and commerce of the United States of America, the same as the Philippine Government (now Commonwealth) of the United States. Before it can be said that we have a true Philippine trade and commerce, that trade and commerce must be of the Filipinos, for the Filipinos and by the Filipinos; that is, a trade and commerce whereby we Filipinos are free to determine with what foreign country we are to trade, which and what amount of goods are to be sent to foreign markets, of what quality is a certain commodity, what price should be

charged thereon and of what rigidity or flexibility our tariff law should be for, this determines to a greater or less extent the degree of commercial privileges that may be accorded us in foreign markets. Under the domination of the United States we are not free to exercise any of these prerogatives or whatever anyone may choose to call them. The simple fact that some commodities, like sugar, cordage, tobacco and copra being shipped to American markets are Philippines by origin does not warrant an admission that there exists to-day a Philippine trade with the United States in the true sense of the terms. It is the people of the United States who have the first and last saying as to how much and what quality of our goods can be sent to the United States. Besides, the proceeds of our goods being sold in the United States are mostly destined for the promotion of American welfare and maintenance of American sovereignty in the Islands, so that in the last analysis, the money being paid for the Philippine goods go back to American hands.

2.—We need industrial development of our own.

Every foreign domination obstructs the progress and development of the subject people. History proves that.

If we Filipinos need foreign trade as in reality we do, we must have several industries so well developed that would enable us to produce such merchandises that could reasonably compete with other foreign goods, otherwise we will never pass the category of a mere buyer and consumer of foreign manufactured products as we are at present. The United States has hindered in every possible way the growth and development of our industries for she must avoid our competition for the stability of her trade in the Philippines. The United States invaded the Philippines under the guise of democracy and humanitarian mission and to supplant the tyrannical government of Spain with one that could teach the Filipinos the science of self-government dedicated to the liberty and welfare of the in-

dividual rather than to the satisfaction of a few autocratic rulers, but it is regretable to say that behind those sweet pronouncements we see the American people playing the role of Spain.

Before the conquest of the Philippines by Spain, the Filipinos were already having a prolific trade with China and Japan and the Filipinos were already possessed of a certain degree of culture and industrial progress not behind those of their neighbors, the Chinese and the Japanese. Certain writers even confirmed that the Filipino civilization immediately before the Spanish invasion was far advanced than those of some European countries. It was said that the Filipinos were already dressed in woven clothing when the English people were still using animal skins.

At the advent of Spanish rule, the Spaniards, by force, imposed upon us Spanish ways of living, culture and civilization, conducted the foreign trade of the Philippines in the name of the Spanish government and took absolute control of the finances of the country, thereby discouraging the growth of new industries owned and capitalized by Filipinos. The Spaniards converted the Philippines into a mere consumer of their manufactured products and other foreign commodities. The same atrocities committed by the Spaniards are being committed also by the Americans but under another terms. The Spaniards wrought havoc and destruction to our industries to give way to the incoming Spanish goods in the name of Christ and the holy Cross; the Americans are doing the same in the name of democracy, good government, safety, happiness, economic stability and security against foreign aggression when in fact they are but another aggressor next to the Spaniards. We submit that we regret to mention these things, for our purpose is not to aggravate misunderstanding between Filipinos and Americans but only to show that we, being a subject people, are not in a position yet to conclude an agreement with the people of the United States in respect to

trade, and that so long as one of the objects of American domination is to strangulate our business and our industries to avoid an effective competition from us we cannot expect and have no reason to expect a profitable trade with the United States.

3.—We must be at liberty to dispose of our revenues in any way that suits our needs.

For the establishment and improvement of our industries we need to have the control and supervision over our finance. We cannot advance along any line of business enterprise unless we have that control and supervision. Under American rule, it cannot be denied that we have no control over the finances of the government; the government here being an American government. Apparently the so-called Filipino officials in the present government are at liberty to dispose of the revenues of the government in wise ways, but that is true only if the disposition will promote the interests of the people of the United States, commercial and political. We cannot see how an appropriation of our money through an act of the agency of the government of the United States can give more benefits to the Philippine people than to the Americans when we take into account the truth that the United States took possession of the Philippines for the promotion and protection of her interests in the Far East. It will suffice to prove this by making mention of the statement of General Rivers to the effect that the United States took possession of these Islands for no other purpose than to serve as an outpost for protecting American interests in China.

4.—We oppose further investment of American capital in the exploitation of our resources.

There is no doubt that we need to develop our natural resources in order to bring our economic condition to the level demanded by a self-supporting nation, but there

seems to be no necessity for haste that calls for the influx of foreign capital. Perhaps no one will dare question the rule of economics that the largest part of the profit in any business enterprise goes to the investor. We have here several mining enterprises that reap millions of pesos as profit every year. No doubt, only a nominal part of this profit goes to Filipino hands; the greater part of the bulk goes to American hands, the business being run largely by American capital. Yet these same Americans are disparaging the Philippines by propagandizing that the United States has a moral obligation to see to it that the Filipinos are saved from self-economic strangulation by not giving them independence when the truth is, that, the only meaning of the propaganda is to have the Philippines retained forever as a source of wealth and as a market for American manufactured products.

The industrialization of a country by foreign capital is undoubtedly a step leading to eternal chaos in that country, for it is but a device next to the use of arms by which a stronger nation imposes its will upon a weaker one. There are those strong and powerful nations of to-day that are fortunate enough not to be overcome by foreign capital. On the other hand there are those subject countries that were forced to yield to the forces of foreign investments and now we see what conditions are reigning therein. There is Java, exploited by the Dutch capital. There is in Java to-day a continuously boiling pot seemingly waiting for an opportune time to explode. This dangerous situation is caused by no less than the subordination of the rights, honor, welfare and liberty of the Javanese people to the greed and selfishness of the Dutch capitalists. There is India, where there is now a constant apprehension of a large-scale revolt caused by no less than the awakening of the Hindus or Indians to a spirit of self-determination. For many years now, the Indians have been conducting a series of campaigns (secretely and publicly) for their political emancipation. That is but natural. Besides,

they saw the futility of depending upon the benevolence of British imperialism for their happiness and well-being. There is no doubt that Great Britain will never intend to go further than she has yet gone in the direction of home-rule in India (quite similar to our home-rule in the Philippines), for the British political supremacy there insures British economic supremacy throughout the vast Indian peninsula. We have every reason to believe that the object of the United States in investing enormous capital in the Philippines is eternal economic supremacy also and to make these Islands a foremost source of war materials in utter disregard of our exclusive right to them, in the same way that Great Britain looks to India as a foremost source of food supply and a market for enormous quantities of cotton and iron manufactures. India is still a backward nation despite the alleged British industrialization of it by British capital for almost two centuries. There is also the present conflagration in China caused to the greatest extent by the influence of foreign capital. There seems to be no need of explaining how foreign capital contributed to the seriousness of internal chaos in China, because what has been going on there for several years with foreign elements playing the greatest role is almost of universal knowledge.

5.—Independence is the only solution of our various problems and the only way for the realization of a true cooperation between the Philippines and the United States.

We will only be at liberty to conduct our trade with the United States, develop our resources for the true benefit of our people and have a will of our own in the creation and stabilization of such a trade and commercial basis that can insure to us a fair dealing by the people of the United States after the achievement of our independence. It cannot be rightfully denied that the United States is morally obligated to leave the Philippines in the hands of the Filipinos and let them govern their country without

the least intervention by her government. The condition laid down by the United States for the withdrawal of American forces in the Islands has long been fulfilled, but the Congress of the same did not seem to have the least inconvenience in turning its back against a promise whereby the good name and the honor of the whole nation were pledged when it repealed the Jones Law and substituted for it the Tydings-McDuffie Law. Now, those who worked for the consummation of this tragedy are trying to save their faces by arguing that the economic condition of the Islands does not warrant immediate abandonment by the United States and that the Filipinos are not prepared yet to repel another invasion by an outside power. It is our honest judgment that we have already shown the futility of hoping for economic stability while we are under the domination of the United States, and for this reason we will now procede to another important question.

It is argued by the enemies of our independence that our income will not suffice for the organization of a plan of defense that can guarantee the territorial integrity of the Philippines. If the ability to repel a foreign invasion will be set as a condition precedent for the achievement of our independence, it will be equivalent to the proposition that the Philippines should never be free for that condition is untenable.

However advanced the military preparation of a nation may be and whatever may be its economic status, it cannot rest assured that it can maintain its territorial integrity against a stronger nation or against a combination of strong nations. But a nation may be able to maintain its integrity for a shorter or longer time according to its means and according to circumstances. We do not even believe that the United States, of whose military and economic preparedness the enemies of our freedom are boasting, can defend the Islands if invaded by a first-class power. The last world war has shown us that even the

highest military and economic preparations of a nation are not a sure guaranty against the violation of its territory. France, assisted by England, Belgium, Russia and other small European powers lost a great part of its territory after only a few days of the war, for the German army reached the gates of Paris within a few days of fighting. France was considered then one of the strongest military powers in the world and among the most advanced in economic matters. Germany, on the other hand, with the military machines of the best type backed up by her industrial developments and various scientific discoveries and counting with the unconditional support of Turkey, Bulgaria and Austria-Hungary, was forced to surrender and assign a great portion of her territory and possessions to the allies. In the light of these events, how can we rest assured that the United States can guarantee our safety and security while we are under her sovereignty? Even the military strategists of the United States cannot guarantee that the United States government is in a position to defend the Islands in case they are invaded by a first-class power.

We are strongly convinced however that the Philippines, if left alone with a government of her own free from any alien influence and intervention, will not be invaded by any other nation though there is an apprehension among our people that the most probable nation that will violate our territory even after the achievement of our independence is the United States also. Such unwarranted and uncalled-for intervention took place during the days of Machado in Cuba when the United States sent more than a score of her battleships to interfere in Cuban affairs although there was in Cuba at the time an organized government that could restore peace and order.

The late Manchurian incident is often mentioned by many as an omen of the danger awaiting American abandonment of the Philippines, meaning to say that Japan

will surely move in as soon as the United States moves out. This theory is extremely unfounded and fabulous.

The background of the Manchurian incident dated back as far as before 1894 or years before the outbreak of the Philippine revolution against the Spanish government. The Sino-Japanese war of 1894-1895 may be said to be the main starting point of a series of serious events that led to the Japanese military campaign in Manchuria which caused the establishment of the state of Manchukuo. That war was inspired by the western powers, for, the military preparations of China for that war took place in the arsenals of France and Germany and the officers who maneuvered that war were trained in the military academies of Europe. Even the arms used by the Chinese were given by the European powers and therefore that war was not of China alone against Japan but of Europe with China on the foreground. The sowing of the seeds of strife among the Far Eastern peoples is a business of the western powers that started as far back as the dawn of industrial revolution in the old world. This is clearly manifested by what the western countries call "the yellow peril," meaning the danger that may be created by the unity of all asiatic nations for the western designs in the east. The result of the war alluded to as known to the world was the annihilation of the Chinese forces. In the year 1896, China, cherishing a desire to avenge her defeat, entered into a treaty with Russia whereby these two big nations agreed to combine against Japan. Russia took advantage of the then critical situation of China. The Russians soon began the penetration of Manchuria, invested enormous capital there, built railroads, erected fortifications and established concessions. The objective of Russia was to take possession of Manchuria and Korea via Siberia and thence launch a powerful drive against Japan. It was but natural that those steps of Russia should arouse the suspicion of Japan. In the course of time, the desire of Russia to dominate the whole of Eastern Asia was openly manifest-

ed. The port of Dairen which, up to 1899, was an open port was closed by Russia for her exclusive use. This and other drastic measures taken by Russia caused grave apprehension even among the Chinese people. But China was helpless and could not even speak. It was Japan who made a vigorous protest in 1903 and discussed with Russia the question of open ports and the territorial integrity of China. Upon failure of diplomatic negotiations the role of arms becomes logical. The Ruso-Japanese war of 1904-1905 soon broke out, terminating in the defeat of Russia. This caused the transfer of all Russian interests in Manchuria, including mines, railroads, lands and fortifications in the hands of Japan. It may be readily seen therefore that the entry of Japan in Manchuria was cloaked with all official formalities since the rights of a nation accruing to her through victory in war are always sanctioned expressly or tacitly, by the so-called civilized nations. Those were the rights of Japan which suffered greatly in the hands of the Manchurian bandits including the Chang family who ruled Manchuria for twenty years. To prevent further losses due to such banditry, Japan undertook the military campaign of 1932. Even the report of the Lytton Commission of the League of Nations sent to China to investigate confirmed that Manchuria and a great part of China proper were within the grip of banditry. We are not trying to reinforce the claim of Japan that her military campaign in Manchuria that led to the establishment of the state of Manchukuo was just and rightful nor are we concurring with the theory that the "lives and money poured by a nation in a military campaign give that nation the right to enslave other people." What we desire to show only is the lack of foundation of the claim that what Japan did in Manchuria is but an example of what she will do in the Philippines once the American forces are withdrawn. We do not expect to have a government of bandits after we are independent or a group of "Changs" whose wild atrocities will invite armed intervention. Nei-

ther do we expect that the circumstances which led to the Manchurian incident will ever exist in the Islands.

6.—United States naval bases are prejudicial to our economic interests.

There is no doubt that the United States maintains an Asiatic Fleet for the protection and aggrandizement of her commercial interests in the Far East. We are not assailing the right of the United States to maintain any scale of trade anywhere, but we are warning our people and telling the United States that the maintainance of American naval bases in the Philippines is far from being a guaranty of our security. They are not assets but liabilities. They constitute a grave menace, a motive for another violation of our territory. We have every reason to believe that American-owned fortifications in the Islands have long began to cause suspicion on the part of other powers. And if there is any truth in it, that suspicion must have been augmented by the recent declaration of the navy league of the United States to the effect that the Philippines must be retained "for the maintainance of the United States' strong hand in the Far East." This alone will eliminate the claim that the United States government is in the Philippines for the protection of our terirtory and the promotion of our welfare.

Naval bases cannot exist by themself alone. They have to be maintained by a sufficiently strong contingent of the American army and navy or by the most modern war machines manned by able soldiers, so that, if an enemy country will ever desire to destroy or take them, the attack will not be launched directly against them but will perhaps necessitate the taking of an adjoining portion of territory as a base of operation. Such is one of the

tactics that precepitated the fall of Port Arthur in the hands of the Japanese army. Can anybody calculate by now how much destruction will be suffered by the Philippines in the event of such a catastrophe?

Our contention that the United States' naval bases constitute no real guaranty for our territorial security is not without foundation. Even the United States' military authorities, among them General Rivers, maintain that these naval bases are helpless to save American honor in case of a conflict with Japan unless the United States government is ready to make great sacrifices in money and human lives.

We may make mention of the case of Port Arthur as the basis of our contention. The efficiency of Port Arthur was considered almost unexcelled by the military experts prior to the Ruso-Japanese war. Its strength was greatly augmented by surrounding auxiliary fortifications and by the Trans-Siberian Railway. It was manned by some fifty-thousand men and guarded by a squadron of battleships considered to be superior than those of the Japanese. And when the war broke out, Russia launched no less than one million men in the field of engagement. But Port Arthur collapsed and was taken by the Japanese. The transportation facilities possessed by Russia prior to that war is not possessed by the United States in relation to the Philippines.

There is no question also as to the necessity of a military organization in the Philippines but that must be undertaken by the Filipinos themselves. A plan of defense done by ourselves alone can give us more security than that prepared by a nation who has her own desires for her exclusive benefit.

We do not believe the pretext of the United States that she can prepare the military defense of the Islands within a period of ten years. According to estimation based on the actual income of the present government, the fund that can be devoted to the present military organization under the direction of the United States' government will hardly exceed ₱160,000,000 for ten years. Anybody can see that this amount is insufficient to complete the military defense of the Islands, giving ground to the belief that the whole military preparation by the United States in the Islands is intended to become a mere part of the military forces of the United States in the event of necessity. And if we become fortunate enough not to be involved in trouble until the end of the so-called transition period, the United States will again say that we Filipinos are not yet prepared to repel a foreign attack and therefore not ready yet for self-existence.

7.—We are in favor of P. I. neutrality.

The fact that treaties providing for the neutralization of a nation are practically useless when the exigencies of powerful nations demand that they be trampled upon should not discourage us. We sincerely believe that the neutrality of the Philippines will serve, at least for the time being, as a deterring factor in respect to outward designs (if there is any) of other nations. History tells us that the neutrality of a nation usually works well except in cases of exceedingly pressing necessities compelling a powerful nation to disregard that neutrality. We do not believe that such pressing necessities will ever exist here or in our immediate surroundings especially if the United States will gladly walk out bringing with her all her forces which are not needed by the Filipinos.

We conclude by simply reiterating that the only way by which we Filipinos can stabilize our economic condition, solve all our other problems and extend true cooperation to the people of the United States in the maintainance of a profitable trade between the Philippines and the United States of America is to let us have first full capacity and a will of our own through the achievement of our political independence.

Manila, Philippines, September 10, 1937.

Respectfully submitted,

ELPIDIO M. SANTOS

Chairman, Drafting Committee

Assisted by:

PAULO V. CAPA

FERNANDO MANUSON

Members

This memorandum has been approved and adopted by the National Directory of the party on September 5, 1937.

(Sgd.) **SIMON d'SENA,**
Secretary General

Approved:
CELERINO TIONGCO,
Acting President.

**A MEMORIAL
FROM THE
SAKDALISTA PARTY OF THE PHILIPPINES**

(Photographic Reprint)

SAKDALISTA PARTY OF THE PHILIPPINES PROVINCIAL DIRECTORATE CAVITE, CAVITE

A MEMORIAL

For Immediate, Absolute and Complete INDEPENDENCE

In the name of our country and the liberty loving people of this province with its unfailing devotion to the cause of Freedom has decided to submit to the Hon. Joint Committee of Experts these memorial demanding Immediate, Absolute and Complete Independence; and for the speedy transmission of that desire it has been also decided to place in the hands of the good people of America thru the Delegation of Experts now in the Islands. Our everlasting desire to be free and independent must be provided with considerable attention leading to the settlement of our enunciation.

The various circumstances facing our cause needs immediate justification of our demand thru the enactment of necessary measures relating to our emancipation long advocated. We hold to reiterate on all other matters relative to our National problems unless hostilities on our demand be guided with the spirit of compliance to both countries.

The people of the Philippine Islands did not turned a thoughtful attention to America's FALSE-PRETENSES on the Filipino antagonism against Spain. We believed that circumstances proved that they are enemy, conqueror and oppressors. They are not friends nor allies as they pretended. Their written promises and measures does not mean anything to the Filipinos as long as they keep their imperialistic hands and fingers over the Philippine soil. For the support of that, a quotation is supplanted as expressed by Senator Long, who in the heat of debate delivered before Congress. The Senator said in part:

"The Philippines would not get freedom in twelve or more years under the Tydings-McDuffie Act, and if we pass this bill it means we will never get out of the Islands."

By patient study we have learned that the word Independence used in many parts of the bill is nothing but a capital opinion to commercialize our liberty among other Nations, although that independence is behind the bars of false pretensions of the Americans incognito to other powers. By what means can the Philippines be ready for self defense since the National Assembly created by that Act No. 127 known as the Tydings-McDuffie has no ample liberty to do anything better on that subject unless by the willingness of the President of the United States. No nation or any representative of any nation would enter into such restricted engagement except the American agents nominally the Government Officials taking that part of the American Tories in 1776. The so-called Philippines Legislature is nothing but an agency, part of the American Government working for her interest in the Far East.

It is therefore suggested and requested by the people of the Philippines that the content of this memorial be transmitted to the Hon. Congress and President of the United States, that these struggling people of the Philippine Islands must be protected by the law, and their Independence be settled adequately thru the application of human solution with honor and dignity. We press to demand that America's alterations must be fulfilled and her sovereignty over the Philippine Islands must be ended legally as determined by the compromise provided by the Jones Law. We exert that a more Democratic policy be adopted for the determination of the present political status of the Filipinos. For the support of our enunciation relevant to the Jones law which declare and narrate the American policy on the Philippines are quoted herewith:

"Whereas it is as it has been the policy of the United States to withdraw her sovereignty over the Philippine

Islands as soon as a stable government can be established therein."

STABILITY AND FITNESS FOR INDEPENDENCE

Speaking for the stability of our Nation perhaps no further excitement and egoism would molest the American spirit for we have proved to be Politically, Economically, Militarily, Socially and Culturally trained, prepared to meet every and all responsibilities toward the forthcoming obligations of our Nation. We are against to any other measure retarding our freedom for we have proven America's insincerity to their words and honor. We have noticed by proof that America from the year 1898 upon signing the false and malicious transaction with Spain known as the Treaty Of Paris has proven that she has malignant motive toward the Philippine Islands. No wise nation could do what America has done. No nation with the Democratic principles would ever do what America or the Americans are actually doing to the Filipinos. They pretended to be friends and allies but instead they are the selfish oppressors commercializing our Independence among other nations by Political and systematic ideas using the Filipino Tories in the American branch of Government in the Islands to escape from any responsibility in the said Islands for what may or might be the destiny of the native Islanders today or in the future. To gain the Filipino confidence and sympathy they even pass the Jones Act 21 years ago which they interpreted the future solution to Philippine Independence, but what have we see as the result of the unreputed Jones law? Nothing but a false and unbranded words and broken promises of the Americans who love liberty but deny it to others. They hated slavery, but want to make others their slaves.

The nonaccomplishment of the Jones Law the Filipinos can never allow any other act to lambast our peace, our security, our happiness and our honor. The uncertainty of Independence provided for by the Tydings-McDuffie law

recalls the fresh grievancies of the Jones Act which the American people had so mistakeably broken their promises and national Honor.

TRADE RELATIONS

Touching the point of economic situation of the Philippines regardless of the many abstacles and heavy burden imposed on Philippine trade can't or partially foil the Filipino struggle for Independence. A free Philippines even without the American markets or who so ever can live, can stand alone firm and mentain her dignity among others nations. It can be well remembered that all country under sovereignty of other power can't expect any progress in any manner in industrialization and economic problems. The American History itself proves that in her past struggle for Independence it was the economic problem and social ills that led her people to an early realization of her independence.

We therefore the Filipinos with the imperishable love to the freedom of our country are now and against to any further measure returding the liberty of this Fourteen million (14,000,000) SOULS deprive of their liberty and freedom. Knowing those historical backgrounds of our struggle for emancipation, we believed that the American people would not dare to doubt the sincerity of the Filipinos for the long advocated freedom. Continued disappreciation of that sincerity may mean to our countrymen a desire of the people of the United States to enslave the Filipinos and their country forever which may lead to revival of the unforgotten patriotism of our heroes of '96 and '98 who framed the historical Philippine Republic.

NECESSITY OF AN EARLY EMANCIPATION

The trend of events in many and all corners of the world seems to point out that peace everywhere will not last long, and the continuance of the American Flag and domination over the Philipipne Islands may bring a dis-

truction to our conutry; whereas it can be averted thru an early realization of our emancipation. World politics are undergoing great historical changes, for that reason it is urged that the Filipinos must be given a free hand in the self management in concomittance with both internal and external affairs.

Turning to the page of the American declaration of war with Spain recalls, the joyous squadron and other military forces who did not waste any single munite to follow the Spanish forces in all domain claimed by the Spaniards from Cuba to the Philippines where a standing Republic was molested and brought to complete distruction. The forthcoming political strangulation of every powerful nation for self interest and commercial purposes may for the second time complicate and returd the future happiness and tranquility of the Filipinos. For this reason we suggest the right and best solution for both national safety of the Filipino-American relation that the Philippine Independence must be given full support immediately.

We therefore the liberty loving people of this province of Cavite in the name of our country and her liberty, Assembled solemnly and declared our desire to be free and independent. It is as it has been politely requested by the Filipino people and their representatives that this appeal and clamor be transmitted and presented to the Hon. Congress and President of the United States for consideration that Immediate, Absolute and Complete Independence be declared for the Philippine Islands to safeguard the Filipino-American nationals in any internal or external confliction of the forthcoming conflagration.

With a firm reliance and protection of the DEVINE HEAVEN, we mutually pledge to each others that America

must not deny our liberty which means Our lives, our Fortunes, our Happiness and our SECTED HONOR.

CAVITE, AUGUST 22, 1937.

Very respectfully,

<p><i>Victor Sinfuente</i> VICTOR SINFUENTE <i>Adviser</i> Provincial Directorate <i>J. Alejandro</i> JUAN ALEJANDRO <i>Treasurer Of The Party</i> VICTOR DE LOS REYES <i>Secretary of the Party</i> IGNACIO MARTINEZ <i>Vice-President of the Party</i></p>	<p><i>Engracio Salazar</i> ENGRACIO SALAZAR <i>Adviser</i> Provincial Assembly <i>J. Angeles</i> JOSE ANGELES <i>Asst. Treasurer</i> FERNANDO Y. TANGOG <i>Prov. Secy of the Party</i> FERNANDO A. MANUZON <i>President of the Party</i> And the Provincial Directorate</p>
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SAKDALISTA PARTY OF THE PHILIPPINES

PROVINCIAL DIRECTORATE

Cavite, Cavite

MEMORIAL

Sa ngalan ng aming bayan at ng mga mamamayan sa lalawigang ito na laging nagmamahal sa kanyang kasarinlan, taglay ang walang kupas na pananalig sa magandang wakas ng usapin ng aming katubusan kaya't nagpatibay kami ng isang kapasyahang tulad nito at boong dangal na ipinagkatiwala sa Kgg. na pinaglakip na "Lupon ng mga Dalubhasa" ang kapasyahang ito na naghahangad ng Kasarinlang Kagyat, Lubos at ganap; at sa madaling ikauunawa ng mga kahilingan ito ay pinagtibay rin naman na isalalay sa mabubuting kamay ng mararangal na Americano na bumubuo ng pinaglakip na Lupon ng mga dalubhasa na pinangunguluhan ng Kgg. na John Van A. Mac. Murray na ngayon ay nasa kapuluan. Ang walang hanggang pagnanasa na maging malaya at nagsasarili, ay nangangailangan ng masinup na pagsusuri tungo sa ikapapayapa ng aming mga mithiin.

Ang mga iba't ibang pangyayari ukol sa hinaharap ng aming pang-bansang suliranin ay nangangailangan ng madaliang pagpapasiya sa aming hangarin sa pamamagitan ng mga pagpapatibay ng lalong agpang na hakbang tungo sa aming Kasarinlan na malaon nang nilulunggati. Di kami makapagbibitiw ng ano mang pangungusap hinggil sa mga bagay-bagay na may kaugnayan sa pangbansang suliranin samantalang hindi naman nababnaagan ng may diwang makatarungan ng America hinggil sa aming mithiin.

Ang tapat na mamamayan sa Kapuluang ito ay di nagukol ng masinup na pagsusuri sa pagbabalatkayo ng America at pagsasamantala noong panahong nakikipagsapalaran ang mga Filipino laban sa mga Castila. Naniniwala

kami na ang mga Americano ay marangal at tapat sa kanilang mga pangako, subali't ang kasalukuyang mga pang-yayari ang nagpapatibay na sila ay kaaway, mangangamkam at ganid na manlulupig. Hindi sila mga kaibigan at katulong na tulad ng kanilang pagpapanggap. Ang kanilang mga pangakong nakasulat ay walang saysay para sa mga Filipino samantalang ang mga Kamay at Daliring mapagsamantala ay hindi inaalís sa mga lupain ng Pilipinas. Sa ikapagpapatibay nito ay inilakip namin ang ilang pangungusap ni Senador Long na boong init na binigkas sa harap ng Congreso Amerikano noong kasalukuyang pinagtatalunan ang suliranin ng Pilipinas. Ang sinabi ng mabunying Senador ay gaya ng sumusunod:

“Ang Pilipinas ay di magtatamo ng Kasarinlan sa loob ng humigit kumulang sa LABING DALAWANG (12) TAON sa ilalim ng batas Tydings-McDuffie, at kung ating pagtitibayin ang batas na ito ay nangangahulugan na kaylan man ay hindi na tayo lalayas sa nasabing Kapuluhan.”

Sa matiyagang pagaaral ay aming natuklasan na ang wikang kasarínlan na ginamit sa iba't ibang bahagi ng batas Tydings-McDuffie ay walang ibang kahulugan maliban sa isang kurokuro na ipinangangalakal ang kasarínlang yaon sa ibang mga bansa kahima't nababalot ng mahiwagang pagbabalatkayo ng mga Amerikano upang sila ay makaiwas sa ano mang pananagutan sa kapuluang ito bukas makalawa. Sa papaanong paraan maaaring makapagsangalang ang Pilipinas sa kanyang sarili samantalang ang Kapulungang Tagapagbatas na likha ng batas Blg. 127 kilala sa tawag na Tydings-McDuffie Act, ay di nagpapahintulot ng ganap na kalayaan na makagawa ng ano mang hakbang ukol sa sariling kapakanan samantalang walang ganap na pagsangayon ang Pangulo ng Estdos Unidos. Walang bansa O kinatawan ng alin mang bansa na papasok sa napakahigpit na kasunduang katulad niyon maliban sa ilang Agente na malalaki sa Pamahalaan na gumaganap ng papel noong mga Amerikanong nagbili ng kanilang bayan at nagtaksil sa Kasarinlan ng kanilang bayan noong

taog 1776. Ang nakilalang Legislatura Filipina na ngayon ay Asmblea Pilipina na hindi rin iba sa sangay (Agencia) ng pamahalaang Amerikano na bantay ng kanyang mga kapakanan sa Dulong Silangan.

Kaya't aming ipinamamanhik lakip ang mungkahi ng aming mga kababayan sa lalawigang ito na mangyaring ang nilalaman ng kapasyahang ito ay mangyaring isakaalaman ng Kgg. na Congreso at Presidente ng Estados Unidos na ang nagpipiglas na mamamayang may pagibig sa Kasarinlan ay bigyang tangkilik ng batas, at ang kanilang Kasarinlan ay mapayapang kilalanin sa pamamagitan ng makataong pamamaraan taglay ang karangalan at lubos na paninindigan. Aming inuulit ang mataos naming hangad na ang nakaraang pangako ng Amerika ay matupad at ang kanyang kapangyarihan sa boong Kapuluan ay iyurong na gaya ng natatakda sa Batas Jones. Inuulituliit namin na dapat magkaroon ng lalong agpang na pamamalakad sa ikapagwawakas ng kapangyarihan ng Amerika sa Pilipinas. Sa ikapagpapatibay ng katutubo naming karapatan sangayon sa Batas Jones, na nagsasaysay at lumiliwanag sa pamamahala ng Amerika sa Kapuluang Pilipinas ay inilakip namin dito gaya ng sumusunod:

"Sapagka't kaylan man ay di naging hangad ng mga mamamayan ng Estados Unidos sa kanilang pakikidigma laban sa Espanya na ang digmaang yaon ay kasangkapannin sa pananakop O sa pagpapalapad ng lupaing sakop; at Sapagka't ito at laging ito rin ang hangad ng mamamayan ng Estados Unidos na iyorong ang kanilang kapangyarihan sa Pilipinas kaylan ma't maaari nang itayo ang isang Pamahalaang matatag."

KATATAGAN AT KARAPATAN SA PAGLAYA.

Kung pagtatalakayan ang katatagan ng aming bansa, marahil ay di na ninyo ipagtataka at pagaalinlangan ang aming pagkamatapat sa aming mithiin. Aming nang napakilala ang aming kakayahan sa Politika. Sa pangangalaga nang pangbansang kabuhayan, Sa pananandata at pag-

tatanggol ng aming bayan, Sa Lipunan at pakikisama sa mga iba't ibang bansa at gayon din sa pagaankin ng dati at makabagong kabihasan. Kami ay sanay na sa iba't-ibang bagay na katangian ng isang bansang malaya; handang magsabalikat ng mga pananagutan tungo sa hinaharap na tungkulin ng aming bansa. Kaya't mamamalagi kaming tutol sa alin mang hakbang na pumipigil sa aming ikauunlad, sa kasarinlan ng aming bayan sapagka't batid namin na iyan ang maglulugso sa karangalan at kapurihan ng aming lahi. Amin ding napansin na ang Amerika simula ng taong 1898 ng kanyang lagdaan ang marungis na kasunduan sa Paris na kilala sa tawag na Tratado de Paris na pinagtibay noong Diciembre 10, 1898, iyan ang maliwanag na batayan na ang Amerika ay may maruming hangad sa Kapuluang Pilipinas. Walang matalinong bansa na makagagawa ng tulad ng kasalukuyang ginagawa ng Amerika ngayon sa mga Pilipino. Walang bansa na may simulaing makatarungan na makagagawa ng gayon maliban sa mga mapangamkam at mapanglupig. Nagpanggap na mga kaibigan at kakampi, subali't sa kabila noon ay nagkubli ang masasakim na halimaw sa panglulupig, sinasangkalan ang pangalan ng kasarinlan ng isang bansang sakop upang makapagsamantala at makapanglinglang. Sa ikapagsasakatuparan ng gayong mga hangarin ay ginamitan ng iba't-ibang uri ng politika hanggang sa gamitin ang ilang Pilipinong mapagsamantala rin na siyang naging tulay sa pagtatayo ng isang pamahalaang may uring laging sakop. Sa pagkasangkapan sa ilang Pilipino ay maari nga namang makaiwas sa pananagutan ang Amerika sa ano't ano man ang maging kapalaran ng Pilipinas bukas makalawa. Upang matamo ang pagtitiwala at boong pagsangayon ng mga Pilipino ay inialok ang batas Jones na di umano ay siyang katuparan ng nalalapit na Kasarinlan, at napagtibay ang 21 taon na nakalipas. Subali't ano ang nakita ng boong mundo na nangyari sa pinawalang dangal na Batas Jones? Ah wala, matangi sa walang halagang pangungusap at sirang pangako ng mga

Amerikano na may malaking pagibig sa Kasarinlan nguni't ang Kasarinlang yaon ay ipinagkakait sa iba. Nasusuklam sila sa gawang pangaalipin, nguni't nagagalak sila na sila ang mangaalipin. Ang di pagkakaroon ng katuparan ng Batas Jones ang mga Pilipino kaylan man ay di na mapahihintulutan pang pagsamantalahan ang kanilang Kapayapaan, ng kanilang Kaligayhan, ng kanilang Kapurihan at ng kanilang Karangalan. Ang di pagkakaroon ng katiyakan ng Kasarinlan sa Batas Tydings-McDuffie ay minsan pang nagpapagunita sa mga Pilipino sa kaapihang tinamo ng Batas Jones na maaaring maging pangalawa O walang katapusang pagkaalipin.

PAKIKIPAG-KALAKALAN

Hinggil sa suliraning pangkabuhayan ng Pilipinas sa kabila ng napakaraming mga hadlang at mabibigat na patao sa pangbansang kabuhayan, ay di saguil iyan kaunti man sa mga Pilipino upang urungan ang malaon nang nilulunggating pagsasarili. Ang malayang Pilipinas kahi man at sarhan ang pamilihan ng Estados Unidos ay maaaring manatiling matatag, makapaninindigan sa kanyang karangalan at mabibigyang buhay ang kanyang mga mamamayan na tulad ng ibang bansang nagsasarili. Dapat alalahanin na ang kasaysayan ng Pilipinas ay iba kaysa lahat ng bansa, dito ay may katutubong kaugalian at kabihasan. Ang alin mang mga bansa na nasa ilalim ng ibang kapangyarihan ay di makaasa ng ano mang uri ng pagsulong sa kabuhayan, na di tulad ng malaya at nagsasarili. Ang kasaysayan na rin ng Amerika ang siyang nagpapatotoo na ang suliranin ng Pangbansang kabuhayan at pagsikil sa katutubong karapatan ang nagbunsod sa kanyang mamamayan upang hanapin ang katubusan ng kanyang lahi na ngayon ay nakilala sa tawag na Republika Amerikna.

Kaya't kaming mga Pilipino na tulad din naman ng mga Amerikano na taglay ang walang kupas na pagibig sa ngalan ng Kasarinlan ng aming bansa na ngayon ay hu-

mitig kumulang sa LABING APAT NA ANGAW NA KALULUWA (14,000,000) na pinagkakaitan ng biyaya ng KASARINLAN. Samantalang nalalaman na ang makasaysayang tanawin ng aming pagsisikap sa ikapagsasarili, ay nagtitiwala pa rin kami na ang Amerika ay magwawalang bahala sa pagtatapat naming ito. Ang pagpapatuloy ng mga Amerikano sa aming pagkamatapat na yaon ay maaaring ipakahulugan ng aming mga kababayan na tala-gang hangad ng mga Amerikano na alipinin ang lahing kayumanggi gayon din ang kanilang bayan habang panahon; Na baka ito ang sumariwa sa hindi pa nalilimutang kagitingan ng aming mga bayani noong '96 at '98 na siyang nagtindig ng makasaysayang REPUBLIKA PILIPINA.

KAILANGAN ANG MADALING PAGSASARILI

Ang galaw ng mga pangyayari sa iba't ibang sulok ng daigdig ay tila naghuhudyat na dito at saan man ang kapayapaan ay di na gasinong magtatagal, at ang pananatili ng Watawat at pamahalaang Amerika dito sa Pilipinas ay maaaring makapagdulot ng kapinsalaan sa dalawang bansa, na iyan naman ay maaaring maiwasan sa pamamagitan ng walang liwag na pagkilala sa KASARINLAN NG PILIPINAS. Ang politikang pang-daigdig ay pasulong sa makasaysayang pagbabago kung kanya at hinihiling ng sang bayanang Pilipino na sila ay bigyan ng ganap na laya sa pangangasiwa ng pangloob at panglabas na kapalakaran upang sa gayo'y makaiwas ang Pilipino O Amerikano sa nalalapit na pagiiringan ng mga lakas sa dulong silangan.

Buklatin natin ang mga dahon ng kasaysayan ng Amerika noong ipahayag na ang pakikilaban sa mga Kastila, hindi ba at mula sa kuba hanggang sa Pilipinas ay umabot ang lagablab ng himagsikan? Ang mga pangdigmang dagat ng Amerika ay umabot sa Pilipinas sapagka't may nawawagayway pang Watawat ng Kastila sa lungsod ng Maynila, sa mga katuwirang ito ay maaaring maging makalawang mangyari ang nakaraan. Hindi rin naman dapat malimutan na nang dumaong ang mga Amerikano dito

sa Pilipinas ay mayroon nang nakatayong Republika na kani-
 lang ginulo hanggang sa patuluyang mawasak ng kani-
 lang mga kanyon. Ang hinaharap na pagiirangan ng ma-
 lalaking bansa ukol sa sarili nilang kapakanan at pang-
 ngalakal ay maaaring makapagdulot ng kasawiang palad
 sa magandang hinaharap ng aming bansa. Sa mga matu-
 wid na ito ay inaakala namin na ang tumpak na lunas sa
 Pangbansang suliranin ng Pilipino-Amerikano ay ang lu-
 bos na pagkatig at pagkilala sa pagsasarili ng Pilipinas.

Kaya't kaming mga mamamayan sa lalawigan ng Ca-
 vite, sa ngalan ng Bansang Pilipinas ay nagkatipon at bo-
 ong galang at pagtatapat na nagpahayag ang isa't isa sa
 aming hangaring, maging malaya at magsarili sa lalong
 madaling panahon. Ito at ito rin ang boong galang na
 ipinamamamhanik naming mga Pilipino sa pamamagitan ng
 aming sugo na ang kapasyahang ito ay paratingin at
 at iharap sa Kgg. na Kongreso at Presidente ng Estados
 Unidos at ng sa gayon ay magkaisa ang dalawang bansang
 ito ukol sa ikapagpapatibay ng wastong paraan sa ikapag-
 sasagawa ng ipinangakong Kasarinlang kagyat, Lubos at
 Ganap.

Taglay ang aming matibay na pananalig at pagkalinga
 ng DAKILANG BATHALA na kami ay magtatapat sa isa't
 isa sa amin sa dakilang hangad na ang aming bayan ay
 lumaya.

Tulongan nawa kami ni BATHALA.

CAVITE, AGOSTO 22, 1937.

Lubos na namimitagap,

ENGRACIO SALAZAR

Taga-Payo

Ng Asamblea Nacional

VICTOR SINFUENTE

Taga-Payo

Ng Directorio Provincial

FERNANDO Y. TANGOG

Pang. Kalihim

VICTOR DE LOS REYES

Kalihim

JOSE ANGELES
P. Ingat-Yaman
Pang Lalawigan

JUAN ALEJANDRO
Ingat-Yaman
Pang Lalawigan

IGNACIO MARTINEZ **FERNANDO A. MANUZON**
P. Pangulo Panglalawigan *Pangulong Panglalawigan ng*
Lapiang Sakdalista

BRIEF
SUBMITTED BY
S. DAVIS WINSHIP
REPRESENTING A GROUP OF EMBROIDERY MANUFACTURERS WHICH
PRODUCES OVER NINETY PERCENT OF THE EXPORT PRODUCT

SEPTEMBER 1937

(Photographic Reprint)

FUNDAMENTALS

We Subscribe to the Following as the Fundamentals of Philippine-American Trade Relations:

1. *The trade relations between the United States and the Philippine Islands were definitely determined by the provisions of the Tydings-McDuffie Act until July 4, 1946. That Act, after approval by the President and the Congress of the United States, was formally accepted by the Filipino people. Based thereon many citizens and residents of and investors in the Philippine Islands have incurred obligations and made commitments. The trade relations so determined, in good faith and in fairness, cannot, therefore, be altered to their prejudice. Thus, at least until July 4, 1946:*

(a) *Articles the growth, product, or manufacture of the Philippine Islands should, with no greater limitations than those imposed by that Act, and on a basis of equality with articles the growth, product, or manufacture of the United States, be admitted free of duty into the United States; and*

(b) *Articles the growth, product, or manufacture of the United States should, on a basis of equality with articles the growth, product, or manufacture of the Philippine Islands, be admitted free of duty into the Philippines.*

(c) *No excise or other taxes which directly or indirectly result in any discrimination against the products of either country should be imposed.*

2. *The imposition of export taxes on shipments from the Philippine Islands to the United States from November 15, 1940, and the imposition of import duties by the United States and the Philippine Islands, each on articles the growth, product, or manufacture of the other, from July 4, 1946, will be disastrous to the producers and manufacturers of both countries, and, the time being too short to make the necessary readjustments, to the Philippine Islands in particular, therefore,—*

(a) *The export taxes should be repealed; and*

(b) *Free trade between the two countries, with present or other reasonable quantitative limitations, should be continued after July 4, 1946.*

3. *Irrespective of any change in the political status of the Philippine Islands, a continuation of the present free-trade relations between the United States and the Philippine Islands would be advantageous to both countries;— to the Philippine Islands, because the United States is an essential market for many Philippine products; and to the United States, because the Philippine Islands is a large market for the products of agriculture and industry of the United States, and will, if the products thereof continue to be admitted free of duty into the Philippine Islands, be a much larger market in the future. Such free-trade relations between the two countries should, therefore, after July 4, 1946, be continued indefinitely.*

BRIEF
TO THE
JOINT PREPARATORY COMMITTEE ON PHILIPPINE AFFAIRS
FROM
S. DAVIS WINSHIP
ON THE
TRADE SITUATION
BETWEEN THE
UNITED STATES AND THE PHILIPPINE ISLANDS

**EMBROIDERIES: POSITION OF THE INDUSTRY
IN PHILIPPINE ECONOMY**

ORGANIZATION AND LOCATION OF THE INDUSTRY

The embroidery industry in the Philippines was first encouraged and developed by the Insular Government, which withdrew when private enterprise commenced commercial operations. Regular shipments to the United States were begun in 1914.

Embroidering is predominantly a household industry which provides a large number of Filipino families with supplementary incomes. The principal embroidery establishments are located in Manila. In these plants, which are largely distributing centers, the imported cloth is cut and stamped and then delivered to the workers in neighboring provinces through contractors or sub-contractors. When the work is completed the embroidered articles are returned by the contractor to the plants where they are

inspected, trimmed, assembled, laundered, and packed for export. Most of the actual embroidering is done in the homes of workers who live in provinces surrounding Manila, but some is also done in more distant provinces.

Since practically all of the export business is in the form of ready to wear garments, sewing is just as important as embroidery, and occupies about as many needle workers. In this paper the term "embroidery" is used to include all needlework.

Practically all of the cloth used by the industry is cotton, which is imported from the United States in order that the finished embroidery may be permitted duty-free entry into the American market. The firms engaged in the embroidery business are either (1) branches of companies with offices in the United States or (2) independent concerns which sell to importers in the United States. In the first case, the head office provides the capital for the branch or agency and furnishes it with materials and designs. In the second case, the United States importer specifies in his order the type of goods required and sometimes provides the working patterns and cloth. The independent local establishments finance themselves, although occasionally they receive advances from the importers.

The various types of needlework are usually done by different workers. One embroiders scallops, another does the hemstitching, while a third makes the buttonholes or does the drawn work. This division of labor necessitates an elaborate system for the distribution of materials among the workers. The task of the contractors and sub-contractors is to handle this distribution and to expedite the work. The completion of a garment usually requires 3 to 6 months and occasionally 9 to 12 months. Because of the time re-

quired for the cloth to reach the Philippines and for the finished product to be returned, approximately one year elapses before an order can finally be delivered in New York. Owing to the time factor, producers in the Philippines manufacture principally staples rather than style goods, which are subject to sudden and unpredictable changes. The Philippine embroidery industry produces primarily infants' wear and women's underwear, slips, and nightgowns. These embroidered cotton garments, for the most part, are produced to retail at from 50 cents to \$2 each, although there is a small but certain demand for garments up to \$10 or more.

INVESTMENT AND EMPLOYMENT

Approximately 20 firms were operating in the export embroidery business in 1935. The industry as a whole represents an investment of about \$4,000,000, a substantial part of which consists of goods in process and in transit. The investment in plant and equipment is relatively small. Investments by Americans account for 90% of this amount. Investment by Filipinos is confined to advances by contractors to individual needleworkers.

Between 100,000 and 150,000 people are employed in the industry, primarily on a part-time basis. The number varies with the quantity of orders on hand and with the seasonal availability of alternate forms of employment for the workers. The wages, paid almost entirely on a piece-rate basis, are relatively low despite high-grade workmanship. It is estimated that the cost of raw material constitutes one-half of the cost of the finished product, the remainder being accounted for largely by labor costs, overhead, and profits, as indicated by the following statistics furnished by exporters:

Year	Value of materials	Wages, overhead and profits	Value of exported products
1933	\$ 865,017	\$1,034,298	\$1,899,315
1934	1,234,770	1,431,651	2,666,421
1935	2,454,365	2,621,880	5,076,245

EXPORT OF EMBROIDERY

The Philippine exports of embroidery to the United States represent only to the extent of about one-half their value, actual Philippine exports, inasmuch as the other one-half represents a re-export of American cotton cloth. During the period 1926-35, exports of embroidery were highest in 1929, being valued at \$6,000,000; they declined to less than \$2,000,000 in 1933 but rose to \$5,000,000 in 1935. Table 60 shows the total exports of Philippine embroideries for the years 1926-35, during which period over 99 per cent of these exports were shipped to the United States.

TABLE 60.—*Embroideries: Exports from the Philippines*

Year	Cotton embroideries	Silk embroideries	Total embroideries
1926	\$5,953,901	\$ 38,488	\$5,992,389
1927	3,879,176	124,300	4,003,476
1928	4,396,237	127,732	4,526,969
1929	5,764,346	247,187	6,011,533
1930	3,412,667	174,070	3,586,737
1931	2,520,447	136,683	2,657,130
1932	3,267,044	82,781	3,349,825
1933	1,830,668	68,647	1,899,315
1934	2,561,246	105,175	2,666,421
1935	4,996,280	79,965	5,076,245

SOURCE: Annual Reports, Insular Collector of Customs.

RESTRICTIONS IMPOSED BY THE INDEPENDENCE ACT

UNITED STATES TARIFF ON EMBROIDERY

The United States Tariff Act of 1922 established an ad valorem rate of 75 percent applicable to embroidered articles; this rate was increased to 90 per cent in the Tariff Act of 1930. The rate on embroidered cotton and silk wearing apparel, however, was lowered to 75 per cent ad valorem in the trade agreement with France, which became effective on June 15, 1936.

ECONOMIC PROVISIONS OF THE INDEPENDENCE ACT AFFECTING EMBROIDERY

No limitations were placed by the Independence Act on the duty-free quantities of embroideries which may enter the United States from the Philippines. For the first 5 years of the Commonwealth, Philippine embroideries will have unlimited free entry into the American market. During the second 5 years of the Commonwealth, progressive export taxes will be assessed against Philippine embroideries which are shipped to the United States. As in the case of other dutiable commodities, the export taxes will correspond to 5 percent of the United States duty in the sixth year of the Commonwealth Government and will rise to 25 percent in the tenth year. After July 4, 1946, the full United States duty will be collected on the Philippine products.

On the basis of the present United States tariff rates, the Philippine export taxes which are applied during the Commonwealth period, and the United States duty to apply thereafter, are shown below.

Period	Tax (per cent)
First 5 years of the Commonwealth	Free
Sixth year of the Commonwealth	3.75
Seventh year of the Commonwealth	7.50
Eighth year of the Commonwealth	11.25
Ninth year of the Commonwealth	15.00
Tenth year of the Commonwealth	18.75
After Independence (July 4, 1946)	75.00

EFFECT OF THE EXPORT TAXES

Since Philippine embroideries at present encounter some competition from certain types produced in continental United States or shipped in from Puerto Rico and from foreign countries, and since most of the Philippine embroideries are sold in retail markets where the demand is for low-priced goods, it does not appear probable that prices can be increased sufficiently to absorb the export taxes without losing a substantial part of the American market. The cost of raw materials, moreover, is not subject to the control of embroidery producers and at present accounts for nearly one-half of the cost of production. The export taxes, as has been pointed out, will be assessed against the whole value of the finished product and not merely against the Philippine addition to its value. The laborers now engaged in the production of Philippine embroidery will not readily find alternate employment when the export taxes begin to apply, consequently it is likely that the effect of the taxes will be to force progressively lower wages. Whether the export industry will be able to survive on the present scale for the whole of the Commonwealth period is problematical; that it will survive on any appreciable scale thereafter appears improbable unless costs and profits should be reduced sharply. Profits are now small, particularly so in view of the risks involved

in distributing delicate materials so widely, and in view of the slow turnover.

The several millions of dollars of wages is distributed at a fairly uniform rate during the year, and practically all of it enters immediately into the general retail trade of central Luzon, making itself felt in general business and government income.

COMPETITIVE ASPECT OF THE EMBROIDERY TRADE IN THE UNITED STATES

EMBROIDERY TRADE IN THE UNITED STATES

Philippine embroideries compete only slightly with commercial hand embroideries made in continental United States, since these are confined largely to ready-made dresses of types not made in the Philippines. Embroidered articles from the Philippines, however, do compete with similar articles produced in Arizona, New Mexico, and Texas, although the price and workmanship of the latter are below the standard maintained for Philippine embroidery. The Philippine products also compete to some extent with the machine embroidery made in continental United States and with Puerto Rican embroideries sold in the American market. Machine production in continental United States usually amounts to over \$20,000,000 annually. Though not directly comparable in type or quality, duty-free receipts from the Philippines equalled about 25 per cent of this amount in 1935. Of the combined consumption of continental, insular, and foreign cotton embroideries, both hand-made and machine-made, the Philippines supplied approximately 12.5 percent in 1935.

UNITED STATES IMPORTS OF EMBROIDERIES

Only about 25 per cent of the embroideries which enter continental United States are imported from foreign

countries; practically all of the remaining 75 per cent enter from Puerto Rico and the Philippines. Shipments from Puerto Rico include a wider variety of products than do those from the Philippines, consequently many of the embroideries from Puerto Rico are not competitive with those from the Philippines. Most of the imports from other sources, paying the full duty, also differ from Philippine embroideries. The quantities received from these various sources in 1935 are shown below.

SUMMARY

1. The Philippine embroidery industry is carried on in the worker's homes and provides supplementary incomes for 100,000 to 150,000 people living principally in central Luzon. Wage payments are made on a piece-rate basis.

2. The embroidery plants, approximately 20 in number, are distributing centers which send out materials through contractors, and which prepare the finished garments for export. Because different laborers specialize in particular types of embroidering, goods are frequently "in process" for a period of 6 months to one year. All of the cotton cloth is obtained from the United States. Since more than 1 year elapses between the placing of an order and the final delivery of it in New York, the Philippines specialize in staple rather than in style goods.

3. Approximately \$4,000,000 is invested in the industry, most of which sum is represented by goods in process and in transit. Investments by Americans account for 90% of this amount. Investment by Filipinos is confined to advances by contractors to individual needleworkers.

4. During the period 1926-35 annual exports varied between \$2,000,000 and \$6,000,000; in 1935 they totaled

\$5,000,000. Exports to the United States regularly amounted to over 99 per cent of total Philippine embroidery exports during the decade 1926-35.

5. The Independence Act places no restrictions on the export of Philippine embroideries to the United States during the first 5 years of the Commonwealth period. During the second 5 years of the Commonwealth export taxes (on a basis of present United States tariffs) will progress from 3.75 per cent ad valorem in the sixth year to 18.75 per cent in the tenth year. After independence the then prevailing United States duty will be applicable. Since approximately one-half of the cost of production of embroidered garments is represented by the cost of the imported materials embodied in them, it appears that the export taxes and later the United States duty will bear heavily on the industry, possibly compelling it to liquidate in considerable degree by the time independence is achieved.

6. Philippine Embroidery, selling at relatively low prices, fills a special demand in the United States. Its chief competitors in the American Market are certain types of goods produced in Puerto Rico and in continental United States. For the most part these are inferior in quality to the Philippine products and somewhat lower in price.

Respectfully submitted,

S. DAVIS WINSHIP

*Representing a group of
embroidery manufacturers which produce over
90% of the export product.*

(See TABLE 61, next page.)

TABLE 61.—*Embroideries: Shipments received in the United States, 1935*

Type of cloth	Duty-free receipts		Dutiable Imports	Total Shipment received from all sources
	From the Philippines	From Puerto Rico		
Cotton	\$5,080,901	\$14,260,772	\$1,338,821	\$20,680,494
Linen	908	1,247,143	4,596,921	5,844,972
Silk	97,969	462,250	405,898	966,117
Rayon	494,365	494,365
Other	175,000	175,000
Total ...	5,179,778	15,970,165	7,011,005	28,160,948

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